

# **JSC VENTSPILS NAFTA AND ITS SUBSIDIARIES**

(UNIFIED REGISTRATION NUMBER 50003003091)

## **ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2009**

INCLUDING THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS

TOGETHER WITH  
THE INDEPENDENT AUDITORS' REPORT

**Riga, 2011**

## CONTENTS

<b>Independent Auditors' Report</b>	<b>2</b>
<b>Supervisory Council of JSC <i>Ventspils nafta</i></b>	<b>4</b>
<b>Management Board of JSC <i>Ventspils nafta</i></b>	<b>5</b>
<b>Statement of Management's responsibilities</b>	<b>6</b>
<b>Management report</b>	<b>7</b>
<b>Consolidated income statement</b>	<b>9</b>
<b>Consolidated statement of financial position</b>	<b>11</b>
<b>Consolidated statement of cash flows</b>	<b>13</b>
<b>Consolidated statement of changes in equity</b>	<b>14</b>

**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 27 April 2011 were as follows:

<b>Elected</b>	<b>Dismissed</b>	<b>Name</b>	<b>Position held</b>
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:	Boris Bednov Aleksej Tarasov

The changes in the Board during the period from 1 January 2009 to 27 April 2011 were as follows:

<b>Elected</b>	<b>Dismissed</b>	<b>Name</b>	<b>Position held</b>
16/10/2009	-	Simon Boddy	Member of the Board
28/04/2010	-	Boris Bednov	Member of the Board
28/04/2010	-	Alexander Jagdžijanc	Member of the Board
30/12/2010	-	Aleksej Tarasov	Member of the Board
16/06/2010	30/12/2010	Andris Vilcmeiers	Member of the Board
-	30/12/2010	Alexander Jagdžijanc	Member of the Board
-	16/06/2010	Ilva Purēna	Member of the Board
-	28/04/2010	Normunds Staņēvičs	Member of the Board
-	20/11/2009	Olga Pētersone	Chairperson of the Board
-	31/08/2009	Guntis Tīrmanis	Member of the Board

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

---

### Statement of Management's responsibilities

The Management Board prepares consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the *JSC Ventspils Nafta* and its subsidiaries (hereinafter also – the Group) as of 31 December 2009, changes in shareholders' equity, cash flows and the results of the Group for the year ended 31 December 2009 in accordance with International Financial Reporting Standards as adopted by the European Union. In preparing those consolidated financial statements, they:

- ◆ select suitable accounting policies and then apply them consistently;
- ◆ make judgments and estimates that are reasonable and prudent;
- ◆ prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Group and facilitate the preparation of financial statements which comply with International Financial Reporting Standards as adopted by the European Union.

Riga, 27 April 2011

On behalf of the Supervisory Council:

---

Vladimir Egger  
Chairman of the Supervisory Council

On behalf of the Management Board:

---

Simon Boddy  
Chairman of the Management Board

---

## Management report

### Dear shareholders, customers and cooperation partners,

During 2009 *JSC Ventspils nafta* and its subsidiaries continued to take significant steps to improve operational efficiency, corporate governance and deliver the highest international operating standards.

At the end of 2009 the three year term of the Supervisory Council expired and at the beginning of 2010 a new Supervisory Council of shareholder representatives was elected.

Furthermore, at the beginning of 2010 a new chairman of the Management Board was elected, replacing Olga Petersone who had held the office for 6 years. The new chairman of the Management Board, Simon Boddy, has extensive experience in international oil markets. Also in July 2010 a new Supervisory Council was elected. The new chairman is the head of the Moscow office of *JSC Ventspils nafta*'s largest shareholder.

Due to global economic volatility and uncertainty, national economic turmoil and geo-political uncertainty between the European Union and Russia, *Ventspils Nafta* group companies have experienced a very challenging year, placing even more focus on efficiency improvement projects and improvements in corporate governance. The largest *JSC Ventspils nafta* shareholder has played a significant role in bringing in the international experience of seasoned professionals to the Supervisory Councils of the holding company and its holdings.

