A/S VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004
AND
CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

TOGETHER WITH THE REPORT OF
THE INDEPENDENT AUDITORS

Ventspils, 2005

ERNST & YOUNG

■ Ernst & Young Baltic SIA
Kronvalda bulvāris 3-5
LV-1010, Riga
Latvija
Tālr.: 371 7 043-801
Fakss: 371 7 043-802
www.ey.com/lv
Riga@lv.ey.com

■ Ernst & Young Baltic SIA
Kronvalda Boulevard 3-5
LV-1010, Riga
Latvia
Phone: 371 7 043-801
Fax: 371 7 043-802
www.ey.com/lv
Riga@lv.ey.com

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 2004. We have also audited the financial statements of a/s Ventspils nafta (the Parent company) for the year ended 31 December 2004. The financial statements, set out on pages 5 through 59, 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 2004, 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 the a/s Ventspils nafta subsidiary SIA LatRosTrans since 2002 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 SIA LatRosTrans pipeline as further described in Note 14. 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 and decreasing physical losses and related tax consequences. Consequently, no adjustment for impairment of the above fixed assets has been recorded as at 31 December 2004. 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 the 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

Riga, 19 May 2005

CONTENTS

Council of a/s Ventspils nafta

Chairman of the Council:	Mamerts Vaivads
Deputy Chairman of the Council:	Vladimirs Solomatins
Members of the Council:	Jānis Blaževičs Eižens Cepurnieks Vladimirs Krastiņš Uldis Pumpurs Ansis Sormulis Mārtiņš Jansons Romāns Mežeckis Ivars Pāže Voldemārs Strīķis

Board of a/s Ventspils nafta

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

The changes in the Board during the period from 1 January 2004 to 19 May 2005 were as follows:

Elected	Dismissed	Name	Position held
	22/01/2004	Renārs Urbanovičs	Member of the Board
22/01/2004		Olga Pētersone	Chairman of the Board
22/01/2004	23/02/2004	Antons Petrovskis	Member of the Board
22/01/2004		Guntis Tīrmanis	Member of the Board

Management and consolidated report

Dear shareholders, clients and cooperation partners,

The year 2004 for the joint stock company *Ventspils nafta* was the starting point for efficient operating under the new and properly arranged management system of the Group. It is the result of improvement of *a/s Ventspils nafta* management system commenced in 2003 in line with the basic principles of a multi-branch group of companies, encompassing the segregation of the holding companies' functions and dividing all the entities belonging to *a/s Ventspils nafta* Group by their respective business segments.

The financial results of a/s *Ventspils nafta* for the year 2004 evidence that the Group has succeeded in reaching its aims: the financial and economic results of a/s *Ventspils nafta* Group for the reporting period reach and, in some aspects, even exceed the forecasted amounts. In terms of the financial and economic results, a/s *Ventspils nafta* is one of the most stable leading enterprises among groups of companies in Latvia.

Pursuant to the consolidated annual report of a/s *Ventspils nafta* for the year ended 31 December 2004 prepared in accordance with applicable laws of the Republic of Latvia and generally accepted accounting policies, the net turnover of a/s *Ventspils nafta* Group for the reporting period reached LVL 55.95 million, with profit after taxes amounting to LVL 13.86 million. Pursuant to the consolidated annual report for the year ended 31 December 2004 presented in accordance with International Financial Reporting Standards, the net turnover of a/s *Ventspils nafta* Group for the reporting period reached LVL 55.95 million, with profit after taxes amounting to LVL 19.21 million.

The consolidated annual report of a/s *Ventspils nafta* for the year ended 31 December 2004 comprises reclassification and revaluation of the investment in a/s *Latvijas kuģniecība*, an associated entity to a/s *Ventspils nafta*. The revaluation has been performed, based on the activity plan and the budget of a/s *Ventspils nafta* for the reporting period approved by the general shareholders' meeting of a/s *Ventspils nafta* in 2004, which defined the necessity of reclassification of a/s *Ventspils nafta* investment in a/s *Latvijas kuģniecība* (49.94%). Initially, the investment of a/s *Ventspils nafta* was stated as a current asset, but starting from 2004, it has been reclassified to non-current investments, based on the actual situation.

After completion of a/s *Ventspils nafta* restructuring process commenced in 2003, the Group's operations and investment plans were optimized thus facilitating creation of an added value to each business entity and the Group in general, as well as resulting in the respective increase of the management capacity in each particular entity, improvement of the transparency of finance matters and efficient consumption of resources.

In the beginning of the reporting period, the shareholders of a/s *Ventspils nafta* elected Olga Pētersone as Chairperson of the Board. Ms. Pētersone 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, a/s *Ventspils nafta* Group continued operating in the areas of crude oil and oil products transit, printing, publishing and real estate management.

In 2004, *SIA Ventspils nafta termināls* demonstrated stability of operations, regardless of impairment of rights and opportunities of *SIA Ventspils nafta termināls* to freely compete at the transit market and accept oil transported via pipelines due to external circumstances beyond the company's control. In 2004, all cargoes totaling 8.4 million tons were delivered only by railway. Compared to 2002, when oil was transported in Ventspils direction also via pipelines, the amount of cargoes delivered by railway to the terminal in 2004 increased by 1.8 million tons or 28%. The net turnover of *SIA Ventspils nafta termināls* for the reporting period reached LVL 16 million.

With the view to ensure attraction of additional cargoes, in 2004 *SIA Ventspils nafta termināls* continued increasing the volume of petrol reloading by improving technologies and offering customers a new kind of service - petrol loading into tankers having a deadweight up to 100 thousand tons. Currently, this kind of service is not offered by either terminal in the eastern region of the Baltic Sea.

For the aforementioned reasons, the volume of petrol reloading by *SIA Ventspils nafta termināls* for the reporting period increased by 0.7 million tons, compared to 2003, and even by 1.2 million tons, compared to 2002. After the year-end, during the first months of 2005, the volume of petrol reloading by *SIA Ventspils nafta termināls* reached the highest level ever recorded by the company.

Management and consolidated report (cont'd)

One of the most important events for *SIA Ventspils nafta terminā ls* in 2004 was launching of a new railway elevation to be used for acceptance of crude oil and oil products. This is the fourth railway elevation in the territory of *SIA Ventspils nafta terminā ls*, thus allowing optimization of the terminal's capacities, diversification of the assortment of cargoes that may be reloaded by the company and prevention of idle time due to the increase in cargo volumes delivered by railway. The new elevation meets the latest modern technology requirements, its annual capacity being 4.5 million tons of crude oil or 5.5 million tons of diesel fuel. Investments in the construction of the elevation reached almost LVL 13 million. In 2004, the Republic of Latvia Ministry of Environment declared the elevation to be the most environment-friendly facility in the country.

In 2004, *SIA Ventspils nafta terminā ls* repeatedly received certificates on its compliance with the requirements of ISO (*International Standards Organization*) 9001:2000 and 1400:1996.

During the reporting period, *SIA LatRosTrans*, the operator and owner of oil and oil products pipelines in Latvia, recorded a substantial growth of the volumes of transported diesel fuel. In 2004, 5.7 million tons of diesel fuel were transported via the main pipeline of SIA *LatRosTrans* to the Ventspils port, thus exceeding the result of 2003 by 1.1 million tons. The net turnover of *SIA LatRosTrans* for the reporting period amounted to LVL 13.6 million.

With the view of future increase of diesel fuel transportation volumes, *SIA LatRosTrans* in 2004 implemented a stage of modernization of the main pipeline by constructing a 10 km long looping.

During the reporting period, SIA *LatRosTrans* continued active operations aimed at elimination of excess physical losses of oil products in the result of unauthorized actions by informing and involving governmental bodies for the purpose of solving this issue. According to the belief expressed by the management of SIA *LatRosTrans* and a/s *Ventspils nafta*, in 2004 the court instances decided in favor of SIA *LatRosTrans* and its claim regarding tax surcharges for the aforementioned physical losses was met. Based on the court decisions, SIA *LatRosTrans* will be refunded taxes unreasonably charged for 2001, 2002 and 2003.

One of the measures taken by SIA *LatRosTrans* during the reporting year for the purpose of elimination of excess physical losses of oil products caused by unauthorized actions was construction of a new and up-to-date oil products accounting point allowing a more accurate oil products piping control. It is deemed to be a significant element for accounting and control of oil products transit. Investments in the construction of the accounting point reached almost LVL 3 million.

In the end of the reporting period, Sergejs Aleksandrovs was elected General Director and Board Member for *SIA LatRosTrans*. Mr. Aleksandrovs has an extensive experience and understanding about the management of the company as he has been working in this industry for more than 30 years.

The year 2004 for *a/s Preses nams* was a period of dynamic changes and development. During the reporting period, the company continued optimizing its organizational and functional structure. The restructuring is expected to be completed in 2006, when production equipment will be moved from the centre of Riga to a more favorable location - two new production facilities on the outskirts of Riga.

In 2004, the manifold range of printing services offered by *a/s Preses nams*, as well as the expedient geographic disposition of the market enabled the company to maintain and strengthen its position in the segment of printing of books, periodicals and packaging both in the domestic and international market. According to the Latvian Printing Association, *a/s Preses nams* has been the major printing enterprise in Latvia and in the Baltic States over the last years.

The total turnover of *a/s Preses nams* in 2004 reached LVL 19.2 million. Income from printing services amount to 98.5% of the company's turnover, or LVL 18.9 million, including 68% of services rendered to Latvian customers and 32% representing exports. During the reporting period, *a/s Preses nams* continued upgrading its technical facilities and investing in advanced technologies. In the result of considerable investments in pre-printing processes made in 2004, *a/s Preses nams* will be able to substantially increase the speed and accuracy of the order fulfillment and curtail production costs.

In the reporting period, Uldis Ronis was elected Chairman of the Board for a/s *Preses nams*. Mr. Ronis has experience in managing other companies. His core objective is to ensure strengthening of the market share acquired by a/s *Preses nams* and ongoing development of the company.

Management and consolidated report (cont'd)

A/s *Latvijas kuģniecība*, an associated entity to a/s *Ventspils nafta*, succeeded in benefiting from the favorable market situation during the reporting period and derived profit in the amount of LVL 38.5 million after taxes due to circumstances beyond the management's control. A major portion of income of a/s *Latvijas kuģniecība* Group comprises reversal of impairment of a/s *Latvijas kuģniecība* fleet of vessels stated in prior years, thus increasing the profit for the previous year by LVL 23 million.

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 līcis*), Ventspils and other regions (conference and recreation centre *Lejastiezumi* near the Usmas lake). The favorable developments in the real estate market characterized 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 successful financial results of a/s *Ventspils nafta* Group reached after the year-end, for the first quarter of the year 2005, unequivocally demonstrate stability and profitability of *a/s Ventspils nafta*. The net turnover and profit of a/s *Ventspils nafta* Group for the first three months of 2005 substantially exceed the forecasted figures and the corresponding results for 2004. These results allow drawing a conclusion that the correct planning and active implementation of the plans would sooner or later be reflected in the financial results, and a/s *Ventspils nafta* may face the future with a reasonable hope.

According to the Republic of Latvia Law on Financial Statements of Companies, the profit for 2004 cannot be distributed in dividends, but instead should be transferred to restricted reserves. Accordingly, the management of a/s Ventspils nafta suggests to transfer profit for 2004 to restricted reserves.

19 May 2005

On behalf of the Council:	On behalf of the Board:
Mamerts Vaivads Chairman of the Council	Olga Pētersone Chairman of the Board

The annual report was approved in the shareholders' meeting of 1 July 2005.

Income Statement

		Group		Parent company	
		2004	2003	2004	2003
	Note	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Net sales	5	55,947	55,361	1,359	18,176
Cost of sales	6	(51,500)	(52,605)	(1,359)	(15,225)
Gross profit		**4,447**	**2,756**	**-**	**2,951**
Sales and distribution expense		(1,486)	(1,460)	-	-
General and administrative expense	7	(6,036)	(7,499)	(1,639)	(4,537)
Other operating income	8	12,420	5,723	13,058	5,070
Other operating expense	9	(5,130)	(7,074)	(2,833)	(2,303)
Result from operating activities		**4,215**	**(7,554)**	**8,586**	**1,181**
Gain/ (loss) in subsidiaries and associated entities, net	17	12,821	(52)	9,955	(7,437)
Financial income/ (expense), net	11	(431)	(1,729)	(31)	(362)
Result before taxes		**16,605**	**(9,335)**	**18,510**	**(6,618)**
Corporate income tax	12	1,324	(2,979)	1,626	(2,652)
Net result before minority interest		**17,929**	**(12,314)**	**20,136**	**(9,270)**
Minority interest		1,284	2,872	-	-
Net result for the year		**19,213**	**(9,442)**	**20,136**	**(9,270)**
Earnings per share					
in lats per share	29	**0.182**	**(0.090)**	**0.193**	**(0.089)**
Diluted earnings per share					
in lats per share	29	**0.182**	**(0.090)**	**0.193**	**(0.089)**

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

On behalf of the Council:

Mamerts Vaļvads
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairman of the Board

Balance Sheet
ASSETS

	Note	Group 31/12/2004 LVL thousand	Group 31/12/2003 LVL thousand	Parent company 31/12/2004 LVL thousand	Parent company 31/12/2003 LVL thousand
NON CURRENT ASSETS					
Intangible assets	13	**(11,858)**	**37,505**	**(48,227)**	**-**
Property, plant and equipment					
Land, buildings and networks	14	117,039	110,506	-	-
Machinery and equipment	14	43,944	43,573	89	105
Other property, plant and equipment	14	6,117	7,661	589	742
Construction in progress	14,15	15,009	12,554	160	164
Prepayments for property, plant and equipment	15	2,478	4,003	-	1
TOTAL		**184,587**	**178,297**	**838**	**1,012**
Investment properties	16	**2,580**	**2,612**	**5,751**	**5,868**
Investments					
Investments in subsidiaries and associated entities	17	92,437	162	277,304	162,439
Long-term loan to related parties	18	-	-	4,541	4,755
Other long-term loans to corporate entities	19	1,124	935	-	-
TOTAL		**93,561**	**1,097**	**281,845**	**167,194**
TOTAL NON CURRENT ASSETS		**268,870**	**219,511**	**240,207**	**174,074**
CURRENT ASSETS					
Inventories	21	10,003	10,026	4,352	2,520
Fixed assets for sale	22	-	-	-	21,713
Current portion of long-term receivables	19	42	140	-	-
Short-term loans to related parties	18,26	2,350	5,733	271	787
Trade accounts receivable	23	6,306	6,578	-	-
Accounts receivable from related party	18	-	-	854	1,229
Corporate income tax receivable	36	19	1,663	17	-
Other accounts receivable	24	3,684	1,511	51	1,465
Prepaid expense	25	739	1,675	58	103
Accrued income		494	465	-	-
Trading investments	27	58	34,999	58	34,997
Cash and cash equivalents	28	7,361	8,330	79	460
TOTAL CURRENT ASSETS		**31,056**	**71,120**	**5,740**	**63,274**
TOTAL ASSETS		**299,926**	**290,631**	**245,947**	**237,348**

