



# **AS VENTSPILS NAFTA**

(UNIFIED REGISTRATION NUMBER 50003003091)

**Unaudited consolidated annual report for the year ended 31 december 2005**

**Ventspils, 2005**

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### General information

Name	AS 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 AS Ventspils nafta	SIA LatRosTrans (66%) 7 Balvu street, LV-5043, Daugavpils  SIA Ventspils nafta termināls (100%) 75 Talsu street, LV-3600, Ventspils  AS Preses nams (92.99%) 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	AS 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 Lejastiežumi (100%)  
3 Balasta dambis, LV-1081, Rīga

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

**Council of AS Ventspils nafta**

Chairman of the Council:

**Mamerts Vaivads**

Deputy Chairman of the Council:

**Vladimirs Solomatins**

**Romāns Mežeckis**

**Vladimirs Krastiņš**

Members of the Council:

**Jānis Blaževics**

**Kārlis Boldiševics**

**Mārtiņš Jansons**

**Aivars Tiesnesis**

**Dans Titavs**

**Ivars Pāže**

**Uldis Pumpurs**

**Board of AS Ventspils nafta**

Members of the Board:

**Olga Pētersone**

**Aldis Āķis**

**Ilva Purēna**

**Guntis Tīrmanis**

## AS Ventspils nafta management and consolidated report

### Dear shareholders, clients and cooperation partners,

The year 2005 was marked for joint stock company Ventspils nafta both with improvement of the Group's financial figures and growth of the AS Ventspils nafta share price on Riga Stock Exchange, thus clearly demonstrating the overall growth of AS Ventspils nafta Group's value.

In the reporting period the registered and paid-up share capital of AS Ventspils nafta was LVL 104 479 519 and consisted of 104 479 519 shares. The par value of each share was LVL 1. 60 598 121 share is listed on Riga Stock Exchange (i.e. publicly traded).

In 2005 the price of AS Ventspils nafta shares on Riga Stock Exchange ranged from LVL 1,70 to LVL 2,73; the average share price reached LVL 2,07, which is by 57 santims more than in 2004, when the average price of AS Ventspils nafta shares constituted LVL 1,50. The total of 1 068 000 shares was traded during 2005 on Riga Stock Exchange, thus reaching the annual turnover of LVL 2 213 000. The market capitalisation of AS Ventspils nafta shares as at the end of 2005 was LVL 282,1 million, with the average market capitalisation having increased from LVL 156,4 million in 2004 to LVL 216,5 million in 2005, which is more by LVL 60,1 million or 38,4% in accordance with the share price growth.

In our opinion, such results of AS Ventspils nafta share quotation in 2005 clearly show the impact of the improved performance of AS Ventspils nafta Group in the reporting period. Pursuant to the consolidated financial statements of AS Ventspils nafta for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards, the net turnover of AS Ventspils nafta Group for the reporting period has reached LVL 88 million, thus exceeding the result of 2004 by LVL 32 million, and the gross profit of AS Ventspils nafta Group has more than doubled in the reporting period, having increased from LVL 4,4 million in 2004 to LVL 10 million in 2005.

The comparative figures of the year 2004 are stated in these unaudited financial statements of AS Ventspils nafta according to the previously prepared and submitted financial statements. For comparability and consistency purposes, certain items of the prior year income statement and balance sheet will be adjusted considering changes in the accounting policies made in 2005. Such adjustment of prior financial statements is contemplated by Latvian and International Accounting Standards. The adjusted financial statements for the year ended 31 December 2004 will be presented together with the audited financial statements for the year ended 31 December 2005.

In view of the requirements of International Accounting Standards, AS Ventspils nafta has recorded in its consolidated financial statements for the year ended 31 December 2005 non-recurrent expense related to partial impairment of technological assets of subsidiaries SIA LatRosTrans and SIA Ventspils nafta termināls due to the three years long idleness of the oil pipeline. Although the financial figures of AS Ventspils nafta Group were positive in 2005 considering the aforementioned material increase of consolidated net turnover and gross profit, the negative financial result of LVL 22,6 million is recorded in the consolidated financial statements of AS Ventspils nafta for the year ended 31 December 2005 to account for the aforementioned impairment. Since this expense is non-recurrent, future financial results of AS Ventspils nafta will not be affected thereby.

