



**JSC VENTSPILS NAFTA**  
(UNIFIED REGISTRATION NUMBER 50003003091)

**UNAUDITED CONSOLIDATED FINANCIAL REPORT  
FOR THE YEAR 2011 (EUR)**

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

## CONTENTS

<b>General information</b>	<b>3</b>
<b>Supervisory Council of JSC <i>Ventspils nafta</i></b>	<b>6</b>
<b>Management Board of JSC <i>Ventspils nafta</i></b>	<b>7</b>
<b>Management Report of JSC <i>Ventspils nafta</i></b>	<b>8</b>
<b>Statement of Management's responsibilities</b>	<b>11</b>
<b>Consolidated income statement</b>	<b>12</b>
<b>Consolidated statement of comprehensive income</b>	<b>13</b>
<b>Consolidated statement of financial position</b>	<b>14</b>
<b>Consolidated statement of cash flows</b>	<b>16</b>
<b>Consolidated statement of changes in equity</b>	<b>17</b>

### General information

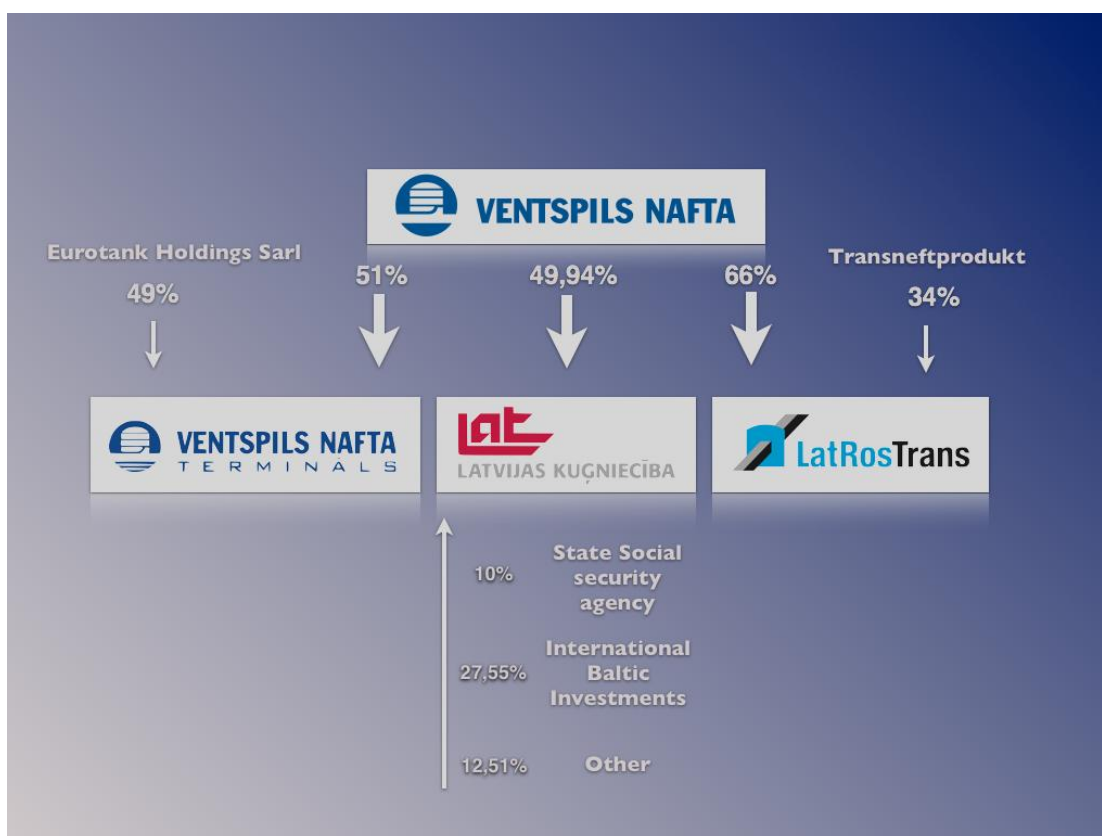
Name of the company	JSC <i>Ventspils nafta</i>
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	50003003091 Riga, 9 May 1991 Registered in Commercial Register on 5 August 2004
Legal address	<i>Valņu</i> street 3-18, LV-1050, Riga, Republic of Latvia
Subsidiaries of JSC <i>Ventspils nafta</i>	LatRosTrans Ltd (66%) LRDS "Ilukste", Sederes pagasts, Ilukstes novads, LV-5474  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

## General information (cont'd)

### About JSC *Ventspils nafta*

**Our mission.** We are one of the largest groups of companies in Latvia. The basic principle of work of the *Ventspils nafta* Group's companies is to provide services of high quality, ensuring storage and transport of petroleum products both by pipeline and by ships to clients in different countries worldwide. That is accomplished by continuously modernizing and developing the company's infrastructure and service quality. Our priority is organizing transportation and storage processes that are safe for the environment, as well as constantly increasing the company's value.

