



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

CONTENTS

General information	3
Council of AS Ventspils nafta	5
Board of AS Ventspils nafta	5
Management report of JSC <i>Ventspils nafta</i>	6
Income Statement	8
Balance Sheet	9
Statement of Cash Flows	11
Statement of Changes in Shareholders' Equity	12
Notes	13
Statement of Management Responsibility	16

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
	LVL thousand	LVL thousand
Net sales	40 658	43 707
Cost of sales	(40 042)	(34 927)
Gross profit	616	8 780
Sales and distribution expense	(1 003)	(793)
General and administrative expense	(3 708)	(4 081)
Other operating income/(expense), net	5 744	(27 821)
Result from operating activities	1 649	(23 915)
Gain/ (loss) in subsidiaries and associated entities, net	9 587	39 431
Financial income/ (expense), net	(4 390)	(438)
Result before taxes	6 846	15 078
Corporate income tax	(26)	(4 004)
Net profit	6 820	11 074
Attributable to:		
Minority interest	(1 015)	1 452
Parent company's shareholders	7 835	9 622
Earnings per share		
in lats per share	0,075	0,092

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Balance Sheet

ASSETS

	<u>Group</u>		<u>Reference</u>
	<u>30/06/2008</u>	<u>31/12/2007</u>	<u>30/06/2007</u>
	LVL thousand	LVL thousand	LVL thousand
NON CURRENT ASSETS			
Intangible assets	28 078	28 481	28 862
Property, plant and equipment			
Land, buildings and networks	99 190	100 856	76 987
Investment properties	37 731	31 731	31 687
Machinery and equipment	52 949	55 003	48 498
Other property, plant and equipment	4 375	4 882	4 039
Construction in progress	25 799	20 740	21 663
Prepayments for property, plant and equipment	665	877	899
TOTAL	220 709	214 089	183 773
Investments			
Investments in subsidiaries and associated entities	118 641	117 891	95 550
Other long-term loans to corporate entities	324	340	1 029
Other long-term receivables	40 230	43 560	46 980
TOTAL	159 195	161 791	143 559
TOTAL NON CURRENT ASSETS	407 982	404 361	356 194
CURRENT ASSETS			
Inventories	4 047	4 358	5 058
Trade accounts receivable	4 268	4 347	4 893
Accounts receivable from related party	38	-	-
Other accounts receivable	4 492	3 277	3 183
Trading investments	51	51	51
Cash and cash equivalents	17 422	19 613	19 000
TOTAL CURRENT ASSETS	30 318	31 646	32 185
TOTAL ASSETS	438 300	436 007	388 379

On behalf of the Board:

Olga Pētersone
 Chairperson of the Board

LIABILITIES AND SHAREHOLDERS' EQUITY

	Group		Reference
	30/06/2008	31/12/2007	30/06/2007
	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	(26 871)	(17 889)	(9 430)
Restricted reserves	715	715	715
Other reserves	195 153	145 552	145 552
Current period unappropriated result	7 835	49 601	9 622
MINORITY INTEREST	74 836	75 856	64 309
TOTAL SHAREHOLDERS'EQUITY	398 490	400 657	357 590
PROVISIONS			
Deferred corporate income tax	7 052	7 052	5 817
TOTAL PROVISIONS	7 052	7 052	5 817
LIABILITIES			
Long-term liabilities			
Long-term portion of lease liabilities	13 686	14 067	10 648
Long-term loan from credit institution	3 842	-	-
TOTAL	17 528	14 067	10 648
Current liabilities			
Short-term portion of long-term loan	3 001	3 056	3 009
Financial lease liabilities	1 924	1 994	1 211
Advances from customers	693	644	114
Trade accounts payable	5 550	3 908	3 514
Taxes payable	1 536	737	550
Other liabilities	765	943	715
Accrued liabilities	1 761	1 691	5 211
Provisions	-	1 258	-
TOTAL	15 230	14 231	14 324
TOTAL LIABILITIES	32 758	28 298	24 972
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	438 300	436 007	388 379

On behalf of the Board:

 Olga Pētersone
 Chairperson of the Board

Statement of Cash Flows

	Group	
	6 months of 2008 LVL thousand	6 months of 2007 LVL thousand
Cash flow from/ (to) operating activities		
Net Result	7 835	9 622
Adjustments	(15 351)	21 190
Amortisation and depreciaiton	5 641	4 903
Operating profit before changes in current assets and liabilities	(1 875)	35 715
Decrease/(increase) in inventory	311	953
Decrease/ (increase) in trade accounts receivable	(1 174)	1 745
Increase/ (decrease) in current liabilities	999	(331)
Net cash from/ (to) operating activities	(1 739)	38 082
Cash flow from/ (to) investment activities		
Purchase of fixed assets	(6 508)	(11 757)
(Increase)/ decrease in long-term financial investments	2 596	(30 298)
(Increase)/decrease in issued loans	-	9 828
Net cash flow from/ (to) investment activities	(3 912)	(32 227)
Cash flow from/ (to) financing activities		
Increase/(decrease) in loans and leases	3 461	7 712
Net cash from/ (to) financing activities	3 461	7 712
Net increase (decrease) in cash	(2 191)	13 566
Cash at the beginning of the period	19 613	5 434
Cash at the end of the period	17 422	19 000