Regardless of the advantages and high quality of the Ventspils oil transit corridor admitted by Russian oil exporters, oil transportation via the pipeline to Ventspils port was ceased in January 2003 in the result of the economically unreasonable decision taken by Russian state authorities without consulting other parties. Since 2003 the auditors of AS Ventspils nafta have been repeatedly stressing in their prior year reports the potential necessity to record impairment of the assets of the Group companies engaged in oil piping due to ceased oil transportation to ensure compliance with the requirements of International Accounting Standards.

Since oil has not been transported via the pipeline for three years already, the auditors of AS Ventspils nafta indicate that this period is sufficient for the impairment recognition to be mandatory. After the oil pipeline in the Ventspils direction had been closed, AS Ventspils nafta Council and Board were actively working both at the local and international level to ensure equal possibilities for Russian oil export and renewal of oil transit via the pipeline to Ventspils. However, observing the political status of the Russian authorities which took this decision, solution of the problem was not possible due to limited competence of AS Ventspils nafta. At the same time, the management of AS Ventspils nafta believes that oil transportation via the pipeline in the Ventspils direction would be the most optimal and advantageous route for Russian oil export to North Western Europe and is still confident that oil transportation in this direction may be renewed.

During the reporting period SIA Ventspils nafta termināls, a subsidiary of AS Ventspils nafta, displayed its ability to quickly adapt to the actual situation and market conditions. Regardless of the ceased crude oil transit via the pipeline, SIA Ventspils nafta termināls managed to substantially increase the amount of reloaded oil products received by railway, i.e. petrol of various grades and diesel fuel with different sulphur content. Compared to the year 2004, the amount of petrol and diesel fuel reloaded by the terminal has increased by 1,2 million tons and 0,3 million tons respectively.

The reloading volumes of SIA Ventspils nafta termināls have increased owing to the active work for attraction of customers, and introduction of new and beneficial kinds of services, including petrol loading into tankers having the deadweight of up to 100 thousand tons. No competitor of SIA Ventspils nafta termināls currently supplies this kind of service. The same refers also to standing oil storage in tanks. In the reloading structure of SIA Ventspils nafta termināls, the decrease by 1,8 million tons compared to the previous year may be observed only with regard to crude oil transported by railway. Being affected by high oil prices prevailing in the world markets, Russia substantially increased import tax on oil in 2005. As a result, oil export by railway became unprofitable, and the export volumes diminished almost in all Russian oil transit routes.

In 2006 SIA Ventspils nafta termināls aims at increasing the amount of reloaded oil and oil products received by railway, meanwhile retaining its market share in reloading of oil and oil products exported from Russia and other CIS countries by railway. SIA Ventspils nafta termināls plans to continue cooperation with existing business partners and attract new clients by offering a competitive tariff policy, a beneficial assortment of services and high-quality servicing. In competition with other companies, the technological advantages of SIA Ventspils nafta termināls enable it to extend the assortment of reloaded products depending on the specific market conditions, as well as to offer tank lease and oil storage services. In 2006, under the company's investment programme, SIA Ventspils nafta termināls plans to commence the first stage of new pipeline corridor construction to join together the terminal and piers.

During the reporting period SIA LatRosTrans, a subsidiary of AS Ventspils nafta owning and operating oil and oil products pipelines, recorded 20,3 million tons of transported oil and oil products, which is by 0,8 million tons more than in 2004. Continuing implementation of the development programme, SIA LatRosTrans invested more than LVL 8 million in the construction of the main pumping station, modernisation of the communication system and other technical upgrading projects. The purposeful work done by the management of SIA LatRosTrans in 2005 resulted in a significant decrease of excess physical losses of oil products caused by unauthorised actions.