**Our vision.** We want to become a globally recognized petroleum product transport and storage group of companies, which ensures outstanding service quality and meets high environment protection and corporate responsibility standards.

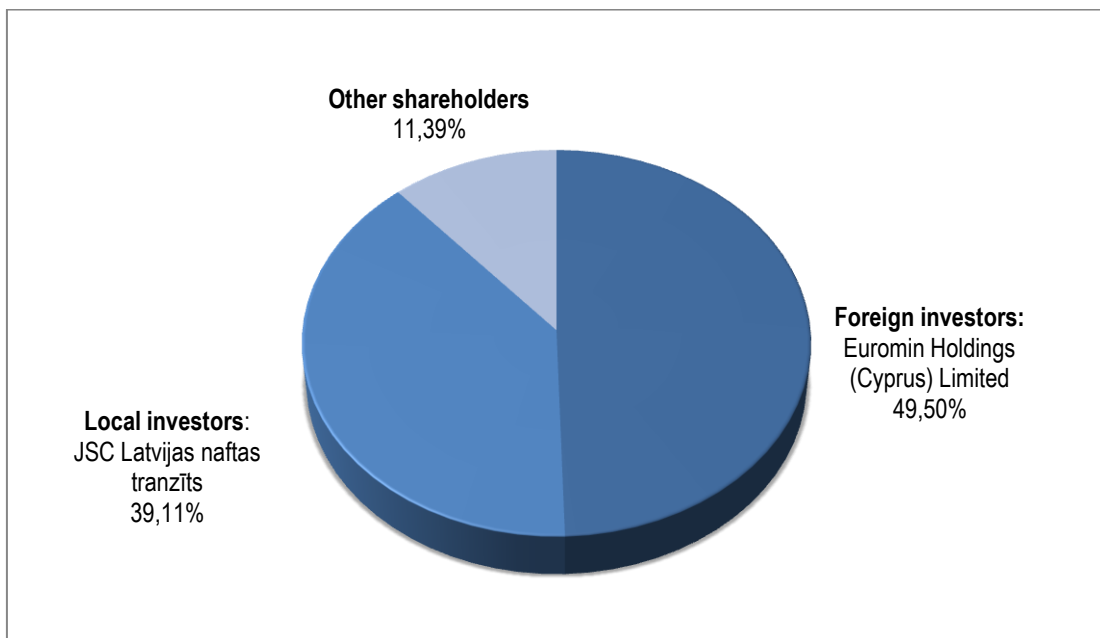


JSC “*Ventspils nafta*” is the Group’s parent company, which manages investments in the Group’s companies, by promoting the Group’s joint values and growth in value of each individual company.

Joint stock company “*Ventspils nafta*” owns 51% in “*Ventspils nafta termināls*” Ltd, which is the largest crude oil and petroleum product terminal in the Baltics, as well as 66% in “*LatRosTrans*” Ltd, which is the largest Latvian-Russian joint venture in the Baltics. JSC “*Ventspils nafta*” also ensures investment management in the related company JSC “*Latvian Shipping Company*”, which is among the leading ship owners in the world in the medium-sized and handy tankers category.

### General information (cont'd)

#### All the shareholders of JSC *Ventspils nafta* with a share ownership above 5%



Shares of JSC "Ventspils nafta" ( VNF1R) are quoted in the Baltic Official List of the stock exchange NASDAQ OMX Riga since October 20, 1998.

