



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:

Elected	Dismissed	Name	Position held
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:

Elected	Dismissed	Name	Position held
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:

Vladimir Egger
Chairman of the Supervisory Council

On behalf of the Management Board:

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.

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 11th 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

	2009	2008
	LVL thousand	LVL thousand
Continuing operations		
Net revenues	66 365	63 121
Cost of sales	(60 773)	(61 907)
Gross profit	5 592	1 214
General and administrative expense	(5 412)	(7 005)
Other operating income	786	4 878
Other operating expense	(2 900)	(3 664)
Share of profit in associate	(3 530)	14 146
Financial income	4 056	3 312
Financial expense	(233)	(7)
Result before taxes	(1 641)	12 874
Corporate income tax	(352)	(5 461)
Net (loss) profit for the year from continuing operations	(1 993)	7 413
Discontinued operations		
Profit after tax for the year from discontinued operations	-	19 880
(Loss) profit for the year	(1 993)	27 293
Attributable to:		
Minority interest	1 266	(2 445)
Parent company's shareholders	(3 259)	29 738
	(1 993)	27 293
Earnings per share (Lats per share) attributable to the Parent company's shareholders:		
Diluted and basic earnings per share from continuing operations	(0,03)	0,09
Diluted and basic earnings/ (loss) per share from discontinuing operations	-	0,19

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 LVL'000	2008 LVL'000
(Loss) profit for the year	<u>(1 993)</u>	<u>27 293</u>
Other comprehensive (loss) income		
- Foreign currency translation resulting from investment in associate	(805)	2 103
Other comprehensive (loss) income for the year, net of tax	<u>(805)</u>	<u>2 103</u>
Total comprehensive (loss) income for the year, net of tax	<u>(2 798)</u>	<u>29 396</u>
Attributable to:		
Minority interest	1 266	(2 445)
Parent company's shareholders	<u>(4 064)</u>	<u>31 841</u>
	<u>(2 798)</u>	<u>29 396</u>

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
	LVL thousand	LVL thousand
Assets		
Non-current asset		
Property, plant and equipment	131 122	135 997
Intangible assets	26 810	27 598
Investments in associated entities	121 070	125 619
Receivables from related companies	-	41 557
Loan note	44 010	44 550
Other non-current financial assets	282	312
	323 294	375 633
Current assets		
Inventories	2 153	2 429
Trade accounts receivable	2 641	1 443
Receivables from related companies	28 003	24 939
Loans to related companies	-	547
Other receivables	2 441	1 325
Cash and cash equivalents	23 961	35 756
	59 199	66 439
Total assets	382 493	442 072

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
	LVL thousand	LVL thousand
Equity and liabilities		
Equity		
Issued capital	104 479	104 479
Share premium	42 343	42 343
Legal reserve	715	715
Reserves resulting from investment in associates	(16 591)	(15 786)
Other reserves	174 104	195 153
(Loss) profit for the year	(3 259)	29 738
Equity attributable to equity holders of the parent	301 791	356 642
Non-controlling interest	74 414	73 148
Total equity	376 205	429 790
Non-current liabilities		
Deferred corporate income tax liability	1 582	1 307
Non-current portion of financial lease liability	1	7
	1 583	1 314
Current liabilities		
Current portion of financial lease liability	1	7
Advances from customers	74	711
Trade accounts payable	1 893	2 373
Payables to related companies	62	145
Taxes payable	321	5 587
Other liabilities	654	540
Accrued liabilities	1 454	1 093
Provisions	246	512
	4 705	10 968
Total liabilities	6 288	12 282
Total liabilities and equity	382 493	442 072

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 LVL thousand	2008 LVL thousand
Operating activities		
Profit before tax from continuing operations	(1 641)	12 874
Profit before tax from discontinued operations	-	23 439
Profit before tax	(1 641)	36 313
Non-cash adjustments to reconcile profit before tax to net cash flows		
Amortisation and depreciation	9 299	11 403
Imparment loss	(1 403)	2 127
Impairment reversed	-	(85)
Interest income	(3 577)	(2 677)
Interest expense	-	1 511
Fair value change on investment properties	-	(29 444)
Share of net profit of associate	3 744	(14 061)
Decrease in investment in associate entity for unrealised profit	-	8 606
Foreign exchange (gain)	540	(635)
Loss from sale of investment properties	-	434
Gain from sale of subsidiaries	-	(6 557)
(Gain)/ loss on disposal of property, plant and equipment	1 977	(2 112)
	8 939	4 823
Working capital adjustments:		
Decrease in inventories	276	1 468
(Increase) / decrease in trade accounts receivable	37 077	(5 575)
(Decrease) / increase in current liabilities	(728)	(1 907)
	45 564	(1 191)
Corporate income tax paid	(6 157)	(751)
Net cash flows from operating activities	39 407	(1 942)
Investing activities		
Purchase of fixed assets	(4 299)	(9 657)
Proceeds from sale of property, plant and equipment and investment properties	89	4 358
Proceeds from sale of subsidiaries	-	17 145
Purchase of shares in associate	-	(85)
Interest received	3 231	2 713
Net cash flows from investing activities	(979)	14 474
Financing activities		
Dividends paid	(50 787)	-
Repayment of borrowings and financial lease liabilities	547	(1 833)
Proceeds from borrowings	17	6 877
Interest payments	-	(1 433)
Net cash flows from financing activities	(50 223)	3 611
Net increase in cash and cash equivalents	(11 795)	16 143
Cash and cash equivalents at 1 January	35 756	19 613
Cash and cash equivalents at 31 December	23 961	35 756

