



JSC VENTSPILS NAFTA
(UNIFIED REGISTRATION NUMBER 50003003091)

**UNAUDITED CONSOLIDATED FINANCIAL REPORT
FOR THE YEAR 2011**

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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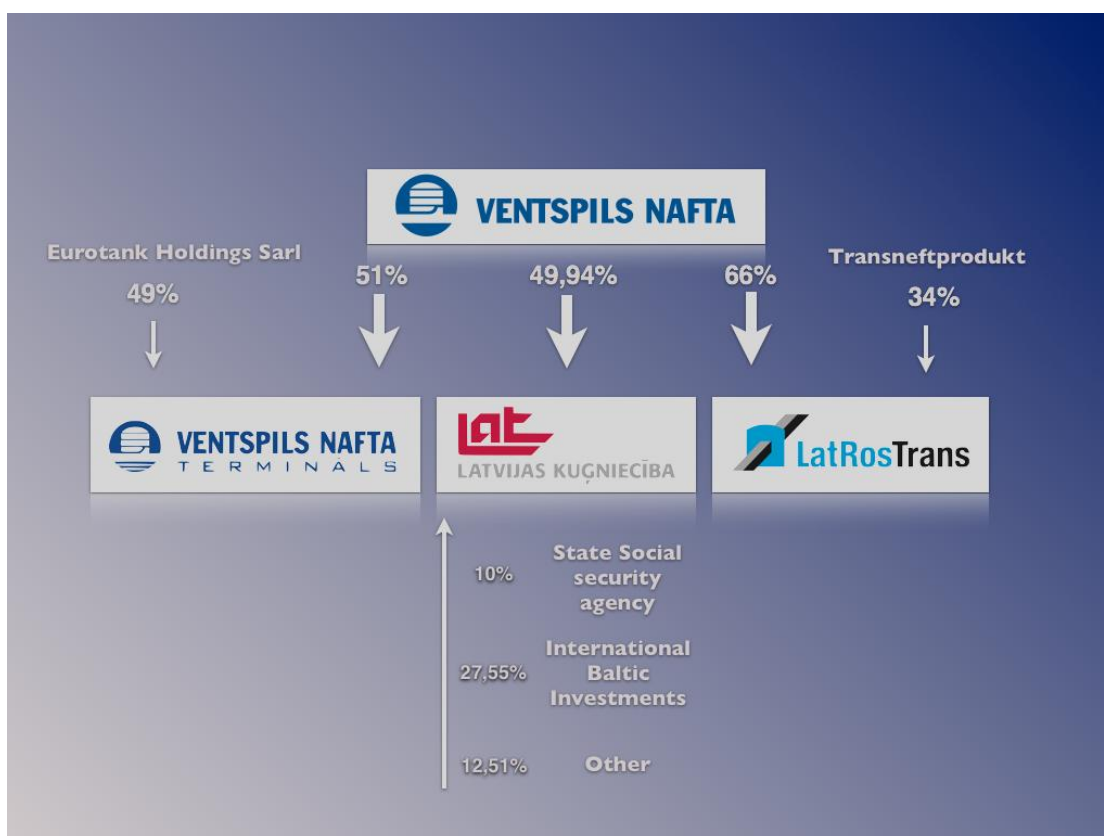
General information

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	Valņu street 3-18, LV-1050, Riga, Republic of Latvia
Subsidiaries of JSC Ventspils nafta	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.