### 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  
Javed Ahmed  
Rubil Yilmaz  
Mark Ware  
Christophe Theophanis Matsacos  
Rudolf Meroni  
David Guy Anstis  
Jānis Hāze  
David Alexander Schlaff  
Aivars Gobiņš

The changes in the Council during the period from 1 January 2011 to 19 February 2012 were as follows:

<b>Elected</b>	<b>Dismissed</b>	<b>Name</b>	<b>Position held</b>
20/01/2010	-	Vladimir Egger	Member of the Council
20/01/2010	-	Mikhail Dvorak	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	-	Rudolf Meroni	Member of the Council
07/07/2010	-	Christophe Theophanis Matsacos	Member of the Council
27/07/2011	-	David Guy Anstis	Member of the Council
27/07/2011	-	Jānis Hāze	Member of the Council
22/11/2011	-	Aivars Gobiņš	Member of the Council
22/11/2011	-	David Alexander Schlaff	Member of the Council
20/01/2010	27/07/2011	Oļegs Stepanovs	Member of the Council
07/07/2010	27/07/2011	Michael Hason	Member of the Council
07/07/2010	27/07/2011	David Alexander Schlaff	Member of the Council
07/07/2010	27/07/2011	Edgars Jansons	Member of the Council
27/07/2011	22/11/2011	Mihhail Dementjev	Member of the Council
27/07/2011	22/11/2011	Hardija Vaivade	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:

Boris Bednov  
Aleksej Tarasov

There were no changes in the Management Board during the period from 1 January 2011 to 19 February 2012.

## Management Report of JSC *Ventspils nafta*

**Dear shareholders, clients and cooperation partners,**

The unaudited consolidated turnover of *JSC Ventspils nafta* and its subsidiaries (hereafter – *JSC Ventspils nafta Group*) in 2011 was LVL 69 million and unaudited net profit was LVL 1.32 million. For comparison, the consolidated turnover of *JSC Ventspils nafta Group* in 2010 was LVL 53.35 million, but net losses were LVL 25.27 million.

In 2011 one of the main reasons for 30% increase of turnover of *JSC Ventspils nafta Group* is the increase of proportion of railway services, which increased twice in the accounting year compared to 2010.

The overall annual results of *JSC Ventspils nafta Group* are still substantially affected by the operating results of its associated company *JSC Latvian Shipping Company*. It is positive that irrespective of the complicated situation that continues already for several years in the worldwide shipping market in respect of the low market rates, in 2011 the company has operated with three times lower net losses (USD 49.7 million) than in 2010 (USD 142.4 million).

As at December 31, 2011, value of the unaudited assets of *JSC Ventspils nafta Group* is LVL 350.99 million, which has not changed substantially in comparison with value of the assets as at December 31, 2010 (LVL 350.55 million).

In 2011 *JSC Ventspils nafta*, as a parent company's (hereafter – Group's parent company) has worked with unaudited net turnover of LVL 323 thousand, which is LVL 192 thousand or 147% more than in 2010. One of the main reasons for turnover growth is increase of proportion of rendered management consultations. Within the rendered management consultations, the emphasis is mainly on organizing united procurements for the Group's companies, as well as receiving various corporate service discounts, thus achieving decrease of administrative costs for *JSC Ventspils nafta Group*.

In 2011 the *Group's parent company* continued implementing the strict cost cutting policy that was commenced in 2010 with the most substantial savings achieved in administrative expenses, which have decreased from LVL 1.47 million in 2010 to LVL 1.1 million in the 2011, or the decrease in the reporting year is 25,2%. *JSC Ventspils nafta* as a parent company has achieved that administrative expenses have decreased by more than a half over a period of two years, saving approximately 1.3 million lats in 2011 versus the year 2009.

With a view to improve the cash flow in *JSC Ventspils nafta associated company's JSC Latvian Shipping Company Group*, in 2011 *JSC Ventspils nafta* as a parent company issued a loan of EUR 1.5 million to a company of the *JSC Latvian Shipping Company Group*, as well as acquired the real property in Riga, Ganību Street 10A from a third party in late 2011, as it was leased for a long-term to *JSC Latvian Shipping Company*.

On April 29, 2011 the *JSC Ventspils nafta* published the audited consolidated financial statements for 2009 and 2010 as well as financial statements of *JSC Ventspils nafta* as a parent company for 2010 that all were approved by the shareholders' meeting of July 27, 2011. Furthermore, on July 27, 2011 the Supervisory Council of *JSC Ventspils nafta* was re-elected, as well as an auditor was elected for audit of the annual reports for 2011. The shareholders' meeting elected *PriceWaterhouseCoopers Ltd* as the auditor of the reports in 2011, replacing the long-term auditor *Ernst&Young Baltic Ltd*.