At the end of 2009 *JSC Ventspils nafta* distributed dividends of 50,15 million LVL to shareholders, thereby delivering dividends per share of 0,48 LVL.

*JSC Ventspils nafta*'s consolidated turnover for 2009 was 66,7 million LVL, 6% higher than 2008. During 2009 the Group has significantly reduced its total costs, for example by reducing general and administrative costs by almost 23% compared to the previous year. Consolidated losses of the *JSC Ventspils nafta* Group for 2009 are 17.54 million lats. The reason of the substantial audited losses of the *JSC Ventspils nafta* Group in the reporting year is the financial results of its associated company *JSC Latvian Shipping Company* in 2009. The audited consolidated net losses of *JSC Latvian Shipping Company* for 2009 reached 90.3 million US dollars or 45.6 million lats.

There was a substantial dispute in relations with the associated company *JSC Latvian Shipping Company* in 2010. Already in January of 2010 *JSC Ventspils nafta* required the Management Board and Supervisory Council of *JSC Latvian Shipping Company* to convene an extraordinary shareholders' meeting in order to decide on changes in the Supervisory Council. The *JSC Latvian Shipping Company* Management Board and Supervisory Council avoided convening and holding an extraordinary shareholders' meeting throughout 2010, thus denying *JSC Ventspils nafta* and other shareholders their legal rights to participate in administration of the company. Moreover, the previous management of *JSC Latvian Shipping Company* has concluded several transactions which the current management is investigating and endeavouring to mitigate and reverse.

The extraordinary shareholders' meeting of *JSC Latvian Shipping Company* finally took place on December 17, 2010, and a new Supervisory Council and Management Board of *JSC Latvian Shipping Company* was elected. The audited consolidated financial reports of *JSC Latvian Shipping Company* for 2009 were approved by an extraordinary shareholders' meeting of the *JSC Ventspils nafta* associate *JSC Latvian Shipping Company* on January 28, 2011.

*Ventspils nafta* group has maintained very high liquidity and low leverage with total assets reaching 368 million LVL and total equity 361 million LVL.

Inevitably the Baltic Stock exchange NASDAQ OMX was impacted by global market turmoil, with a negative impact on the value of the shares of *JSC Ventspils nafta*. These traded during 2009 between a range of 0,59 and 1,50 LVL per share with an average price over the year of 0,99 LVL per share. During 2009, on the NASDAQ OMX, 900 402 shares were traded comprising total turnover of 890 378 LVL, 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 LVL.

### Management report (cont'd)

In 2009 JSC *Ventspils nafta* subsidiary *Ventspils Nafta Terminals Ltd.* proceeded with mandatory environmental monitoring works which have been performed in close coordination with local authorities. In addition, soil remediation works have been performed successfully in specific areas to address historically encountered environmental pollution.

In November 2009 the quality and environmental management systems of *Ventspils Nafta Terminals Ltd.* have been independently audited resulting in the recertification of the company according to ISO 9001 and ISO 14001 standards for the following three years.

*Ventspils nafta terminals Ltd.* applied for an update of its Environmental B Category Permit with the Regional Environmental Board due to additional technological services planned to be performed by the company, with approval being expected in first half 2010. The Safety Report generated by *Ventspils Nafta Terminals* and submitted to the State Authorities has been highly evaluated with the next submission due in 4 or 5 years. The launch of a new waste water system had a very positive impact on the lowering of groundwater level in the territory of the terminal.

*Ventspils nafta terminals Ltd.* ensured stable transshipment level for 2009 with a total transshipment of 10,4 million tons. Traditionally the largest transshipment portion is gasoil received via pipeline and rail with a total volume in 2009 of 8,2 million tons while gasoline transshipment volume was 1,9 million tons.

In accordance with the previously adopted strategy JSC *Ventspils nafta's* subsidiary *LatRosTans Ltd.* continued with an operational efficiency improvement programme combined with the ongoing operation of a gasoil pipeline with throughput of 3,7 million tons and maintained two crude oil pipelines so they are ready to start operations. Due to continuous repairs on the pipeline in the territory of Belarus as well as highly complex geopolitical situation, total throughput was lower than in previous year.

