



JOINT STOCK COMPANY VENTSPILS NAFTA
(UNIFIED REGISTRATION NUMBER 50003003091)

**ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008**

**PREPARED IN ACCORDANCE WITH
THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS**

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the shareholders of JSC Ventspils nafta

Report on the Financial Statements

We have audited the accompanying 2008 financial statements of JSC Ventspils nafta (the "Company"), which are set out on pages 9 through 39 of the accompanying 2008 Annual Report and which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of JSC Ventspils nafta as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2008 (included on pages 6 through 8 of the accompanying 2008 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

SIA Ernst & Young Baltic, Licence No. 17

Diāna Krišjāne
Latvian Sworn Auditor
Certificate No. 124
Chairperson of the Board

Riga, 15 July 2009

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COUNCIL OF JSC VENTSPILS NAFTA

Chairman of the Council:	Vladimirs Solomatins
Deputy Chairmen of the Council:	Dennis Crema Andris Vilcmeiers Jeffrey Scott Martz
Members of the Council:	Māris Gailis Gints Laiviņš - Laivenieks Mamerts Vaivads Paul Edward Mulholland Ashley John Neale Ansis Sormulis Vladimirs Krastiņš

There have been no changes in the Council during the period from 1 January 2008 to 15 July 2009.

BOARD OF JSC VENTSPILS NAFTA

Chairperson of the Board:	Olga Pētersone
Members of the Board:	Normunds Staņēvičs Ilva Purēna Guntis Tīrmanis

The changes in the Board during the period from 1 January 2008 to 15 July 2009 were as follows:

Elected	Dismissed	Name	Position held
26/02/2008	-	Normunds Staņēvičs	Member of the Board
-	26/02/2008	Aldis Āķis	Member of the Board

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of *JSC Ventspils nafta* (the Company) is responsible for the preparation of *JSC Ventspils nafta* financial statements for each financial year.

Accompanying financial statements, presented on pages 9 through 39, are prepared based on accounting records and give a true and fair view of the state of affairs of the Company, the cash flows and the results of the Company for the reporting years 2008 and 2007.

The financial statements have been prepared in accordance with the Law of the Republic of Latvia On annual reports, based on going concern principle. Suitable accounting policies have been selected and applied consistently. Reasonable and prudent judgments and estimates have been used while preparing the financial statements.

The Management Board of *JSC Ventspils nafta* is responsible for accounting records and for safeguarding the Company's assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Riga, 15 July 2009

On behalf of the Council:

Vladimirs Solomatins
Chairman of the Council

On behalf of the Board:

Olga Pētersonē
Chairperson of the Board

MANAGEMENT REPORT

Dear shareholders, customers and cooperation partners,

Due to global and national economic turmoil, year 2008 presented numerous challenges and complicated issues for the management of public *JSC Ventspils nafta* meanwhile forcing for immediate assessment and reevaluation of the company's further development scenarios for timely response and maximum efficiency and effectiveness - resulting in sustainable and optimal future growth model. As a result of a comprehensive risk analysis, Supervisory Council for *JSC Ventspils nafta* approved the Group's development strategy in December 2008 focusing specialization on development on transit industry related assets as oppose to functions previously pursued by the holding in wider industry range that *JSC Ventspils nafta Group* implemented for several years as a result of active business industry risk diversification policy. By optimizing and reorganizing core business focus *JSC Ventspils nafta Group* as of beginning of 2009 following end of previous reporting period, the Group manages investments into the transit area – transportation, storage, transshipment of crude oil and petroleum products and international shipping business.

The decision to refocus all attention to development of the historical core business of *JSC Ventspils nafta* in transit industry was made in accordance with recommendations of local and international experts and advisers with the main intention to ensure adequate return on investments in the interests of all shareholders of *JSC Ventspils nafta* in the conditions of global economic turmoil. The selected strategy enables *JSC Ventspils nafta* to focus on one industry area, focusing on growth and improvement of its assets, especially taking into account several decades of experience and success in this industry, as well as the international know-how, which has been actively acquired particularly in the recent years along with involvement of the international shareholder – oil and gas transport and trade conglomerate Vitol Group.

By selling *JSC Ventspils nafta* assets in the areas not related to transit business, the Company's long-term assets were transformed into assets of high liquidity, whereas the shareholders of *JSC Ventspils nafta* have gained significant profit, as the *JSC Ventspils nafta*, as a parent company's profit after tax reached 40 million lats while the turnover remained at the previous year level of 4,6 million lats.

