



AS VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

UNAUDITED CONSOLIDATED FINANCIAL REPORT FOR THE SIX MONTHS OF 2009

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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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	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 (51%) 75 Talsu street, LV-3600, Ventspils
Associated entities of the Group	AS Latvijas kuģniecība (49.94%) 2 Basteja bulvāris, LV-1807, Riga SIA Futbola klubs Ventspils (42.50%) 20a Dzintaru iela, LV-3602, Ventspils

Council of AS Ventspils nafta

Chairman of the Council:

Vladimirs Solomatins

Deputy Chairman of the Council:

Dennis Crema

Andris Vilcmeiers

Jeffrey Scott Martz

Members of the Council:

Māris Gailis

Gints Laiviņš - Laivenieks

Paul Edward Mulholland

Ashley John Neale

Ansis Sormulis

Mamerts Vaivads

Vladimirs Krastiņš

Board of AS Ventspils nafta

Members of the Board:

Olga Pētersone

Aldis Āķis till 26/02/2008

Ilva Purēna

Guntis Tīrmanis

Normunds Staņēvičs from 26/02/2008

Management Report of JSC Ventspils nafta

First half-year of 2009

Dear shareholders, clients and cooperation partners.

The results for the first six months of 2009 have acknowledged that activity of companies of public joint stock company *Ventspils nafta* Group is stable and corresponds to the financial results planned in the budget also after operation of JSC *Ventspils nafta* Group was reoriented to management of investments only in the transit business segment. Considering activity of JSC *Ventspils nafta* Group companies in the international market, circumstances of global economic crisis have affected all Group companies in the reporting period, yet they have been able to take balanced actions corresponding to the complicated situation.

General tendencies in the financial instrument markets worldwide and macroeconomic situation in Latvia have had impact also on securities quoted at *NASDAQ OMX Riga*, including shares of JSC *Ventspils nafta*. In the reporting period, price of JSC *Ventspils nafta* shares has ranged from LVL 0.59 to LVL 0.99, with the average price per share reaching LVL 0.69. Market capitalization of JSC *Ventspils nafta* shares in the end of first half-year of 2009 was LVL 93.0 million in comparison with LVL 203.7 million in analogue period in 2008. At the same time during the second quarter of 2009 the price of the share has strict tendency to increase; thus, the price of share was 0.68 LVL in the end of the first quarter of 2009 but in the end of the first half- year of the 2009 the price of share already reached 0.99 LVL, growing approximately 45.6% during the second quarter. Correspondingly the market capitalization has increased, market capitalization of JSC *Ventspils nafta* in the end of first quarter of 2009 was LVL 71.0 million, yet in the end of first half – year of 2009 already LVL 93.0 million. However, it must be considered that market value calculation by usage of insignificant amount of public share market transactions is not representative, as the liquidity level is too low – the average turnover of transactions with JSC *Ventspils nafta* shares per day in the first six months of 2009 was LVL 2 thousand, which is only 0.002% of the total share market capitalization amount.

The consolidated net turnover of JSC *Ventspils nafta* in the first half-year of 2009 has reached LVL 39 million, and net profit – LVL 0.9 million. The mentioned results entirely correspond to the budget forecasts for 2009 published before by JSC *Ventspils nafta*, anticipating the consolidated net turnover of the Group to be at least LVL 60 million, and the net profit – at least LVL 2 million.

The JSC *Ventspils nafta* subsidiary *Ventspils nafta termināls* Ltd has transshipped in total more than 6.4 million tons of crude oil and petroleum products in the first six months of 2009, thereby continuously ensuring stable activity of the company aimed at growth in the inconsistent international market circumstances. In context of long-term development prospects, the company continues strengthening its positions as the most modern complex of crude oil and petroleum product transshipment in the Baltic region, by planning its operation under the same principles as other companies under the international *Vitol Group*, co-owner of *Ventspils nafta termināls* Ltd, around the world.

The largest proportion of the cargos transshipped by *Ventspils nafta termināls* Ltd in the period of January-June 2009 is formed by 4.7 million tons of diesel fuel delivered via petroleum products pipeline and by railway. 1.3 million tons of the total transshipment volume is formed by motor gasoline of various grades transported by railway and other petroleum products, and 0.4 million tons – by crude oil and petroleum product cargos delivered by sea.

