



AS VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

UNAUDITED CONSOLIDATED FINANCIAL REPORT FOR 2008

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 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 AS Ventspils nafta

Unaudited report of the parent company and the Group, 2008

Dear shareholders, clients and cooperation partners,

Due to global and national economic turmoil, year 2008 presented numerous challenges and complicated issues for the public JSC *Ventspils nafta* Group 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 company'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 parent company 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 and based on 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 in assets of high liquidity, whereas the shareholders of JSC *Ventspils nafta* have gained significant profit, as the JSC *Ventspils nafta* parent company's profit after tax reached 40.2 million lats in 2008 according to the results of unaudited report of JSC *Ventspils nafta* for 2008. The shareholders of JSC *Ventspils nafta* will decide at the general shareholders' meeting about utilization of this profit, which also reflects the profit gained from the transaction implemented as a result of reorganization of JSC *Ventspils nafta* Group.

According to the unaudited report of JSC *Ventspils nafta* for 2008, the JSC *Ventspils nafta* Group's consolidated profit after tax in the reporting period amounts to 20.8 million lats, which is almost four times more than was planned in the JSC *Ventspils nafta* Group's consolidated budget for 2008, which was 5.3 million lats. According to the unaudited report for 2008, consolidated net turnover of JSC *Ventspils nafta* Group in the reporting period has reached 78.5 million lats, which is 18.5 million lats more than in the planned consolidated budget of JSC *Ventspils nafta* for 2008.

In line with the approved strategy, following the end of the reporting period 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 Ičis VN* Ltd (100%), as well as real properties in Riga, Bļieķu 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%).

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 period, 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 December 31, 2008.

The average price of JSC *Ventspils nafta* shares in 2008 was 69 santims lower than in 2007 when it reached LVL 2.61. Whereas 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 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 holding companies.

The JSC *Ventspils nafta* subsidiary *Ventspils nafta termināls* Ltd ensured stable cargo volume level in the reporting period 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 period and the international competition in the transit area have had and after the end of the reporting period 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 period 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 SIA *Ventspils nafta termināls*, 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 period, 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. The reserves amounting to 10 million lats in the unaudited consolidated report of JSC *Ventspils nafta* Group demonstrates the conservative attitude of *LatRosTrans* Ltd shareholders towards possibilities of renewing oil transportation flow via pipelines to Ventspils and Butinge (Lithuania).

According to the approved schedule, *LatRosTrans* Ltd continued renovation and repair works of the petroleum products pipeline in the reporting period. 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 period.

In the reporting period, the JSC *Ventspils nafta* associated company 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 unaudited report for 2008, JSC *Latvian Shipping Company* Group worked with net profit of 58.6 million US dollars in the reporting period. In comparison with the result of analogue period in 2007, the last year's profit is 8.4 million US dollars or 13% lower, reflecting general unfavourable 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.

Chairperson of the Management Board for
JSC *Ventspils nafta*

O.Pētersone

Income Statement

	Group	
	2008	2007
	EUR thousand	EUR thousand
Net sales	111 653	116 680
Cost of sales	(109 252)	(102 710)
Gross profit	2 401	13 970
Sales and distribution expense	(3 005)	(2 269)
General and administrative expense	(13 167)	(11 357)
Other operating income/(expense), net	19 830	74 367
Result from operating activities	6 059	74 711
Gain/ (loss) in subsidiaries and associated entities, net	19 970	24 382
Financial income/ (expense), net	(13)	(5 858)
Result before taxes	26 016	93 235
Corporate income tax	128	(1 895)
Net profit	26 144	91 340
Attributable to:		
Minority interest	(3 479)	20 764
Parent company's shareholders	29 623	70 576
Earnings per share		
in EUR per share	0,283	0,676

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

On behalf of the Board:

Olga Pētersone
 Chairperson of the Board

Balance Sheet

ASSETS

	Group	
	31/12/2008	31/12/2007
	EUR thousand	EUR thousand
NON CURRENT ASSETS		
Intangible assets	39 268	40 525
Property, plant and equipment		
Land, buildings and networks	118 088	143 505
Investment properties	-	45 149
Machinery and equipment	54 045	78 262
Other property, plant and equipment	5 354	6 946
Construction in progress	1 484	29 510
Prepayments for property, plant and equipment	304	1 248
TOTAL	179 275	304 620
Investments		
Investments in subsidiaries and associated entities	190 857	167 744
Long-term loan to related parties	59 130	-
Other long-term loans to corporate entities	445	484
Other long-term receivables	63 446	61 980
TOTAL	313 878	230 208
TOTAL NON CURRENT ASSETS	532 421	575 353
CURRENT ASSETS		
Inventories	3 456	6 201
Short-term loans to related parties	778	-
Trade accounts receivable	2 053	6 185
Accounts receivable from related party	31 979	-
Other accounts receivable	5 593	4 663
Trading investments	-	73
Cash and cash equivalents	50 834	27 907
TOTAL CURRENT ASSETS	94 693	45 029
TOTAL ASSETS	627 114	620 382

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

On behalf of the Board:

Olga Pētersone
 Chairperson of the Board

LIABILITIES AND SHAREHOLDERS' EQUITY

	Group	
	31/12/2008	31/12/2006
	EUR thousand	EUR thousand
SHAREHOLDERS' EQUITY		
Share capital	148 660	148 660
Share premium	60 249	60 249
Foreign currency translation reserve	(22 561)	(25 454)
Restricted reserves	1 017	1 017
Other reserves	277 678	207 102
Current period unappropriated result	29 623	70 576
MINORITY INTEREST	104 117	107 933
TOTAL SHAREHOLDERS' EQUITY	598 783	570 083
PROVISIONS		
Deferred corporate income tax	1 844	10 034
TOTAL PROVISIONS	1 844	10 034
LIABILITIES		
Long-term liabilities		
Long-term portion of financial lease liability	-	20 016
TOTAL	-	20 016
Current liabilities		
Short-term portion of long-term loan	-	4 348
Financial lease liabilities	20	2 837
Advances from customers	1 034	916
Trade accounts payable	3 439	5 561
Accounts payable to related party	145	-
Taxes payable	7 604	1 049
Other liabilities	350	1 342
Accrued liabilities	2 518	2 406
Provisions	-	1 790
Deferred income	11 377	-
TOTAL	26 487	20 249
TOTAL LIABILITIES	26 487	40 265
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	627 114	620 382

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

On behalf of the Board:

 Olga Pētersone
 Chairperson of the Board

Statement of Cash Flows

	Group	
	2008	2007
	EUR thousand	EUR thousand
Cash flow from/ (to) operating activities		
Net Result	29 623	70 576
Adjustments	-	(16 266)
Amortisation and depreciaiton	16 157	13 878
Operating profit before changes in current assets and liabilities	45 780	68 188
Decrease/(increase) in inventory	2 745	2 352
Decrease/ (increase) in trade accounts receivable	(29 556)	3 090
Increase/ (decrease) in provisions	(8 190)	1 884
Increase/ (decrease) in current liabilities	6 241	(1 036)
Net cash from/ (to) operating activities	17 020	74 478
Cash flow from/ (to) investment activities		
Purchase of fixed assets	109 521	(15 156)
(Increase)/ decrease in long-term financial investments	(83 671)	(68 969)
(Increase)/decrease in issued loans	73	13 984
Net cash flow from/ (to) investment activities	25 923	(70 141)
Cash flow from/ (to) financing activities		
Increase/ (decrease) in loans and leases	(20 016)	15 838
Net cash from/ (to) financing activities	(20 016)	15 838
Net increase(decrease) in cash	22 927	20 175
Cash at the beginning of the period	27 907	7 732
Cash at the end of the period	50 834	27 907

EUR exchange rate of the Bank of Latvia on 31 December 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	-	-	2 893	-	-	-	-	2 893
Current period result	-	-	-	-	-	29 623	-	29 623
Transfer of 2007 net result	-	-	-	-	70 576	(70 576)	-	-
Minority interest	-	-	-	-	-	-	(3 816)	(3 816)
Balance as of 30 June 2008	148 660	60 249	(22 561)	1 017	277 678	29 623	104 117	598 783

EUR exchange rate of the Bank of Latvia on 31 December 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 9 to 13 are prepared in accordance with source documents and fairly present the financial position of the Company as at 31 December 2007 and 2008 and operating results for the 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