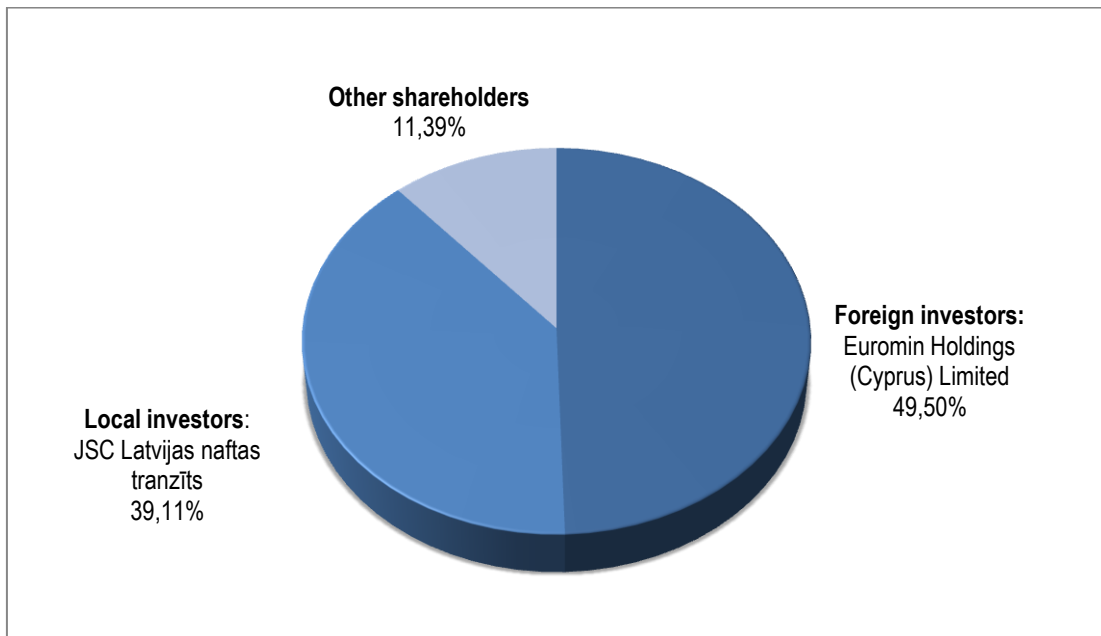


JSC "Ventspils nafta" is the Group's parent company, which manages investments in the Group's companies, by promoting the Group's joint values and growth in value of each individual company.

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:

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	-	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*.

Rīga, 19 February 2012

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 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:

Simon Boddy
Chairman of the Management Board

Consolidated income statement

	Notes	2011 LVL thousand	2010 LVL thousand
Continuing operations			
Revenue	1	69 150	53 352
Cost of sales	2	(58 378)	(40 722)
Gross profit		10 772	12 630
General and administrative expense	3	(4 159)	(4 527)
Other operating income	4	6 858	842
Other operating expense	5	(1 313)	(2 481)
Share of loss in associate		(12 420)	(37 712)
Impairment of other financial receivables		-	(2 970)
Financial income	6	2 101	6 135
Profit/ (Loss) before tax from continuing operations		1 839	(28 083)
Corporate income tax		(518)	(1 471)
Net profit/ (loss) for the year from continuing operations		1 321	(29 554)
Discontinued operations			
Profit after tax for the year from discontinued operations		-	4 286
Profit/ (Loss) for the year		1 321	(25 268)
Attributable to:			
Non-controlling interest		6 014	4 188
Parent company's shareholders		(4 693)	(29 456)
		1 321	(25 268)
Earnings/ (loss) per share (Lats per share) attributable to the Parent company's shareholders:			
Diluted and basic loss per share from continuing operations		(0,04)	(0,32)
Diluted and basic earnings per share from discontinuing operations		-	0,04

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

Consolidated statement of comprehensive income

	2011 LVL thousand	2010 LVL thousand
Profit/ (Loss) for the year	1 321	(25 268)
Other comprehensive (loss)/ income		
- Foreign currency translation resulting from investment in associate	429	8 945
- Cash flow hedge reserve from investment in associate	394	(185)
Other comprehensive income/ (loss) for the year, net of tax	823	8 760
Total comprehensive income/ (loss) for the year, net of tax	2 144	(16 508)
Attributable to:		
Non-controlling interests	6 014	4 188
Parent company's shareholders	(3 870)	(20 696)
	2 144	(16 508)