Ventspils nafta termināls is the largest of such companies in the region, and its crude oil and petroleum products shore-tank farm reaches 1.2 million cubic meters and has no analogues among similar companies in the nearest countries.

Also the JSC *Ventspils nafta* subsidiary, owner and operator of crude oil and petroleum products pipeline in the territory of Latvia *LatRosTrans* Ltd has worked persistently in the reporting period in accordance with previous budget forecasts – the company has gained revenue mostly by transporting petroleum products to the Ventspils port. *LatRosTrans* Ltd is planning to pipe up to 5 million tons of diesel fuel in 2009.

Oil transportation in the direction of Lithuania via the pipeline owned by *LatRosTrans* Ltd is still not resumed due to the geopolitical situation. To maintain a positive cash flow in this situation, the company's management regularly assesses and reduces economic activity expenditure. A decrease in expenditure of more than LVL 1.5 million was achieved in the budget of *LatRosTrans* Ltd for 2009 as against expenditure of 2008. At the same time, also different other options of enlarging income sources of the company are analyzed.

In the reporting period, also the JSC *Ventspils nafta* associated company JSC *Latvian Shipping Company* continued pursuing its strategic activity goal – ensuring increase in the Group's value and retaining its position among the leading medium range tanker owners in the world.

Irrespective of the low market activity and the sharp decline in the market of ship charter rates, net profit of JSC *Latvian Shipping Company* in the first half-year of 2009 has reached USD 9.3 million as a result of effective expenditure optimization. Despite the global economic crisis, which directly affects demand for raw materials, JSC *Latvian Shipping Company* managed to ensure successful basic activity in the reporting period, as the result from ship activity even increased by 10% in comparison with the first half-year of 2008.

The global situation pertaining to financially economic development and the local conditions are indicating at present that the companies of JSC *Ventspils nafta* Group have to reckon with hard and difficult work also following the end of the reporting period in order to also further on guarantee their stable operation. As before, the companies of JSC *Ventspils nafta* Group continue working, by ensuring that interests of all shareholders are observed.

Chairperson of the Management Board for
JSC *Ventspils nafta*

O.Pētersone

Statement of Management Responsibility

The Management of JSC "Ventspils nafta" (hereinafter – the Company) is responsible for preparation of consolidated financial statements of the Company.

The financial statements set out on pages 8 to 15 are prepared in accordance with source documents and fairly present the financial position of the Company as at 30 June 2008 and 2009 and operating results for the first half-year of 2008 and 2009, changes in shareholders' equity and cash flows for the periods then ended.

The aforementioned financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board on an going concern basis. During the reporting period, appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management of JSC "Ventspils nafta" is responsible for maintenance of proper accounting records, safeguarding of the Company's assets and prevention and detection of fraud and other irregularities in the Company.

Chairperson of the Management Board for
JSC Ventspils nafta

O. Pētersone

Income Statement

	Group	
	6 months of	6 months of 2008
	2009	2008
	LVL thousand	LVL thousand
Net sales	39 010	40 658
Cost of sales	(35 215)	(40 042)
Gross profit	3 795	616
Sales and distribution expense	-	(1 003)
General and administrative expense	(2 476)	(3 708)
Other operating income/(expense), net	(4 709)	5 744
Result from operating activities	(3 390)	1 649
Gain/ (loss) in subsidiaries and associated entities, net	2 319	9 587
Financial income/ (expense), net	3 503	(4 390)
Result before taxes	2 432	6 846
Corporate income tax	(236)	(26)
Net profit	2 196	6 820
Attributable to:		
Minority interest	1 303	(1 015)
Parent company's shareholders	893	7 835
Earnings per share		
in lats per share	0,009	0,075

On behalf of the Board:

Olga Pētersone
 Chairperson of the Board

Balance Sheet

ASSETS

	Group		Reference
	30/06/2009	31/12/2008	30/06/2008
	LVL thousand	LVL thousand	LVL thousand
NON CURRENT ASSETS			
Intangible assets	27 204	27 598	28 078
Property, plant and equipment			
Land, buildings and networks	86 676	87 994	99 190
Investment properties	-	-	37 731
Machinery and equipment	41 593	42 983	52 949
Other property, plant and equipment	3 459	3 764	4 375
Construction in progress	1 083	1 042	25 799
Prepayments for property, plant and equipment	746	214	665
TOTAL	133 557	135 997	220 709
Investments			
Investments in subsidiaries and associated entities	127 824	125 619	118 641
Other long-term loans to corporate entities	45 090	86 107	40 230
Other long-term receivables	294	312	324
TOTAL	173 208	212 038	159 195
TOTAL NON CURRENT ASSETS	333 969	375 633	407 982
CURRENT ASSETS			
Inventories	2 362	2 429	4 047
Trade accounts receivable	1 808	1 443	4 268
Receivables from related companies	41 801	24 939	38
Loans to related companies	547	547	-
Other accounts receivable	2 018	1 325	4 492
Trading investments	-	-	51
Cash and cash equivalents	63 691	35 756	17 422
TOTAL CURRENT ASSETS	112 227	66 439	30 318
TOTAL ASSETS	446 196	442 072	438 300

On behalf of the Board:

Olga Pētersone
 Chairperson of the Board

LIABILITIES AND SHAREHOLDERS' EQUITY

	Group		Reference
	30/06/2009	31/12/2008	30/06/2008
	LVL thousand	LVL thousand	LVL thousand
SHAREHOLDERS' EQUITY			
Share capital	104 479	104 479	104 479
Share premium	42 343	42 343	42 343
Foreign currency translation reserve	(15 786)	(15 786)	(26 871)
Restricted reserves	715	715	715
Other reserves	224 254	195 153	195 153
Current period unappropriated result	893	29 738	7 835
MINORITY INTEREST	74 451	73 148	74 836
TOTAL SHAREHOLDERS'EQUITY	431 349	429 790	398 490
PROVISIONS			
Deferred corporate income tax	1 432	1 307	7 052
TOTAL PROVISIONS	1 432	1 307	7 052
LIABILITIES			
Long-term liabilities			
Long-term portion of lease liabilities	7	7	13 686
Long-term loan from credit institution	-	-	3 842
TOTAL	7	7	17 528
Current liabilities			
Short-term portion of long-term loan	-	-	3 001
Financial lease liabilities	1	7	1 924
Advances from customers	91	711	693
Trade accounts payable	1 470	2 373	5 550
Payables to related companies	-	145	-
Taxes payable	5 060	5 587	1 536
Other liabilities	322	540	765
Accrued liabilities	5 827	1 605	1 761
Unpaid dividends	637	-	-
TOTAL	13 408	10 968	15 230
TOTAL LIABILITIES	13 415	10 975	32 758
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	446 196	442 072	438 300

On behalf of the Board:

Olga Pētersone
 Chairperson of the Board

Statement of Cash Flows

	Group	
	6 months of 2009 LVL thousand	6 months of 2008 LVL thousand
Cash flow from/ (to) operating activities		
Net Result	893	7 835
Adjustments	666	(15 351)
Amortisation and depreciaiton	4 643	5 641
Operating profit before changes in current assets and liabilities	6 202	(1 875)
Decrease/(increase) in inventory	67	311
Decrease/ (increase) in trade accounts receivable	(17 920)	(1 174)
Increase/ (decrease) in provisions	125	-
Increase/ (decrease) in current liabilities	2 440	999
Net cash from/ (to) operating activities	(9 086)	(1 739)
Cash flow from/ (to) investment activities		
Purchase of fixed assets	(1 809)	(6 508)
(Increase)/ decrease in long-term financial investments	38 830	2 596
Net cash flow from/ (to) investment activities	37 021	(3 912)
Cash flow from/ (to) financing activities		
Increase/(decrease) in loans and leases	-	3 461
Net cash from/ (to) financing activities	-	3 461
Net increase (decrease) in cash	27 935	(2 191)
Cash at the beginning of the period	35 756	19 613
Cash at the end of the period	63 691	17 422

Statement of Changes in Shareholders' Equity

Group

	Share capital	Share premium	Foreign currency translation reserve	Restricted reserves	Other reserves	Current year unappro- priated result	Minority interest	Total
Balance as of 31 December 2008	104 479	42 343	(15 786)	715	195 153	29 738	73 148	429 790
Current period result	-	-	-	-	-	893	-	893
Transfer of 2008 net result	-	-	-	-	29 101	(29 101)	-	-
Dividends	-	-	-	-	-	(637)	-	(637)
Minority interest	-	-	-	-	-	-	1 303	1 303
Balance as of 30 June 2009	104 479	42 343	(15 786)	715	224 254	893	74 451	431 349

