



VENTSPILS NAFTA

A/S VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

CONSOLIDATED REPORT FOR THE SIX MONTHS OF 2005

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

Ventspils, 2005

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General information

Name	A/s Ventspils nafta
Type of entity	Joint stock company
Registration	50003003091 Riga, 9 May 1991 Registered in Commercial Register on 5 August 2004
Legal address	75 Talsu street, LV-3600, Ventspils, Republic of Latvia From 22 January 2004: Ostas street 23, LV-3600, Ventspils, Republic of Latvia
Subsidiaries of a/s Ventspils nafta	SIA LatRosTrans (66%) 7 Balvu street, LV-5043, Daugavpils SIA Ventspils nafta termināls (100%) 75 Talsu street, LV-3600, Ventspils A/s Preses nams (92.92%) 3 Balasta dambis, LV-1081, Riga SIA Mediju nams (99.31%) 3 Balasta dambis, LV-1081, Riga SIA Rīgas Līcis VN (100%) 51 Dubultu prospekts, LV-2015, Jūrmala SIA Nekustamie Īpašumi VN (100%) 3 Balasta dambis, LV-1081, Riga
Associated entities of the Group	A/s Latvijas kuģniecība (49.94%) 2 Basteja bulvāris, LV-1807, Riga SIA Mediji un Poligrāfija (32.70%) 3 Balasta dambis, LV-1081, Riga SIA Ventshoes (21.44%) 6 I.Mičurina iela, LV-3601, Ventspils SIA Futbola klubs Ventspils (30%) 20a Dzintaru iela, LV-3602, Ventspils

Subsidiaries of SIA Nekustamie
Īpašumi VN

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

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

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

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

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

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

Management and consolidated report

Dear Shareholders, customers and co-operation partners,

The first half of 2005 was an active time for the joint stock company *Ventspils nafta* and crowned with successful financial and economic results increasing both the turnover and income figures of the Group. Within the first six months of 2005 the operation of *a/s Ventspils nafta* demonstrated growth of the Group and high development potential, as for the reporting period all companies of the Group were operating on a level planned or even exceeding forecasted figures.

For the reporting period the consolidated net turnover of *a/s Ventspils nafta* Group reached LVL 42.4 million, exceeding thus the result of 2004 by 57%. In turn, *a/s Ventspils nafta* profit after tax for the reporting period amounted to LVL 6.5 million in accordance with applicable laws of the Republic of Latvia and generally accepted accounting policies; and LVL 7.6 million – in accordance with International Financial Reporting Standards. *A/s Ventspils nafta* profit exceeds several times both the forecasted profit for the reporting period, i.e. LVL 0.3 million, and profit for the analogous period of 2004, when the profit of *a/s Ventspils nafta* Group was LVL 1.3 million. The results of *a/s Ventspils nafta* financial activity exceed even the budgetary forecasts for 2005 that were approved by the Supervisory Board of *a/s Ventspils nafta*, anticipating net turnover of the Group for the entire 2005 in the amount of LVL 60 million and net profit for 2005 – LVL 0.6 million.

For the reporting period, *a/s Ventspils nafta* Group continued operating in the areas of crude oil and petroleum products transit (*SIA Ventspils nafta termināls* and *SIA LatRosTrans*), printing (*a/s Preses nams*), publishing (*SIA Mediju nams*) and real estate management (*SIA Rīgas līcis VN*, *SIA Nekustamie īpašumi VN* and their daughter companies). *A/s Ventspils nafta* owns a significant share (49,94%) in *a/s Latvijas kuģniecība*, an associated entity to *a/s Ventspils nafta*.