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

On behalf of the Council:

Mamerts Vaivads
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairman of the Board

Balance Sheet

LIABILITIES AND SHAREHOLDERS' EQUITY

		Group		Parent company	
		31/12/2004	31/12/2003	31/12/2004	31/12/2003
SHAREHOLDERS' EQUITY	Note	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Share capital	29	104,479	104,479	104,479	104,479
Share premium		42,343	42,343	42,343	42,343
Long-term assets revaluation reserve		-	-	691	712
Foreign currecy translation reserve		(9,077)	-	(9,077)	-
Restricted reserves	29	11,866	11,210	11,866	11,210
Other reserves	29	71,123	81,221	74,712	84,617
Current year unappropriated result		19,213	(9,442)	20,136	(9,270)
TOTAL SHAREHOLDERS'EQUITY		**239,947**	**229,811**	**245,150**	**234,091**
MINORITY INTEREST		**44,013**	**45,318**	**-**	**-**
PROVISIONS					
Other provisions	30	-	80	-	-
TOTAL PROVISIONS		**-**	**80**	**-**	**-**
LIABILITIES					
Long-term liabilities					
Deferred corporate income tax	12	2,252	3,852	315	2,216
Long-term portion of financial lease liability	32	941	1,597	20	-
Long-term loan from credit institution	31	-	90	-	-
TOTAL		**3,193**	**5,539**	**335**	**2,216**
Current liabilities					
Short-term portion of long-term loan	31	4,608	2,004	-	-
Financial lease liabilities	32	754	990	-	-
Advances from customers		48	131	-	37
Trade accounts payable		4,322	3,791	91	55
Accounts payable to related party		-	2	105	17
Corporate income tax payable	36	-	548	-	548
Taxes payable	33	550	532	95	190
Other liabilities	34	563	556	33	35
Accrued liabilities	35	1,477	1,082	138	159
Deferred income		451	247	-	-
TOTAL		**12,773**	**9,883**	**462**	**1,041**
TOTAL LIABILITIES		**15,966**	**15,422**	**797**	**3,257**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**299,926**	**290,631**	**245,947**	**237,348**

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

On behalf of the Council:

Mamerts Vaivads
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairman of the Board

Statement of Cash Flows

	Group		Parent company	
	2004	2003	2004	2003
	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Cash flow from/ (to) operating activities				
Result before taxes	16,605	(9,335)	18,510	(6,618)
Adjustments				
(Profit)/ loss in subsidiaries and associated entities, net	(12,821)	-	(9,955)	7,437
(Increase)/ decrease in provisions	(80)	(5,350)	-	(3,665)
Negative goodwill	(5,358)	-	(5,358)	-
Adjustment to a/s Preses nams goodwill	-	-	-	(60)
Amortisation and depreciaiton	12,822	17,621	1,906	7,732
Interest income	(307)	(588)	(97)	(101)
Interest expense	238	268	10	13
(Gain)/ loss on disposals of tangible assets	(186)	521	(1,240)	68
Fair value adjustments	-	(46)	-	-
Gain from revaluation of oil and oil products	(2,554)	-	(2,201)	-
Other adjustments	-	102	24	-
Operating profit before changes in current assets and liabilities	***8,359***	***3,193***	***1,599***	***4,806***
Decrease in inventory	2,577	4,874	369	861
Decrease/ (increase) in trade accounts receivable	271	(535)	-	2,461
Decrease/ (increase) in other accounts receivable	303	7,821	(640)	(1,821)
Increase/ (decrease) in current liabilities	501	(436)	(660)	(2,893)
Net cash from/ (to) operating activities	***12,011***	***14,917***	***668***	***3,414***
Taxes paid	(295)	183	(292)	(2,193)
Net cash from/ (to) operating activities	**11,716**	**15,100**	**376**	**1,221**
Cash flow from/ (to) investment activities				
Purchase of fixed assets	(18,218)	(21,950)	(78)	(2,382)
Income from proceeds from sale of fixed assets	460	-	10	7,646
(Increase) in investments	-	-	(886)	(8,920)
Interest received	307	588	97	101
Received repayment of short-term loan	3,497	7,072	-	-
Dividends (paid)	-	(1,044)	-	(1,044)
Net cash flow from/ (to) investment activities	**(13,954)**	**(15,334)**	**(857)**	**(4,599)**
Cash flow from/ (to) financing activities				
Increase/ (decrease) in own shares	90	(30)	90	(30)
Borowings (paid)	(1,890)	(2,347)	-	-
Borowings received	3,307	998	20	-
Interest payments	(238)	(268)	(10)	(13)
Net cash from/ (to) investment activities	**1,269**	**(1,647)**	**100**	**(43)**
Net (decrease) in cash	**(969)**	**(1,881)**	**(381)**	**(3,421)**
Cash at the beginning of the year	**8,330**	**10,211**	**460**	**3,881**
Cash at the end of the year	**7,361**	**8,330**	**79**	**460**

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

Statement of Changes in Shareholders' Equity

Parent company

	Share capital	Share premium	Long term assets revaluation reserve	Foreign currency translation reserve	Restricted reserves	Other reserves	Current year unappropriated result	**Total**
Balance as of 1 January 2003	104,479	42,343	-	-	9,404	84,738	2,729	**243,693**
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)
Balance as of 31 December 2003	**104,479**	**42,343**	**712**	**-**	**11,210**	**84,617**	**(9,270)**	**234,091**
Transfer of 2003 net result	-	-	-	-	635	(9,905)	9,270	-
Release of revaluation reserve	-	-	(21)	-	21	-	-	-
Foreign currency translation	-	-	-	(9,077)	-	-	-	(9,077)
Current year result	-	-	-	-	-	-	20,136	20,136
Balance as of 31 December 2004	**104,479**	**42,343**	**691**	**(9,077)**	**11,866**	**74,712**	**20,136**	**245,150**

During the restructuring process the new company SIA Ventspils nafta termināls was established (see also Note 3 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 14 Property, plant and equipment).

Group

	Share capital	Share premium	Foreign currency translation reserve	Restricted reserves	Other reserves	Previous years unappro-priated result	Current year unappro-priated result	**Total**
Balance as of 1 January 2003	104,479	42,343	-	9,404	84,738	-	(667)	**240,297**
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)
Balance as of 31 January 2003	**104,479**	**42,343**	**-**	**11,210**	**84,617**	**(3,396)**	**(9,442)**	**229,811**
Transfer of 2003 net result	-	-	-	635	(9,905)	(172)	9,442	-
Release of revalutaion reserve	-	-	-	21	-	(21)	-	-
Foreign currency translation	-	-	(9,077)	-	-	-	-	(9,077)
Current year consolidated profit	-	-	-	-	-	-	19,213	19,213
Balance as of 31 December 2004	**104,479**	**42,343**	**(9,077)**	**11,866**	**74,712**	**(3,589)**	**19,213**	**239,947**

Previous years unappropriated result in included in the Other reserves caption of the Balance sheet

Notes to the financial statements

1. Corporate information

A/s Ventspils nafta (hereinafter also – the Company or the Parent company) is a public joint stock company organized under the laws of the Republic of Latvia. The Company was first registered in the Enterprise Register on 9 May 1991, and then re-registered in the Commercial Register on 5 August 2004 (under the number 50003003091). Since 20 October 1998 a/s Ventspils nafta is listed on the Riga Stock Exchange main list. During the financial year the Company has changed legal address and since 22 January 2004 the address is Ostas street 23, LV-3601, Ventspils, Republic of Latvia.

A/s Ventspils nafta is a holding company dealing mainly with investment management in a/s Ventspils nafta Group companies and transactions with own crude oil and oil products. Previously a/s Ventspils nafta was involved in reloading of crude oil and oil products, however, as a result of a/s Ventspils nafta Group restructuring in 2003 (see also Note 3) all reloading activities were transferred to the daughter company SIA Ventspils nafta termināls. Initially, the Parent company's assets used in reloading transactions were partly invested in, partly sold to and partly rented to SIA Ventspils nafta termināls. During 2004 the restructuring process was completed with a/s Ventspils nafta selling all non-current assets previously used in reloading activities to SIA Ventspils nafta termināls. However, a/s Ventspils nafta still holds the stock of crude oil and oil products necessary for technological needs of SIA Ventspils nafta termināls.

A/s Ventspils nafta Group consisting of a/s Ventspils nafta and its subsidiaries (hereinafter also – the Group) is a multi-industrial holding. The subsidiaries independently operate in the following industries:

- Crude oil and oil product transportation via pipelines (SIA LatRosTrans),
- Crude oil and oil product storage and reloading to / from railway and ships (SIA Ventspils nafta termināls),
- Media and publishing (a/s Preses nams and SIA Mediju nams),
- Real estate (SIA Rīgas līcis VN, SIA Nekustamie īpašumi VN and its daughter companies).

In addition, the Parent company holds 49.94% stake in associated public company Latvian Shipping Company (a/s Latvijas kuģniecība), the main activity of which is marine shipping business.

The financial statements of the Parent company and the consolidated financial statements of the Group were authorized for issue in accordance with resolution of the Board of Directors on 19 May 2005 and resolution of the Council on 9 June 2005. The Group's shareholders have the power to amend the financial statements after issue.

2. Significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of the Parent company's and the Group's financial statements.

Basis of preparation

The Parent company's and the Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

The financial statements are prepared on a historical cost basis, except for inventories for sale (crude oil and oil products) and non-current receivable from SIA Ventspils nafta termināls for borrowed crude oil that have been measured at fair value.

Reporting currency and units of measurement

The accompanying financial statements are presented in thousands of lats (LVL 000's), unless otherwise stated. Lat (LVL) is the monetary unit of the Republic of Latvia.

Reclassifications

Amounts reported for prior years in the Group's consolidated financial statements and notes have been reclassified to conform to the current year's presentation.

2. Significant accounting policies (cont'd)

Basis of consolidation

The consolidated financial statements comprise 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 Rīgas Līcis VN and SIA Nekustamie īpašumi VN, the later of which includes SIA Namserviss VN, SIA Maikapara nams, SIA Ventspils biznesa centrs, SIA Lejastiezumi, SIA Pārventas sporta centrs and SIA Darījumu centrs Daugava. The financial statements of subsidiaries are prepared for the same reporting year as the Parent company, using consistent accounting policies.

The consolidated financial statements include 100 percent of the assets, liabilities, revenues, expenses, income, loss and cash flows of a/s Ventspils nafta and companies in which a/s Ventspils nafta has a controlling interest (subsidiaries), as if a/s Ventspils nafta and its subsidiaries were a single company. For the purposes of consolidation, unrealized internal profit, inter-group balances, internal shareholdings, internal dividends and other significant internal transactions are eliminated in the Group's financial statements. Minority interest is calculated for entities fully consolidated but not wholly owned. The components of net income and equity attributable to the minority shareholders are presented in the minority interest line items included in the Group's consolidated income statement and Group's consolidated balance sheet.

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 has significant influence, but less than a controlling interest, which is presumed to exist with 20 to 50% interest of the share capital of the entity) are stated in accordance with the equity method, so that the 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.

Other investments

Investments in non-public companies in which the Company does not have a controlling interest, or an ownership and voting interest sufficiently large to exert significant influence, are accounted for at cost. Dividends and other distributions of earnings from these investments are included in income statement when received.

Change of accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted new valuation policy for inventories held for sale. The principal effect of this decision is described below.

Valuation policy for inventories held for sale

In 2004 the Group started selling to third parties its crude oil and oil products in excess of the technological needs (pipe-fill and minimum crude oil and oil product balance in reservoirs). As a result, in order to achieve more relevant valuation for inventories the management decided to change accounting policy for its inventory of crude oil and oil products effective from 1 January 2004. Crude oil and oil products are now being classified as either kept for technological needs or held for sale. Crude oil and oil products that are kept for technological needs are valued at cost, whereas crude oil and oil products held for sale are valued at fair value because the cost of these inventories can not be determined. The change of accounting policy has been applied prospectively since the management believes that it is impracticable to restate the opening balances. The resulting adjustment from this change of accounting policy in SIA Ventspils nafta termināls is an income from revaluation of crude oil in the amount of LVL 353 thousand. The resulting adjustment from this change of accounting policy in the Parent company is an income from revaluation of crude oil in the amount of LVL 268 thousand and income from revaluation of oil products in the amount of LVL 1,933 thousand. Hence, the total effect of the Group's consolidated income statement for the year ended 31 December 2004 is an income of LVL 2,554 thousand.

2. Significant accounting policies (cont'd)

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.