Consolidated statement of changes in equity

	Attributable to the equity holders of the parent							Total share- holders' equity
	Share capital	Share premium	Legal reserve	Reserves resulting from investment in associates	Retained earnings	Total	Minority interest	
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	
Balance as of 31 December 2007	104 479	42 343	715	(17 889)	195 153	324 801	75 856	400 657
Profit for the period	-	-	-	-	29 738	29 738	(2 445)	27 293
Other comprehensive income	-	-	-	2 103	-	2 103	-	2 103
Total comprehensive income	-	-	-	2 103	29 738	31 841	(2 445)	29 396
Minority interests for disposed subsidiaries	-	-	-	-	-	-	(263)	(263)
Balance as of 31 December 2008	104 479	42 343	715	(15 786)	224 891	356 642	73 148	429 790
Loss for the period	-	-	-	-	(3 259)	(3 259)	1 266	(1 993)
Other comprehensive loss	-	-	-	(805)	-	(805)	-	(805)
Total comprehensive loss	-	-	-	(805)	(3 259)	(4 064)	1 266	(2 798)
Dividends paid out	-	-	-	-	(50 787)	(50 787)	-	(50 787)
Balance as of 31 December 2009	104 479	42 343	715	(16 591)	170 845	301 791	74 414	376 205

Notes

1. Net revenues

	2009	2008
Railway services	34 463	28 799
Reloading of crude oil and oil products	25 031	22 393
Transportation of oil products	6 500	7 223
Income from sale of crude oil and oil products	371	4 411
Oil and oil product storage services	-	125
Other income	-	170
TOTAL:	66 365	63 121

2. Cost of sales

	2009	2008
Railway charges	34 487	28 821
Amortization and depreciation	9 063	8 918
Remuneration for work	5 359	5 429
Utilization of piers	1 681	1 840
Social security contributions	1 249	1 286
Utilities	1 142	901
Insurance expenses	931	1 392
Environment protection expense	856	1 660
Security	843	1 077
Electricity	804	955
Land rent	784	757
Materials and spare parts	771	765
Raw materials	476	860
Treatment of technological waste water	290	1 744
Guarantee (business insurance) services	-	1 851
Cost of sold oil and oil products	-	1 228
Other	2 037	2 423
TOTAL:	60 773	61 907

3. General and administrative expense

	2009	2008
Remuneration for work	2 277	3 305
Professional charges and legal costs	883	800
Social security contributions	556	404
Advertising and marketing expense	342	659
Amortization and depreciation	186	385
Vehicle maintenance expense	141	154
Social infrastructure expense	122	145
Rent of premises	92	69
Insurance fees	41	85
Communication expense	39	47
Bank charges	38	70
Other administrative expense	695	882
TOTAL:	5 412	7 005

4. Other operating income

	2009	2008
Income from oil extracted from groundwater and waste waters	418	453
Profit from sale of property, plant and equipment	-	2 112
Gain from revaluation of investment properties at fair value	-	1 987
Penalties received	-	6
Other income	368	320
TOTAL:	786	4 878

5. Other operating expense

	2009	2008
Payments to local municipality	905	880
Non-current assets written off	466	192
Provision for expenses arising from oil product theft	448	160
Construction in progress object written off	325	381
Personnel expenses	258	343
Amortization and depreciation	50	52
Sponsorship	23	928
Loss from sales of investment property	-	434
Other expenses	425	294
TOTAL:	2 900	3 664

6. Financial income and (expense)

	2009	2008
Interest income from the loan note	2 711	1 816
Interest income from bank account balances and deposits	1 345	861
Foreign currency exchange profit, net	-	635
TOTAL financial income:	4 056	3 312

	2009	2008
Interest expense	-	(7)
Foreign currency exchange loss, net	(233)	-
TOTAL financial expense:	(233)	(7)

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>31.12.2009.</u>	<u>31.12.2008.</u>	<u>Legal address</u>
<u>Subsidiaries</u>			
SIA "Ventspils nafta" termināls	51	51	Talsu street 75, LV-3602, Ventspils, Latvia
SIA "LatRosTrans"	66	66	Balvu street 7, LV-5043, Daugavpils Latvia
	<u>31.12.2009.</u>	<u>31.12.2008.</u>	
<u>Associated entities</u>			
SIA "Futbola klubs Ventspils"	42,50	42,50	Dzintaru street 20a, LV-3602, Ventspils, Latvia
AS "Latvijas Kuģniecība"	49,94	49,94	Basteja bulvāris 2, LV 1807, Rīga, Latvia