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

Consolidated statement of financial position

	31.12.2011 LVL thousand	31.12.2010 LVL thousand
Assets		
Non-current asset		
Intangible assets	25 233	26 020
Property, plant and equipment	122 002	128 263
Investments in associated entities	70 505	82 102
Loan note	47 759	47 759
Other non-current receivables	26 713	25 659
Other non-current financial assets	220	251
Total non-current assets	292 432	310 054
Current assets		
Inventories	1 896	1 808
Trade accounts receivable	709	62
Receivables from related companies	17 624	877
Other receivables	1 642	2 685
Short term deposits	18 045	20 908
Cash and cash equivalents	18 648	14 155
Total current assets	58 564	40 495
Total assets	350 996	350 549

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

Consolidated statement of financial position (cont'd)

	31.12.2011 LVL thousand	31.12.2010 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	(6 375)	(7 198)
Other reserves	127 998	155 748
(Loss) for the year	(4 693)	(29 456)
Equity attributable to equity holders of the parent	264 467	266 631
Non-controlling interest	77 102	74 962
Total equity	341 569	341 593
Non-current liabilities		
Deferred tax liability	996	1 595
Deferred income	2 623	1 737
	3 619	3 332
Current liabilities		
Advances from customers	74	74
Trade accounts payable	1 760	1 395
Payables to related companies	2	-
Taxes payable	452	440
Other liabilities	2 276	2 139
Corporate income tax liabilities	-	638
Deferred income	153	106
Provisions	1 091	832
	5 808	5 624
Total liabilities	9 427	8 956
Total liabilities and equity	350 996	350 549

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

Consolidated statement of cash flows

	2011 LVL thousand	2010 LVL thousand
Operating activities		
Profit/ (Loss) before tax from continuing operations	1 839	(28 083)
Profit before tax from discontinued operations	-	4 286
Profit/ (Loss) before tax	1 839	(23 797)
Non-cash adjustments to reconcile (loss)/ profit before tax to net cash flows		
Amortisation and depreciation	9 075	9 135
Interest income	(1 707)	(2 184)
Share of net loss in associate including realised gain from discontinued operations	12 420	33 430
(Gain)/ Loss on disposal of property, plant and equipment	(6 476)	354
Increase in provision for construction in progress	-	324
Disposal of investment	-	(4)
Impairment of non-current receivables	-	2 970
Foreign exchange loss/ (gain)	-	(3 749)
	15 151	16 479
Working capital adjustments:		
Decrease in inventories	39	242
(Increase)/ Decrease in trade accounts receivable and receivables from related parties	(4 723)	1 623
Increase in current liabilities and deferred income	786	514
	11 253	18 858
Corporate income tax paid	(1 825)	(381)
Net cash flows from operating activities	9 428	18 477
Investing activities		
Purchase of intangibles and property, plant and equipment	(3 665)	(6 086)
Decrease/ (Increase) in short term deposits	2 863	(12 679)
Loan issued	(1 054)	-
Proceeds from sale of property, plant and equipment and investment properties	49	62
Proceeds from disposal of shares	-	21
Proceeds from sale of subsidiaries	-	-
Purchase of shares	-	(17)
Interest received	1 625	1 395
Net cash flows from investing activities	(182)	(17 304)
Financing activities		
Dividends paid	(4 753)	(3 185)
Proceeds from borrowings	-	-
Net cash flows from financing activities	(4 753)	(3 185)
Net decrease in cash and cash equivalents	4 493	(2 012)
Cash and cash equivalents at 1 January	14 155	16 167
Cash and cash equivalents at 31 December	18 648	14 155

