



JOINT STOCK COMPANY VENTSPILS NAFTA
(UNIFIED REGISTRATION NUMBER 50003003091)
CONDENSED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009 (EUR)

Riga, 2010

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SUPERVISORY COUNCIL OF JSC VENTSPILS NAFTA

Supervisory Council (as at the date of signing of the financial statements):

Appointed:

| | |
|---------------------------------|--|
| Chairman of the Council: | Vladimir Egger |
| Deputy Chairman of the Council: | Mikhail Dvorak |
| Members of the Council: | Javed Ahmed Oļegs Stepanovs Rubil Yilmaz Mark Ware Christophe Theophanis Matsacos Rudolf Meroni Michael Hason David Alexander Schlaff Edgars Jansons |

The changes in the Council during the period from 1 January 2009 to 15 October 2010 were as follows:

| Elected | Dismissed | Name | Position held |
|------------|------------|--------------------------------|--------------------------------|
| 20/01/2010 | - | Vladimir Egger | Chairman of the Council |
| 20/01/2010 | - | Mikhail Dvorak | Deputy Chairman of the Council |
| 20/01/2010 | - | Oļegs Stepanovs | Member of the Council |
| 20/01/2010 | - | Javed Ahmed | Member of the Council |
| 20/01/2010 | - | Rubil Yilmaz | Member of the Council |
| 20/01/2010 | - | Mark Ware | Member of the Council |
| 07/07/2010 | - | Christophe Theophanis Matsacos | Member of the Council |
| 07/07/2010 | - | Rudolf Meroni | Member of the Council |
| 07/07/2010 | - | Michael Hason | Member of the Council |
| 07/07/2010 | - | David Alexander Schlaff | Member of the Council |
| 07/07/2010 | - | Edgars Jansons | Member of the Council |
| 20/01/2010 | 07/07/2010 | Paul Thomas | Member of the Council |
| 20/01/2010 | 07/07/2010 | Gatis Grāvītis | Member of the Council |
| 20/01/2010 | 07/07/2010 | Mārtiņš Kvēps | Member of the Council |
| 20/01/2010 | 07/07/2010 | Valērijs Godunovs | Member of the Council |
| 20/01/2010 | 07/07/2010 | Aleksejs Ovods | Member of the Council |
| - | 25/10/2009 | Vladimirs Solomatins | Chairman of the Council |
| - | 25/10/2009 | Dennis Crema | Deputy Chairman of the Council |
| - | 25/10/2009 | Andris Vilcmeiers | Deputy Chairman of the Council |
| - | 25/10/2009 | Jeffrey Scott Martz | Deputy Chairman of the Council |
| - | 25/10/2009 | Māris Gailis | Member of the Council |
| - | 25/10/2009 | Gints Laiviņš - Laivenieks | Member of the Council |
| - | 25/10/2009 | Mamerts Vaivads | Member of the Council |
| - | 25/10/2009 | Paul Edward Mulholland | Member of the Council |
| - | 25/10/2009 | Ashley John Neale | Member of the Council |
| - | 25/10/2009 | Ansis Sormulis | Member of the Council |
| - | 25/10/2009 | Vladimirs Krastiņš | Member of the Council |

According to the Council's resolution of 31 August 2010 Vladimir Egger has been re-elected as the Chairman of the Supervisory Council and Mikhail Dvorak has been elected as deputy chairman of the Supervisory Council.

MANAGEMENT BOARD OF JSC VENTSPILS NAFTA

Management Board (as at the date of signing of the financial statements):

Appointed:

| | |
|------------------------|---|
| Chairman of the Board: | Simon Boddy |
| Members of the Board: | Andris Vilcmeiers Boris Bednov Alexander Jagdžijanc |

The changes in the Board during the period from 1 January 2009 to 15 October 2010 were as follows:

| Elected | Dismissed | Name | Position held |
|----------------|------------------|----------------------|--------------------------|
| 15/10/2009 | - | Simon Boddy | Member of the Board |
| 28/04/2010 | - | Boris Bednov | Member of the Board |
| 28/04/2010 | - | Alexander Jagdžijanc | Member of the Board |
| 16/06/2010 | - | Andris Vilcmeiers | Member of the Board |
| - | 19/11/2009 | Olga Pētersone | Chairperson of the Board |
| - | 31/08/2009 | Guntis Tīrmanis | Member of the Board |
| - | 28/04/2010 | Normunds Staņēvičs | Member of the Board |
| - | 16/06/2010 | Ilva Purēna | Member of the Board |

According to the Council's resolution of 20 January 2010, Simon Boddy was appointed as the Chairman of the Board.

MANAGEMENT REPORT

Dear shareholders, customers and cooperation partners,

2009 has been a complicated year for JSC "*Ventspils nafta*" due to the unstable and inconsistent global economy, the economic crisis in Latvia and the geopolitical uncertainty between the European Union and Russia. In relation to the parent company, the largest shareholder of JSC "*Ventspils nafta*" has played a significant role in 2009. The term of office of three years of the previous Supervisory Council expired in late 2009. The Supervisory Council in new composition was elected in July 2010. In early 2010, a new Chairman of the Management Board Simon Boddy was elected.