After the end of the reporting period, annual general meeting of shareholders of *a/s Ventspils nafta* elected a new Supervisory Board of *a/s Ventspils nafta* in accordance with the requirements of Commerce law of the Republic of Latvia, keeping basically the previous members and chairman. As from July 1st, 2005 for the period of three years, Jānis Blaževičs, Vladimirs Krastiņš, Uldis Pumpurs, Ivars Pāže, Vladimirs Solomatins, Mamerts Vaivads, Aivars Tiesnesis, Kārlis Boldiševics, Romāns Mežeckis, Mārtiņš Jansons, Dans Titavs were elected members of the Supervisory Board of *a/s Ventspils nafta*. Mamerts Vaivads, the previous Chairman, was unanimously elected Chairman of the Supervisory Board for *a/s Ventspils nafta* by the members of the Supervisory Board of *a/s Ventspils nafta*. Vladimirs Solomatins, the previous Deputy Chairman, was again elected Deputy Chairman; as well as Vladimirs Krastiņš and Romāns Mežeckis were also elected Deputies Chairman respectively.

For the reporting period, *SIA Ventspils nafta termināls* continued receiving and handling railway deliveries of crude oil and petroleum products (gas oil with different sulphur content, gasoline of various grades). In the first six months of 2005, *SIA Ventspils nafta termināls'* throughput results for motor gasoline remained on the highest level ever recorded by the company – the volume of motor gasoline, handled in the above mentioned period, increased by 0.7 million tons, compared to the respective period of 2004. The growth of gasoline volumes handled by *SIA Ventspils nafta termināls* is connected with high demand for this product in the USA and Europe, as well as successful policy for attraction of customers by offering them very profitable kind of service that is not offered by other terminals – gasoline loading into tankers having a deadweight up to 100 thousand tons. Currently, this kind of service, providing convenience for customers, ensures a significant decrease in freight rate costs. Moreover, customers continue showing big interest in this kind of service by referring to it also after the end of the reporting period. For the reporting period, gas oil volumes handled by *SIA Ventspils nafta termināls* remained at the same level as within the period from January to June 2004.

At the same time SIA *Ventspils nafta termināls* operation continue being negatively influenced by external circumstances beyond SIA *Ventspils nafta termināls* control, i.e. the sharp increase of Russian crude oil export duties for the reporting period resulted in the total decrease of crude oil export by railway from Russia by 4 million tons, making it completely unused by Russian oil exporters, including SIA *Ventspils nafta termināls* that handled 0.2 million tons of crude oil for the reporting period.

In 2005, SIA *LatRosTrans* continue demonstrating stability of operations of main crude oil and product pipelines by transporting gas oil to Ventspils and crude oil to both Mažeikiai refinery and Butinge transshipment terminal in Lithuania. During the reporting period, SIA *LatRosTrans* completed two important investment projects, which, together with other implemented projects of the investment programme, significantly, i.e. 7.5 million tons of gas oil annually, increase pumping capacities of product pipeline. These are new pumping stations under construction in Ilukste as well as the realisation of some construction phases for a pumping station in Džukste.

During the reporting period, SIA *LatRosTrans* continued active operations aimed at elimination of excess physical losses of petroleum products in the result of unauthorised actions by informing and involving governmental bodies for the purposes of solving the issue. From the beginning of the reporting period, SIA *LatRosTrans* controls more strictly gas oil flows in the product pipeline by using a new gas oil metering unit which, being the one of the most important elements of the metering and proving system in the area of petroleum products transit, is equipped according to the most modern technologies.

During the reporting period, *a/s Preses nams*, the major printing group of companies in the Baltic, continued active operations aimed at providing printing services and strengthening its positions in the area of printing periodicals, books and packaging for customers both in Latvia and abroad. During the reporting period, *a/s Preses nams* increased the volume of periodicals, books and booklets sold. Upon the end of the reporting period, on July 18th, 2005, by inserting a time capsule into the foundation, *a/s Preses nams* launched its current project of future development, i.e. the construction of a new printing house which is expected to be the biggest and most modern in the Baltic. It is planned that the new printing production unit shall be put into operation in July 2006. It includes new up-to-date facilities for printing periodicals, automatically processing graphic materials as well as producing printing plate sizes. The appropriate production and office premises shall be in accordance with the requirements of European Union. It is expected that the new printing house would increase the volumes of production up to LVL 25 million a year; and bring *a/s Preses nams* closer to its strategic goal, i.e. strengthening *a/s Preses nams* position in the markets of EU and Eastern European countries.

