



# **AS VENTSPILS NAFTA**

(UNIFIED REGISTRATION NUMBER 50003003091)

## **UNAUDITED CONSOLIDATED FINANCIAL REPORT FOR 2009**

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
Associated entities of the Group	AS Latvijas kuģniecība (49.94%) 2 Basteja bulvāris, LV-1807, Riga  SIA Futbola klubs Ventspils (42.50%) 20a Dzintaru iela, LV-3602, Ventspils

## Supervisory Council 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:	Paul Thomas Oļegs Stepanovs
Members of the Council:	Javed Ahmed Mikhail Dvorak Rubil Yilmaz Mark Ware Gatis Grāvītis Mārtiņš Kvēps Valērijs Godunovs Aleksejs Ovods

The changes in the Council during the period from 1 January 2009 to 28 February 2010 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	-	Paul Thomas	Deputy Chairman of the Council
20/01/2010	-	Oļegs Stepanovs	Deputy Chairman of the Council
20/01/2010	-	Javed Ahmed	Member of the Council
20/01/2010	-	Mikhail Dvorak	Member of the Council
20/01/2010	-	Rubil Yilmaz	Member of the Council
20/01/2010	-	Mark Ware	Member of the Council
20/01/2010	-	Gatis Grāvītis	Member of the Council
20/01/2010	-	Mārtiņš Kvēps	Member of the Council
20/01/2010	-	Valērijs Godunovs	Member of the Council
20/01/2010	-	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

## Board of AS 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:	Normunds Staņēvičs Ilva Purēna

The changes in the Board during the period from 1 January 2009 to 28 February 2010 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
-	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, the cash flows and the results of the Group for the year 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 *JSC Ventspils Nafta* (hereinafter also – the Parent company) and the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the European Union.

On behalf of the Supervisory Council:

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Vladimir Egger  
Chairman of the Supervisory Council

On behalf of the Management Board:

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Simon Boddy  
Chairman of the Management Board

## Management Report

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 January 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.

Ventspils nafta’s consolidated turnover for 2009 was 66 million LVL, 5% higher than 2008. During 2009 the group has significantly reduced its total costs, for example by reducing general and administrative costs by almost 25% compared to the previous year. Consolidated net profit for the Ventspils Nafta group attributable to parent company’s shareholders was negative 3,2million LVL and this was heavily influenced by the considerable net loss generated by the associated company JSC “Latvian Shipping Company”

Ventspils nafta group has maintained very high liquidity and low leverage with total assets reaching 382 million LVL and total equity 376 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.

In 2009 Ventspils Nafta Terminals 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 Terminal have been independently audited resulting in the recertification of the company according to ISO 9001 and ISO 14001 standards for the following three years.

The company 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.

JSC Ventspils nafta daughter company “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 7,9 million tons while gasoline transshipment volume was 1,6 million tons.

In accordance with the previously adopted strategy JSC Ventspils Nafta’s daughter company LRT 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.

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For JSC Ventspils nafta's associated company, JSC Latvian Shipping Company, 2009 has been a very challenging year due to charter rates being at their lowest levels for the last 10 years.. Latvian Shipping Company, being the 11<sup>th</sup> largest Medium Range tanker owner and operator in Northern Europe, has therefore experienced a considerable negative reduction in the value of its vessels. Despite the company being able to ensure positive operational and net cash flow, Latvian Shipping Company 2009 has experienced a net loss in 2009 while the actual impact of fluctuations in the value of the vessels is still being assessed.

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.

JSC Ventspils nafta chairman of the board

Simon Boddy



## Consolidated income statement

	<b>2009</b>	<b>2008</b>
	<u>EUR thousand</u>	<u>EUR thousand</u>
<b>Continuing operations</b>		
Net revenue	94 429	89 813
Cost of sales	(86 472)	(88 086)
<b>Gross profit</b>	<b>7 957</b>	<b>1 727</b>
General and administrative expense	(7 701)	(9 967)
Other operating income	1 118	6 941
Other operating expense	(4 126)	(5 213)
Share of profit in associate	(5 023)	20 128
Financial income	5 771	4 713
Financial expense	(332)	(10)
<b>Result before taxes</b>	<b>(2 336)</b>	<b>18 319</b>
Corporate income tax	(500)	(7 770)
<b>Net (loss) profit for the year from continuing operations</b>	<b>(2 836)</b>	<b>10 549</b>
<b>Discontinued operations</b>		
Profit after tax for the year from discontinued operations	-	28 287
<b>(Loss) profit for the year</b>	<b>(2 836)</b>	<b>38 836</b>
Attributable to:		
Minority interest	1 801	(3 479)
Parent company's shareholders	(4 637)	42 313
	<b>(2 836)</b>	<b>38 834</b>
<b>Earnings per share</b> (Lats per share) attributable to the Parent company's shareholders:		
Diluted and basic earnings per share from continuing operations	(0,04)	0,13
Diluted and basic earnings/ (loss) per share from discontinuing operations	-	0,27

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 comprehensive income

	<b>2009</b>	<b>2008</b>
	EUR thousand	EUR thousand
<b>(Loss) profit for the year</b>	<b>(2 836)</b>	<b>38 834</b>
<b>Other comprehensive (loss) income</b>		
- Foreign currency translation resulting from investment in associate	(1 145)	2 992
<b>Other comprehensive (loss) income for the year, net of tax</b>	<b>(1 145)</b>	<b>2 992</b>
<b>Total comprehensive (loss) income for the year, net of tax</b>	<b>(3 981)</b>	<b>41 826</b>
Attributable to:		
Minority interest	1 801	(3 479)
Parent company's shareholders	(5 782)	45 305
	<b>(3 981)</b>	<b>41 826</b>