JSC *Ventspils nafta* will continue to implement a strategy that will minimise all risks while providing an adequate return to its shareholders in the medium term. With the prospects of a global economic recovery and rising demand for energy in major global markets the *Ventspils nafta* group is confident that it has everything in place to act promptly and capitalise on the economic upturn for the benefit of all its shareholders.

The main circumstance that the audited consolidated results of JSC *Ventspils nafta* for the year 2009 are different from previously submitted unaudited results on the NASDAQ OMX is effect of the audited losses of JSC *Latvian Shipping Company Group* for the year 2009, which were four times higher than the unaudited result of JSC *Latvian Shipping Company Group*, which was reported in February 2010 for the year 2009.

Financial Instruments and Financial risk management related to the operations of JSC *Ventspils nafta* Group are disclosed in Note 30 to the consolidated financial statement.

The Consolidated Annual Report includes (on pages 68 to 84) information on compliance with the corporate governance principles in 2009 and 2010.

The Consolidated Annual report has been submitted to the NASDAQ OMX Riga together with JSC *Ventspils nafta* Annual Report for 2009, as well published on JSC *Ventspils nafta* website [www.vnafta.lv](http://www.vnafta.lv).

Riga, 27 April 2011

On behalf of the Supervisory Council:

On behalf of the Management Board:

---

Vladimir Egger  
Chairman of the Supervisory Council

---

Simon Boddy  
Chairman of the Management Board

**Consolidated income statement**

	<b>2009</b>	<b>2008</b>
	EUR thousand	EUR thousand
<b>Continuing operations</b>		
Revenue	94 881	89 813
Cost of sales	(87 084)	(88 086)
<b>Gross profit</b>	<b>7 797</b>	<b>1 727</b>
General and administrative expense	(7 679)	(9 967)
Other operating income	1 137	6 941
Other operating expense	(4 547)	(5 213)
Share of (loss)/ profit in associate	(32 658)	20 128
Financial income	5 771	4 713
Financial expense	(325)	(11)
<b>(Loss)/ Profit before tax from continuing operations</b>	<b>(30 504)</b>	<b>18 318</b>
Corporate income tax	(600)	(7 771)
<b>Net (loss)/ profit for the year from continuing operations</b>	<b>(31 104)</b>	<b>10 547</b>
<b>Discontinued operations</b>		
Profit after tax for the year from discontinued operations	6 147	28 287
<b>(Loss)/ Profit for the year</b>	<b>(24 957)</b>	<b>38 834</b>
Attributable to:		
Non-controlling interest	1 608	(3 479)
Parent company's shareholders	(26 565)	42 313
	<b>(24 957)</b>	<b>38 834</b>
<b>Earnings/ (loss) per share</b> (EUR per share) attributable to the Parent company's shareholders:		
Diluted and basic (loss)/ earnings per share from continuing operations	(0,31)	0,13
Diluted and basic earnings per share from discontinuing operations	0,06	0,27

EUR exchange rate of the Bank of Latvia on 31.December 2009 – 0,702804 LVL.

On behalf of the Supervisory Council:

\_\_\_\_\_  
Vladimir Egger  
Chairman of the Supervisory Council

On behalf of the Management Board:

\_\_\_\_\_  
Simon Boddy  
Chairman of the Management Board



**Consolidated statement of comprehensive income**

	2009	2008
	EUR thousand	EUR thousand
<b>(Loss) for the year</b>	<b>(24 957)</b>	<b>38 834</b>
<b>Other comprehensive (loss)/ income</b>		
- Foreign currency translation resulting from investment in associate	(589)	4 673
- Cash flow hedge reserve from investment in associate	344	(1 680)
<b>Other comprehensive (loss)/ income for the year, net of tax</b>	<b>(245)</b>	<b>2 993</b>
<b>Total comprehensive (loss)/ income for the year, net of tax</b>	<b>(25 202)</b>	<b>41 827</b>
Attributable to:		
Non-controlling interests	1 608	(3 479)
Parent company's shareholders	(26 810)	45 306
	<b>(25 202)</b>	<b>41 827</b>

EUR exchange rate of the Bank of Latvia on 31.December 2009 – 0,702804 LVL.

