



AS VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

UNAUDITED CONSOLIDATED FINANCIAL REPORT FOR THE SIX MONTHS OF 2008

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Ventspils, 2008

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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 AS Preses nams (95.39%) 3 Balasta dambis, LV-1081, Riga SIA Mediju nams (99.73%) 31/2 Cesu street, LV-1012, Riga SIA Rīgas Līcis VN (100%) 51 Dubultu prospekts, LV-2015, Jūrmala SIA Nekustamie īpašumi VN (100%) 10 Palasta street, LV-1050, 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 Futbola klubs Ventspils (42.50%) 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 Lejastiezumi (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 was recalled from office of a Chairman of the Council on 20/07/2007

Vladimirs Solomatins was appointed a Chairman of the Council on 20/07/2007

Deputy Chairman of the Council:

Vladimirs Solomatins was recalled from office of a Deputy Chairman of the Council on 20/07/2007

Dennis Crema

Vladimirs Krastiņš was recalled from office of a Deputy Chairman of the Council on 20/07/2007

Andris Vilcmeiers was appointed a Deputy Chairman of the Council on 20/07/2007

Jeffrey Scott Martz was appointed a Deputy Chairman of the Council on 20/07/2007

Members of the Council:

Māris Gailis

Gints Laiviņš - Laivenieks

Jeffrey Scott Martz till 20/07/2007

Paul Edward Mulholland

Ashley John Neale

Ansis Sormulis

Andris Vilcmeiers till 20/07/2007

Mamerts Vaivads from 20/07/2007

Vladimirs Krastiņš from 20/07/2007

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 2008

Dear shareholders, clients and cooperation partners,

The results of Ventspils nafta Group in the first half-year of 2008 support that companies of JSC "Ventspils nafta" are able to sustain stable development despite the complicated circumstances of global economic crisis, which affects several companies of the Group working in international markets and has profound effect on the Latvian economy, as the inflation and various expenses continue to increase for significant period of time. Various effective solutions positively affect operations of JSC Ventspils nafta Group companies from a viewpoint of long-term development prospects despite negative macroeconomic tendencies as showed by the reached budget results. While along with launching a new production plant, the challenge of the printing branch is to acquire broader international markets.

General tendencies in the financial instrument markets worldwide, macroeconomic situation and high inflation level in Latvia has influenced also the price level of all shares quoted in the Riga Stock Exchange in the reporting period. In the first half-year of 2008, price of JSC "Ventspils nafta" shares at the Riga Stock Exchange ranged from LVL 1.94 to LVL 2.40 (on average – LVL 2.10). During this period, 938'093 shares in 1'187 transactions were traded in total, reaching a six-month turnover of LVL 1.97 million. Market capitalization of JSC "Ventspils nafta" shares at the end of the first half-year of 2008 was LVL 203.7 million.

The consolidated net turnover of JSC *Ventspils nafta* Group in the first six months of 2008 has reached LVL 40.7 million and net profit – LVL 7.8 million. The mentioned results correspond in general to the budget forecast for 2008 published before by JSC *Ventspils nafta*, anticipating the consolidated net turnover of the company to be LVL 60 million and the net profit – to the tune of LVL 5.3 million. The economic processes in the first six months of 2008 globally and in Latvia have unfortunately attested that the cautious forecasts of JSC *Ventspils nafta* have been correct – it was planned what would be the potential influence of external factors to the work of several subsidiaries of the holding.

A considerable part of the consolidated turnover of JSC *Ventspils nafta* is formed by income in US dollars, gained for example, by the subsidiaries working in the transit area of the Group – the crude oil and petroleum products transshipment company *Ventspils nafta termināls* Ltd and the owner and operator of crude oil and petroleum products pipelines in the territory of Latvia *LatRosTrans* Ltd. These results were therefore affected by the considerable fall of the USD/LVL exchange rate by 13% in comparison with the first half-year of 2007.