Notes

LVL thousand

1. Net sales

	<u>Group</u>	
	<u>6 months of 2009</u>	<u>6 months of 2008</u>
Railway services	21 427	15 653
Reloading services	13 523	11 225
Transportation of oil products	4 060	4 064
Printing services	-	5 214
Income from sale of crude oil and oil products	-	1 557
Newspaper sales	-	1 051
Advertisements	-	526
Storage services	-	96
Rental income	-	120
Other services	-	<u>1 152</u>
Total	<u>39 010</u>	<u>40 658</u>

2. Cost of sales

	<u>Group</u>	
	<u>6 months of 2009</u>	<u>6 months of 2008</u>
Depreciation	4 510	5 386
Raw materials	192	2 791
Remuneration of work	2 841	4 730
Utilities	663	1 299
Insurance expenses	570	693
Social security contributions	672	1 052
Materials and spare parts	17	768
Electricity	531	506
Treatment of technological waste water	147	872
Fee for utilisation of technological reserves	141	117
Utilisation of piers	1 052	1 029
Land rent	400	390
Security	561	538
Repair works done by other companies	842	2 264
Railway charges	21 440	15 665
Environment protection expense	299	678
Communication expense	32	49
Cost of sold oil and oil products	-	669
Transit development	-	132
Helicopter services	-	67
Other expenses	<u>305</u>	<u>347</u>
Total	<u>35 215</u>	<u>40 042</u>

3. General and administrative expense

	Group	
	<u>6 months of 2009</u>	<u>6 months of 2008</u>
Remuneration of work	1 011	1 532
Advertising and marketing	166	351
Social security contributions	247	335
Depreciation	107	218
Insurance	31	42
Professional charges and legal costs	353	271
Business trips	32	66
Communication expense	21	50
Rent of premises	65	127
Vehicle maintenance expense	68	88
Conferences, seminars and training	42	42
Security	13	13
Representation expense	30	58
Secondary costs of cash turnover	23	49
Social infrastructure expense	43	88
Other	<u>224</u>	<u>378</u>
Total	<u>2 476</u>	<u>3 708</u>

4. Other operating income/ (expense)

	Group	
	<u>6 months of 2009</u>	<u>6 months of 2008</u>
Income from oil extracted from groundwater's and waste waters	-	448
Other income	186	336
Gain from revaluation of investment properties at fair value	-	6 000
Accruals for financial market fluctuations	-4 000	-
Payments to local municipalities	-512	-365
Assets value changes	-70	-
Depreciation	-26	-26
Remuneration of work	-89	-179
Vehicle maintenance expense	-15	-21
Other expense	<u>-183</u>	<u>-449</u>
Total	<u>-4 709</u>	<u>5 744</u>

5. Financial income/(expense), net

	<u>Group</u>	
	<u>6 months of 2009</u>	<u>6 months of 2008</u>
Foreign currency exchange gain(loss)	940	-4 078
Interest income on loans	1 825	126
Interest income from bank account balances and deposits	738	186
Interest expense	-	<u>-624</u>
Total	<u>3 503</u>	<u>-4 390</u>

6. Investments in subsidiaries and associated entities

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

<u>Ownership (%)</u>	<u>30.06.2009.</u>	<u>31.12.2008.</u>	<u>Legal address</u>
<u>Subsidiaries</u>			
SIA "“Ventspils nafta” termināls”	51	51	Talsu street 75, LV-3602, Ventspils, Latvia
SIA “LatRosTrans”	66	66	Balvu street 7, LV-5043, Daugavpils Latvia
	<u>30.06.2009.</u>	<u>31.12.2008.</u>	
<u>Associated entities</u>			
SIA “Futbola klubs Ventspils”	42,50	30	Dzintaru street 20a, LV-3602, Ventspils, Latvia
AS "Latvijas Kuģniecība"	49,94	49,94	Basteja bulvāris 2, LV 1807, Rīga, Latvia