



JSC VENTSPILS NAFTA
(UNIFIED REGISTRATION NUMBER 50003003091)

**UNAUDITED CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS OF 2010 (EUR)**

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Riga, 2010

CONTENTS

General information	3
Supervisory Council of JSC <i>Ventpils nafta</i>	4
Management Board of JSC <i>Ventpils nafta</i>	5
Management Report of JSC <i>Ventpils nafta</i>	6
Statement of Management's responsibilities	8
Consolidated statement of comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of cash flows	12
Consolidated statement of changes in equity	13

General information

Name of the company	JSC Ventspils nafta
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	50003003091 Riga, 9 May 1991 Registered in Commercial Register on 5 August 2004
Legal address	Vaļņu street 3-18, LV-1050, Riga, Republic of Latvia
Subsidiaries of JSC Ventspils nafta	LatRosTrans Ltd (66%) 7 Balvu street, LV-5043, Daugavpils Ventspils nafta termināls Ltd (51%) 75 Talsu street, LV-3602, Ventspils
Associated entities of the Group	JSC Latvian Shipping Company (49.94%) Elizabetes street 1, LV-1807, Riga, Latvia Futbola klubs Ventspils Ltd (21.25%) 20a Dzintaru street, LV-3602, Ventspils

Supervisory Council of JSC *Ventspils nafta*

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

Appointed:

Members of the Council:

Vladimir Egger
Mikhail Dvorak
Oļegs Stepanovs
Javed Ahmed
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 2010 to 31 August 2010 were as follows:

Elected	Dismissed	Name	Position held
20/01/2010	-	Vladimir Egger	Member of the Council
20/01/2010	-	Mikhail Dvorak	Member 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

Management Board of JSC *Ventspils nafta*

Management Board (as at the date of signing 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 2010 to 31 August 2010 were as follows:

Elected	Dismissed	Name	Position held
28/04/2010	-	Boris Bednov	Member of the Board
28/04/2010	-	Alexander Jagdžijanc	Member of the Board
19/06/2010	-	Andris Vilcmeiers	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 of JSC *Ventspils nafta*

First half-year of 2010

Dear shareholders, clients and cooperation partners,

During the first half-year of 2010 *JSC Ventspils nafta* and its subsidiaries continued to take significant steps to improve operational efficiency, corporate governance and deliver the highest international operating standards.

In the reporting period, the management of *JSC Ventspils nafta* has essentially changed. On January 20, 2010, the Supervisory Council of *JSC Ventspils nafta* was re-elected and Mr. Vladimir Egger was elected as the Chairman of this Supervisory Council.

The re-elected Supervisory Council in turn elected Mr. Simon Boddy as the new Chairman of the Management Board. During the first half-year of 2010, the remaining two Management Board members stepped down from the Management Board of *JSC Ventspils nafta*, but three new Management Board members were appointed by the Supervisory Council of *JSC Ventspils nafta*.

During first half-year, one of the largest *JSC Ventspils nafta* shareholders *Euromin Holdings (Cyprus) Limited* increased its shareholdings in *JSC Ventspils nafta* by more than 1.5%, thus becoming an owner of 49.5% shares in *JSC Ventspils nafta* and thereby becoming the largest shareholder of *JSC Ventspils nafta*.

On July 7, 2010, a new Supervisory Council of *JSC Ventspils nafta* was elected for a period of the next three years. In this composition of the Supervisory Council, the largest shareholder plays a significant role in bringing in the international experience of seasoned professionals to the Supervisory Councils of the holding company and its holdings.

In the reporting period, price of *JSC Ventspils nafta* shares has ranged from LVL 0.91 to LVL 1.80, with the average price per share reaching LVL 1.17. Market capitalization of *JSC Ventspils nafta* shares in the end of first half-year of 2010 was LVL 137.9 million in comparison with LVL 93.0 million in respective period in 2009. At the same time, during the second quarter of 2010, the share price had a stable tendency to increase; thus, the price per share was LVL 1.07 in the end of the first quarter of 2010, but in the end of the first half-year of 2010, the price per share reached already LVL 1.32, growing by approximately 23.3% during the second quarter. Correspondingly, the market capitalization has increased, market capitalization of *JSC Ventspils nafta* in the end of first quarter of 2010 was LVL 111.8 million, yet in the end of first half-year of 2010 – already LVL 137.9 million. However, it must be considered that market value calculation by usage of insignificant amount of public share market transactions is not representative, as the liquidity level is too low – the average turnover of transactions with *JSC Ventspils nafta* shares per day in the first six months of 2010 was LVL 17 thousand, which is only 0.012% of the total share market capitalization amount. During the six month period of 2010, on the NASDAQ OMX, 1,407,617 shares were traded comprising total turnover of LVL 2,088,300, which is twice as much as in the entire year 2009.