The JSC *Ventspils nafta* subsidiary *Ventspils nafta termināls* Ltd continued active implementation of modernization during the reporting period, by optimizing the company's labor process and procedures, as well as increasing labor force efficiency and introducing higher requirements in terms of environment protection. Modernization of the terminal was commenced along with involvement of a new strategic partner – the international oil and gas company Vitol – in summer of 2007. Although a stable high level of petroleum products transshipment volume can be observed at *Ventspils nafta termināls* Ltd (more than 6.6 million tons in the first half-year of 2008), additional safety is ensured in the complicated economic circumstances by the fact that the contract with the foreign investor guarantees regular income for the terminal in any case.

The aim of modernization is to strengthen the positions of *Ventspils nafta termināls* Ltd as the major crude oil and petroleum products transshipment complex in the Baltic region, by developing its work by following similar principles as in other companies under the *Vitol* Group worldwide, such as *EuroTank* in Rotterdam and Amsterdam. International competition in the business of crude oil and petroleum products terminals is increasing. For that reason, modernization and diversification of the company's economic activity is currently the only way for the terminal how to adapt to the new economic circumstances, by maintaining and at the same time strengthening its positions in the global market. According to the development plans of *Ventspils nafta termināls* Ltd, its development will make a considerable contribution for promotion of competitiveness of both the company and also the entire port of Ventspils.

Several relevant measures have been already taken during the initial modernization stages of the company, for example, improving crude oil and petroleum products transshipment security, making the work of the shore-tank farm more efficient, developing a system of continuous notification of the employees, etc. The terminal is working actively in the area of

environment protection, by building new sewage treatment plants worth more than LVL 0.8 million, as well as by performing renovation of the internal pipeline system, the expenses of which exceeds LVL 0.2 million.

According to the previous forecasts of JSC *Ventspils nafta*, in the reporting period, external circumstances still substantially affect another Group's company *LatRosTrans* Ltd, which is working in the sensitive transit area. Oil transportation in the direction of Lithuania via the pipeline owned by *LatRosTrans* Ltd is still not resumed due to the geopolitical situation, and technical reasons, such as repair works at the pipeline section in the territory of Belarus, have influenced also transportation volumes of petroleum products to Ventspils – these have decreased by 0.5 million tons in comparison with the first half-year of 2007. Moreover, considering the fall of the USD/LVL exchange rate and its fluctuations in the first half-year of 2008, a conclusion can be drawn that it has resulted in *LatRosTrans* not gaining income to the tune of almost LVL 0.4 million

In the first six months of 2008, The JSC *Ventspils nafta* subsidiary – the major Baltic printing company JSC *Preses nams* – actively and purposefully continued implementation of production development, optimization and acquisition plans of new markets, which enabled official opening of the new book production plant at *Jāņsilī*, Silakrogs located in Riga District, Ropaži parish already after the reporting period ended. The technical capacities and technological possibilities of the new plant have lined JSC *Preses nams* not only in the ranks of the largest printing companies in the Northern Europe but also 300 largest book production companies worldwide. A sum of LVL 13.5 million has been invested into the book production plant, and it opens up an opportunity for the company to strengthen in the existing markets and to acquire new markets in Scandinavia, CIS and Western Europe, as well as other countries.

The capacity of the plant will make it possible to double the printing volumes in nearest years: from 250,000 – 350,000 books currently to as much as 500,000 -700,000 books per month when the plant is fully equipped. It is expected that the plant, which is housed in three blocks and has a production area of 7,000 square metres, will employ about 200 people. The latest technologies and devices (sheet-fed printing presses, rotary machines, folding, sewing and cutting devices, automatic hardbound and soft-cover book production lines and other technology) made by such global leaders in engineering industry as *Heidelberg*, *MAN Roland*, *Müller Martini*, *Sigloch-Kolbus*, *Polar*, *Agfa*, *Fuji*, etc. are used in production process of JSC *Preses nams*.

The strategic development plans of JSC *Preses nams* include finishing construction of another printing plant – that is the newspaper and journal production plant in the territory of the industrial park of the airport *Rīga*. The plant could be launched in 2009.