Change of accounting estimate

Useful life of intangible and tangible asset

During 2004 the Group has reassessed useful life of intangible and tangible non-current assets in its Ventspils terminal resulting in the following amortisation and depreciation rate changes:

	Old depreciation rate	New depreciation rate
Reservoirs	2.5%	2%
Technical pipelines	2.5%	2.2%
Water pipelines of metal	3.3%	2.9%
Other water pipelines (of malleable iron)	3.3%	1.25%
Sewerage systems	3%	2.5%
Heating networks	4%	2.9%
Valves	4%	3.3%
Mixers	10%	6.7%
Tractors	14.3%	12.5%
Buses and trucks	20%	12.5%
Printers, servers, computer networks, displays	20%	14.3%
Goodwill on acquisition of a/s Naftas Parks	10%	6.7%

During 2004 the Group has also reassessed useful life of intangible and tangible non-current assets in its crude oil and oil product pipeline transportation network resulting in the following amortisation and depreciation rate changes:

	Old depreciation rate	New depreciation rate
Oil and oil product transmission pipeline network	2.9%	2.1-2.3%
Land use rights	4%	2.5-4%

Had previous amortisation and depreciation rates been applied throughout 2004 in Ventspils terminal the total depreciation charge would have been LVL 507 thousand larger for tangible non current assets and LVL 129 thousand for intangible non current assets (goodwill) with the respective decrease in non-current assets. Had previous amortisation and depreciation rates been applied throughout 2004 in crude oil and oil product pipeline transportation network the total depreciation charge would have been LVL 1,777 thousand larger for tangible non current assets and LVL 900 thousand for intangible non current assets (land use rights) with the respective decrease in non-current assets.

Investment in associated company a/s Latvijas kuģniecība

During 2004 the Group has reassessed intentions as to its 49.94% investment in public joint stock company Latvijas kuģniecība. This investment has previously been considered as available-for-sale since the management intended to sell it in near future. As such, the investment in a/s Latvijas kuģniecība has been classified as current asset and carried at cost because its fair value could not have been reliably determined. However, due to positive operating results of a/s Latvijas kuģniecība it was decided to keep the Group's significant influence and consequently the investment in a/s Latvijas kuģniecība was restated in accordance with the equity method and reclassified to non-current investments in associated entities. As at 31 December 2004 the resulting increase in the carrying value of a/s Latvijas kuģniecība investment was LVL 57,354 thousand with the corresponding recognition of negative goodwill in the amount of LVL 48,227 thousand, negative foreign currency translation reserve in the amount of LVL 9,077 thousand, net gain from investment in associated entity in the amount of LVL 12,846 thousand and income from amortization of a/s Latvijas kuģniecība negative goodwill in the amount of LVL 5,358 thousand.

2. Significant accounting policies (cont'd)

Foreign currency transactions

A significant part 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.

	31/12/2004	31/12/2003	31/12/2002
USD	0.516000	0.541000	0.594000
GBP	0.996000	0.960000	0.946000
EUR	0.703000	0.674000	0.610000
SEK	0.078200	0.074000	0.066800

The functional currency of the Group is Latvian Lat (LVL), except for the associate entity a/s Latvijas kuģniecība, the functional currency of which is United States Dollar (USD). The translation of the investment in a/s Latvijas kuģniecība from the applicable functional currency into the Group's reporting currency is performed for balance sheet accounts using exchange rate in effect at the balance sheet date, and for income statement accounts using average rate of exchange prevailing during the year. The resulting translation adjustments are excluded from the determination of net gain on investments and are accumulated as foreign currency translation reserve until the entity is sold or substantially liquidated.

Intangible assets

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

Land use rights are stated at contributed value as agreed by the subsidiary's SIA LatRosTrans founders. Until 1 January 2004, the respective assets were amortized over 25 years using straight-line method. In 2004, the subsidiary's SIA LatRosTrans management reviewed the useful life of land use rights and extended it to 40 years, except for the section of the main oil pipeline Biržai (Lithuania)-Ventspils, which is attributable to the closed pipeline section. The useful life of land use rights in respect to the closed section of the main oil pipeline in Ventspils direction remained unchanged - 25 years. Accordingly, as at 31 December 2004, its remaining useful life was 19 years.

Goodwill mainly represents the difference between acquisition cost and net book value of assets related to the Group's historical acquisition of a part of the crude oil and oil product reloading business. In 2004, the Group has changed the goodwill amortization rate, and the remaining goodwill is now amortized over 15 years on a straight-line basis.

Negative goodwill represents the difference between the stated fair value of net assets at the date of acquisition of the Parent company's associated entity a/s Latvijas kuģniecība and their acquisition cost. The negative goodwill is presented as deduction from the Group's intangible non-current assets in the same balance sheet caption as goodwill. The amount of negative goodwill relating to identifiable non-monetary assets of a/s Latvijas kuģniecība (fleet of vessels) is recognized as income on a straight-line basis over the 25 year period representing remaining useful lives of the identifiable acquired depreciable assets.

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.

The carrying values of intangible assets are reviewed when events or changes in circumstances indicate that the carrying value may be impaired. Losses resulting in impairment are recognized if the carrying value of intangible non-current assets exceeds their recoverable value.

2. Significant accounting policies (cont'd)

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 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 by the Group:

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

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.

Borrowing costs

Borrowing costs are recognized as an expense when incurred in accordance with the benchmark accounting treatment under International Accounting Standard 23.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments with an equivalent liability under long and short-term liabilities. Lease is classified as finance lease when the present value of the minimum lease payments amounts to at least 80% of the fair value of the leased asset. Lease payments are apportioned between the finance charges and reduction of the lease 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.

If there is a reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term on a straight-line basis.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

2. Significant accounting policies (cont'd)

Inventories

Inventories are stated at the lower of cost and net realizable value, except for crude oil and oil products intended for sale and stated at fair value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Crude oil and oil products

Crude oil and oil products held for technological needs are stated using the weighted average cost method.

Crude oil and oil products indented for sale are stated at fair value based on market price.

Materials

The cost of materials and supplies in the Parent company and in the subsidiaries are determined using the weighed average cost method. These materials are recorded as inventory when purchased and then expensed or capitalized to long-term assets, as appropriate, when installed. The Group writes off unrealizable inventory and records allowance for obsolete inventory as such items are identified.

Unfinished inventory

Unfinished inventory is stated at direct cost, including raw materials and labor.

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. Allowances for slow moving items are established, based on individual evaluation of each inventory item.

Trade and other receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable, based on evaluation of individual receivable balances. Doubtful debts are written off when recovery is deemed impossible.

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.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

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.

2. Significant accounting policies (cont'd)

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Rendering of services

The principal services rendered by the Group comprise reloading and pipeline transportation of crude oil and oil products as well as printing services. Revenue is recognized by reference to the stage of completion. Revenue is recognized in the period when the services are provided.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Interest

Revenue is recognized as the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

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

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Taxes

Corporate income tax

In accordance with Latvian tax legislation current corporate income tax is applied at the rate of 15% on taxable income generated by the Parent company and its subsidiaries during the taxation period ending 31 December 2004 (in 2003: 19%).

Deferred corporate income tax

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 as well as the treatment of temporary non-taxable allowances and provisions and temporary difference in tax losses carried forward for the subsequent five years.

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 Free Port

On 19 December 1996, the Latvian Parliament adopted the Law on Ventspils Free Port, effective 1 January 1997. This Law provides for exemption from value added tax and excise tax charges for the companies operating within the territory of Ventspils Free Port. SIA Ventspils nafta termināls is operating in the territory of Ventspils Free Port, having obtained all the required permits.

According to the Law on the Application of Taxes in Free Ports and Special Economic Zones, effective from 1 January 2002, subsidiary SIA Ventspils nafta termināls has the right to receive 80% tax rebate on real estate tax and corporate income tax. The total amount of tax rebates can not exceed 50% from the amount of investments made in the Ventspils Freeport, made according to the special agreement between the subsidiary and Ventspils Freeport Authority.

2. 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.

Related parties

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

Earnings per share

Earnings per share are calculated by dividing the net result 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.

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.

3. Group restructuring

In 2003 the Management and the Council of the Parent company decided to restructure a/s Ventspils nafta Group in order to improve the legal structure of the Group as well as to encourage the attraction of business partners for crude oil and oil product reloading business.

Based on this decision, the following businesses were separated in 2003 from the parent company a/s Ventspils nafta:

- *Oil and oil products reloading business* by establishment of new company SIA Ventspils nafta termināls with initial share capital of LVL 30 thousand, which subsequently in October 2003 was increased to LVL 53,948 thousand. The Statutes of the subsidiary SIA Ventspils nafta termināls have been registered in the Commercial Register of the Republic of Latvia on 4 July 2003, but the operations were started on 1 October 2003. In order to ensure the operations of the subsidiary SIA Ventspils nafta termināls, a/s Ventspils nafta partly invested, partly sold and partly rented assets necessary for operations.
- *Real estate business* by establishment of a group of daughter companies under SIA Nekustamie Īpašumi VN. The new real estate management companies consolidated in SIA Nekustamie Īpašumi VN are SIA Darījumu centrs Daugava, SIA Ventspils biznesa centrs, SIA Maikapara nams, SIA Namserviss VN, SIA Pārventas sporta centrs and SIA Lejastiezumi.

The restructuring process continued in 2004 as the Parent company transferred the remaining reloading business related assets to SIA Ventspils nafta termināls.

Currently, a/s Ventspils nafta mainly deals with investment management in a/s Ventspils nafta Group companies and transactions with own crude oil and oil products.

4. Segment information

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

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

	Crude oil and oil products		Publishing and printing		Real estate management		Shipping		Other		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Net sales	34,309	35,269	20,738	19,949	900	143	-	-	-	-	55,947	55,361
Cost of sales	(31,752)	(34,812)	(18,173)	(17,496)	(1,575)	(297)	-	-	-	-	(51,500)	(52,605)
Sales and distribution expense	-	-	(1,486)	(1,460)	-	-	-	-	-	-	(1,486)	(1,460)
General and administrative expense	(3,499)	(6,310)	(847)	(1,018)	(221)	(169)	-	-	(1,469)	(2)	(6,036)	(7,499)
Other operating income/ (expense)	4,325	(1,436)	84	66	2	18	5,358	-	(2,479)	1	7,290	(1,351)
Segment result	**3,383**	**(7,289)**	**316**	**41**	**(894)**	**(305)**	**5,358**	**-**	**(3,948)**	**(1)**	**4,215**	**(7,554)**
Revaluation of investments							12,846		(25)		12,821	(52)
Financial expense, net											(431)	(1,729)
Corporate income tax											1,324	(2,979)
Minority interest											1,284	2,872
Net result	**3,383**	**(7,289)**	**316**	**41**	**(894)**	**(305)**	**18,204**	**-**	**(3,973)**	**(1)**	**18,213**	**(9,442)**
Segment assets	220,064	216,302	16,933	17,821	15,268	16,167	44,073	-	1,101	18	297,439	249,596
Unallocated assets											2,487	41,035
Total consolidated assets											**299,926**	**290,631**
Segment liabilities and provisions	4,082	4,186	2,778	4,902	194	467	-	-	357	1	7,411	9,556
Unallocated segment liabilities											8,555	5,946
Total consolidated liabilities and provisions											**15,966**	**15,502**
Capital expenditure	18,900	21,399	1,498	2,337	26	918	-	-	78	-	20,502	24,654
Amortization and depreciation	10,291	15,838	1,882	1,660	587	123	-	-	62	-	12,822	17,621

4. 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:

Crude oil and oil products:

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

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.

Shipping:

The business represents investment in cargo shipping business.

5. Net sales

	Group		Parent company	
	2004	2003	2004	2003
Printing services	17,855	16,535	-	-
Reloading of crude oil and oil products [a]	15,998	21,737	-	18,116
Transportation of crude oil products	7,182	5,974	-	-
Transportation of crude oil [b]	6,428	7,503	-	-
Income from sale of crude oil and oil products	4,701	-	1,359	-
Newspaper sales	1,759	1,975	-	-
Rental income and real estate management	607	527	-	-
Advertisements	454	736	-	-
Income from sale of non-current assets	450	-	-	-
Other	513	374	-	60
TOTAL:	**55,947**	**55,361**	**1,359**	**18,176**

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 3 Group restructuring)

b) At the end of 2002, transportation of crude oil through the subsidiary's SIA LatRosTrans pipeline in Ventspils direction was fully ceased by the Russian suppliers. As further described in Note 14 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.

6. Cost of sales

	Group		Parent company	
	2004	2003	2004	2003
Amortization and depreciation	12,060	16,494	-	5,659
Raw materials	10,210	9,469	-	-
Remuneration for work	8,919	8,101	-	1,555
Cost of sold oil and oil products	3,777	-	1,359	-
Insurance expenses	2,519	2,436	-	1,322
Utilities	1,976	2,339	-	932
Social security contributions	1,963	1,738	-	381
Materials and spare parts	1,700	1,744	-	445
Transit development	1,092	1,252	-	-
Security	888	870	-	-
Environment protection expense	830	578	-	47
Railway charges	788	1,512	-	1,356
Utilization of piers	743	978	-	841
Land rent	680	689	-	522
Real estate tax	540	1,331	-	843
Processing works	465	254	-	-
Treatment of technological waste water	430	888	-	765
Communication expense	341	214	-	-
Services received from other companies	321	431	-	272
Book value of non-current assets sold	284	-	-	-
Helicopter services	249	239	-	-
Repair works done by other companies	242	384	-	226
Non-deductible VAT	33	136	-	-
Changes in inventory	(143)	13	-	44
Other	593	515	-	15
TOTAL:	**51,500**	**52,605**	**1,359**	**15,225**

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 3 Group restructuring)

7. General and administrative expense

	Group		Parent company	
	2004	2003	2004	2003
Remuneration for work	2,064	3,265	523	1,984
Professional charges and legal costs	1,287	338	202	108
Social security contributions	417	640	100	401
Amortization and depreciation	392	686	62	580
Advertising and marketing	306	527	100	400
Sports advertising expenses	288	-	-	-
Insurance	175	185	118	178
Rent of premises	126	125	172	169
Allowance for doubtful and bad debts	114	254	-	-
Representation expense	107	74	31	38
Vehicle maintenance expense	105	118	74	106
Business trips	99	145	11	93
Bank charges	73	87	54	48
Communication expense	66	152	22	117
Social infrastructure expense	59	52	-	-
Conferences, seminars and training	21	37	8	25
Research and development costs	-	416	-	416
Other personnel expense	-	120	-	64
Release of fair value adjustment for long-term advance	(229)	(46)	-	(275)
Prior years (income)/ expense, net	-	(108)	-	(108)
Other expense	566	432	162	193
TOTAL:	**6,036**	**7,499**	**1,639**	**4,537**

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 3 Group restructuring)

