



JSC VENTSPILS NAFTA
(UNIFIED REGISTRATION NUMBER 50003003091)

**UNAUDITED CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS OF 2010**

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Riga, 2010

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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 cargoes 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 cargoes 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
	LVL thousand	LVL thousand
Revenue	29 099	39 010
Cost of sales	(21 302)	(35 215)
Gross profit	7 797	3 795
General and administrative expense	(1 804)	(2 476)
Other operating income	149	186
Other operating expense	(8 746)	(4 895)
Share of (loss)/ profit in associate	(6 671)	2 319
Financial income	8 811	3 503
(Loss)/ profit before tax	(464)	2 432
Corporate income tax	(200)	(236)
Net (loss)/ profit for the period	(664)	2 196
Attributable to:		
Non-controlling interest	2 882	1 303
Parent company's shareholders	(3 546)	893
	(664)	2 196
Other comprehensive income		
Foreign currency translation resulting from investment in associate	23 998	-
Total comprehensive income for the period, net of tax	23 334	2 196
Attributable to:		
Non-controlling interest	2 882	1 303
Parent company's shareholders	20 452	893
	23 334	2 196
(Loss)/ earnings per share (Lats per share)		
attributable to the Parent company's shareholders:		
Diluted and basic (loss)/ earnings per share	(0.034)	0.009

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
	LVL thousand	LVL thousand	LVL thousand
Assets			
Non-current asset			
Intangible assets	26 416	26 810	27 204
Property, plant and equipment	130 187	131 122	133 557
Investments in associated entities	138 397	121 071	127 824
Loan note	51 570	44 010	45 090
Other non-current financial assets	257	281	294
Total non-current assets	346 827	323 294	333 969
Current assets			
Inventories	1 614	2 153	2 362
Trade accounts receivable	1 628	2 641	1 808
Receivables from related companies	28 166	28 003	41 801
Loans to related companies	-	-	547
Other receivables	2 093	2 441	2 018
Cash and cash equivalents	32 570	23 961	63 691
Total current assets	66 071	59 199	112 227
Total assets	412 898	382 493	446 196

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
	LVL thousand	LVL thousand	LVL thousand
Equity and liabilities			
Equity			
Issued capital	104 479	104 479	104 479
Share premium	42 343	42 343	42 343
Legal reserve	715	715	715
Reserves resulting from investment in associates	7 407	(16 591)	(15 786)
Other reserves	170 845	174 104	224 254
(Loss)/ profit for the period	(3 546)	(3 259)	893
Equity attributable to equity holders of the parent	322 243	301 791	356 898
Non-controlling interest	73 489	74 414	74 451
Total equity	395 732	376 205	431 349
Non-current liabilities			
Deferred corporate income tax liability	1 714	1 582	1 432
Deferred income	822	-	-
	2 536	1 582	1 432
Current liabilities			
Advances from customers	74	74	91
Trade accounts payable	1 109	1 893	1 470
Payables to related companies	1	62	-
Taxes payable	398	321	5 060
Other liabilities	9 371	2 110	6 157
Deferred income	91	-	-
Provisions	401	246	-
Unpaid dividends	3 185	-	637
	14 630	4 706	13 415
Total liabilities	17 166	6 288	14 847
Total liabilities and equity	412 898	382 493	446 196

On behalf of the Management Board:

 Simon Boddy
 Chairman of the Management Board

Consolidated statement of cash flows

	Group	
	6 months of 2010	6 months of 2009
	LVL thousand	LVL thousand
Operating activities		
Net result	(464)	2 432
Non-cash adjustments to reconcile profit before tax to net cash flows		
Accruals for financial market fluctuations	7 560	4 000
Amortisation and depreciation	4 544	4 643
Interest income	(784)	(2 340)
Share of net loss/ (profit) of associate	6 671	(2 319)
Foreign exchange gain	(7 560)	(540)
Loss/ (gain) on disposal of property, plant and equipment	58	(2)
	10 025	5 874
Working capital adjustments:		
Decrease in inventories	435	66
Decrease in trade accounts receivable and receivables from related parties	1 893	3 177
Decrease in liabilities	(829)	(2 697)
	11 524	6 420
Corporate income tax paid	(58)	(580)
Net cash flows from operating activities	11 466	5 840
Investing activities		
Purchase of intangibles and property, plant and equipment	(3 273)	(1 826)
Proceeds from sale of property, plant and equipment and investment properties	-	4 178
Proceeds from disposal of investment	-	43
Proceeds from sale of subsidiaries	-	18 200
Interest received	410	1 500
Net cash flows from investing activities	(2 863)	22 095
Financing activities		
Net cash flows from financing activities	-	-
Net increase in cash and cash equivalents	8 603	27 935
Cash and cash equivalents at the beginning of the period	23 967	35 756
Cash and cash equivalents at the end of the period	32 570	63 691