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

	31.12.2009	31.12.2008
	EUR thousand	EUR thousand
<b>Assets</b>		
<b>Non-current asset</b>		
Property, plant and equipment	186 570	193 506
Intangible assets	38 147	39 268
Investments in associated entities	172 267	178 740
Receivables from related companies	-	59 130
Loan note	62 621	63 389
Other non-current financial assets	401	444
	<b>460 006</b>	<b>534 477</b>
<b>Current assets</b>		
Inventories	3 063	3 456
Trade accounts receivable	3 758	2 053
Receivables from related companies	39 845	35 485
Loans to related companies	-	778
Other receivables	3 473	1 887
Cash and cash equivalents	34 093	50 876
	<b>84 232</b>	<b>94 535</b>
<b>Total assets</b>	<b>544 238</b>	<b>629 012</b>

On behalf of the Supervisory Council:

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Vladimir Egger  
Chairman of the Supervisory Council

On behalf of the Management Board:

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Simon Boddy  
Chairman of the Management Board

## Consolidated Statement of financial position

	31.12.2009	31.12.2008
	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	(23 607)	(22 461)
Other reserves	247 728	277 678
(Loss) profit for the year	(4 637)	42 313
<b>Equity attributable to equity holders of the parent</b>	<b>429 410</b>	<b>507 456</b>
Non-controlling interest	105 882	104 080
<b>Total equity</b>	<b>535 292</b>	<b>611 536</b>
<b>Non-current liabilities</b>		
Deferred corporate income tax liability	2 251	1 860
Non-current portion of financial lease liability	1	10
	<b>2 252</b>	<b>1 870</b>
<b>Current liabilities</b>		
Current portion of financial lease liability	1	10
Advances from customers	105	1 012
Trade accounts payable	2 693	3 376
Payables to related companies	88	206
Taxes payable	457	7 950
Other liabilities	931	768
Accrued liabilities	2 069	1 555
Provisions	350	729
	<b>6 694</b>	<b>15 606</b>
<b>Total liabilities</b>	<b>8 946</b>	<b>17 476</b>
<b>Total liabilities and equity</b>	<b>544 238</b>	<b>629 012</b>

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 cash flows

	2009 EUR thousand	2008 EUR thousand
<b>Operating activities</b>		
Profit before tax from continuing operations	(2 335)	18 318
Profit before tax from discontinued operations	-	33 351
Profit before tax	(2 335)	51 669
Non-cash adjustments to reconcile profit before tax to net cash flows		
Amortisation and depreciation	13 231	16 225
Impairment loss	(1 996)	3 026
Impairment reversed	-	(121)
Interest income	(5 090)	(3 809)
Interest expense	-	2 150
Fair value change on investment properties	-	(41 895)
Share of net profit of associate	5 327	(20 007)
Decrease in investment in associate entity for unrealised profit	-	12 245
Foreign exchange (gain)	768	(904)
Loss from sale of investment properties	-	618
Gain from sale of subsidiaries	-	(9 330)
(Gain)/ loss on disposal of property, plant and equipment	2 813	(3 005)
	<b>12 718</b>	<b>6 862</b>
Working capital adjustments:		
Decrease in inventories	393	2 089
(Increase) / decrease in trade accounts receivable	52 756	(7 933)
(Decrease) / increase in current liabilities	(1 036)	(2 713)
	<b>64 831</b>	<b>(1 695)</b>
Corporate income tax paid	(8 761)	(1 069)
<b>Net cash flows from operating activities</b>	<b>56 070</b>	<b>(2 764)</b>
<b>Investing activities</b>		
Purchase of fixed assets	(6 117)	(13 741)
Proceeds from sale of property, plant and equipment and investment properties	127	6 201
Proceeds from sale of subsidiaries	-	24 395
Purchase of shares in associate	-	(121)
Interest received	4 597	3 860
<b>Net cash flows from investing activities</b>	<b>(1 393)</b>	<b>20 594</b>
<b>Financing activities</b>		
Dividends paid	(72 263)	-
Repayment of borrowings and financial lease liabilities	778	(2 608)
Proceeds from borrowings	24	9 786
Interest payments	-	(2 039)
<b>Net cash flows from financing activities</b>	<b>(71 461)</b>	<b>5 139</b>
Net increase in cash and cash equivalents	(16 784)	22 969
Cash and cash equivalents at 1 January	50 876	27 907
<b>Cash and cash equivalents at 31 December</b>	<b>34 092</b>	<b>50 876</b>

## Consolidated statement of changes in equity

	Attributable to the equity holders of the parent							Total shareholders' equity
	Share capital	Share premium	Legal reserve	Reserves resulting from investment in associates	Retained earnings	Total	Minority interest	
	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
Minority 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>
Loss for the period	-	-	-	-	(4 637)	(4 637)	1 801	(2 836)
Other comprehensive loss	-	-	-	(1 145)	-	(1 145)	-	(1 145)
Total comprehensive loss	-	-	-	(1 145)	(4 637)	(5 783)	1 801	(3 981)
Dividends paid out	-	-	-	-	(72 263)	(72 263)	-	(72 263)
<b>Balance as of 31 December 2009</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(23 607)</b>	<b>243 091</b>	<b>429 410</b>	<b>105 882</b>	<b>535 291</b>