In line with the approved strategy, following the end of the reporting year as of beginning of 2009, *JSC Ventspils nafta* is developing and retaining its investments into the subsidiary of crude oil and petroleum products transshipment company *Ventspils nafta termināls Ltd* (51%), the subsidiary being owner and operator of crude oil and petroleum products pipeline *LatRosTrans Ltd* (66%) and the associated company *JSC Latvian Shipping Company* (49.94%). Whereas it has sold investments into the subsidiary real property management company *Nekustamie īpašumi VN Ltd* (100%) and the subsidiary real property management company *Rīgas līcis VN Ltd* (100%), as well as real estate properties in Riga, Briāna Street 3; Ventspils, Talsu Street 75d, Jūrmala, Dubultu prospect 51 and Lejastiezumi at Renda civil parish, Kuldīga district. *JSC Ventspils nafta* has also disposed of its shareholdings in the subsidiary printing company *JSC Preses nams* (95.4%) and the subsidiary publisher *Mediju nams Ltd* (95.63%) with profit from sale of 38,7 million lats.

The year 2008 can be characterized by sharp recession and downturn of financial as well as economic results worldwide, and it has considerably influenced the Baltic stock exchange market, which comprises also the NASDAQ OMX stock exchange in Riga, in whose official list the shares of *JSC Ventspils nafta* are officially quoted. In the reporting period, the price of *JSC Ventspils Nafta* shares in the Riga Stock Exchange ranged from LVL 0.68 to LVL 2.40 (average price – LVL 1.92). In the reporting year, in total 1'440 thousand shares were sold in 2'344 transactions, reaching the annual turnover of 2'767 thousand lats, which is 62,6% less than in 2007. Share market capitalization of *JSC Ventspils nafta* was 73.1 million lats as at 31 December 2008.

The average price of *JSC Ventspils nafta* shares in 2008 was 69 santims lower than in 2007 when it reached LVL 2.61. The average market capitalization of *JSC Ventspils nafta* shares has decreased from 272.6 million lats in 2007 to 200.8 million lats in 2008, i.e. by 71.8 million lats or by 26.3% corresponding to decline in the average share price. The decline in share price is a result of general trends in the global financial instruments markets, the macroeconomic situation and high inflation

MANAGEMENT REPORT (Cont'd)

level in the reporting period in Latvia. However, it has to be taken into account that the average turnover in transactions with *JSC Ventspils nafta* shares per day in 2008 was only 7.6 thousand lats or 0.004% of the average share market capitalization amount. Therefore the market value calculation by usage of insignificant amount of public share market transactions is not representative, as the liquidity level is too low.

In the reporting period, *JSC Ventspils nafta* proved its ability of working also in conditions of the global economic downturn that has notably affected several *JSC Ventspils nafta* subsidiaries working in international markets. At the same time, the economic processes in 2008 globally and in Latvia have confirmed that the conservative planning of *JSC Ventspils nafta* has been prudent and adequate by regularly assessing and planning potential influence of external factors on the operations and financial results of the Group.

The Company has also paid special attention to the management of financial instruments and financial risk ensuring risk averse and up-to-date platform for managing effect of global financial market turmoil effect on the Company.

The *JSC Ventspils nafta* subsidiary *Ventspils nafta termināls Ltd* ensured stable cargo volume level in the reporting year by transshipping in total more than 11.6 million tons of crude oil and petroleum products. Similar to previous years the major proportion of cargos is formed by diesel representing 8.7 million tons delivered by rail and via petroleum products pipeline, followed by 1.4 million tons of gasoline of various grades delivered by rail and 1.1 million tons of crude oil and petroleum product cargos delivered by sea. Events in the global economy, the unfavorable global oil market situation in the last months of the reporting year and the international competition in the transit area have had and after the end of the reporting year still have a significant impact on operating results of *Ventspils nafta termināls Ltd*, which were affected several months in the reporting period also by the repair works of the main petroleum products pipeline Polotsk-Ventspils in the territory of Belarus, which resulted in a reduced diesel fuel flow in the direction of *Ventspils*.