On behalf of the Supervisory Council:

\_\_\_\_\_  
Vladimir Egger  
Chairman of the Supervisory Council

On behalf of the Management Board:

\_\_\_\_\_  
Simon Boddy  
Chairman of the Management Board

**Consolidated statement of financial position**

	<b>31.12.2009</b>	<b>31.12.2008</b>
	EUR thousand	EUR thousand
<b>Assets</b>		
<b>Non-current asset</b>		
Intangible assets	38 146	39 268
Property, plant and equipment	186 570	193 506
Investments in associated entities	151 923	178 740
Receivables from related companies	-	59 130
Loan note	62 621	63 389
Other non-current financial assets	400	445
<b>Total non-current assets</b>	<b>439 660</b>	<b>534 478</b>
<b>Current assets</b>		
Inventories	2 917	3 456
Trade accounts receivable	40	905
Receivables from related companies	43 469	35 485
Loans to related companies	-	778
Other receivables	2 680	1 886
Short term deposits	11 709	1 148
Cash and cash equivalents	23 004	50 876
<b>Total current assets</b>	<b>83 819</b>	<b>94 534</b>
<b>Total assets</b>	<b>523 479</b>	<b>629 012</b>

EUR exchange rate of the Bank of Latvia on 31.December 2009 – 0,702804 LVL.

On behalf of the Supervisory Council:

\_\_\_\_\_  
Vladimir Egger  
Chairman of the Supervisory Council

On behalf of the Management Board:

\_\_\_\_\_  
Simon Boddy  
Chairman of the Management Board

**Consolidated statement of financial position (cont'd)**

	<b>31.12.2009</b>	<b>31.12.2008</b>
	EUR thousand	EUR thousand
<b>Equity and liabilities</b>		
<b>Equity</b>		
Issued capital	148 660	148 660
Share premium	60 249	60 249
Legal reserve	1 017	1 017
Reserves resulting from investment in associates	(22 706)	(22 461)
Other reserves	248 182	277 225
(Loss)/ profit for the year	(26 565)	42 313
<b>Equity attributable to equity holders of the parent</b>	<b>408 837</b>	<b>507 003</b>
Non-controlling interest	105 234	104 533
<b>Total equity</b>	<b>514 071</b>	<b>611 536</b>
<b>Non-current liabilities</b>		
Deferred tax liability	2 260	1 860
Deferred income	545	-
	<b>2 805</b>	<b>1 860</b>
<b>Current liabilities</b>		
Advances from customers	105	1 012
Trade accounts payable	2 655	3 376
Payables to related companies	38	206
Taxes payable	398	7 950
Other liabilities	2 750	2 343
Deferred income	61	-
Provisions	596	729
	<b>6 603</b>	<b>15 616</b>
<b>Total liabilities</b>	<b>9 408</b>	<b>17 476</b>
<b>Total liabilities and equity</b>	<b>523 479</b>	<b>629 012</b>

EUR exchange rate of the Bank of Latvia on 31.December 2009 – 0,702804 LVL.

On behalf of the Supervisory Council:

On behalf of the Management Board:

\_\_\_\_\_  
 Vladimir Egger  
 Chairman of the Supervisory Council

\_\_\_\_\_  
 Simon Boddy  
 Chairman of the Management Board

**Consolidated statement of cash flows**

	2009	2008
	EUR thousand	EUR thousand
<b>Operating activities</b>		
Profit before tax from continuing operations	(30 504)	18 318
Profit before tax from discontinued operations	6 147	33 351
Profit before tax	<u>(24 357)</u>	<u>51 669</u>
Non-cash adjustments to reconcile (loss)/ profit before tax to net cash flows		
Amortisation and depreciation	13 230	16 225
Impairment loss	462	3 026
Disposal of investment in subsidiaries	7	-
Impairment reversed	-	(121)
Interest income	(5 771)	(3 809)
Interest expense	-	2 150
Fair value change on investment properties	-	(41 895)
Share of net loss/ (profit) in associate	26 504	(20 007)
Decrease in investment in associate entity for unrealised profit	-	12 245
Foreign exchange loss/ (gain)	769	(904)
Loss from sale of investment properties	-	618
Gain from sale of subsidiaries	-	(9 330)
Loss/ (gain) on disposal of property, plant and equipment	243	(3 005)
	<b>11 087</b>	<b>6 862</b>
Working capital adjustments:		
Decrease in inventories	539	2 089
Decrease/ (increase) in trade accounts receivable and receivables from related parties	1 197	(6 784)
Decrease in current liabilities	(916)	(2 713)
	<b>11 907</b>	<b>(546)</b>
Corporate income tax paid	(8 596)	(1 069)
<b>Net cash flows from operating activities</b>	<b>3 311</b>	<b>(1 615)</b>
<b>Investing activities</b>		
Purchase of intangibles and property, plant and equipment	(5 273)	(13 741)
Proceeds from sale of property, plant and equipment and investment properties	12 517	6 201
Increase in short term deposits	(11 709)	(1 148)
Proceeds from disposal of investment	61	-
Proceeds from sale of subsidiaries	39 426	24 395
Purchase of shares in associate	-	(121)
Interest received	5 279	3 860
<b>Net cash flows from investing activities</b>	<b>40 301</b>	<b>19 446</b>
<b>Financing activities</b>		
Dividends paid	(72 262)	-
Proceeds from borrowings	778	9 785
Repayment of borrowings and financial lease liabilities	-	(2 608)
Interest payments	-	(2 039)
<b>Net cash flows from financing activities</b>	<b>(71 484)</b>	<b>5 138</b>
Net increase in cash and cash equivalents	(27 872)	22 969
Cash and cash equivalents at 1 January	50 876	27 907
<b>Cash and cash equivalents at 31 December</b>	<b>23 004</b>	<b>50 876</b>

EUR exchange rate of the Bank of Latvia on 31.December 2009 – 0,702804 LVL.

**Consolidated statement of changes in equity**

	Attributable to the equity holders of the parent							Non-controlling interest	Total shareholders' equity
	Share capital	Share premium	Legal reserve	Reserves resulting from investment in associates *	Other reserves	Total			
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand		
<b>Balance as of 31 December 2007</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(25 454)</b>	<b>277 678</b>	<b>462 150</b>	<b>107 933</b>	<b>570 084</b>	
Profit for the period	-	-	-	-	42 313	42 313	(3 479)	38 834	
Other comprehensive income	-	-	-	2 992	-	2 992	-	2 992	
Total comprehensive income	-	-	-	2 992	42 313	45 306	(3 479)	41 827	
Non-controlling interests for disposed subsidiaries	-	-	-	-	-	-	(374)	(374)	
<b>Balance as of 31 December 2008</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(22 461)</b>	<b>319 991</b>	<b>507 456</b>	<b>104 080</b>	<b>611 536</b>	
Correction **	-	-	-	-	(452)	(452)	452	-	
<b>Corrected balance as of 31 December 2008</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(22 461)</b>	<b>319 539</b>	<b>507 003</b>	<b>104 533</b>	<b>611 536</b>	
Loss for the period	-	-	-	-	(26 565)	(26 565)	1 608	(24 957)	
Other comprehensive loss	-	-	-	(245)	-	(245)	-	(245)	
Total comprehensive (loss)/ income	-	-	-	(245)	(26 565)	(26 810)	1 608	(25 202)	
Dividends declared	-	-	-	-	(71 357)	(71 357)	(906)	(72 263)	
<b>Balance as of 31 December 2009</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(22 706)</b>	<b>221 617</b>	<b>408 837</b>	<b>105 234</b>	<b>514 071</b>	

EUR exchange rate of the Bank of Latvia on 31.December 2009 – 0,702804 LVL.