In turn the extraordinary shareholders' meeting of *JSC Ventspils nafta* of November 22, 2011, which was convened on request of one shareholder – *JSC Latvijas naftas tranzīts* – re-elected the Supervisory Council of *JSC Ventspils nafta* holding company for the next three years.



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

The registered and paid-up share capital of *JSC Ventspils nafta* in the accounting period was LVL 104'479'519, comprised of 104'479'519 shares with a nominal value of LVL 1 per share. A part of the *JSC Ventspils nafta* share capital is listed on NASDAQ OMX Riga.

In the reporting year, the price of *JSC Ventspils nafta* shares has ranged from LVL 1.01 to LVL 1.48, with the average price per share reaching LVL 1.29. Market capitalization of *JSC Ventspils nafta* shares in the end of 2011 was LVL 125.38 million in comparison with LVL 146.27 million in the end of 2010.

It should be noted that market value may not be representative due to the low level of turnover in the company's shares – the average daily turnover in 2011 was approximately LVL 11.6 thousand, this is only 0.01% of the market capitalization. During 2011, 1'632'287 shares with a value of LVL 2.32 million were traded on the NASDAQ OMX. This is an increase of 4.5% compared to 2010.

### Share price development of *JSC Ventspils nafta* (01.01.11 – 31.12.11)



Currency: LVL

The unaudited turnover of the *JSC Ventspils nafta* subsidiary *Ventspils nafta termināls Ltd* has reached LVL 58.75 million in the 2011. *Ventspils nafta termināls Ltd* handled nearly 11.37 million tons of petroleum products in the 2011, which is 26% or 2.7 million tons more than in 2010.

The largest proportion of the products transshipped by *Ventspils nafta termināls Ltd* in 2011 was petroleum products – about 85%.

*JSC Ventspils nafta* subsidiary, owner and operator of crude oil and petroleum products pipeline in the territory of Latvia *LatRosTrans Ltd* has reached the unaudited revenue of LVL 10.1 million in 2011, which is 2.8% more than in 2010.

Petroleum product transportation volumes of *LatRosTrans Ltd* in the 2011 amounted to 5,791 thousand tons, which is 156 thousand tons more than in 2010.

In 2011, the *JSC Ventspils nafta* associated company *JSC Latvian Shipping Company* worked with unaudited losses in the amount of USD 49.70 million, which was three times less than in 2010. These losses have a substantial effect on the consolidated profit of the *JSC Ventspils nafta Group* in 2011, however, positive trends are observed in operation of *JSC Latvian Shipping Company* in 2011 in comparison with 2010. The unaudited gross profit (USD 13.07 million) of *JSC Latvian Shipping Company* in 2011 was a considerable improvement (78%) compared to 2010 and was sufficient to fully cover administrative costs. These administrative costs were reduced by 40% compared to 2010.

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

### ***Improvement of Investor Relations***

In 2011 JSC *Ventspils nafta Group* put serious effort into improving its Investor Relations. Acknowledging the previous problems with information disclosure, a conscious decision was made to become more transparent, thus reflecting the enormous changes that the holding and its associated companies have gone through in the recent years. For the first time JSC *Ventspils nafta* along with its subsidiaries – *LatRosTrans Ltd*, *Ventspils nafta termināls Ltd* and the associated company *JSC Latvian Shipping Company* held a business update meeting on December 8, 2011, to which investors, the media, state representatives and opinion leaders were invited. The event was made accessible to everybody through live video streaming. In the business update, the company talked about its development, financials and plans for the future.

In 2012 the management of JSC *Ventspils nafta* will continue working on one of the main goals of the management of JSC *Ventspils nafta*, which is to ensure positive trends in the economic activity results of all companies of the JSC *Ventspils nafta Group*.

Riga, 19 February 2012

On behalf of the Management Board:

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Simon Boddy  
Chairman of the Management 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 2011, changes in shareholders' equity, cash flows and the results of the Group for the year 2011.

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 Group and facilitate the preparation of financial statements which comply with International Financial Reporting Standards as adopted by the European Union.