The operations of *a/s Ventspils nafta* Group during the reporting period proved once again that decisions made by company's shareholders are appropriate; the management structure of *a/s Ventspils nafta* is arranged accordingly to generally accepted operation principles for a group of companies as per world practice and as a result there is successful growth and development, stability of economic and financial results of both the entire Group and each company in particular.

On behalf of the Board:

Olga Pētersone
Chairman of the Board

Income Statement

	Group		Parent company	
	6 months of 2005	6 months of 2004	6 months of 2005	6 months of 2004
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Net sales	60 348	38 413	-	-
Cost of sales	(52 831)	(33 159)	-	-
Gross profit	7 517	5 254	-	-
Sales and distribution expense	(1 161)	(1 024)	-	-
General and administrative expense	(4 192)	(5 895)	(1 708)	(3 567)
Other operating income/(expense)	1 247	2 425	2 503	3 779
Result from operating activities	3 411	760	795	212
Gain/ (loss) in subsidiaries and associated entities, net	8 485	-	9 590	1 784
Non-operating expense	(250)	(112)	(50)	(4)
Financial income/ (expense), net	398	(76)	535	(8)
Result before taxes	12 044	572	10 870	1 984
Corporate income tax	(78)	(231)	-	-
Other taxes	(401)	(681)	(54)	(66)
Net result before minority interest	11 565	(340)	10 816	1 919
Minority interest	(749)	2 258	-	-
Net result for the year	10 816	1 919	10 816	1 919

Earnings per share

in EUR per share

0,104

EUR exchange rate of the Bank of Latvia on June 30.,2005 – 0.702804 LVL

On behalf of the Board:

Olga Pētersone
 Chairman of the Board

Balance Sheet
ASSETS

	<u>Group</u>		<u>Parent company</u>	
	<u>30/06/2005</u>	<u>31/12/2004</u>	<u>30/06/2005</u>	<u>31/12/2004</u>
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
NON CURRENT ASSETS				
Intangible assets	(16 168)	(16 872)	(67 097)	(68 621)
Property, plant and equipment				
Land, buildings and networks	152 079	170 203	8 101	8 183
Machinery and equipment	80 857	62 527	98	126
Other property, plant and equipment	8 683	8 704	724	839
Construction in progress	24 486	21 356	228	228
Prepayments for property, plant and equipment	1 935	3 526	-	-
TOTAL	268 040	266 315	9 151	9 376
Investments				
Investments in subsidiaries and associated entities	140 011	131 526	404 631	394 568
Long-term loan to related parties	-	-	6 054	6 461
Other long-term loans to corporate entities	1 573	1 599	-	-
TOTAL	141 584	133 125	410 685	401 029
TOTAL NON CURRENT ASSETS	393 456	382 568	352 739	341 784
CURRENT ASSETS				
Inventories	13 669	14 233	5 283	6 193
Current portion of long-term receivables	60	60	-	-
Short-term loans to related parties	-	3 344	560	385
Trade accounts receivable	9 582	8 973	2	2
Accounts receivable from related party	32	-	1 002	1 216
Other accounts receivable	2 341	5 269	438	93
Prepaid expense	2 395	1 052	116	82
Accrued income	533	703	-	-
Trading investments	73	83	73	82
Cash and cash equivalents	18 149	10 474	798	113
TOTAL CURRENT ASSETS	46 833	44 189	8 272	8 166
TOTAL ASSETS	440 288	426 756	361 011	349 950

EUR exchange rate of the Bank of Latvia on June 30.,2005 – 0.702804 LVL

On behalf of the Board:

 Olga Pētersone
 Chairman of the Board

Balance Sheet

LIABILITIES AND SHAREHOLDERS' EQUITY

	Group		Parent company	
	30/06/2005	31/12/2004	30/06/2005	31/12/2004
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
SHAREHOLDERS' EQUITY				
Share capital	148 660	148 660	148 660	148 660
Share premium	60 248	60 248	60 248	60 248
Long-term assets revaluation reserve	-	-	983	983
Foreign currency translation reserve	(12 915)	(12 915)	(12 915)	(12 915)
Restricted reserves	53 917	16 884	53 917	16 884
Other reserves	91 503	101 199	97 923	106 306
Current year unappropriated result	10 816	27 338	10 816	28 651
TOTAL SHAREHOLDERS' EQUITY	352 229	341 414	359 632	348 817
MINORITY INTEREST	63 305	62 625	-	-
PROVISIONS				
Other provisions	1 029	-	-	-
Deferred corporate income tax	3 283	3 204	448	448
TOTAL PROVISIONS	4 312	3 204	448	448
LIABILITIES				
Long-term liabilities				
Long-term portion of financial lease liability	1 998	1 339	-	-
TOTAL	1 998	1 339	-	-
Current liabilities				
Short-term portion of long-term loan	9 328	7 629	-	-
Advances from customers	528	68	-	-
Trade accounts payable	5 007	6 150	46	158
Accounts payable to related party	-	-	138	149
Taxes payable	737	783	116	-
Accrued liabilities	2 489	2 903	628	379
Deferred income	354	642	-	-
TOTAL	18 445	18 175	929	686
TOTAL LIABILITIES	20 442	19 513	929	685
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	440 288	426 756	361 011	349 950

EUR exchange rate of the Bank of Latvia on June 30.,2005 – 0.702804 LVL

On behalf of the Board:

 Olga Pētersone
 Chairman of the Board

Statement of Cash Flows

	Group		Parent company	
	6 months of 2005	6 months of 2004	6 months of 2005	6 months of 2004
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Cash flow from/ (to) operating activities				
Net Result	10 816	1 919	10 816	1 919
Negative goodwill	(1 524)	-	(1 524)	-
Amortisation and depreciatoin	9 060	9 184	234	251
Operating profit before changes in current assets and liabilities	18 352	11 103	9 526	2 170
Decrease in inventory	564	30 106	910	29 723
Decrease/ (increase) in trade accounts receivable	4 457	713	(166)	2 708
Increase/ (decrease) in provisions	1 108	1 460	-	-
Increase/ (decrease) in current liabilities	270	32 328	243	155
Net cash from/ (to) operating activities	24 751	75 710	10 513	34 756
Cash flow from/ (to) investment activities				
Purchase of fixed assets	(9 289)	(43 491)	(8)	(102)
(Increase)/ decrease in long-term financial investments	(8 459)	(32 145)	(9 655)	(34 187)
(Increase)/ decrease in trading investments	10	-	10	-
(Increase) in issued loans	-	(4 593)	(175)	-
Net cash flow from/ (to) investment activities	(17 738)	(80 229)	(9 828)	(34 289)
Cash flow from/ (to) financing activities				
Increase/ (decrease) in own shares	-	85	-	85
Lease payments received/(returned)	659	1 913	-	-
Net cash from/ (to) investment activities	659	1 998	-	85
Net (decrease) in cash	7 674	(2 521)	685	552
Cash at the beginning of the year	10 474	11 812	112	655
Cash at the end of the year	18 147	9 292	797	1 207

EUR exchange rate of the Bank of Latvia on June 30.,2005 – 0.702804 LVL

Statement of Changes in Shareholders' Equity

Parent company (EUR thousand)

	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 31 December 2004	148 660	60 248	983	(12 915)	16 884	106 306	28 651	348 817
Transfer of 2004 net result	-	-	-	-	37 033	(8 382)	(28 651)	-
Current year result	-	-	-	-	-	-	10 816	10 816
Balance as of 30 June 2005	148 660	60 248	983	(12 915)	53 917	97 924	10 816	359 633

Group(EUR thousand)

	Share capital	Share premium	Foreign currency translation reserve	Restricted reserves	Other reserves	Current year unappropriated result	Total
Balance as of 31 December 2004	148 660	60 248	(12 915)	16 884	101 199	27 338	341 414
Transfer of 2004 net result	-	-	-	37 033	(9 695)	(27 338)	-
Current year consolidated profit	-	-	-	-	-	10 816	10 816
Balance as of 30 June 2005	148 660	60 248	(12 915)	53 917	91 503	10 816	352 229

EUR exchange rate of the Bank of Latvia on June 30.,2005 – 0.702804 LVL