At the same time, *Ventspils nafta termināls Ltd* continued active implementation of modernization in 2008, by optimizing company's operational processes and procedures, increasing workforce efficiency and introducing higher requirements in terms of environment protection, thereby adapting to the new economic conditions and strengthening its positions in international market. 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. For forming successful social dialogue and forming a good social partnership through collective agreement, *Ventspils nafta termināls Ltd* received the annual award Cooperation Partner 2008 from the Free Trade Union Confederation of Latvia in the nomination Private Enterprises.

The most remarkable contribution that *Ventspils nafta termināls Ltd* made into improvement of environment protection in the reporting year was launching the new, modern wastewater treatment plant that is unique in the Baltic region. The plant is fully compliant for treatment for any type of petroleum products and represents the typical operations of *Ventspils nafta termināls Ltd* that is characterized by variety of transshipped petroleum products – at the present moment, the terminal receives and transships more than 20 types of petroleum products. The company has invested about 1 million lats in the treatment plant.

According to the previous forecasts of *JSC Ventspils nafta*, in the reporting year, external circumstances still substantially affected 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 sections in the territory of Belarus and corresponding decrease in its capacity, influenced also transportation volumes of petroleum products in direction of *Ventspils*, as its total transshipment volume has reached 5 million tons in 2008.

MANAGEMENT REPORT (Cont'd)

According to the approved schedule, *LatRosTrans Ltd* continued renovation and repair works of the petroleum products pipeline in the reporting year. As before, *LatRosTrans Ltd* has actively worked on elimination of supernormative loss of petroleum products resulting from illegal activities by hiring a security company, regularly inspecting the pipeline, collaborating with the police, allocating considerable resources in recovery of the environment, as well as informing and trying to involve other state authorities in dealing with this issue.

During these financially and economically difficult times *LatRosTrans Ltd* has been continuously decreasing company's operating expenses for already several years, and decrease of 6.7% was achieved in the particular reporting year.

During 2009 the management will continue to peruse organization optimization and cost reduction for all Group companies with the ultimate goal to further increase profitability and ensure long term development sustainability thereby forming solid ground for growth and development in 2009 and following years.

During 2008 the associated company of *JSC Ventspils nafta – JSC Latvian Shipping Company* has been continuing to pursue its strategic goal – ensuring increase of the Group's value and retaining its position among the top ten medium range tanker owners in the world. According to the audited financial statements 2008, *JSC Latvian Shipping Company Group* worked with net profit of 58.7 million US dollars in the reporting year. In comparison with the result of analogue period in 2007, the last year's profit is 8.3 million US dollars or 12% lower, reflecting general unfavorable shipping market trends in the reporting period, especially in the end of it.

In the circumstances of global financial and economic turmoil, *JSC Ventspils nafta* is taking appropriate actions to reduce risks and ensure profit, by careful, focused and purposeful managing of assets owned by it as well as resourcefully planning to achieve goals set by shareholders.

The Management Board of *JSC Ventspils nafta* has proposed to transfer the net profit of 2008 to other reserves.

Riga, 15 July 2009

On behalf of the Council:

On behalf of the Board:

Vladimirs Solomatins
Chairman of the Council

Olga Pētersone
Chairperson of the Board

INCOME STATEMENT

	Notes	2008	2007
		EUR '000	EUR '000
Net sales	3	6 518	6 621
Cost of sales	4	(2 107)	(3 661)
Gross profit		4 411	2 960
General and administrative expense	5, 10	(5 465)	(3 840)
Other operating income	6	11 424	844
Other operating expense	7	(2 009)	(894)
Result from operating activities		8 361	(930)
Income from securities forming non-current assets, net	8	46 711	37 982
Reversal of impairment of non-current financial assets	9	5 839	22 126
Financial income	11	4 142	3 705
Financial expense	12	(41)	(6 569)
Result before taxes		65 012	56 314
Corporate income tax	13	(8 011)	(147)
Other taxes	14	(21)	(36)
Net result		56 980	56 131

EUR exchange rate of the Bank of Latvia on 31.December 2008 – 0.702804 LVL.