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 2007	104 479	42 343	(17 889)	715	145 552	49 601	75 856	400 657
Foreign currency translation	-	-	(8 982)	-	-	-	-	(8 982)
Current period result	-	-	-	-	-	7 835	-	7 835
Transfer of 2007 net result	-	-	-	-	49 601	(49 601)	-	-
Minority interest	-	-	-	-	-	-	(1 020)	(1 020)
Balance as of 30 June 2008	104 479	42 343	(26 871)	715	195 153	7 835	74 836	398 490

Notes

LVL thousand

1. Net sales

	<u>Group</u>	
	<u>6 months of 2008</u>	<u>6 months of 2007</u>
Reloading services	11 225	14 632
Railway services	15 653	10 554
Printing services	5 214	6 468
Newspaper sales	1 051	1 067
Advertisements	526	496
Income from sale of crude oil and oil products	1 557	4 505
Transportation of oil products	4 064	5 281
Rental income	120	206
Storage services	96	212
Other services	<u>1 152</u>	<u>286</u>
Total	<u>40 658</u>	<u>43 707</u>

2. Cost of sales

	<u>Group</u>	
	<u>6 months of 2008</u>	<u>6 months of 2007</u>
Depreciation	5 386	4 535
Raw materials	2 791	3 185
Remuneration of work	4 730	4 433
Utilities	1 299	1 337
Insurance expenses	693	1 057
Social security contributions	1 052	989
Materials and spare parts	768	1 157
Transit development	132	179
Treatment of technological waste water	872	544
Utilisation of piers	1 029	874
Land and fixed assets' rent	390	379
Security	538	511
Repair works done by other companies	2 264	1 053
Railway charges	15 665	10 586
Environment protection expense	678	254
Cost of sold oil and oil products	669	2 573
Communication expense	49	116
Helicopter services	67	65
Other expenses	<u>970</u>	<u>1 100</u>
Total	<u>40 042</u>	<u>34 927</u>

3. Sales and distribution expense	Group	
	<u>6 months of 2008</u>	<u>6 months of 2007</u>
Sales and distribution expense	<u>1 003</u>	<u>793</u>
Total	<u>1 003</u>	<u>793</u>

4. General and administrative expense	Group	
	<u>6 months of 2008</u>	<u>6 months of 2007</u>
Remuneration of work	1 532	1 597
Advertising and marketing	351	315
Social security contributions	335	307
Depreciation	218	234
Insurance	42	49
Professional charges and legal costs	271	503
Business trips	66	77
Communication expense	50	59
Rent of premises	127	104
Vehicle maintenance expense	88	91
Conferences, seminars and training	42	21
Security	13	13
Representation expense	58	63
Secondary costs of cash turnover	49	52
Social infrastructure expense	88	49
Other	<u>378</u>	<u>547</u>
Total	<u>3 708</u>	<u>4 081</u>

5. Other operating income/ (expense), (net)	Group	
	<u>6 months of 2008</u>	<u>6 months of 2007</u>
Income from oil extracted from groundwater's and waste waters	448	94
Other income	336	920
Payments to local municipalities	-365	-358
Depreciation	-26	-32
Remuneration of work	-179	-187
Vehicle maintenance expense	-21	-20
Assets value changes	6 000	-28 000
Other expense	<u>-449</u>	<u>-238</u>
Total	<u>5 744</u>	<u>-27 821</u>

6. Financial income/(expense), net

	<u>Group</u>	
	<u>6 months of 2008</u>	<u>6 months of 2007</u>
Foreign currency exchange gain(loss)	-4 078	-1 352
Interest income on loans	126	1 034
Interest income from bank account balances and deposits	186	325
Interest expense	-624	-574
Other income	-	<u>129</u>
Total	<u>-4 390</u>	<u>-438</u>

7. 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>30.06.2008.</u>	<u>31.12.2007.</u>	<u>Legal address</u>
<u>Subsidiaries</u>			
SIA "Ventspils nafta" termināls"	51	100	Talsu street 75, LV-3602, Ventspils, Latvia
SIA "LatRosTrans"	66	66	Balvu street 7, LV-5043, Daugavpils Latvia
AS "Preses nams"	95,39	95,39	Balasta dambis 3, LV-1081, Riga, Latvia
SIA "Mediju nams"*	99,73	99,73	31/2 Cesu street, LV-1012, Riga, Latvia
SIA "Nekustamie īpašumi VN"	100	100	10 Palasta street, LV-1050, Riga, Latvia
SIA "Rīgas līcis VN"	100	100	Dubultu prospekts 51, LV-2015, Jurmala, Latvia
	<u>30.06.2008.</u>	<u>31.12.2007.</u>	
<u>Associated entities</u>			
SIA "Futbola klubs Ventspils"	42,50	30	Dzintaru street 20a, LV-3602, Ventspils, Latvia
SIA "Mediji un Poligrāfija"	32,7	32,7	Balasta dambis 3, LV-1081, Riga, Latvia
AS "Latvijas Kuģniecība"	49,94	49,94	Basteja bulvāris 2, LV 1807, Riga, Latvia

* As of 30 June 2008, AS Ventspils nafta has a 94,23% shareholding of SIA Mediju nams. At the same time, AS Preses nams owns 5,77% of the share capital of SIA Mediju nams. As such, the Group's ownership share is 99,73%.

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 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