JSC Ventspils nafta consolidated net turnover in the first half-year of 2010 has reached LVL 29 million and net loss has reached LVL 0.6 million. *JSC Ventspils nafta*, as a parent company's net profit reached LVL 3.5 million for the 6 months period in 2010, excluding foreign exchange gain from the revaluation of assets. In 2010 *JSC Ventspils nafta* as a parent company implemented strict cost cutting policy with the most substantial savings achieved in administrative expenses, which decreased from LVL 1.0 million in the first half of 2009 to LVL 0.6 million in the corresponding period in 2010.

The *JSC Ventspils nafta* subsidiary *Ventspils nafta termināls Ltd* has reached income of LVL 24.2 million in the first six months of 2010. The transshipment volume of crude oil and petroleum products was 4.8 million tons. The largest proportion of cargos transshipped by *Ventspils nafta termināls Ltd* in the period of January – June 2010 is formed by 4.1 million tons of diesel fuel delivered via petroleum products pipeline and by railway. 0.5 million tons of the total transshipment volume is formed by motor gasoline of various grades transported by railway and other petroleum products, and 0.2 million tons – by crude oil and petroleum product cargos delivered by sea.

The throughput of products delivered by sea was 72 thousand tons and by pipeline – 964 thousand tons more than budgeted. Compared to 2009, demurrage expenses dropped by 76% or by LVL 1.9 million and the railway tariff per ton – by 16%.

Management Report of JSC *Ventspils nafta* (cont'd)

The actual net result exceeded budget by LVL 3.25 million. Based on the experience of previous years, *Ventspils nafta termināls Ltd* foresees that throughput volume is likely to drop in the coming month, but by the end of the year 2010, the budgeted volume of 9.7 million tons will be slightly exceeded.

Ventspils nafta termināls Ltd is the largest of such companies in the region, and its crude oil and petroleum products shore-tank farm reaches 1.2 million cubic meters and has no analogues among similar companies in the nearest countries.

JSC *Ventspils nafta* subsidiary, owner and operator of crude oil and petroleum products pipeline in the territory of Latvia *LatRosTrans Ltd* has reached income of LVL 5.2 million in the first six months of 2010, which is 28.2% more than in the corresponding period in 2009.

Petroleum products transportation volumes of *LatRosTrans Ltd* in the territory of Latvia in the reporting period amounted to 2,963 thousand tons, which is 580 thousand tons (24.3%) more than in the respective period in 2009.

Economic activity costs of *LatRosTrans Ltd* in the reporting period were within the approved budget. *LatRosTrans Ltd* worked with losses in the amount of LVL 322 thousand, seven times less than budgeted in the period for the six months in 2010. Increase of transportation volumes in comparison with the budgeted volumes was the main reason for improvement of the economic activity results of *LatRosTrans Ltd*.

In the first half-year of 2010, the JSC *Ventspils nafta* associated company *JSC Latvian Shipping Company* worked with losses in the amount of USD 25.2 million.

The global situation pertaining to financially economic development and the local conditions are indicating that the companies of JSC *Ventspils nafta* Group have to deal with hard and difficult work following the end of the reporting period to guarantee stable operations also in the future. As before, the companies of JSC *Ventspils nafta* Group continue working, by ensuring that interests of all shareholders are observed.

Riga, 31 August 2010

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

Statement of Management's responsibilities

The Management Board prepares consolidated financial statements for each reporting period 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 30 June 2010, changes in shareholders' equity, cash flows and the results of the Group for the period ended 30 June 2010.

The aforementioned financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union 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 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* 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.

Riga, 31 August 2010

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

Consolidated statement of comprehensive income

	Group	
	6 months of 2010	6 months of 2009
	EUR thousand	EUR thousand
Revenue	41 404	55 506
Cost of sales	(30 310)	(50 106)
Gross profit	11 094	5 400
General and administrative expense	(2 567)	(3 523)
Other operating income	212	265
Other operating expense	(12 444)	(6 965)
Share of (loss)/ profit in associate	(9 492)	3 300
Financial income	12 537	4 984
(Loss)/ Profit before tax	(660)	3 461
Corporate income tax	(285)	(336)
Net (loss)/ profit for the period	(945)	3 125
Attributable to:		
Non-controlling interest	4 101	1 854
Parent company's shareholders	(5 046)	1 271
	(945)	3 125
Other comprehensive income		
Foreign currency translation resulting from investment in associate	34 146	-
Total comprehensive income for the period, net of tax	33 201	3 125
Attributable to:		
Non-controlling interest	4 101	1 854
Parent company's shareholders	29 100	1 271
	33 201	3 125
(Loss)/ Earnings per share (EUR per share)		
attributable to the Parent company's shareholders:		
Diluted and basic (loss)/ earnings per share	(0.048)	0.013