On behalf of the Council:

 Vladimirs Solomatins
 Chairman of the Council

On behalf of the Board:

 Olga Pētersonē
 Chairperson of the Board

BALANCE SHEET

ASSETS

	Notes	31/12/2008 EUR'000	31/12/2007 EUR'000
NON-CURRENT ASSETS			
Property, plant and equipment			
Land and buildings	15	-	6 793
Equipment and machinery	15	-	1
Other property, plant and equipment	15	292	612
TOTAL		292	7 406
Investment properties	15	-	865
Investments			
Investments in subsidiaries	16	169 288	214 865
Investments in associates	17	49 791	49 791
Loan note	18	63 389	61 980
Receivables from related companies	18	59 130	-
TOTAL		341 598	326 636
TOTAL NON-CURRENT ASSETS		341 889	334 907
CURRENT ASSETS			
Inventories	19	-	864
Receivables			
Loans to related companies	18	778	1 390
Receivables from related companies	18	33 675	102
Other receivables	20	21	245
Other assets	21	225	407
TOTAL		34 699	2 144
Shares		-	73
Cash	22	26 467	858
TOTAL CURRENT ASSETS		61 166	3 939
TOTAL ASSETS		403 055	338 846

EUR exchange rate of the Bank of Latvia on 31.December 2008 – 0.702804 LVL.

On behalf of the Council:

On behalf of the Board:

 Vladimirs Solomatins
 Chairman of the Council

 Olga Pētersonē
 Chairperson of the Board

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	31/12/2008 EUR '000	31/12/2007 EUR '000
SHAREHOLDERS' EQUITY			
Share capital	23	148 660	148 660
Share premium		60 249	60 249
Other reserves		128 911	72 780
Current year unappropriated result		56 980	56 131
TOTAL SHAREHOLDERS' EQUITY		394 800	337 820
LIABILITIES			
Non-current liabilities			
Deferred corporate income tax	13	14	489
TOTAL		14	489
Current liabilities			
Trade payables	23	158	98
Payables to related companies		111	1
Taxes payable	24	7 621	149
Other liabilities	25	73	64
Accrued liabilities	26	279	223
TOTAL		8 242	535
TOTAL LIABILITIES		8 255	1 026
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		403 055	338 846

EUR exchange rate of the Bank of Latvia on 31.December 2008 – 0.702804 LVL.

On behalf of the Council:

 Vladimirs Solomatins
 Chairman of the Council

On behalf of the Board:

 Olga Pētersonē
 Chairperson of the Board

CASH FLOW STATEMENT

	2008	2007
	EUR '000	EUR '000
Cash flows from/ (to) operating activities		
Result before taxes	65 012	56 313
Adjustments:		
Impairment reversal	(5 839)	(24 802)
Impairment of investments	-	2 676
Amortisation and depreciation	282	314
Interest income	(2 706)	(3 705)
Interest expense	41	-
Loss on disposal of tangible assets	(10 494)	7
Gain on sale of investments	(46 711)	(37 982)
Loss from fluctuations of currency exchange rates	(1 409)	6 540
Operating profit before changes in current assets and liabilities	(1 824)	(639)
Decrease in inventories	864	1 382
Decrease/ (increase) in trade receivables	(673)	4 715
Increase/ (decrease) in current liabilities	289	(67)
Net cash from/ (to) operating activities	(1 344)	5 391
Real estate tax paid	(21)	(37)
Corporate income tax paid	(1 069)	-
Cash flows before extraordinary items	(2 434)	5 354
Net cash from/ (to) operating activities	(2 434)	5 354
Cash flow from/ (to) investment activities		
Purchase of intangible and tangible assets	(17)	(14)
Gain on disposal of tangible assets	6 201	18
Reversal of impairment of investments	24 646	-
Investments in subsidiaries	(5 206)	(8 295)
Interest received	2 462	3 251
Net cash flow from/ (to) investment activities	28 086	(5 040)
Cash flow from/ (to) financing activities		
Interest payments	(41)	-
Net cash from/ (to) financing activities	(41)	-
Net increase in cash	25 609	314
Cash at the beginning of the year	858	544
Cash at the end of the year	26 467	858

EUR exchange rate of the Bank of Latvia on 31.December 2008 – 0.702804 LVL.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR '000

	Share capital	Share premium	Other reserves	Current year's unappropriated result	Total
Balance as at 31 December 2006	148 660	60 249	72 618	162	281 689
Transfer of 2006 net result	-	-	162	(162)	-
Current year result	-	-	-	56 131	56 131
Balance as at 31 December 2007	148 660	60 249	72 780	56 131	337 820
Transfer of 2007 net result	-	-	56 131	(56 131)	-
Current year result	-	-	-	56 980	56 980
Balance as at 31 December 2008	148 660	60 249	128 911	56 980	394 800

EUR exchange rate of the Bank of Latvia on 31.December 2008 – 0.702804 LVL.