8. Other operating income

	Group		Parent company	
	2004	2003	2004	2003
Gain from revaluation of oil and oil products at stock	5,535	-	5,535	-
Amortization of a/s Latvijas kuģniecība negative goodwill	5,358	-	5,358	-
Recovered VAT and excise tax penalty [b]	790	-	-	-
Income from oil extracted from waste waters	429	-	-	-
Gain from sale of non-current assets	20	-	1,240	-
Release of allowances for doubtful and bad debt	4	3	1	3
Income from rent of fixed assets	2	54	336	1,289
Penalties received	-	20	-	1
Purification of piers [a]	-	3,191	-	3,353
Provision for oil products compensation to clients	-	2,091	-	-
Release of accrued expenses	-	364	-	364
Negative goodwill of a/s Preses nams	-	-	-	60
Management fee	-	-	270	-
Real estate management	-	-	252	-
Other income	282	-	66	-
TOTAL:	**12,420**	**5,723**	**13,058**	**5,070**

a) After the reorganization of the Parent company by transferring crude oil and oil product reloading business to subsidiary SIA Ventspils nafta termināls, the Parent 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 performed and the Group will not need any further significant investments in purification works (see also Note 30 Provisions).

b) See note 37 Contingent liabilities

9. Other operating (expense)

	Group		Parent company	
	2004	2003	2004	2003
Oil product losses [a]	(1,973)	(4,645)	-	-
Depreciation	(210)	(160)	(1,523)	(150)
Payments to local municipality [b]	(850)	(200)	-	(200)
VAT and excise tax according to the ruling of the court [c]	(481)	(1,208)	-	-
Sponsorship	(384)	(364)	(225)	(364)
Cost of converted Board and reserve shares	(300)	-	(300)	-
Personnel expenses	(291)	(191)	-	(82)
Amortization of goodwill	(143)	(271)	-	(271)
Real estate tax	(127)	-	(127)	-
Provision for expenses arising from oil product theft	(76)	-	-	-
Penalties paid	(16)	-	(8)	-
Disposal of investment	(24)	-	(24)	-
Depreciation and insurance expense related to rented fixed assets	-	-	(321)	(1,163)
Real estate development expense	-	-	(305)	-
Other expenses	(255)	(35)	-	(73)
TOTAL:	**(5,130)**	**(7,074)**	**(2,833)**	**(2,303)**

a) In 2004, the subsidiary SIA LatRosTrans incurred losses of oil products, which exceeded the rate for wastages agreed with the clients (until 1 February 2004 – 0.15% and from 1 February 2004 - 0.1% of total transported volume) by 19.5 thousand tons (2003: 30.6 thousand tons). According to the Council resolutions, dated 15 July 2004 and 28 April 2005, the subsidiary SIA LatRosTrans wrote off the above excessive oil product losses for 2004 of 19.5 thousand tons amounting to LVL 1,973 thousand (for 2003: LVL 3,095 thousand) according to the average weighted cost of oil products (see also Note 21).

b) According to the agreement concluded between subsidiary SIA Ventspils nafta terminãls and Ventspils City Council, SIA Ventspils nafta terminãls pays Ventspils City Council a fixed amount of LVL 700 thousand annually for transportation of oil and oil products through the Ventspils City territory plus a variable amount, which does not exceed 1% of the Company's net turnover, for development of Ventspils social infrastructure. According to a separate agreement, the respective payment to Ventspils Council for the year 2004 amounts to LVL 850 thousand.

c) See note 37 Contingent liabilities

10. Personnel expenses

	Group		Parent company	
	2004	2003	2004	2003
Average number of employees	2,357	2,932	32	593

Remuneration for work and social security expense

	Group		Parent company	
	2004	2003	2004	2003
Remuneration for work	10,609	10,641	130	3,041
Social security contributions	2,351	2,323	35	732
Other personnel expense	105	150	-	66
Management and the Board of Directors				
Remuneration for work	574	473	173	308
Social security contributions	79	43	19	14
Other personnel expense	17	27	-	23
Members of the Council				
Remuneration for work	522	518	220	237
Social security contributions	119	82	46	45
Other personnel expense	4	10	-	9
TOTAL:	**14,380**	**14,267**	**623**	**4,475**

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

	Group		Parent company	
	2004	2003	2004	2003
Cost of sales	10,915	9,851	-	1,958
Selling expenses	599	215	-	-
General and administrative expenses	2,494	3,947	623	2,426
Other operating expenses	372	250	-	87
Construction in progress	-	4	-	4
TOTAL:	**14,380**	**14,267**	**623**	**4,475**

11. Financial income/ (expense), net

	Group		Parent company	
	2004	2003	2004	2003
Interest income on loans	203	483	95	88
Interest income from bank account balances and deposits	104	105	2	13
Income from trading investments	62	34	62	2
Interest expense	(238)	(268)	(10)	(13)
Foreign currency exchange gain/ (loss), net	(562)	(2,083)	(180)	(452)
TOTAL:	**(431)**	**(1,729)**	**(31)**	**(362)**

12. Corporate income tax

	Group		Parent company	
	2004	2003	2004	2003
Current income tax				
Current income tax	275	1,878	275	1,878
Deferred tax				
Relating to origination and reversal of temporary differences	(151)	3,695	(1,901)	3,095
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 [a)]	(1,448)	(865)	-	(592)
Income tax reported in income statement	**(1,324)**	**2,979**	**(1,626)**	**2,652**

a) In 2004, the subsidiary SIA Ventspils nafta terminãls applied 5% corporate income tax rate (previously – 15 %) for the calculation of deferred tax liability based on the management's assumption that the subsidiary SIA Ventspils nafta terminãls will benefit from 80% corporate income tax rebate applied to companies operating in accordance with the law of the Republic of Latvia On Tax Application in Free Ports and Special Economic Zones.

12. Corporate income tax (cont'd)

Deferred corporate income tax:

	Group		Parent company	
Deferred income tax liability	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Accelerated depreciation for tax purposes	(9,753)	(6,828)	(315)	(2,216)
Decrease in deferred income tax due to changes in corporate income tax rate	1,448	-	-	-
Unrecorded release of deferred tax liability	(12)	-	-	-
Gross deferred tax liability	(8,317)	(6,828)	(315)	(2,216)
Deferred income tax asset				
Tax losses carried forward	3,739	1,041	-	-
Deferred tax assets related to other temporary differences	101	80	-	-
Tax rebate on investment projects above LVL 10,000 thousand [a)]	4,166	4,166	-	-
Less valuation allowance for tax asset	(1,941)	(2,311)	-	-
Gross deferred tax asset	6,065	2,976	-	-
Net deferred income tax liability	**(2,252)**	**(3,852)**	**(315)**	**(2,216)**

a) According to the decision of the Cabinet of Ministers No. 613, dated 30 October 2002, subsidiary SIA LatRosTrans has been granted a tax rebate of 40% of the planned investment value or LVL 4,166 thousand to reduce corporate income tax for the purpose of supporting the investment projects amounting to LVL 10,415 thousand. The subsidiary SIA LatRosTrans can use the rebate against future taxable profit during 10 years, if it fulfils the above mentioned investment plan within the period 17 July 2000 through 31 December 2004. The above mentioned investment plan had been fulfilled by the end of the year 2003. Upon applying the above tax rebate, the subsidiary SIA LatRosTrans calculates the corporate income tax at 25%.

Group tax losses carried forward, mainly consisting of tax loses of subsidiary SIA LatRosTrans (to be utilized at a rate of 25%) expire as follows:

	LVL thousand
Year 2006	3
Year 2007	1,363
Year 2008	8,895
Year 2009	4,746
Total	**15,007**

12. Corporate income tax (cont'd)

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

	Group		Parent company	
	2004	2003	2004	2003
Income before corporate income tax	16,376	(9,335)	18,510	(6,618)
Corporate income tax 15% (2003 – 19%)	2,456	(1,774)	2,777	(1,257)
Decrease in corporate income tax applicable for the parent company	-	(1,729)	-	(1,729)
Permanent differences including the effect of intra-group transactions	(2,263)	214	(2,844)	320
Increase of income tax rate effect on the closing balance of the deferred income tax	-	316	-	591
Tax losses offset within the group	-	-	(1,490)	(1,073)
Income tax rate decrease and tax discount effect on the closing balance of deferred income tax	-	5,766	-	5,766
Unrecognized tax losses	-	83	-	-
Effect of corporate income tax rate change on the deferred corporate income tax charge	(1,448)	-	-	-
Other	(69)	103	(69)	34
Corporate income tax included in the income statement	**(1,324)**	**2,979**	**(1,626)**	**2,652**

Permanent differences includes non-taxable revaluation of investment in a/s Latvijas kuģniecība of LVL (1,927) and amortization of a/s Latvijas kuģniecība negative goodwill of LVL (804).

13. Intangible assets

		Group					Parent company
		Land use rights	Goodwill	Negative goodwill	Other intangible assets	**Total**	Negative goodwill
Cost value as at 01/01/2004		49,659	2,740	-	27	52,426	-
2004	Additions	-	-	(53,585)	18	(53,567)	(53,585)
	Set off of accumulated depreciation	-	(1,288)	-	-	(1,288)	-
Cost value as at 31/12/2004		49,659	1,452	(53,585)	45	(2,429)	(53,585)
Accumulated amortisation		13,617	1,298	-	6	14,921	-
2004	Amortisation for the year	997	146	(5,358)	11	(4,204)	(5,358)
	Set off of accumulated depreciation	-	(1,288)	-	-	(1,288)	-
Balance as at 31/12/2004		14,614	156	(5,358)	17	9,429	(5,358)
Net book value 01/01/2004		**36,042**	**1,442**	**-**	**21**	**37,505**	**-**
Net book value 31/12/2004		**35,045**	**1,296**	**(48,227)**	**28**	**(11,858)**	**(48,227)**
Amortisation rate (straight line method)		2.5-4% (a)	6.67-10% (b)	4% (c)	10-35%		4% (c)

13. Intangible assets (cont'd)

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 land owners and boundaries of the respective land plots have been identified, and cadastral register statements have been received. The subsidiary SIA LatRosTrans has obtained all respective documents. The work on registration of title to the land and encumbrances has been performed by the land owners. As at the year end, the registration of easements has been accomplished by 70%.

Land use rights are stated at contributed value as agreed on by the subsidiary's SIA LatRosTrans founders. Until 1 January 2004, the respective assets were amortized over 25 years using the straight-line method. During the period from 1999 to 2004, the subsidiary SIA LatRosTrans invested in modernization of the pipeline network more than LVL 50 million, and the subsidiary's SIA LatRosTrans management believes that the useful life of land use rights could be substantially extended by making additional overhauls. Consequently, the useful life of the land use rights have been reviewed and extended to 40 years. The useful life of the proportionate part of the land use rights attributable to the closed main pipeline section in Ventspils direction remained unchanged.

Management of SIA LatRosTrans and a/s Ventspils nafta has considered the need for an allowance for impairment of land use rights and decided that such allowance was not required using the same rationale as described in Note 14 Property, plant and equipment.

b) In the auction on 8 December 1998, a/s Ventspils nafta obtained the rights to purchase 45 939 shares of a/s Naftas parks constituting 99.98% of the company's share capital. On 31 March 1999, the acquisition was completed and goodwill amounting to LVL 2,713 thousand was recognized in the books of a/s Ventspils nafta.

As upon establishment of SIA Ventspils nafta termināls in 2003 a/s Ventspils nafta paid up its share capital partly by non-current assets which previously had been the property of a/s Naftas Parks. Upon the establishment of SIA Ventspils nafta termināls, a/s Ventspils nafta ceased reloading of crude oil and oil products, with SIA Ventspils nafta termināls taking over these operations, utilizing, among others, the former non-current assets of a/s Naftas Parks. On 22 September 2004 SIA Ventspils nafta termināls entered into an agreement with a/s Ventspils nafta on acquisition of the Company's goodwill in the amount of LVL 1,424 thousand (as at 31 December 2003, the net book value of the goodwill was LVL 1,425 thousand). As a result of transaction, accumulated depreciation amounting to LVL 1,288 thousand was set-off in the Group's intangible assets movement schedule.

c) On 25 June 2002 the Parent company took part in the auction of a/s Latvijas kuģniecība shares. The Parent company acquired 62,538,261 shares of JSC Latvian shipping company for LVL 0.35 per share and 1,493,694 Global depositary receipts (GDR) (1 GDR = 25 shares) for USD 14.30 per GDR. Following the change in accounting estimate in 2004 (see also Note 2), the negative goodwill in the amount of LVL 53,585 thousand was recognized in the financial statements and respective amortization calculated starting from 25 June 2002. The negative goodwill is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable depreciable assets.

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

	Group		Parent company	
	2004	2003	2004	2003
Cost of sales	1,005	1,900	-	-
Sales and distribution expenses	2	-	-	-
General and administrative expenses	4	-	-	-
Other operating income	(5,358)	-	(5,358)	-
Other operating expenses	143	272	-	271
TOTAL:	**(4,204)**	**2,172**	**(5,358)**	**271**

14. Property, plant and equipment

Parent company

		Machinery and equipment	Other property, plant and equipment	Construction in progress	**Total, excluding prepayments for property, plant and equipment**
Cost value as at 01/01/2004		272	1,731	164	2,167
	Additions	-	-	78	78
2004	Disposals	(40)	(1)	-	(41)
	Transfers	58	24	(82)	-
Cost value as at 31/12/2004		290	1,754	160	2,204
Accumulated depreciation as at 01/01/2004		167	989	-	1,156
2004	Depreciation for the year	51	177	-	228
	Disposals	(17)	(1)	-	(18)
Accumulated depreciation as at 31/12/2004		201	1,165	-	1,366
Net book value as at 01/01/2004		**105**	**742**	**164**	**1,011**
Net book value as at 31/12/2004		**89**	**589**	**160**	**838**
Depreciation rate (straight-line)		10-33%	10-50%		

The cadastral value of land owned by the Parent company as of 31 December 2004 amounts to LVL 234 thousand (2003: LVL 234 thousand).

As at the end of 2003 and 2004, real estate owned by a/s Ventspils nafta is recognized as investment properties (see also Note 16 Investment properties).