In 2009, net profit of JSC *Ventspils nafta* as the parent company after tax reached 1.629 million EUR. The total costs were considerably cut down by JSC *Ventspils nafta* in 2009, for example, by cutting down general and administrative costs by 36.2% compared to the previous year. This trend of decreasing administrative costs continues in 2010.

JSC *Ventspils nafta* continues working on ensuring high liquidity and low debt load, by accordingly continuing to implement a strategy that will minimise all risks while providing an adequate return to shareholders in the medium term. The new management of JSC *Ventspils nafta* has also worked on improvement of corporate governance at JSC *Ventspils nafta*, so that the company's management would meet the common standards of international practice.

Inevitably the Baltic Stock exchange NASDAQ OMX was affected by instability in the global markets, with a negative impact on the value of JSC "*Ventspils nafta*" shares, as their trading price in 2009 ranged from LVL 0.59 to LVL 1.50 per share with an average share price over the year of LVL 0.99 per share. In 2009, on the NASDAQ OMX, 900,402 shares were traded in total comprising total turnover of LVL 890,378, which is three times lower than in 2008 and eight times lower than in 2007. Total market capitalization of JSC "*Ventspils nafta*" as of end of 2009 was 98 million lats. At the end of 2009, 71.36 million EUR were paid in dividends to shareholders of JSC "*Ventspils nafta*", therefore the dividend sum per share was EUR 0.68, which had a positive effect on the share price in the stock exchange.

One of the unexpected circumstances for the management of JSC *Ventspils nafta* in 2010 is the out-of-court legal protection process initiated in October 2010 for *LASCO Investment Ltd*, which is one of the largest debtors of JSC *Ventspils nafta* and is entirely owed by JSC *Latvijas kuģniecība*. Taking into account real estate properties and shares of companies holding the real estate properties are pledged to secure repayment of the loan, JSC *Ventspils nafta* cannot evaluate the possibility of retrieving the debt at the moment because JSC *Ventspils nafta* has no information on terms and conditions of out-of-court legal protections process of *LASCO Investment Ltd*. The possibility of debt's retrieving is related also to value of the real estate properties and shares of companies holding the real estate properties, which is affected by equitable conditions not controlled by JSC *Ventspils nafta*, for example, improvement of the macroeconomic situation in Latvia, inflow of investments into the Latvian real estate market and resumption of activities in the Latvian real estate market.

MANAGEMENT REPORT (cont'd)

In the course of 2010, the Management Board of *JSC Ventspils nafta* has faced continuous avoidance of the Management Board and Supervisory Council of the associated company *JSC Latvijas kuģniecība* to fulfill their legal obligations and convene a shareholders' meeting, which is completely unacceptable for a public joint stock company that is included in regulated market. The actions of the Management Board and Supervisory Council of *JSC Latvijas kuģniecība* have resulted in *JSC Latvijas kuģniecība* not preparing the annual reports for 2009, thus hindering *JSC Ventspils nafta* to prepare the consolidated annual report of *JSC Ventspils nafta* for 2009 in due course. Also as a result of the aforementioned actions of the Management Board and Supervisory Council of *JSC Latvijas kuģniecība*, *JSC Ventspils nafta* cannot duly assess its investment into *JSC Latvijas kuģniecība*. Considering that *JSC Ventspils nafta* is concerned that the situation with the annual reports of *JSC Latvijas kuģniecība* for 2009 might go on, *JSC Ventspils nafta* has prepared this annual report for 2009 in accordance with the Law on Annual Accounts of the Republic of Latvia.

The Management Board of *JSC Ventspils nafta* has proposed to transfer the net profit of 2009 to other reserves.

Rīga, 26 October 2010

On behalf of the Management Board:

Simon Boddy
Chairman of the Board

INCOME STATEMENT

| | 2009 | 2008 |
|--|----------------|----------------|
| | EUR'000 | EUR'000 |
| Net sales | 71 | 6 518 |
| Cost of sales | - | (2 107) |
| Gross profit | 71 | 4 411 |
| General and administrative expense | (3 486) | (5 465) |
| Other operating income | 97 | 11 424 |
| Other operating expense | (9) | (2 009) |
| Result from operating activities | (3 327) | 8 361 |
| (Loss)/ Income from securities forming non-current assets, net | 936 | 46 711 |
| Reversal of impairment of non-current financial assets | - | 5 839 |
| Financial income | 4 821 | 4 142 |
| Financial expense | (657) | (41) |
| Result before taxes | 1 773 | 65 012 |
| Corporate income tax | (144) | (8 011) |
| Other taxes | - | (21) |
| Net result | 1 629 | 56 980 |

Average exchange rate of EUR during the reporting year by the Bank of Latvia 0.702804 (lats per unit).