In the result of technological solutions implemented in the reporting period, the capacity of the oil products pipeline belonging to SIA LatRosTrans has already reached 8 million tons per annum, and this will permit SIA LatRosTrans to increase diesel fuel transportation volumes and improve its profitability in the upcoming year. In 2006 SIA LatRosTrans plans to increase the total amount of transported oil and oil products and use the pipeline capacity to the maximum extent possible, ensuring transportation of diesel fuel to Ventspils and oil transportation to Mažeikiai oil refinery and Butinge oil terminal. Within the framework of the investment programme, in 2006 SIA LatRosTrans intends to make investments in construction of the oil product accounting point in Skrudaliena and modernisation of the communication system. In addition, SIA LatRosTrans will continue the active work for reduction and, if possible, prevention of excess physical losses of diesel fuel above the limits set by Latvian laws.

The reporting period was crucial for another subsidiary of AS Ventspils nafta - the largest Baltic printing group AS Preses nams. The company continued successful optimisation of its organisational and functional structure which was commenced in 2004. In 2005 the construction of two new and modern production facilities of AS Preses nams was commenced. One of the facilities is intended for printing of newspapers and magazines, and the other for book printing. In the reporting period

AS Preses nams managed to retain its leading position in the Baltic printing market. The net turnover of the company has reached LVL 21,7 million, which is by LVL 2,5 million more than in 2004. The increase in the sales volume in 2005 constitutes 13% compared to 2004. The proportion of intra-Community exports by AS Preses nams is 30%. The amount of investments made by AS Preses nams in modernisation and development projects in 2005 reached LVL 14,3 million.

The strategic goals of AS Preses nams set for 2006 comprise maintaining and strengthening of its position in the printing market and increase of the company's value, by expanding its market share and ensuring growth of the sales volume, optimising the management and production structure, as well as continuing upgrading of production equipment. AS Preses nams plans to commence production in the new printing facilities in the second half of 2006.

The year 2005 was a period of positive changes for AS Latvijas kuģniecība, an associated entity to AS Ventspils nafta. Ensuring equality of shareholders' rights and transparency of the management functions, the new Council and Board of AS Latvijas kuģniecība started working in 2005. While strengthening its competitiveness, AS Latvijas kuģniecība continued implementation of the tanker upgrading programme. Within the framework of this programme, 14 new tankers were ordered from Croatian and Korean shipyards. The first tanker is to be launched into operation in the middle of 2006.

Business risk diversification policy pursued by AS Ventspils nafta over past few years has resulted in a number of liquid financial investments in real estates, several of which are located in the centre of Riga and Jūrmala. The market value of these estates has already substantially exceeded initial investments. According to International Accounting Standards and changes of Latvian laws whereby part of real estates may be reclassified as investment properties since 2005, and therefore estates may be recorded at their fair value not acquisition cost, AS Ventspils nafta restated as investment properties three estates: the land plot at Balasta dambis 3 on which the building of AS Preses nams is located, the land plot and building in Old Riga, Palasta iela 10, the land plot and buildings in Jūrmala, Dubultu prospekts 51. These changes in the accounting policies will affect the financial statements of AS Ventspils nafta for the year ended 31 December 2004, where the balances disclosed in the income statement and balance sheet will be adjusted according to the requirements of International Accounting Standards and Latvian laws.

In the reporting period favourable changes were observed in the operations of one more subsidiary of AS Ventspils nafta - SIA Mediju nams, one of the leading Latvian publishing houses. In 2005 SIA Mediju nams issued three newspapers and four magazines addressing different reader categories; its net turnover has reached LVL 2,9 million, which is by LVL 0,2 more than in 2004. Regardless of the tough competition in all segments of Latvian printed media market, SIA Mediju nams succeeded in diminishing the expected loss from LVL 1,2 million in 2004 to LVL 0,9 million in 2005. The increase in revenues, optimisation of production processes and introduction of new products account for this success.

The year 2006 marked the 45th anniversary of the Ventspils port terminal where oil and oil products reloading operations were commenced in September 1961. Over the last years, the company has turned from a transit enterprise into a world famous group operating and scoring success in different business areas, and it is known today as AS Ventspils nafta. The year 2006 will be also important for further development of AS Ventspils nafta Group, as 38,6% of AS Ventspils nafta stock held by the state are to be sold according to government's decision, thus causing changes in the current shareholding structure. In 2006, in the same manner as previously, the management of the central holding company of AS Ventspils nafta Group will continue working to add the Group's value, facilitating successful development of and creation of added value for each business structure separately and the whole Group.