Group

		Land, buildings and networks	Machinery and equipment	Other property, plant and equipment	Construction in progress	**Total, excluding prepayments for property, plant and equipment**
Cost value as at 01/01/2004		214,617	76,870	24,760	12,554	328,801
	Additions	324	752	1,854	17,572	20,502
2004	Disposals	(298)	(392)	(132)	(684)	(1,506)
	Transfers	10,857	4,578	(1,002)	(14,433)	-
Cost value as at 31/12/2004		225,500	81,808	25,480	15,009	347,797
Accumulated depreciation as at 01/01/2004		104,111	33,297	17,099	-	154,507
	Depreciation for the year	4,361	4,790	2,485	-	11,636
2004	Disposals	(11)	(320)	(124)	-	(455)
	Transfers	-	97	(97)	-	-
Accumulated depreciation as at 31/12/2004		108,461	37,864	19,363	-	165,688
Net book value as at 01/01/2004		**110,506**	**43,573**	**7,661**	**12,554**	**174,294**
Net book value as at 31/12/2004		**117,039**	**43,944**	**6,117**	**15,009**	**182,109**
Depreciation rate (straight-line)		1-10%	8.3-50%	10-50%		

In 2004, the subsidiary SIA LatRosTrans reviewed the useful life of the main pipelines according to the evaluation performed by independent evaluator a/s IBNA. The above evaluation comprised the analysis of the technical condition of main pipelines, assessment of diagnostic methods and analysis of elimination of the identified defects. As a result, the useful lives of main pipelines were extended by 13-20 years at average and the depreciation charge for the year was decreased by LVL 1,777 thousand. According to the evaluation performed by a/s IBNA, from 2 May 2005, the subsidiary's SIA LatRosTrans technological equipment cannot be considered an integrated main pipeline amortization unit. Moreover, the subsidiary SIA LatRosTrans is constantly performing main pipeline repairs in the result of which the remaining useful lives of pipelines considerably increase. Therefore, the subsidiary SIA LatRosTrans believes that there is no need for depreciating the equipment the remaining useful life of which exceeds the remaining useful life of main pipelines over the remaining useful life of the respective main pipelines.

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

In 2002 transportation of crude oil through the subsidiary's SIA LatRosTrans pipeline to Ventspils direction was fully ceased. The Parent company's and the subsidiary's SIA LatRosTrans management are taking measures and working on possible scenarios how to resume crude oil transportation in Ventspils direction. Therefore, also taking into account current tendencies prevailing at the global oil market, Parent company's and the subsidiary's SIA LatRosTrans management and the Council believe that the current situation is temporary and that the transportation of crude oil will resume in the foreseeable future. The aggregate proportional value of tangible and intangible non-current assets related to crude oil transportation in Ventspils direction approximates LVL 22 million.

As further described in Note 37, the subsidiary SIA LatRosTrans has incurred substantial physical losses of oil products since 2002. Regardless of positive court rulings, this may result in additional tax liabilities and penalties relating to deficiencies of oil products, which may lead to a negative cash flow related to oil product transportation in Ventspils direction. According to the court ruling of 6 October 2004, the State Revenue Service has cancelled its claim for additional taxes related to 2001. The above court ruling was further used in calculation of the taxes on physical losses incurred in 2002 and 2003. In addition, the Council of the subsidiary SIA LatRosTrans has set up a workgroup consisting of shareholder representatives and various other parties in order to work out a positive solution in relation to the reduction of physical losses of oil products and related tax consequences. The aggregate proportional value of tangible and intangible non-current assets related to the oil product transportation in Ventspils direction approximates LVL 53 million.

The Parent company's and the subsidiary's SIA LatRosTrans management and the Council 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 75 million as at 31 December 2004, comprising the value of tangible non-current assets of LVL 47 thousand and proportional value of intangible non-current assets of LVL 28 thousand should be included in the financial statements for 2004. Where the existing situation becomes permanent and the pipeline cannot be used for alternative purposes, and the oil product losses and related tax consequences are not reduced, the respective impairment will be presented in the following subsidiary's SIA LatRosTrans financial statements.

As of 31 December 2004, the cadastral value of the land owned by the subsidiary SIA Preses nams is LVL 133 thousand (2003: LVL 132 thousand).

As of 31 December 2004, 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 3,403 thousand (2003: LVL 3,680 thousand) in order to secure credit facilities from a/s Latvijas Unibanka. (See Note 31 Loans from credit institutions)

As of 31 December 2004, the net book value of property, plant and equipment acquired by the subsidiary a/s Preses nams under financial lease contracts amounted to LVL 4,451 thousand (2003: LVL 4,737 thousand).

As at 31 December 2004 the cadastral value of land owned by the subsidiary SIA Rīgas Līcis VN is LVL 812 thousand (2003: 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 37 Contingent liabilities). Due to the ongoing reconstruction works and the fact, that the future development plan is not set, the real estate owned by the subsidiary SIA Rīgas Līcis VN is not considered as investment property for the Group.

As at 31 December 2004 the cadastral value of land and buildings owned by the subsidiary SIA Nekustamie īpašumi VN and its subsidiaries is LVL 4,524 thousand and LVL 1,827 thousand (2003: LVL 4,565 thousand and LVL 1,867).

The cadastral value of the subsidiary's SIA Ventspils nafta termināls real estate located at Talsu iela 75, Ventspils, as at 31 December 2004 amounted to LVL 38 thousand (2003: LVL 38 thousand).

As disclosed in Note 31 Long term loans from credit institutions, the subsidiary's SIA Ventspils nafta termināls real estate located at Talsu iela 75E, Ventspils, is pledged as a security for the credit line granted by a/s Latvijas Unibanka. As at 31 December 2004, the net book value of pledged tangible non-current assets was LVL 6,168 thousand. Furthermore, as a security for the credit line from a/s Hansabanka received by subsidiary Ventspils nafta termināls, SIA Rīgas Līcis VN has pledged its real estate located at Dubultu prospekts 51, Jūrmala.

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

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

	Group		Parent company	
	2004	2003	2004	2003
Cost of sales	11,055	14,594	-	5,659
Selling expenses	15	10	-	-
General and administrative expenses	388	686	62	580
Other operating expenses	210	159	1,844	1,222
TOTAL:	**11,668**	**15,449**	**1,906**	**7,461**

Property, plant and equipment movement schedule for Parent company in year 2004 does not includes depreciation expense amounting to LVL 1,561 thousand for fixed assets classified as available for sale as at 31 December 2004 and sold in May 2005, as well as, depreciation expense for investment properties amounting to LVL 117 thousand.

Property, plant and equipment movement schedule for the Group in year 2004 does not include depreciation expense of investment properties amounting to LVL 32 thousand.

15. Construction in progress and prepayments for property, plant and equipment

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Communication system reconstruction	4,732	4,188	-	-
Projection of main pump station at Ilūkste	2,134	281	-	-
Reconstruction of oil product controlling point at Ventspils	1,902	111		
Construction of new pipeline corridor [a)]	1,866	1,876	-	-
Reconstruction of real estate Rīgas Līcis in Jurmala	1,770	1,769	160	160
Projection and construction of lopping (pipeline)[c)]	1,623	1,972	-	-
Reconstruction of tank filling platform Nr. 1 [b)]	410	410	-	-
Construction of railway tank filling/reloading platform Nr. 4	-	1,485	-	-
Other objects	572	462	-	4
TOTAL:	**15,009**	**12,554**	**160**	**164**

a) The subsidiary SIA Ventspils nafta termināls has started construction of new pipeline corridor from its reservoirs to piers of Ventspils Free port. In 2003 the subsidiary SIA Ventspils nafta termināls has temporarily ceased construction works and the management plans to re-start construction works in 2005 as this project is included in the long-term investment plan for SIA Ventspils nafta termināls.

b) As disclosed in Note 37, the subsidiary SIA Ventspils nafta termināls will have to reconstruct elevation No.1. The subsidiary SIA Ventspils nafta termināls has ordered a technical documentation for the planned reconstruction works of railway elevation No. 1. However, the management does not plan to commence any works before 2006 since the subsidiary SIA Ventspils nafta termināls has received permission to use existing elevation until 2006.

c) In 2003, the subsidiary SIA LatRosTrans carried out designing to perform construction of looping in several stages. In 2004, the first stage of looping construction was completed, as a result the subsidiary SIA LatRosTrans can ensure oil product transportation up to 8,000 thousand tons per year. As no rapid growth in the volume of loaded oil products is planned in the next few years, the subsidiary SIA LatRosTrans resolved to temporarily suspend further construction works of the looping. However, the subsidiary SIA LatRosTrans management believes that the investments in designing of looping should not be written off as the subsidiary SIA LatRosTrans is continuously engaged in preparing an effective development strategy and the looping construction will be renewed in the future.

Please see Note 37 Contingent liabilities for commitments for capital expenditure.

15. Construction in progress and prepayments for property, plant and equipment (cont'd)

As of 31 December 2004 the main part of prepayments for tangible fixed assets relates to the subsidiary's SIA LatRosTrans payments to the construction company SIA Olimps for montage of an oil product controlling point amounting to LVL 2,221 thousand (2003: LVL 729 thousand respectively).

16. Investment properties

Reconciliation of the carrying amount of investment property at the beginning and end of the period:

	Group		Parent company	
As at 1 January	2004	2003	2004	2003
Balance at the beginning of the year:	2,612	-	5,868	-
Classified as investment properties	-	2,612	-	5,868
Depreciation for the period	(32)	-	(117)	-
Balance as at 31 December:	**2,580**	**2,612**	**5,751**	**5,868**
Depreciation rate (straight- line)	1-10%	1-10%	1-10%	1-10%

The fair value of investment property:

	Group		Parent company		Fair value	Valuation date
	31/12/2004	31/12/2003	31/12/2004	31/12/2003		
Conference and recreation centre on Lake Usma, Lejastiezumi, Kuldigas disctrict, Latvia	-	-	2,291	2,366	2,292	11/01/2005
Representation house, Briāna street 3, Riga, Latvia	1,952	1,978	1,952	1,978	3,085	04/01/2005
Sports centre, Talsu street 75, Ventspils, Latvia	-	-	871	880	854	11/01/2005
Office building, Palasta street 10, Riga, Latvia	628	634	628	634	1,950	04/01/2005
Other	-	-	9	10		
TOTAL:	**2,580**	**2,612**	**5,751**	**5,868**	**8,181**	

The market values of investment properties belonging to the Parent company have been determined by valuation company SIA Biznesa Konsultantu Grupa, Reg. No. 40003394250.

17. Investments in subsidiaries and associated entities

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

	Group		Parent company		Legal address
Ownership (%)	31/12/2004	31/12/2003	31/12/2004	31/12/2003	
Subsidiaries					
SIA LatRosTrans	66.00	66.00	66.00	66.00	Balvu street 7, LV-5043, Daugavpils, Latvia
A/s Preses nams	92.92	92.61	92.92	92.61	Balasta dambis 3, LV-1081, Riga, Latvia
SIA under liquidation Nafta Holdings	-	98.00	-	98.00	Doma laukums 6, C450, LV-1885, Riga, Latvia
A/s Rietumu cauruļvadu sistēma	-	52.54	-	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, Jurmala, Latvia
SIA Nekustamie īpašumi VN a)	100.00	100.00	100.00	100.00	Balasta dambis 3, LV-1081, Riga, Latvia
SIA Mediju names b)	99.31	99.28	90.21	90.23	Balasta dambis 3, LV-1081, Riga, Latvia
SIA Ventspils nafta termināls	100.00	100.00	100.00	100.00	Talsu street 75, LV-3602, Ventspils, Latvia
Subsidiaries of SIA Nekustamie īpašumi VN					
SIA Darījumu centrs Daugava	100.00	100.00	-	-	Balasta dambis 3, LV-1081, Riga, Latvia
SIA Ventspils biznesa centrs	100.00	100.00	-	-	Balasta dambis 3, LV-1081, Riga, Latvia
SIA Namserviss VN	100.00	100.00	-	-	Balasta dambis 3, LV-1081, Riga, Latvia
SIA under liquidation Maikapara nams	100.00	100.00	-	-	Balasta dambis 3, LV-1081, Riga, Latvia
SIA Lejastiezumi	100.00	100.00	-	-	Balasta dambis 3, LV-1081, Riga, Latvia
SIA Pārventas sporta centrs	100.00	100.00	-	-	Balasta dambis 3, LV-1081, Riga, Latvia

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

b) As of 31 December 2004, a/s Ventspils nafta has a 90.21% shareholding of SIA Mediju nams. At the same time, a/s Preses nams owns 9.79% of the share capital of SIA Mediju nams. As such, the Group's ownership share is 99.31%.

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

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

SIA LatRosTrans – transporting crude oil and oil products via pipelines;
SIA Ventspils nafta terminãls – reloading and storage of crude oil and oil products;
A/s Preses nams – providing printing services and publishing;
SIA Mediju nams – publishing;
SIA Nekustamie īpašumi VN – real estate management;
SIA Darījumu centrs Daugava – real estate management;
SIA Namserviss VN– real estate management;
SIA Ventspils biznesa centrs– real estate management;
SIA under liquidation Maikapara nams– real estate management;
SIA Lejastiezumi – real estate management;
SIA Pārventas sporta centrs – real estate management;
SIA Rīgas Līcis VN – recreational centre.

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

	Group		Parent company		Legal address
Ownership (%)	31/12/2004	31/12/2003	31/12/2004	31/12/2003	
Associated entities					
A/s Latvijas kuģniecība	49.94	-	49.94	-	Basteja bulvāris 2, LV-1807, Riga, Latvia
SIA Mediji un Poligrāfija	32.70	32.05	32.70	-	Balasta dambis 3, LV-1081, Riga, Latvia
SIA Ventshoes	21.44	21.01	21.44	-	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

As described in Note 2, during 2004 the Group has reassessed intentions as to its 49.94% investment in public joint stock company Latvijas kuģniecība. This investment has previously been considered as available-for-sale since the management intended to sell it in near future. As such, the investment in a/s Latvijas kuģniecība has been classified as current asset and carried at cost because its fair value could not have been determined. However, due to positive operating results of a/s Latvijas kuģniecība it was decided to keep the Group's significant influence and consequently the investment in a/s Latvijas kuģniecība was restated in accordance with the equity method and reclassified to non-current investments in associated entities.