Consolidated statement of changes in equity**Group**

	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			
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand		
Balance as of 31 December 2009	104 479	42 343	715	(16 591)	170 845	301 791	74 414	376 205	
Loss for the period	-	-	-	-	(3 546)	(3 546)	2 882	(664)	
Other comprehensive income	-	-	-	23 998	-	23 998	-	23 998	
Total comprehensive income	-	-	-	23 998	(3 546)	20 452	2 882	23 334	
Dividends	-	-	-	-	-	-	(3 807)	(3 807)	
Balance as of 30 June 2010	104 479	42 343	715	7 407	167 299	322 243	73 489	395 732	

Notes

1. Net revenues

	Group	
	6 months of 2010 LVL thousand	6 months of 2009 LVL thousand
Reloading of crude oil and oil products	15 071	13 523
Railway services	8 822	21 427
Transportation of oil products	5 206	4 060
TOTAL:	29 099	39 010

2. Cost of sales

	Group	
	6 months of 2010 LVL thousand	6 months of 2009 LVL thousand
Railway charges	8 822	21 440
Amortization and depreciation	4 436	4 510
Remuneration for work	2 512	2 841
Repair works done by other companies	899	842
Utilization of piers	760	1 052
Utilities	632	663
Electricity	630	531
Social security contributions	610	672
Land rent	399	400
Insurance expenses	350	570
Environment protection expense	283	299
Security	234	561
Treatment of technological waste water	165	147
Raw materials	30	17
Fee for utilisation of technological reserves	-	141
Other	540	529
TOTAL:	21 302	35 215

3. General and administrative expense

	Group	
	6 months of 2010	6 months of 2009
	LVL thousand	LVL thousand
Remuneration for work	851	1 011
Social security contributions	204	247
Professional charges and legal costs	274	353
Advertising and marketing expense	104	166
Amortization and depreciation	84	107
Rent of premises	53	65
Vehicle maintenance expense	47	68
Other personnel expense	43	43
Communication expense	22	21
Conferences, seminars and training	21	42
Bank charges	19	23
Insurance fees	6	31
Other administrative expense	76	299
TOTAL:	1 804	2 476

4. Other operating income

	Group	
	6 months of 2010	6 months of 2009
	LVL thousand	LVL thousand
Income from oil extracted from groundwater and waste waters	69	-
Other income	80	186
TOTAL:	149	186

5. Other operating expense

	<u>Group</u>	
	6 months of 2010 LVL thousand	6 months of 2009 LVL thousand
Accruals for financial market fluctuations	7 560	4 000
Payments to local municipality	523	512
Construction in progress object written off	162	-
Maintenance of premises and territory	125	129
Personnel expenses	92	89
Provisions for possible liabilities	89	-
Amortization and depreciation	23	26
Other expenses	172	139
TOTAL:	8 746	4 895

6. Financial income

	<u>Group</u>	
	6 months of 2010 LVL thousand	6 months of 2009 LVL thousand
Foreign currency exchange profit, net	7 772	940
Interest income from loans	776	1 825
Interest income from bank account balances and deposits	263	738
TOTAL:	8 811	3 503

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>30.06.2010.</u>	<u>31.12.2009.</u>	<u>Legal address</u>
<u>Subsidiaries</u>			
Ventspils nafta termināls Ltd.	51	51	Talsu street 75, LV-3602, Ventspils, Latvia
LatRosTrans Ltd.	66	66	Balvu street 7, LV-5043, Daugavpils Latvia
	<u>30.06.2010.</u>	<u>31.12.2009.</u>	
<u>Associated entities</u>			
Futbola klubs Ventspils Ltd.	21,25	21,25	Dzintaru street 20a, LV-3602, Ventspils, Latvia
JSC Latvian Shipping Company	49,94	49,94	Elizabetes street 1, LV-1807, Riga, Latvia