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		
	LVL thousand	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	(15 958)	155 753	287 332	73 959	361 291
Adjustment of prior year other reserves	-	-	-	-	(5)	(5)	-	(5)
Adjusted balance as of 31 December 2009	104 479	42 343	715	(15 958)	155 748	287 327	73 959	361 286
Loss for the period	-	-	-	-	(29 456)	(29 456)	4 188	(25 268)
Other comprehensive income	-	-	-	8 760	-	8 760	-	8 760
Total comprehensive income/ (loss)	-	-	-	8 760	(29 456)	(20 696)	4 188	(16 508)
Dividends declared	-	-	-	-	-	-	(3 185)	(3 185)
Balance as of 31 December 2010	104 479	42 343	715	(7 198)	126 292	266 631	74 962	341 593
Adjustment of prior year other reserves	-	-	-	-	1 706	1 706	879	2 585
Adjusted balance as of 31 December 2010	104 479	42 343	715	(7 198)	127 998	268 337	75 841	344 178
(Loss)/ Profit for the period	-	-	-	-	(4 693)	(4 693)	6 014	1 321
Other comprehensive income	-	-	-	823	-	823	-	823
Total comprehensive income/ (loss)	-	-	-	823	(4 693)	(3 870)	6 014	2 144
Dividends declared	-	-	-	-	-	-	(4 753)	(4 753)
Balance as of 31 December 2011	104 479	42 343	715	(6 375)	123 305	264 467	77 102	341 569

Notes**1. Net revenues**

	Group	
	2011	2010
	LVL thousand	LVL thousand
Railway services	32 750	15 199
Reloading of crude oil and oil products	26 003	28 241
Transportation of oil products	10 175	9 901
Other income	222	11
TOTAL:	69 150	53 352

2. Cost of sales

	Group	
	2011	2010
	LVL thousand	LVL thousand
Railway charges	32 650	15 199
Amortization and depreciation	8 935	8 929
Remuneration for work	5 474	5 756
Utilization of piers	1 881	1 418
Equipment maintenance	1 349	1 605
Social security contributions	1 285	1 351
Electricity	1 241	1 119
Utilities	1 186	1 109
Environment protection expense	975	770
Land rent	798	785
Insurance expenses	654	682
Raw materials	420	433
Treatment of technological waste water	267	330
Materials and spare parts	224	746
Property tax	109	116
Security	9	267
Other	921	107
TOTAL:	58 378	40 722

3. General and administrative expense

	Group	
	2011	2010
	LVL thousand	LVL thousand
Remuneration for work	1 300	1 530
Professional charges and legal costs	1 249	992
Social security contributions	287	366
Property tax	281	300
Advertising and marketing expense	169	162
Amortization and depreciation	142	164
Communication expense	32	32
Bank charges	29	29
Vehicle maintenance expense	18	65
Insurance fees	9	11
Other personnel expense	-	155
Other administrative expense	643	721
TOTAL:	4 159	4 527

4. Other operating income

	Group	
	2011	2010
	LVL thousand	LVL thousand
Gain on disposal of fixed assets	6 428	-
Income from oil extracted from groundwater and waste waters	58	343
Other income	372	499
TOTAL:	6 858	842

5. Other operating expense

	Group	
	2011	2010
	LVL thousand	LVL thousand
Payments to local municipality	909	891
Sponsorship	58	178
Loss on disposal of fixed assets	-	285
Construction in progress object written off	-	324
Personnel expenses	-	267
Amortization and depreciation	-	42
Loss (wastages) of oil products	-	34
Taxes on oil product wastages above allowable rate	-	33
Other expenses	346	427
TOTAL:	1 313	2 481

6. Financial income

	Group	
	2011	2010
	LVL thousand	LVL thousand
Interest income from loans and receivables	1 080	1 634
Interest income from bank account balances and deposits	627	550
Foreign currency exchange profit, net	394	3 951
TOTAL:	2 101	6 135

7. Investments in subsidiaries and associated entities

The following table summarizes ownership of the Parent company and the Group in subsidiaries and associated entities:

Ownership (%)	31.12.2011.	31.12.2010.	Legal address
<u>Subsidiaries</u>			
Ventspils nafta termināls Ltd.	51	51	Talsu street 75, LV-3602, Ventspils, Latvia
LatRosTrans Ltd.	66	66	LRDS "Ilukste", Sederes pagasts, Ilukstes novads, LV-5474, Latvia
	31.12.2011.	31.12.2010.	
<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