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

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

Consolidated statement of financial position

	Group		Group
	30.06.2010	31.12.2009	Reference
	EUR thousand	EUR thousand	EUR thousand
Assets			
Non-current asset			
Intangible assets	37 587	38 147	38 708
Property, plant and equipment	185 239	186 570	190 035
Investments in associated entities	196 921	172 269	181 877
Loan note	73 377	62 621	64 157
Other non-current financial assets	366	399	418
Total non-current assets	493 490	460 006	475 195
Current assets			
Inventories	2 297	3 063	3 361
Trade accounts receivable	2 316	3 758	2 573
Receivables from related companies	40 077	39 845	59 477
Loans to related companies	-	-	778
Other receivables	2 976	3 473	2 871
Cash and cash equivalents	46 343	34 093	90 624
Total current assets	94 009	84 232	159 684
Total assets	587 499	544 238	634 879

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

On behalf of the Management Board:

 Simon Boddy
 Chairman of the Management Board

Consolidated statement of financial position (cont'd)

	Group		Group
	30.06.2010	31.12.2009	Reference 30.06.2009
	EUR thousand	EUR thousand	EUR thousand
Equity and liabilities			
Equity			
Issued capital	148 660	148 660	148 660
Share premium	60 249	60 249	60 249
Legal reserve	1 017	1 017	1 017
Reserves resulting from investment in associates	10 539	(23 607)	(22 461)
Other reserves	243 091	247 728	319 085
(Loss)/ profit for the period	(5 046)	(4 637)	1 271
Equity attributable to equity holders of the parent	458 510	429 410	507 821
Non-controlling interest	104 565	105 882	105 934
Total equity	563 075	535 292	613 755
Non-current liabilities			
Deferred corporate income tax liability	2 439	2 251	2 038
Deferred income	1 170	-	-
	3 609	2 251	2 038
Current liabilities			
Advances from customers	105	105	129
Trade accounts payable	1 578	2 693	2 092
Payables to related companies	1	88	-
Taxes payable	566	457	7 200
Other liabilities	13 333	3 002	8 759
Deferred income	129	-	-
Provisions	571	350	-
Unpaid dividends	4 532	-	906
	20 815	6 695	19 086
Total liabilities	24 424	8 946	21 124
Total liabilities and equity	587 499	544 238	634 879

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

On behalf of the Management Board:

 Simon Boddy
 Chairman of the Management Board

Consolidated statement of cash flows

	Group	
	6 months of 2010 EUR thousand	6 months of 2009 EUR thousand
Operating activities		
Net result	(660)	3 460
Non-cash adjustments to reconcile profit before tax to net cash flows		
Accruals for financial market fluctuations	10 757	5 691
Amortisation and depreciation	6 465	6 606
Interest income	(1 116)	(3 330)
Share of net loss/ (profit) of associate	9 492	(3 300)
Foreign exchange gain	(10 757)	(768)
Loss/ (gain) on disposal of property, plant and equipment	83	(3)
	14 264	8 356
Working capital adjustments:		
Decrease in inventories	619	94
Decrease in trade accounts receivable and receivables from related parties	2 693	4 520
Decrease in liabilities	(1 178)	(3 835)
	16 398	9 135
Corporate income tax paid	(83)	(825)
Net cash flows from operating activities	16 315	8 310
Investing activities		
Purchase of intangibles and property, plant and equipment	(4 657)	(2 598)
Proceeds from sale of property, plant and equipment and investment properties	-	5 945
Proceeds from disposal of investment	-	61
Proceeds from sale of subsidiaries	-	25 896
Interest received	583	2 134
Net cash flows from investing activities	(4 074)	31 438
Financing activities		
Net cash flows from financing activities	-	-
Net increase in cash and cash equivalents	12 241	39 748
Cash and cash equivalents at the beginning of the period	34 102	50 876
Cash and cash equivalents at the end of the period	46 343	90 624

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

Consolidated statement of changes in equity

Group	Attributable to the equity holders of the Parent							
	Share capital	Share premium	Legal reserve	Reserves resulting from investment in associates	Other reserves	Total	Non-controlling interest	Total shareholders' equity
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Balance as of 31 December 2009	148 660	60 249	1 017	(23 607)	243 091	429 410	105 882	535 292
Loss for the period	-	-	-	-	(5 046)	(5 046)	4 101	(945)
Other comprehensive income	-	-	-	34 146	-	34 146	-	34 146
Total comprehensive income	-	-	-	34 146	(5 046)	29 100	4 101	33 201
Dividends	-	-	-	-	-	-	(5 418)	(5 418)
Balance as of 30 June 2010	148 660	60 249	1 017	10 539	238 045	458 510	104 565	563 075

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