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

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

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Subsidiaries				
SIA LatRosTrans	-	-	83,998	86,577
SIA Ventspils nafta termināls	-	-	78,115	52,822
A/s Preses nams	-	-	13,381	12,660
SIA Rīgas Līcis VN	-	-	2,153	2,304
SIA Nekustamie īpašumi VN	-	-	7,180	7,685
SIA Mediju nams	-	-	40	95
SIA under liquidation Nafta Holdings	-	-	-	289
A/s Rietumu cauruļvadu sistēma	-	-	-	7
Associated entities				
a/s Latvijas Kuģniecība a)	92,300	-	92,300	-
SIA Mediji un Poligrāfija	56	66	56	-
SIA Ventshoes	81	96	81	-
SIA Futbola klubs Ventspils	-	-	-	-
TOTAL:	**92,437**	**162**	**227,304**	**162,439**

a) During 2004 the Group has reclassified investment in a/s Latvijas kuģniecība from current investments to non-current investments in associated entities (see also Note 2).

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

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Balance at the beginning of the year	162	249	162,439	104,518
Acquisitions				
Reclassification of investment in a/s Latvijas kuģniecība [a)]	34,946	-	34,946	-
Recognition of negative goodwill from acquisition of a/s Latvijas Kuģniecība	53,585	-	53,585	-
SIA Ventspils nafta termināls	-	-	24,594	53,948
SIA Nekustamie īpašumi VN	-	-	-	7,795
SIA Rīgas Līcis VN	-	-	-	2,340
SIA Mediju nams	-	-	992	1,200
A/s Preses nams	-	-	4	15
SIA under liquidation Nafta Holdings	-	-	17	-
Total acquisitions:	*88,531*	-	*114,138*	*65,298*
Disposal and reclassification of investment				
Assets transferred from SIA under liquidation Nafta Holdings	-	-	(282)	-
Investment in SIA Mediji un poligrāfija taken over from SIA under liquidation Nafta Holdings	-	-	66	-
Investment in SIA Ventshoes taken over from SIA under liquidation Nafta Holdings	-	-	96	-
Disposal of investment in SIA under liquidation Nafta Holdings		-	(24)	-
Reclassification of investment in a/s Rietumu cauruļvadu sistēma to trading investments	-	-	(7)	-
Total disposal and reclassification of investment:	-	-	*(151)*	-
Amortization of negative goodwill				
Negative goodwill of a/s Preses nams	-	-	-	60
Total amortization of goodwill:	-	-	-	*60*
Foreign currency translation				
a/s Latvijas kuģniecība – for years 2002 and 2003	(4,854)	-	(4,854)	-
a/s Latvijas kuģniecība – for year 2004	(4,223)	-	(4,223)	-
Total foreign currency translation:	*(9,077)*	-	*(9,077)*	-

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

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Proportional share of profit/ (loss)				
SIA LatRosTrans	-	-	(2,579)	(5,561)
A/s Preses nams	-	-	717	635
SIA under liquidation Nafta Holdings	-	-	-	(34)
SIA Rīgas Līcis VN	-	-	(151)	(117)
SIA Nekustamie īpašumi VN consolidated	-	-	(505)	(129)
SIA Mediju nams	-	(34)	(1,047)	(1,105)
SIA Ventspils nafta termināls	-	-	699	(1,126)
a/s Latvijas kuģniecība – for years 2002 and 2003 b)	(6,406)	-	(6,406)	-
a/s Latvijas kuģniecība – for year 2004 c)	19,252	-	19,252	-
SIA Mediji un Poligrāfija	(10)	(12)	(10)	-
SIA Ventshoes	(15)	(41)	(15)	-
Total proportional share of profit/ (loss):	*12,821*	*(87)*	*9,955*	*(7,437)*
Balance at the end of year	**92,437**	**162**	**277,304**	**162,439**

a) During 2004 the Group has reclassified investment in a/s Latvijas kuģniecība from current investments to non-current investments in associated entities (see also Note 2).

b) As a result of change of accounting estimate during 2004, the Group has reclassified investment in a/s Latvijas kuģniecība from current investments to non-current investments in associated entities and recognized proportional share of a/s Latvijas kuģniecība results in the 2 nd half of 2002 and 2003 (see also Note 2).

c) A significant part (LVL 11,504 thousand) of the gain from proportional share of a/s Latvijas kuģniecība 2004 profits is due to reversal of impairment previously recognized on the vessel fleet.

According to the Auditor's Report issued by Moore Stephens (hereinafter – the Auditors), dated 24 May 2005, on the consolidated financial statements of a/s Latvijas kuģniecība for the year ended 31 December 2004, in 2004 and 2003, a/s Latvijas kuģniecība overseas subsidiaries entered into a significant number of time charters with charterers, amounting to USD 32 million and USD 22 million, respectively, at the value below the market rate. Had the transactions been entered into at the market value, the Auditors had estimated that profit for the year ended 31 December 2004 and 31 December 2003 would have increased approximately for USD 30 million and USD 5 million, respectively, and the shareholder's equity as at 31 December 2004 and 2003 would have increased approximately for USD 35 million (LVL 18 million) and USD 5 million (LVL 2.7 million), respectively.

The Auditors also identified that in 2004 and 2003, a/s Latvijas kuģniecība overseas subsidiaries had entered into a number of transactions through an intermediary company for the dry-docking and repair to a number of its vessels. The value of the transactions entered into with the intermediary company in 2004 and 2003 amounted to USD 11 million and USD 11 million, respectively, but as Auditors had not been provided with the original documentation in respect of these transactions, the Auditors were not able to say whether the transactions had been entered into at market rates.

18. Loans to and receivables from related parties

	Maturity	Interest applied	Parent company 31/12/2004	Parent company 31/12/2003
Non-current:				
Receivable from subsidiary SIA Ventspils nafta termināls for purchase of assets	31/12/2007	6 m USD LIBOR + 1.9%	2,350	2,350
Receivable from subsidiary SIA Ventspils nafta termināls for compensation for transferred advances paid	31/03/2014	6 m USD LIBOR + 1.9%	-	2,094
Receivable from subsidiary SIA Ventspils nafta termināls for lease of tangible fixed assets	30/06/2005	6 m USD LIBOR + 1.9%	-	311
For oil lent to subsidiary SIA Ventspils nafta termināls [a)]	31/12/2006	USD 2 th monthly	2,191	-
		TOTAL:	**4,541**	**4,755**

	Maturity	Interest applied	31/12/2004	31/12/2003
Current:				
Loan to subsidiary SIA Rīgas Līcis VN	Upon request	6%	263	-
Loan to subsidiary Mediju nams	31/12/2005	5%	8	-
Loan to subsidiary SIA Nekustamie īpašumi VN	31/12/2004	7%	-	111
Loan to subsidiary SIA Ventspils nafta termināls	31/01/2004	3%	-	676
Receivable from subsidiary SIA Ventspils nafta termināls for lease of tangible fixed assets	30/06/2005	6 m USD LIBOR + 1.9%	708	1,047
Receivable from subsidiary SIA Ventspils nafta termināls for other goods and services	Upon request	n/a	18	49
Other current receivables	Upon request	n/a	128	133
		TOTAL:	**1,125**	**2,016**

a) On 17 June 2004, the Parent company lent to subsidiary SIA Ventspils nafta termināls 25 thousand metric tons of crude oil which afterwards were sold for cash. Receivable from subsidiary SIA Ventspils nafta termināls is presented according to the actual price of crude oil - USD 169.84 per metric ton, totally USD 4,246 thousand. The loan bears monthly interest USD 2 thousand and it is redeemable until 31 December 2006.

19. Other long-term loans to corporate entities

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Non-current:				
Advance to SIA Pārventas Siltums [a)]	1,124	1,074	-	-
Adjustment to fair value	-	(229)	-	-
Other receivables	-	90	-	-
TOTAL:	**1,124**	**935**	**-**	**-**

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Current:				
Advance to SIA Pārventas Siltums [a)]	42	140	-	-
TOTAL:	**42**	**140**	**-**	**-**

a) This caption includes the outstanding long-term advance to SIA Pārventas siltums in the amount of LVL 1,166 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 based on the subsidiary's Ventspils nafta termināls budgeted use of heat in 2005 and amounts to LVL 42 thousand. Currently, the non-current portion of the advance to SIA Pārventas siltums bears no interest. However, the management of the subsidiary Ventspils nafta termināls has received a letter from SIA Pārventas siltums stating that the 5% interest rate will be charged on the outstanding balance of the loan starting from 2006. Based on this assumption, the balance of the loan has not been discounted in 2004.

20. Other investments

	Group		Parent company	
Investments held to maturity	31/12/2004	31/12/2003	31/12/2004	31/12/2003
A/s Venttopaz (13.05%)	359	359	-	-
Impairment loss	(359)	(359)	-	-
TOTAL	-	-	-	-

After liquidation of SIA under liquidation Nafta Holdings, all investments, including investment in a/s Venttopaz at zero value were transferred to a/s Ventspils nafta.

21. Inventories

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Materials:				
Materials, spare parts and low value items	1,645	1,352	-	11
Raw materials	972	1,797	-	-
Other	-	1	-	1
	2,617	*3,150*	-	*12*
Crude oil and oil products – technological balance	4,162	6,742	1,938	2,508
Crude oil and oil products – available for sale	2,814	-	2,414	-
Finished inventory and goods for sale	94	311	-	-
Unfinished inventory	265	153	-	-
Prepayments for materials	51	162	-	-
Allowance for obsolete materials and finished goods	-	(492)	-	-
TOTAL:	**10,003**	**10,026**	**4,352**	**2,520**

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

Crude oil and oil includes balances of crude oil and diesel held for sale and valued at market price, which is estimated at a level of 169.84 USD/t and 364.4 USD/t, accordingly.

The subsidiary's SIA LatRosTrans management has decided to write off excess losses of oil product incurred during the years 2002, 2003 and 2004 from the subsidiary's inventory at the weighted average cost of oil products (see also Note 9 Other operating expenses).

22. Fixed assets for sale

According to the restructuring process the Parent company had the remaining property, plant and equipment and goodwill related to oil and oil product reloading business. During the year 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 was capitalized in SIA Ventspils nafta termināls. Accordingly for stand alone Parent company financial statements the assets were disclosed as current, however for Group financial statements purposes the assets are treated as non-current (see also Note 3 Group restructuring).

23. Trade accounts receivable

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
For printing services	2,979	3,309	-	-
For newspapers	560	298	-	-
For reloading services	1,644	1,900	-	-
For transporting of oil and oil products	1,101	1,029	-	-
For other services	22	42	-	-
Doubtful debts	1,069	1,397	-	234
Allowance for doubtful debts	(1,069)	(1,397)	-	(234)
TOTAL:	**6,306**	**6,578**	**-**	**-**

24. Other accounts receivable

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
VAT and excise tax due from state [a)]	2,212	1,208	-	-
Provision for VAT and excise tax due from state [a)]	-	(1,208)	-	-
VAT receivable (Note 36)	833	718	11	-
Advances for services to be provided	191	44	16	44
Social security contributions	150	-	-	-
Deferred VAT	146	482	21	16
Personal income tax	75	52	-	-
Nature resource tax	4	-	-	-
Real estate tax (Note 36)	3	4	-	4
Other accounts receivable	18	24	3	1,311
Own shares	-	90	-	90
Doubtful debts	6,190	6,207	991	961
Allowances for doubtful debts	(6,138)	(6,110)	(991)	(961)
TOTAL:	**3,684**	**1,511**	**51**	**1,465**

a) See Note 37 Contingent liabilities.

25. Prepaid expense

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Insurance	610	1,457	44	98
Other prepaid expense	129	218	14	5
TOTAL:	**739**	**1,675**	**58**	**103**

26. Short-term loan

					Group	
			Interest rate	Maturity	31/12/2004	31/12/2003
Loan to a/s Latvijas Naftas Tranzīts	4,554	USD '000	5%	10/07/2005	2,350	5,733
				TOTAL:	**2,350**	**5,733**

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, 2003 and 2004 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 2004 the balance outstanding in respect of the above loan was USD 4,554 thousand (LVL equivalent 2,350 thousand) (2002: USD 10,596 thousand (LVL equivalent 5,733 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 42, on 31 March 2005 a/s Latvijas Naftas Tranzīts has partly repaid the loan to the subsidiary SIA LatRosTrans amounting to USD 2,000 thousand.

27. Trading investments

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Shares and GDR of a/s Latvijas kuģniecība (62.5 million shares and 1.5 million GDR)	-	34,946	-	34,946
Shares of a/s Rietumu cauruļvadu sistēma	7	-	7	-
Other shares	51	53	51	51
TOTAL:	**58**	**34,999**	**58**	**34,997**

During the reporting year, the management of the Parent company reconsidered the treatment of investment in a/s Latvijas kuģniecība from trading investment to investment in associated company. See Note 17 for adjustments made due to this change.

28. Cash and cash equivalents

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Term deposits [a)]	5,437	7,101	78	247
Current bank accounts	1,897	1,169	1	213
Accrued interest on deposit	-	27	-	-
Cash on hand	27	33	-	-
TOTAL:	**7,361**	**8,330**	**79**	**460**

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*	31/12/2004
A/s Latvijas Unibanka	5,540	Thous., USD	2.20% to 2.80%	3 – 10 January 2005	2,859
A/s Latvijas Unibanka		Thous., LVL	3.19%	31 January 2005	2,500
A/s Hansabanka		Thous., LVL	RIGIBID ON – 1.50%-0.25%	Overnight deposits	78
				TOTAL:	**5,437**

29. Share capital, reserves and earnings per share

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

	Closed emission shares, in thousands					
	State shares	A/s Latvijas naftas tranzīts shares	Board of Directors' shares	Own shares	Public offering shares, in thousands a)	**Total**
31 December 2002	5,224	38,657	240	60	60,298	**104,479**
State shares purchased by a/s Latvijas Naftas tranzīts	(5,224)	5,224	-	-	-	-
Shares purchased from the former Board members	-	-	(90)	90	-	-
Shares purchased by the Board members	-	-	60	(60)	-	-
31 December 2003	-	43,881	210	90	60,298	**104,479**
Shares purchased by the Board members	-	-	60	(60)	-	-
Shares purchased from the former and current Board members	-	-	(180)	180	-	-
Own shares and shares of the Board of Directors conversion to public offering shares	-	-	(90)	(210)	300	-
31 December 2004	-	43,881	-	-	60,598	**104,479**
31/12/2002	5.00%	37.00%	0.230%	0.060%	57.71%	**100.0%**
31/12/2003	-	42.00%	0.201%	0.086%	57.71%	**100.0%**
31/12/2004	-	42.00%	-	-	58%	**100.0%**

a) Public offering shares includes 40,346 thousand shares hold by the State and intended to be privatized, accordingly, these shares are not available in public market.