Riga, 19 February 2012

On behalf of the Management Board:

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Simon Boddy  
Chairman of the Management Board

### Consolidated income statement

	2011	2010
	EUR thousand	EUR thousand
<b>Continuing operations</b>		
Revenue	98 392	75 913
Cost of sales	(83 064)	(57 942)
<b>Gross profit</b>	<b>15 328</b>	<b>17 971</b>
General and administrative expense	(5 918)	(6 441)
Other operating income	9 758	1 198
Other operating expense	(1 868)	(3 530)
Share of loss in associate	(17 672)	(53 659)
Impairment of other financial receivables	-	(4 226)
Financial income	2 989	8 729
<b>Profit/ (Loss) before tax from continuing operations</b>	<b>2 617</b>	<b>(39 958)</b>
Corporate income tax	(737)	(2 093)
<b>Net profit/ (loss) for the year from continuing operations</b>	<b>1 880</b>	<b>(42 051)</b>
<b>Discontinued operations</b>		
Profit after tax for the year from discontinued operations	-	6 098
<b>Profit/ (Loss) for the year</b>	<b>1 880</b>	<b>(35 953)</b>
Attributable to:		
Non-controlling interest	8 557	5 959
Parent company's shareholders	(6 678)	(41 912)
	<b>1 879</b>	<b>(35 953)</b>
<b>Earnings/ (loss) per share</b> (EUR per share) attributable to the Parent company's shareholders:		
Diluted and basic loss per share from continuing operations	(0,06)	(0,46)
Diluted and basic earnings per share from discontinuing operations	-	0,06

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

On behalf of the Management Board:

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 Simon Boddy  
 Chairman of the Management Board

### Consolidated statement of comprehensive income

	2011 EUR thousand	2010 EUR thousand
<b>Profit/ (Loss) for the year</b>	<b>1 880</b>	<b>(35 953)</b>
<b>Other comprehensive (loss)/ income</b>		
- Foreign currency translation resulting from investment in associate	609	12 727
- Cash flow hedge reserve from investment in associate	561	(263)
<b>Other comprehensive income/ (loss) for the year, net of tax</b>	<b>1 170</b>	<b>12 464</b>
<b>Total comprehensive income/ (loss) for the year, net of tax</b>	<b>3 050</b>	<b>(23 489)</b>
Attributable to:		
Non-controlling interests	8 557	5 959
Parent company's shareholders	(5 507)	(29 448)
	<b>3 050</b>	<b>(23 489)</b>

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:

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Simon Boddy  
Chairman of the Management Board

### Consolidated statement of financial position

	31.12.2011 EUR thousand	31.12.2010 EUR thousand
<b>Assets</b>		
<b>Non-current asset</b>		
Intangible assets	35 903	37 023
Property, plant and equipment	173 593	182 502
Investments in associated entities	100 320	116 821
Loan note	67 955	67 955
Other non-current receivables	38 009	36 509
Other non-current financial assets	313	357
<b>Total non-current assets</b>	<b>416 093</b>	<b>441 167</b>
<b>Current assets</b>		
Inventories	2 698	2 573
Trade accounts receivable	1 009	88
Receivables from related companies	25 077	1 248
Other receivables	2 336	3 820
Short term deposits	25 676	29 749
Cash and cash equivalents	26 534	20 141
<b>Total current assets</b>	<b>83 330</b>	<b>57 619</b>
<b>Total assets</b>	<b>499 423</b>	<b>498 786</b>

EUR exchange rate of the Bank of Latvia on 31 December 2011 – 0,702804

On behalf of the Management Board:

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Simon Boddy  
Chairman of the Management Board

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

	31.12.2011	31.12.2010
	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	(9 071)	(10 242)
Other reserves	182 125	221 609
(Loss) for the year	(6 678)	(41 912)
<b>Equity attributable to equity holders of the parent</b>	<b>376 302</b>	<b>379 381</b>
Non-controlling interest	109 706	106 661
<b>Total equity</b>	<b>486 008</b>	<b>486 042</b>
<b>Non-current liabilities</b>		
Deferred tax liability	1 417	2 269
Deferred income	3 732	2 472
	<b>5 149</b>	<b>4 741</b>
<b>Current liabilities</b>		
Advances from customers	105	105
Trade accounts payable	2 507	1 985
Payables to related companies	3	-
Taxes payable	643	626
Other liabilities	3 238	3 044
Corporate income tax liabilities	-	908
Deferred income	218	151
Provisions	1 552	1 184
	<b>8 266</b>	<b>8 003</b>
<b>Total liabilities</b>	<b>13 415</b>	<b>12 744</b>
<b>Total liabilities and equity</b>	<b>499 423</b>	<b>498 786</b>

EUR exchange rate of the Bank of Latvia on 31 December 2011 – 0,702804

On behalf of the Management Board:

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

### Consolidated statement of cash flows

	2011 EUR thousand	2010 EUR thousand
<b>Operating activities</b>		
Profit/ (Loss) before tax from continuing operations	2 617	(39 958)
Profit before tax from discontinued operations	-	6 098
Profit/ (Loss) before tax	2 617	(33 860)
Non-cash adjustments to reconcile (loss)/ profit before tax to net cash flows		
Amortisation and depreciation	12 913	12 998
Interest income	(2 429)	(3 108)
Share of net loss in associate including realised gain from discontinued operations	17 672	47 567
(Gain)/ Loss on disposal of property, plant and equipment	(9 215)	504
Increase in provision for construction in progress	-	461
Disposal of investment	-	(6)
Impairment of non-current receivables	-	4 226
Foreign exchange loss/ (gain)	-	(5 333)
	<b>21 558</b>	<b>23 449</b>
Working capital adjustments:		
Decrease in inventories	55	344
(Increase)/ Decrease in trade accounts receivable and receivables from related parties	(6 720)	2 309
Increase in current liabilities and deferred income	1 119	731
	<b>16 012</b>	<b>26 833</b>
Corporate income tax paid	(2 597)	(542)
<b>Net cash flows from operating activities</b>	<b>13 415</b>	<b>26 291</b>
<b>Investing activities</b>		
Purchase of intangibles and property, plant and equipment	(5 215)	(8 660)
Decrease/ (Increase) in short term deposits	4 074	(18 041)
Loan issued	(1 500)	-
Proceeds from sale of property, plant and equipment and investment properties	70	88
Proceeds from disposal of shares	-	30
Proceeds from sale of subsidiaries	-	-
Purchase of shares	-	(24)
Interest received	2 312	1 985
<b>Net cash flows from investing activities</b>	<b>(259)</b>	<b>(24 622)</b>
<b>Financing activities</b>		
Dividends paid	(6 763)	(4 532)
Proceeds from borrowings	-	-
<b>Net cash flows from financing activities</b>	<b>(6 763)</b>	<b>(4 532)</b>
Net increase/ (decrease) in cash and cash equivalents	6 393	(2 863)
Cash and cash equivalents at 1 January	20 141	23 004
<b>Cash and cash equivalents at 31 December</b>	<b>26 534</b>	<b>20 141</b>

EUR exchange rate of the Bank of Latvia on 31 December 2011 – 0,702804



**Consolidated statement of changes in equity**

Group	Attributable to the equity holders of the Parent							Non-controlling interest	Total share-holders' 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 2009</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(22 706)</b>	<b>221 617</b>	<b>408 836</b>	<b>105 234</b>	<b>514 071</b>	
Adjustment of prior year other reserves	-	-	-	-	(7)	(7)	-	(7)	
<b>Adjusted balance as of 31 December 2009</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(22 706)</b>	<b>221 609</b>	<b>408 829</b>	<b>105 234</b>	<b>514 063</b>	
Loss for the period	-	-	-	-	(41 912)	(41 912)	5 959	(35 953)	
Other comprehensive income	-	-	-	12 464	-	12 464	-	12 464	
Total comprehensive income/ (loss)	-	-	-	12 464	(41 912)	(29 448)	5 959	(23 489)	
Dividends declared	-	-	-	-	-	-	(4 532)	(4 532)	
<b>Balance as of 31 December 2010</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(10 242)</b>	<b>179 697</b>	<b>379 381</b>	<b>106 661</b>	<b>486 042</b>	
Adjustment of prior year other reserves	-	-	-	-	2 427	2 427	1 251	3 678	
<b>Adjusted balance as of 31 December 2010</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(10 242)</b>	<b>182 125</b>	<b>381 809</b>	<b>107 912</b>	<b>489 720</b>	
(Loss)/ Profit for the period	-	-	-	-	(6 678)	(6 678)	8 557	1 880	
Other comprehensive income	-	-	-	1 171	-	1 171	-	1 171	
Total comprehensive income/ (loss)	-	-	-	1 171	(6 678)	(5 507)	8 557	3 051	
Dividends declared	-	-	-	-	-	-	(6 763)	(6 763)	
<b>Balance as of 31 December 2011</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(9 071)</b>	<b>175 447</b>	<b>376 302</b>	<b>109 706</b>	<b>486 008</b>	

EUR exchange rate of the Bank of Latvia on 31 December 2011 – 0,702804