On behalf of the Management Board:

Simon Boddy
 Chairman of the Management Board

BALANCE SHEET

ASSETS

| | 31/12/2009 | 31/12/2008 |
|--------------------------------------|----------------|----------------|
| | EUR'000 | EUR'000 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | | |
| Other property, plant and equipment | 263 | 292 |
| TOTAL | 263 | 292 |
| Investments | | |
| Investments in subsidiaries | 169 288 | 169 288 |
| Investments in associates | 49 722 | 49 791 |
| Loan note | 62 621 | 63 389 |
| Receivables from related companies | - | 59 130 |
| TOTAL | 281 631 | 341 598 |
| TOTAL NON-CURRENT ASSETS | 281 894 | 341 889 |
| CURRENT ASSETS | | |
| Receivables | | |
| Loans to related companies | - | 778 |
| Receivables from related companies | 39 840 | 33 675 |
| Other receivables | 1 147 | 21 |
| Other assets | 70 | 225 |
| TOTAL | 41 057 | 34 699 |
| Cash | 2 306 | 26 467 |
| TOTAL CURRENT ASSETS | 43 363 | 61 166 |
| TOTAL ASSETS | 325 257 | 403 055 |

Average exchange rate of EUR at the end of reporting year by the Bank of Latvia 0.702804 (lats per unit).

On behalf of the Management Board:

Simon Boddy
 Chairman of the Management Board

BALANCE SHEET

| | 31/12/2009 | 31/12/2008 |
|---|----------------|----------------|
| | EUR'000 | EUR'000 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 148 660 | 148 660 |
| Share premium | 60 249 | 60 249 |
| Other reserves | 114 534 | 128 911 |
| Current year unappropriated result | 1 629 | 56 980 |
| TOTAL SHAREHOLDERS' EQUITY | 325 072 | 394 800 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Deferred corporate income tax | 24 | 14 |
| TOTAL | 24 | 14 |
| Current liabilities | | |
| Trade payables | 28 | 158 |
| Payables to related companies | 6 | 111 |
| Taxes payable | 41 | 7 621 |
| Other liabilities | - | 73 |
| Accrued liabilities | 85 | 279 |
| TOTAL | 161 | 8 242 |
| TOTAL LIABILITIES | 185 | 8 255 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 325 257 | 403 055 |

Average exchange rate of EUR at the end of reporting year by the Bank of Latvia 0.702804 (lats per unit).

On behalf of the Management Board:

Simon Boddy
 Chairman of the Management Board

CASH FLOW STATEMENT

| | 2009 EUR'000 | 2008 EUR'000 |
|--|-----------------|-----------------|
| Operating activities | | |
| Result before taxes | 1 773 | 65 012 |
| Adjustments: | | |
| Interest income | (4 811) | (2 706) |
| Amortisation and depreciation | 44 | 282 |
| Disposal of investments | 7 | - |
| Impairment reversal | - | (5 839) |
| Interest expense | - | 41 |
| Gain on disposal of tangible assets | - | (10 494) |
| Gain on sale of investments | - | (46 711) |
| Loss/ (Income) from fluctuations of currency exchange rates | 768 | (1 409) |
| Operating profit before changes in current assets and liabilities | (2 218) | (1 824) |
| Decrease in inventories | - | 864 |
| Decrease/ (increase) in receivables | 720 | (673) |
| (Decrease)/ increase in current liabilities | (501) | 289 |
| Net cash used in operating activities | (1 999) | (1 344) |
| Real estate tax paid | - | (1 069) |
| Corporate income tax paid | (8 596) | (21) |
| Net cash used in operating activities | (10 595) | (2 434) |
| Investing activities | | |
| Purchase of intangible and tangible assets | (16) | (17) |
| Interest received | 4 318 | 2 462 |
| Dividends received | 943 | - |
| Proceeds from disposal of investments | 61 | - |
| Proceeds from disposal of tangible assets | 12 279 | 6 201 |
| Proceeds from sale of subsidiaries | 39 426 | 24 646 |
| Investments in subsidiaries | - | (5 206) |
| Net cash flow from investing activities | 57 013 | 28 086 |
| Financing activities | | |
| Dividends paid | (71 357) | - |
| Repayment of borrowings | 778 | - |
| Interest payments | - | (41) |
| Net cash used in financing activities | (70 579) | (41) |
| Net (decrease)/ increase in cash | (24 161) | 25 609 |
| Cash at the beginning of the year | 26 467 | 858 |
| Cash at the end of the year | 2 306 | 26 467 |

Average exchange rate of EUR during the reporting year by the Bank of Latvia 0.702804 (lats per unit).

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Share premium | Other reserves | Current year's unappropriated result | Total |
|---------------------------------------|----------------|---------------|----------------|--|----------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| 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 profit | - | - | - | 56 980 | 56 980 |
| Balance as at 31 December 2008 | 148 660 | 60 249 | 128 911 | 56 980 | 394 800 |
| Transfer of 2008 net result | - | - | 56 980 | (56 980) | - |
| Dividends declared and paid | - | - | (71 357) | - | (71 357) |
| Current year profit | - | - | - | 1 629 | 1 629 |
| Balance as at 31 December 2009 | 148 660 | 60 249 | 114 534 | 1 629 | 325 072 |

Average exchange rate of EUR at the end of reporting year by the Bank of Latvia 0.702804 (lats per unit).