All shares are authorized, issued and fully paid.

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

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

The Annual General Meeting of a/s Ventspils nafta shareholders in 30 July 2004 decided to cover losses for 2003 from the accumulated profits from prior years.

As no dividends were paid by subsidiaries for year 2003, the losses for the year 2003 of LVL (9,270) thousand were transferred as follows:

a) transferred to restricted reserves in the amount of LVL 635 thousand;

b) transferred to other reserves in the amount of LVL (9,905) thousand.

Earnings per share for Parent are calculated by dividing the net result for the year of LVL 20,136 thousand (2003: LVL (9,270) thousand) by weighted average number of shares during the year of 104,479 thousand (2003: 104,329 thousand). Earnings per share for the Group are calculated by dividing the net result for the year of LVL 19,213 thousand (2003: LVL (9,442) thousand) by weighted average number of shares during the year of 104,479 thousand (2003: 104,329 thousand).

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

The nominal value of each share is LVL 1.

30. Provisions

	Group		Parent company	
As at 1 January	2004	2003	2004	2003
Balance at the beginning of the year:	80	5,698	-	3,607
(Decrease) of provisions for completed treatment works	-	(336)	-	(254)
Release of the provision for pier purification	(80)	(3,353)	-	(3,353)
Increase of the provision for piers purification	-	162	-	-
Release of provisions for oil products compensation to clients	-	(2,091)	-	-
Balance as at 31 December:	**-**	**80**	**-**	**-**

The subsidiary SIA Ventspils nafta termināls (before restructuring in 2003 - the parent company a/s Ventspils nafta) has been loading and reloading crude oil and oil products for more than 40 years. During this time, a significant amount of leaked oil products has accumulated in the soil. During the last few years, the subsidiary SIA Ventspils nafta termināls has implemented new technologies to reduce and control the pollution level in the soil. According to environmental regulations, the subsidiary SIA Ventspils nafta termināls has to clean ground waters completely, accordingly no provision for pier or ground purification is recognized as at 31 December 2004.

31. Loans from credit institutions

Non-current:	Loan amount (thousand)	Effective interest rate (%)	Maturity	31/12/2004	31/12/2003
A/s Preses nams					
Loan from a/s Latvijas Unibanka	-	3 months Unibor + 2.4%	28/02/2005	-	90
			TOTAL:	**-**	**90**

Current:	Loan amount (thousand)	Effective interest rate (%)	Maturity	31/12/2004	31/12/2003
A/s Preses nams					
Loan from a/s Latvijas Unibanka	LVL 1,643	3 months Unibor + 2.4%	28/02/2005	90	361
Loan from a/s Latvijas Unibanka	-	3 months Unibor + 2.3%	01/05/2004	-	715
SIA Ventspils nafta termināls					
A/s Latvijas Unibanka credit line	USD 3,599	6 month USD LIBOR + 2%	17/12/2005	1,857	928
A/s Hansabanka credit line	USD 5,156	3 month USD LIBOR + 0,79%	13/12/2005	2,661	-
			TOTAL:	**4,608**	**2,004**

The loan in the amount of LVL 90 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 as at 31 December 2004 of LVL 3,081 thousand (2003: LVL 3,287 thousand).

As at 31 December 2004, the subsidiary a/s Preses nams had not used a credit line in the amount of LVL 1,000 thousand.

Under the Agreement, dated 18 December 2003, and Additional Agreement, dated 14 December 2004, signed with a/s Latvijas Unibanka, 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 Company has pledged its real estate located at Talsu iela 75, Ventspils.

Under the Agreement signed with a/s Hansabanka dated 13 December 2004, the bank has granted the subsidiary SIA Ventspils nafta termināls a credit line with the total limit of USD 7,600 thousand. As a security for the aforementioned credit line, SIA Rīgas Līcis VN, the subsidiary of a/s Ventspils nafta, has pledged its real estate located at Dubultu prospekts 51, Jūrmala.

32. Financial lease liabilities

	Date of maturity	Lease amount (thousand)	Effective interest rate (%)	Non-current portion (thousand)	Current portion (thousand)	Net book value of lease items (thousand)
SIA Unilīzings	15/01/2007	LVL 1 354	3 month Unibor + 1.95%	254	235	1,130
SIA Unilīzings	25/06/2005	LVL 1 034	3 month Unibor + 3.0%	-	89	669
SIA Unilīzings	25/08/2008	LVL 693	3 month Unibor + 1.95%	319	120	582
SIA Unilīzings	25/08/2008	LVL 487	3 month Unibor + 1.95%	225	84	401
SIA Unilīzings	25/07/2006	LVL 485	3 month Unibor + 1.95%	69	133	372
SIA Vereins Leasing	01/08/2005	LVL 159	3 month Rigibor + 1.95%	-	42	136
SIA Vereins Leasing	01/08/2005	LVL 87	3 month Rigibor + 1.95%	-	23	67
SIA Nordea Finance Latvia	30/11/2007	LVL 94	3 month Rigibor + 1.75%	52	25	6
SIA Nordea Finance Latvia	30/11/2006	LVL 21	3 month Rigibor + 1.75%	2	3	88
Other				20	-	-
Total as at 31/12/2004				**941**	**754**	**3,451**
Total as at 31/12/2003				**1,597**	**990**	**4,737**

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	1,052	870
Less amounts representing finance charge	(131)	(116)
Present value of minimum lease payments	**921**	**754**

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

33. Taxes payable

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Personal income tax (Note 36)	221	130	56	13
Social security contributions (Note 36)	195	194	9	10
Real estate tax (Note 36)	66	25	30	-
VAT payable (Note 36)	65	181	-	167
Natural resources tax	3	2	-	-
TOTAL:	**550**	**532**	**95**	**190**

34. Other liabilities

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Remuneration for work	543	523	29	35
Other liabilities	20	33	4	-
TOTAL:	**563**	**556**	**33**	**35**

35. Accrued expenses

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Accrued vacation pay reserve	444	328	16	25
Accrued expenses for transit development	229	249	-	-
Accrued legal expenses	227	-	-	-
Accrued bonuses and related social security contributions	200	72	-	3
Other accrued liabilities	377	433	122	131
TOTAL:	**1,477**	**1,082**	**138**	**159**

36. Taxes

Parent company	31/12/2004	Calculated	Paid	(Refunded)	31/12/2003
Social security contributions	(9)	(116)	117	-	(10)
Personal income tax	(56)	(171)	128	-	(13)
Corporate income tax	17	(275)	840	-	(548)
Value added tax	11	(1,172)	1,398	(48)	(167)
Real estate tax	(30)	(127)	97	(4)	4
TOTAL:	**(67)**	**(1,861)**	**2,580**	**(52)**	**(734)**

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 for the Group is not relevant.

37. Contingent liabilities

Customs and value added tax payable

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 248 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 of oil products released for free circulation in accordance with Law on Customs. The subsidiary SIA LatRosTrans believed that the above amounts would be recovered, therefore they are presented in the financial statements as receivables.

The subsidiary SIA LatRosTrans challenged State revenue service decisions in the court, however, in 2004, the Republic of Latvia Supreme Court made an adverse decision on the additional taxes calculated for 2000. The above court resolution is final and cannot be appealed. The above mentioned receivables relating to the additionally paid taxes for 2000 were accordingly written off in the financial statements for 2003. In accordance with the prudence principle, the subsidiary SIA LatRosTrans has established a provision for the full amount of the taxes paid for 2001.

On 6 October 2004, Riga Regional Court ruled in favor of the subsidiary SIA LatRosTrans regarding the additional taxes calculated for 2001, therefore the decision of the State Revenue Service should be revoked. However, Riga Regional Court recognized that the transit procedure had been offended in respect to the portion of losses of 0.56 thousand tons considered to be stolen. The subsidiary's SIA LatRosTrans excise tax and VAT on the above losses payable to the Customs amounted to LVL 67 thousand and LVL 26 thousand, respectively.

The State Revenue Service could appeal the above ruling to the Republic of Latvia Supreme Court, by submitting an appeal to Riga Regional Court. The State Revenue Service did not exercise its rights and the above mentioned ruling of Riga Regional Court was not appealed.

Taking into consideration the above mentioned, the subsidiary SIA LatRosTrans has reversed the provisions for receivables related to the taxes paid for 2001 in amount of LVL 790 thousand and included the above amount in operating income.

In 2004, the Post-clearance Division of the SRS Latgale Regional Office Customs Board performed an audit of the compliance of the transit procedure in the subsidiary SIA LatRosTrans for the years ended 31 December 2002 and 2003. As a result, SRS imposed customs duties payable in respect of the excise and value added taxes for 2002 in amount of LVL 757 thousand and LVL 305 thousand, respectively, as well as 100% penalties in amount of LVL 1,062 thousand, and the excise and value added taxes for 2003 in amount of LVL 520 thousand and LVL 204 thousand, respectively, as well as 100% penalties in amount of LVL 724 thousand. The subsidiary SIA LatRosTrans paid all the above amounts to the state budget, meanwhile submitting a claim to a superior instance of the Sate Revenue Service to review the above decision. According to the resolution of the General Director of SRS Latgale Regional Office, based on the prior ruling of Riga Regional Court on revoking debts for 2001, the above customs duty surcharges for 2002 and 2003 were revoked.

However, the General Director of SRS Latgale Regional Office recognized that the transit procedure had been offended in respect to the portion of losses of 1.275 thousand tons in 2002 and 0.17 thousand tons in 2003 which had been considered to be stolen. Therefore the State Revenue Service calculated excise and VAT payable for 2002 in amount of LVL 151 thousand and LVL 61 thousand, respectively, as well as 100% penalties in amount of LVL 212 thousand, and for 2003 – LVL 20 thousand tons and LVL 8 thousand, respectively, as well as 100% penalties in amount of LVL 28 thousand.

The subsidiary SIA LatRosTrans could appeal the above decisions on the customs duties payable for 2002 and 2003 within 30 days as of the receipt of the decision. The subsidiary's SIA LatRosTrans management resolved against appealing the decisions of the State Revenue Service.

Based on the above mentioned court ruling precedents, the subsidiary's SIA LatRosTrans management estimated the potential taxes payable on physical losses due to thefts for 2004 amounting to 0.268 thousand tons and established provisions for excise tax and VAT in amount of LVL 45 thousand and LVL 31 thousand, respectively. Provisions for excise tax and VAT payable on physical losses due to thefts for 2004 in these financial statements were disclosed under accrued liabilities caption.

37. Contingent liabilities (cont'd)

Customs and value added tax payable (cont'd)

On 21 August 2003, the Cabinet Regulations regarding allowable rate for wastages of transported oil products were amended to further define the rate at 0.16%, and starting from 1 February 2004 – 0.1%. Considering that at the moment of effectiveness of the aforementioned amendments, the actual wastages of the subsidiary SIA LatRosTrans substantially exceeded the rates defined by the Cabinet, and namely, for the period 21 August 2003 through 31 January 2004 the wastages reached 0.75%, and for the period 1 February 2004 through the year end – 0.43%, the subsidiary SIA LatRosTrans might incur additional tax liabilities, regardless of the favorable court rulings. The subsidiary's SIA LatRosTrans management believes that it is possible to prevent potential tax consequences related to this tax risk. Therefore, in 2004, the subsidiary SIA LatRosTrans established a workgroup and attracted lawyers to achieve that the respective legislation would provide different allowable wastage rates for natural losses and losses due to measurement errors, respectively.

Natural resource tax

In 2003, Jelgava Regional Environmental Office found that due to SIA LatRosTrans activities the volume of unauthorized pollution amounted to 0.598 tons, as a result the State Revenue Service imposed natural resource tax of LVL 2 thousand, as well as penalty of LVL 5 thousand. The subsidiary SIA LatRosTrans settled the above liabilities and at the same time challenged State Revenue Service decision in court. Regional Administrative Court partially met SIA LatRosTrans claim and annulled the decision of the State Revenue Service on imposing additional tax and penalty to SIA LatRosTrans. The State Revenue Serviced appealed the above court ruling to the Supreme Court Senate. As at the date of signing these financial statements, the date of the court proceedings had not yet been set. The subsidiary's SIA LatRosTrans management strongly believes that the ruling will be in favor of the subsidiary SIA LatRosTrans and therefore has not recorded any provisions in these financial statements in respect of any additional taxes.

Environmental commitments

The subsidiary SIA LatRosTrans dealing with pipeline transportation of crude oil and oil products is exposed to a major ecological risk of unexpected leakage of crude oil and oil products both as a result of technical damages of pipelines and unauthorized connections. Since 1997, SIA VentEko performs liquidation of the consequences of unexpected leakages from crude oil and oil product pipelines Polotsk – Ventspils and Polotsk – Mažeikai in the territory of the Republic of Latvia on behalf of SIA LatRosTrans. To ensure qualitative services compliant with environment protection requirements and to minimize ecological risk related not only to the pollution of environment but also to considerable financial losses from penalties, SIA VentEko has developed an investment plan envisaging an implementation of such environmental strategy which would ensure that SIA LatRosTrans operations comply with all the standards stated in the Latvian environmental legislation, and the adverse impact on environment caused by oil leakages is limited to the maximum extent possible. The plan also foresees that SIA LatRosTrans makes investments in improving environment of pumping stations, thus considerably reducing potential losses, including unexpected natural resource taxes, expense related to solving unexpected environmental issues, and minimizing ecological risks in all objects. According to SIA VentEko estimates, the implementation of such investment plan would cost LVL 1 392 thousand, which would include liquidation of the consequences of unexpected leakages in the main oil product pipeline network, monitoring and recovery of the historical pollution of Ilūkste pumping station caused by various technical problems, as well as identification and localization of more recent pollutions caused by various technical problems, and general measures for minimizing and monitoring ecological risks.