### Income Statement

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	EUR thousand	EUR thousand
Net sales	125 504	79 605
Cost of sales	(111 195)	(73 278)
<b>Gross profit</b>	<b>14 309</b>	<b>6 327</b>
Sales and distribution expense	(2 381)	(2 114)
General and administrative expense	(9 139)	(8 588)
Other operating income/(expense), net	(46 472)	10 373
<b>Result from operating activities</b>	<b>(43 683)</b>	<b>5 997</b>
Gain/ (loss) in subsidiaries and associated entities, net	11 994	18 243
Non-operating expense	-	-
Financial income/ (expense), net	538	(613)
<b>Result before taxes</b>	<b>(31 151)</b>	<b>23 627</b>
Corporate income tax	(3 384)	1 884
Other taxes	(964)	-
<b>Net result before minority interest</b>	<b>(35 498)</b>	<b>25 511</b>
Minority interest	3 287	1 827
<b>Net result for the year</b>	<b>(32 211)</b>	<b>27 338</b>
 <b>Earnings per share</b>		
in EUR per share	<b>(0,308)</b>	<b>0,262</b>

EUR exchange rate of the Bank of Latvia on December 31.,2005 – 0.702804 LVL

On behalf of the Board:

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Olga Pētersone  
 Chairman of the Board

**Balance Sheet**  
**ASSETS**

	<b>Group</b>	
	<b>31/12/2005</b>	<b>31/12/2004</b>
	EUR thousand	EUR thousand
<b>NON CURRENT ASSETS</b>		
<b>Intangible assets</b>	<b>43 821</b>	<b>(16 872)</b>
<b>Property, plant and equipment</b>		
Land, buildings and networks	111 087	166 531
Investment properties	39 305	3 671
Machinery and equipment	78 158	62 527
Other property, plant and equipment	4 753	8 704
Construction in progress	9 034	21 356
Prepayments for property, plant and equipment	5 601	3 526
TOTAL	<b>247 940</b>	<b>266 315</b>
<b>Investments</b>		
Investments in subsidiaries and associated entities	143 530	131 526
Long-term loan to related parties	-	-
Other long-term loans to corporate entities	1 554	1 599
TOTAL	<b>145 084</b>	<b>133 125</b>
<b>TOTAL NON CURRENT ASSETS</b>	<b>436 845</b>	<b>382 568</b>
<b>CURRENT ASSETS</b>		
Inventories	11 713	14 233
Current portion of long-term receivables	60	60
Short-term loans to related parties	-	3 344
Trade accounts receivable	11 426	8 973
Accounts receivable from related party	-	-
Other accounts receivable	2 163	5 269
Prepaid expense	906	1 052
Accrued income	988	703
Trading investments	73	83
Cash and cash equivalents	22 927	10 474
<b>TOTAL CURRENT ASSETS</b>	<b>50 255</b>	<b>44 189</b>
<b>TOTAL ASSETS</b>	<b>487 101</b>	<b>426 756</b>

EUR exchange rate of the Bank of Latvia on December 31.,2005 – 0.702804 LVL

On behalf of the Board:

\_\_\_\_\_  
 Olga Pētersone  
 Chairman of the Board

## LIABILITIES AND SHAREHOLDERS' EQUITY

	Group	
	31/12/2005	31/1/2004
	EUR thousand	EUR thousand
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	148 660	148 660
Share premium	60 248	60 249
Long-term assets revaluation reserve	147	-
Foreign currency translation reserve	(12 915)	(12 915)
Restricted reserves	-	16 884
Other reserves	219 328	101 199
Current year unappropriated result	(32 211)	27 338
MINORITY INTEREST	55 688	62 625
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>438 945</b>	<b>404 039</b>
<b>PROVISIONS</b>		
Other provisions	-	-
	20 708	3 204
<b>TOTAL PROVISIONS</b>	<b>20 708</b>	<b>3 204</b>
<b>LIABILITIES</b>		
<b>Long-term liabilities</b>		
Long-term portion of financial lease liability	12 062	1 339
<b>TOTAL</b>	<b>12 062</b>	<b>1 339</b>
<b>Current liabilities</b>		
Short-term portion of long-term loan	3 688	7 629
Advances from customers	210	68
Trade accounts payable	6 467	6 150
Accounts payable to related party	24	-
Taxes payable	732	783
Accrued liabilities	3 873	2 903
Deferred income	392	642
<b>TOTAL</b>	<b>15 386</b>	<b>18 174</b>
<b>TOTAL LIABILITIES</b>	<b>27 448</b>	<b>19 513</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>487 101</b>	<b>426 756</b>

EUR exchange rate of the Bank of Latvia on December 31.,2005 – 0.702804 LVL

On behalf of the Board:

\_\_\_\_\_  
 Olga Pētersone  
 Chairman of the Board

### Statement of Cash Flows

	Group	
	2005	2004
	EUR thousand	EUR thousand
<b>Cash flow from/ (to) operating activities</b>		
Net Result	(35 498)	25 511
Changes due to changed accounting standards	28 160	60 220
Amortisation and depreciaiton	17 438	18 244
<b>Operating profit before changes in current assets and liabilities</b>	<b>10 100</b>	<b>103 975</b>
Decrease in inventory	2 520	3 667
Decrease/ (increase) in trade accounts receivable	3 856	817
Increase/ (decrease) in provisions	17 504	(2 277)
Increase/ (decrease) in current liabilities	(2 789)	713
<b>Net cash from/ (to) operating activities</b>	<b>31 191</b>	<b>106 896</b>
<b>Cash flow from/ (to) investment activities</b>		
Purchase of fixed assets	(17 514)	(25 922)
(Increase)/ decrease in long-term financial investments	(11 959)	(131 564)
(Increase)/ decrease in trading investments	10	49 717
(Increase) in issued loans	-	4 976
<b>Net cash flow from/ (to) investment activities</b>	<b>(29 463)</b>	<b>(102 793)</b>
<b>Cash flow from/ (to) financing activities</b>		
Increase/ (decrease) in own shares	-	128
Lease payments received/(returned)	10 723	2 016
<b>Net cash from/ (to) investment activities</b>	<b>10 723</b>	<b>2 144</b>
<b>Net (decrease) in cash</b>	<b>12 451</b>	<b>6 245</b>
<b>Cash at the beginning of the year</b>	<b>10 474</b>	<b>11 853</b>
<b>Cash at the end of the year</b>	<b>22 927</b>	<b>10 474</b>

EUR exchange rate of the Bank of Latvia on December 31.,2005 – 0.702804 LVL

### Statement of Changes in Shareholders' Equity

#### Group

	Share capital	Share premium	Long-term asset revaluation reserve	Foreign currency translation reserve	Restricted reserves	Other reserves	Current year unappro- priated result	Minority interest	Total
<b>Balance as of 31 December 2004</b>	<b>148 660</b>	<b>60 249</b>	<b>-</b>	<b>(12 915)</b>	<b>16 884</b>	<b>101 199</b>	<b>27 338</b>	<b>62 625</b>	<b>404 039</b>
Transfer of 2004 net result	-	-	-	-	37 033	(9 695)	(27 338)	-	-
Long-term asset revaluation reserve	-	-	147	-	-	-	-	-	147
Correction of reserves	-	-	-	-	(53 917)	127 825	-	-	73 908
Current year consolidated profit	-	-	-	-	-	-	(32 211)	-	(32 211)
Minority interest	-	-	-	-	-	-	-	(6 937)	(6 937)
<b>Balance as of 31 December 2005</b>	<b>148 660</b>	<b>60 249</b>	<b>147</b>	<b>(12 915)</b>	<b>-</b>	<b>219 329</b>	<b>(32 211)</b>	<b>55 688</b>	<b>438 945</b>

EUR exchange rate of the Bank of Latvia on December 31.,2005 – 0.702804 LVL