In the reporting period, JSC *Ventspils nafta* as the central holding company of the multi-branch Group successfully implemented its tasks in relation to investment administration into the subsidiaries, thereby furthering increase in the total value of the Group, as well as the value of each subsidiary. According to a resolution adopted by the Supervisory Council for JSC *Ventspils nafta* in the reporting period, Olga Pētersone is repeatedly elected to continue working as the Chairperson of the Management Board, as well as the Legal Director Ilva Purēna, Normunds Staņēvičs and Guntis Tīrmanis are repeatedly elected to work in the Management Board for JSC *Ventspils nafta* for a period of three years.

Whereas N.Staņēvičs has also become the Financial Director of JSC *Ventspils nafta* in the reporting period – he has studied at the Concordia International University in Tallinn, Estonia and has obtained bachelor's degree in International Business Administration. Previous working experience of Normunds Staņēvičs involves consultations on corporate finance to the leading Baltic and Russian companies, institutions and organizations. He is also a member of the *American Society of Appraisers*.

Although the situation of economic development and growth is currently unfavourable, the companies of the JSC *Ventspils nafta* Group have worked according to the budget forecasts in the reporting period, ensuring that the interests of its shareholders are preserved.

Chairperson of the Management Board for
JSC *Ventspils nafta*

O. Pētersone

Income Statement

	Group	
	6 months of 2008	6 months of 2007
	EUR thousand	EUR thousand
Net sales	57 851	62 189
Cost of sales	(56 975)	(49 697)
Gross profit	876	12 492
Sales and distribution expense	(1 427)	(1 128)
General and administrative expense	(5 276)	(5 807)
Other operating income/(expense), net	8 173	(39 586)
Result from operating activities	2 346	(34 029)
Gain/ (loss) in subsidiaries and associated entities, net	13 641	56 105
Financial income/ (expense), net	(6 246)	(623)
Result before taxes	9 741	21 453
Corporate income tax	(37)	(5 697)
Net profit	9 704	15 757
Attributable to:		
Minority interest	(1 444)	2 066
Parent company's shareholders	11 148	13 691
Earnings per share		
in EUR per share	0,107	0,131

EUR exchange rate of the Bank of Latvia on 30 June 2008 – 0.702804 LVL

On behalf of the Board:

Olga Pētersone
 Chairperson of the Board

Balance Sheet

ASSETS

	Group		Reference
	30/06/2008	31/12/2007	30/06/2007
	EUR thousand	EUR thousand	EUR thousand
NON CURRENT ASSETS			
Intangible assets	39 951	40 525	41 067
Property, plant and equipment			
Land, buildings and networks	141 135	143 505	109 543
Investment properties	53 686	45 149	45 087
Machinery and equipment	75 340	78 262	69 006
Other property, plant and equipment	6 225	6 946	5 747
Construction in progress	36 709	29 510	30 824
Prepayments for property, plant and equipment	946	1 248	1 279
TOTAL	314 041	304 620	261 486
Investments			
Investments in subsidiaries and associated entities	168 811	167 744	135 955
Other long-term loans to corporate entities	461	484	1 464
Other long-term receivables	57 242	61 980	66 847
TOTAL	226 514	230 208	204 266
TOTAL NON CURRENT ASSETS	580 506	575 353	506 819
CURRENT ASSETS			
Inventories	5 758	6 201	7 197
Trade accounts receivable	6 073	6 185	6 962
Accounts receivable from related party	54	-	-
Other accounts receivable	6 392	4 663	4 529
Trading investments	73	73	73
Cash and cash equivalents	24 789	27 907	27 035
TOTAL CURRENT ASSETS	43 139	45 029	45 796
TOTAL ASSETS	623 645	620 382	552 615

EUR exchange rate of the Bank of Latvia on 30 June 2008 – 0.702804 LVL

On behalf of the Board:

Olga Pētersone
 Chairperson of the Board

LIABILITIES AND SHAREHOLDERS' EQUITY

	Group		Reference
	30/06/2008	31/12/2006	30/06/2007
	EUR thousand	EUR thousand	EUR thousand
SHAREHOLDERS' EQUITY			
Share capital	148 660	148 660	148 660
Share premium	60 249	60 249	60 249
Foreign currency translation reserve	(38 234)	(25 454)	(13 418)
Restricted reserves	1 017	1 017	1 017
Other reserves	277 678	207 102	207 102
Current period unappropriated result	11 148	70 576	13 691
MINORITY INTEREST	106 482	107 933	91 503
TOTAL SHAREHOLDERS'EQUITY	567 000	570 083	508 804
PROVISIONS			
Deferred corporate income tax	10 034	10 034	8 277
TOTAL PROVISIONS	10 034	10 034	8 277
LIABILITIES			
Long-term liabilities			
Long-term portion of financial lease liability	19 473	20 016	15 151
Long-term loan from credit institution	5 467	-	-
TOTAL	24 940	20 016	15 151
Current liabilities			
Short-term portion of long-term loan	4 270	4 348	4 281
Financial lease liabilities	2 738	2 837	1 723
Advances from customers	986	916	162
Trade accounts payable	7 897	5 561	5 000
Taxes payable	2 186	1 049	783
Other liabilities	1 087	1 342	1 017
Accrued liabilities	2 506	2 406	7 415
Provisions	-	1 790	-
TOTAL	21 670	20 249	20 383
TOTAL LIABILITIES	46 611	40 265	35 534
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	623 645	620 382	552 615

EUR exchange rate of the Bank of Latvia on 30 June 2008 – 0.702804 LVL

On behalf of the Board:

 Olga Pētersone
 Chairperson of the Board

Statement of Cash Flows

	Group	
	6 months of 2008 6 months of 2007	
	EUR thousand	EUR thousand
Cash flow from/ (to) operating activities		
Net Result	11 148	13 691
Adjustments	(21 843)	30 151
Amortisation and depreciaiton	8 024	6 975
Operating profit before changes in current assets and liabilities	(2 671)	50 817
Decrease/(increase) in inventory	443	1 356
Decrease/ (increase) in trade accounts receivable	(1 670)	2 483
Increase/ (decrease) in current liabilities	1 421	(471)
Net cash from/ (to) operating activities	(2 477)	54 185
Cash flow from/ (to) investment activities		
Purchase of fixed assets	(9 260)	(16 729)
(Increase)/ decrease in long-term financial investments	3 694	(43 110)
(Increase)/decrease in issued loans	-	13 984
Net cash flow from/ (to) investment activities	(5 566)	(45 855)
Cash flow from/ (to) financing activities		
Increase/ (decrease) in loans and leases	4 925	10 973
Net cash from/ (to) financing activities	4 925	10 973
Net increase(decrease) in cash	(3 118)	19 303
Cash at the beginning of the period	27 907	7 732
Cash at the end of the period	24 789	27 035

EUR exchange rate of the Bank of Latvia on 30 June 2008 – 0.702804 LVL

Statement of Changes in Shareholders' Equity

Group (EUR thousand)

	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 2007	148 660	60 249	(25 454)	1 017	207 102	70 576	107 933	570 083
Foreign currency translation	-	-	(12 780)	-	-	-	-	(12 780)
Current period result	-	-	-	-	-	11 148	-	11 148
Transfer of 2007 net result	-	-	-	-	70 576	(70 576)	-	-
Minority interest	-	-	-	-	-	-	(1 451)	(1 451)
Balance as of 30 June 2008	148 660	60 249	(38 234)	1 017	277 678	11 148	106 482	567 000

EUR exchange rate of the Bank of Latvia on 30 June 2008 – 0.702804 LVL

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 12 are prepared in accordance with source documents and fairly present the financial position of the Company as at 30 June 2007 and 2008 and operating results for the first half-year of 2007 and 2008, 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