The subsidiary SIA Ventspils nafta termināls (and previously a/s Ventspils nafta) has been reloading crude oil and oil products for more than 40 years. During this time, a significant amount of leaked oil products has accumulated in the soil. During the last few years, the subsidiary SIA Ventspils nafta termināls has implemented new technologies to reduce and control the pollution level in the soil. According to environmental regulations, the subsidiary SIA Ventspils nafta termināls has to clean ground waters completely. However, this could only be done by reconstructing the existing elevations No. 1 and 2, as these are comparatively old and worn-out constructions occasionally permitting leakages of crude oil and oil products. The estimated total cost of the planned reconstruction works is LVL 22 million.

After accession of the Republic of Latvia into the European Union, according to the International Convention for the Prevention of Pollution from Ships, till 2005 the lawgivers have to develop and the Parliament *(Saeima)* has to adopt regulatory documents to define detailed restrictions as to the release of volatile organic compounds from transit fuel terminals. Consequently, SIA Ventspils nafta termināls will have to invest funds into construction of a new vapour recovery system to comply with the requirements of the aforementioned International Convention. According to approximate estimates, investments into construction of the recuperation equipment might reach LVL 6.0 million.

37. Contingent liabilities (cont'd)

Commitments for capital expenditure

As at 31 December 2004, the subsidiary SIA LatRosTrans had entered into general agreements on construction works amounting to LVL 88,244 thousand (2003: 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 2004 are LVL 6,483 thousand (2003: LVL 8,992 thousand).

	Group		Parent company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Concluded contracts	20,331	19,806	-	-
Prepayments made	(7,512)	(5,154)	-	-
Finished works	(6,336)	(5,660)	-	-
TOTAL:	**6,483**	**8,992**	**-**	**-**

The general agreements signed by the subsidiary SIA LatRosTrans comprise commitments in the amount of USD 54,482 thousand (LVL 28,113 thousand) (2003: LVL 29,475 thousand) 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 2005 are planned for the amount of USD 5,298 thousand (LVL 2,734 thousand).

The subsidiary SIA LatRosTrans is updating its long term investment plans so that it would be able to fulfill 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 amounts to LVL 3.9 million. The agreement provides for penalties amounting to 10% from contract value 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. At the beginning of 2005 the subsidiary SIA Rīgas Līcis VN has reached an agreement with SIA Skonto Būve that current liabilities to SIA Skonto Būve contains only regular invoices and no penalties are calculated.

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:

a) in 2004 - LVL 700 thousand plus the amount not exceeding 1% of the forecasted net turnover of SIA Ventspils nafta termināls for the respective year;

b) in years 2005, 2006 and 2007: LVL 700 thousand each year, plus amount not exceeding 1% of the forecasted net turnover of SIA Ventspils nafta termināls for the respective year.

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.

37. Contingent liabilities (cont'd)

Minimum technological reserve

The subsidiary SIA Ventspils nafta termināls has calculated that, based on the current level of operations, the minimum technological reserve of crude oil and oil products needed to be kept in the reloading network is as follows: 37 000 tons for crude oil, 46 500 tons for diesel fuel and 25 300 tons for gasoline. As at 31 December 2004, the subsidiary SIA Ventspils nafta termināls owns rather insignificant amounts of oil products and 4 545 tons of crude oil intended to cover liabilities to a/s Ventspils nafta for borrowed crude oil (see Note 18).

Thus, in the current circumstances crude oil and oil products owned by its clients and a/s Ventspils nafta are used as a part of minimum technological reserve needed for reloading network. The total minimum technological reserve owned by other parties amounts to approximately 32 500 tons of crude oil, 46 500 tons of diesel fuel and 25 300 tons of gasoline. The approximate cost of acquiring the minimum technological reserve of crude oil and oil products for the reloading network to operate using entirely the subsidiary's SIA Ventspils nafta termināls own resources is estimated at LVL 12,520 thousand.

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 2004 the subsidiary SIA LatRosTrans owns 21,933 tons (2003: 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 65,467 tons (2003: 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 17,185 thousand using an average market price at 3 May 2005 of LVL 262.51/ ton (USD 479.9/ ton).

38. Off balance sheet assets

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 26).

Oil technological surplus

To ensure a successful oil transportation process, the oil pipeline has been filled with 150 thousand tons of oil (36 thousand tons in Polocka-Mažeikai direction and 114 thousand tons in Polocka-Ventspils direction). The above volume of oil is not presented in the subsidiary's SIA LatRosTrans accounting.

39. Pipeline operations

In 2004, the subsidiary 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 Transneft 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 Transneft. Due to the aforementioned reasons no oil transportation via pipelines has been preformed in the last two years.

40. 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, and, 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 Lejastiezumi, associated companies a/s Latvijas Kuģniecība, SIA Mediji un Poligrāfija, SIA Ventshoes 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 26, 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 193 thousand (2003: LVL 483 thousand).

Based on a co-operation agreement concluded between subsidiary SIA Ventspils nafta termināls, a/s Ventbunkers and SIA LatRosTrans on reloading diesel fuel, revenues were generated for SIA Ventspils nafta termināls in the amount of LVL 1,102 thousand (2003: LVL 250 thousand and LVL 675 thousand for a/s Ventspils nafta).

During the reporting year subsidiary SIA Ventspils nafta termināls has been charged LVL 430 thousand (2003: LVL 136 thousand and LVL 765 for a/s Ventspils nafta) by a/s Ventbunkers for treatment of technological waste water.

During the reporting period subsidiary SIA Ventspils nafta termināls has been charged LVL 743 thousand (2003: LVL 137 thousand and LVL 841 thousand for a/s Ventspils nafta) by a/s Ventbunkers for utilization of piers rented by a/s Ventbunkers.

During the year ks Ventbunkers loģistika k/s charged subsidiary SIA Ventspils nafta termināls for railway and information services in aggregate amount of LVL 788 thousand (2003: LVL 156 thousand and LVL 1,352 thousand for a/s Ventspils nafta). Accounts payable to ks Ventbunkers loģistika k/s per subsidiary's SIA Ventspils nafta termināls accounts as of 31 December 2004 amounted to LVL 77 thousand (2003: LVL 67 thousand).

During the year subsidiary SIA Ventspils nafta termināls has charged ks Ventspils ekspedīcija loģistika KS for reserving, transporting and reloading of oil and oil products for the amount of LVL 10,301 thousand (2003: LVL 1,445 thousand and LVL 13,390 thousand by a/s Ventspils nafta). Accounts receivable from ks Ventspils ekspedīcija loģistika KS per subsidiary's SIA Ventspils nafta termināls accounts as of 31 December 2004 amounted to LVL 1,508 thousand.

During the year subsidiary SIA Ventspils nafta termināls has been charged LVL 355 thousand (2003: LVL 94 thousand and LVL 375 thousand for a/s Ventspils nafta) by SIA Vats for electricity. Accounts payable to SIA Vats per subsidiary's SIA Ventspils nafta termināls accounts as of 31 December 2004 amounted to LVL 21 thousand (2003: LVL 30 thousand) .

During the year subsidiary SIA Ventspils nafta termināls 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 Mažeiķi. The total amount of invoices received from SIA Ventspils Ekspedīcija and re-charged to Transoilsystems (UK) Ltd. for 2004 amounted to LVL 5,787 thousand (2003: LVL 1,598 thousand and LVL 5,029 thousand by a/s Ventspils nafta). The intermediary transaction is not included in the Group's turnover. Accounts payable to SIA Ventspils Ekspedīcija per subsidiary's SIA Ventspils nafta termināls accounts as of 31 December 2004 amounted to LVL 517 thousand (2003: 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 2004 amounted to LVL 1,071 thousand (2003: LVL 1,026 thousand). The total turnover with SIA Ventspils ekspedīcija during the reporting year was LVL 12,338 thousand (2003: LVL 12,932 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 2004 (2003: LVL 850 thousand).

41. Financial instruments

The main financial instruments of the Group are issues/ received short-term loans, cash and short-term deposits, finance leases. The main purpose of these financial instruments is to ensure the financing of the operations of the Group. The Group also deals with several other financial instruments, which are a result of its operations, for example, trade accounts receivable, other debtors, trade payables and other payables.

Financial risks

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

Credit risk

The Parent company and the Group is exposed to credit risk through trade receivables, long-term and short-term loans and cash and cash equivalent. The Group's cash equivalents have been invested in highly secure financial institutions.

As of 31 December 2004, the subsidiary SIA Ventspils nafta termināls credit risk concentration to a single customer – related party amounted to 100% of total trade receivables (2003: 76%).

As of 31 December 2004, the subsidiary's SIA LatRosTrans credit risk concentration to a single customer – related party amounted to 100% of total trade receivables (2003: 99.7%).

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

Foreign currency risk

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

A significant part of the revenues of the oil and oil products segment are derived in U.S. dollars, whilst the major part of expenses is in Latvian Lats. In order to manage its foreign currency risk, the subsidiaries balances the currencies of short-term and long-term borrowings with the currencies of future cash flows from operations and enters into contracts on substantial capital investments and services in U.S. dollars.

The Group does not use any financial 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.

The management believes that he exposure to interest rate risk of financial assets and liabilities as of 31 December 2003 was minimal as their deviation from their respective fair values was not significant.

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks and parent company, planning of terms of payment of trade payables, developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans. The budgeting system, which is being successfully applied by the Group, is of great use for liquidity risk management and control.

To prevent and minimize the liquidity risk, the Group is planning permanent cost reduction by modifying the Group's structure, as appropriate. Besides, the issue of re-financing of current liabilities into non-current liabilities is being solved.

Risk analysis and designing of risk management plans are conducted at the top management level.

41. Financial instruments (cont'd)

Fair value

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

The management of the subsidiary SIA Ventspils nafta termināls has performed impairment test for all intangible and tangible non-currents assets as at 31 December 2004. The impairment test was performed under assumption that all intangible and tangible non-currents assets are considered to be a single cash generating unit. Other main assumptions used in the impairment test are as follows:
a) Discount rate is 19%;
b) Inflation rate for expenses is 3% per year;
c) Crude oil received by railway in 2005 will increase by 47% comparing with 2004;
d) Based on the information currently available in the market, starting from 2006 the subsidiary SIA Ventspils nafta termināls plans to derive income from reloading of crude oil received via pipeline. Currently reloading operations via pipeline are stopped due to political situation as described in Note 39.

Based on the above assumptions, the management of the subsidiary SIA Ventspils nafta termināls has calculated net realizable value of all intangible and tangible non-currents assets to be LVL 110 415 thousand.

42. Subsequent events

In January 2005, the subsidiary SIA Ventspils nafta termināls concluded an agreement with the Parent company a/s Ventspils nafta on a credit line with the limit of USD 760 thousand. The credit line matures on 10 December 2005 and interest rate is 6 month USD LIBOR + 2%.

On 24 January 2005, an application for registration of SIA Maikapara nams, the subsidiary of SIA Nekustamie īpašumi VN, liquidation was submitted to the Commercial Register of the Republic of Latvia. Māris Smilts and Andris Uzuleņš were appointed as liquidators.

On 31 March 2005 a/s Latvijas Naftas Tranzīts has partly repaid the loan to the subsidiary a/s LatRosTrans amounting to USD 2,000 thousand.

In the period from 1 January 2005 to 30 April 2005, the subsidiary SIA LatRosTrans incurred losses of oil products during the transportation, which exceeded the rate for wastages agreed with the clients (from 1 February 2004 - 0.1% of total transported volume) by approximately 3.9 thousand tons.

As at the date of signing these financial statements, the State Revenue Service had transferred part of the subsidiary's SIA LatRosTrans debt paid to the state budget in amount of LVL 222 thousand to value added tax receivable.

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.

43. Going concern of the subsidiaries

As at the year-end, the subsidiary's SIA Ventspils nafta termināls current liabilities exceed current assets by LVL 4,134 thousand. According to the estimates of the subsidiary's SIA Ventspils nafta termināls management, operating income of 2005 is expected to exceed operating expenses by LVL 803 thousand. Consequently, the management believes that the positive cash flow from operating activities would be sufficient to ensure financing to solve liquidity problems. If the existing situation persists, the subsidiary SIA Ventspils nafta termināls would require additional financial support from the Parent company a/s Ventspils nafta. A/s Ventspils nafta have provided a letter of financial support confirming that it will provide the subsidiary SIA Ventspils nafta termināls with additional financing for continuing its operations in the foreseeable future, if necessary.

SIA Mediju nams closed the year 2004 with the loss of LVL 1,161 thousand, and had negative cash flows from the operating activities. Current liabilities exceeded current assets by LVL 60 thousand. Substantial losses are as well budgeted for the year 2005. 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 2005 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 dated 13 April 2005, that it will provide the adequate financing to SIA Mediju nams to ensure continuation of its operations at least until 30 July 2006.

Since 2002, the subsidiary a/s LatRosTrans 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 believe that the current situation is temporary and are taking actions aimed at renewing the delivery of crude oil to Ventspils terminal and also to reduce excessive physical losses of oil products and related tax consequences

The subsidiary SIA Nekustamie Īpašumi VN and its subsidiaries closed the reporting year with loss of LVL 505 thousand. According to the estimates of the subsidiary's SIA Nekustamie Īpašumi VN management, after the liquidation of the SIA Maikapara nams in 2005, the balance due in the amount of LVL 302 thousand will be reversed, along with taking over the properties of SIA Maikapara nams and reversal of a respective share of investments. Therefore, the management of the subsidiary SIA Nekustamie Īpašumi VN believes that the positive cash flows from operations will be sufficient to ensure adequate financing for liquidity purposes.

The subsidiary SIA Rīgas Līcis VN closed the year 2004 with the loss of LVL 151 thousand and current liabilities exceeded current assets by LVL 549 thousand. To solve this issue, the subsidiary need a financial support. On 30 December 2003 the subsidiary SIA Rīgas Līcis VN signed loan agreement with a/s Ventspils nafta for the loan of LVL 600 thousand, interest rate of 6% per annum and repayable on demand. The management of the subsidiary SIA Rīgas Līcis VN believes that this loan will solve liquidity issues.