



## **JSC VENTSPILS NAFTA**

**(UNIFIED REGISTRATION NUMBER 50003003091)**

### **UNAUDITED CONSOLIDATED FINANCIAL REPORT FOR THE SIX MONTHS OF 2011 (EUR)**

**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%) 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:

Chairman of the Council:	Vladimir Egger
Deputy Chairman of the Council:	Mikhail Dvorak
Members of the Council:	Javed Ahmed Rubil Yilmaz Mark Ware Christophe Theophanis Matsacos Rudolf Meroni David Guy Anstis Mikhail Dementjev Jānis Hāze Hardija Vaivade

The changes in the Council during the period from 1 January 2011 to 25 August 2011 were as follows:

Elected	Dismissed	Name	Position held
20/01/2010	-	Vladimir Egger	Chairman of the Council
20/01/2010	-	Mikhail Dvorak	Deputy Chairman 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	-	Mikhail Dementjev	Member of the Council
27/07/2011	-	Jānis Hāze	Member of the Council
27/07/2011	-	Hardija Vaivade	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

According to the Council's resolution of 25 August 2011 Vladimir Egger has been re-elected as the Chairman of the Supervisory Council and Mikhail Dvorak has been elected as deputy chairman of the Supervisory 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 25 August 2011.

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## Management Report of JSC *Ventspils nafta*

First half-year of 2011

### Dear shareholders, clients and cooperation partners,

Consolidated net turnover of *JSC Ventspils nafta* and its subsidiaries (*hereafter – JSC Ventspils nafta Group*) in the first half-year of 2011 has reached LVL 35 million and the net profit has reached LVL 925 thousand.

*JSC Ventspils nafta*, as a parent company's (*hereafter – Group's parent company*) net profit reached LVL 4.9 million in the first half-year of 2011. In 2011 the Group's parent company continued implementing the strict cost cutting policy that was started in 2010 with the most substantial savings achieved in administrative expenses, which decreased from LVL 0.6 million in the first six months of 2010 to LVL 0.5 million in the corresponding period in 2011. *JSC Ventspils nafta* as a parent company has achieved that administrative expenses have decreased by half over a period of two years, saving approximately 0.5 million lats for the 6 month period vs the first half year of 2009.

On April 29, 2011 the *JSC Ventspils nafta Group* published the audited consolidated financial statements for 2009 and 2010 that 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 for the next three years, 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, by replacing the long-term auditor *Ernst&Young Baltic Ltd*. On August 25, 2011 Vladimir Egger was re-elected as the Chairman of the Supervisory Council.

The policy implemented by the management of *JSC Ventspils nafta* in the last quarter of 2010 in relation to conversion of principal sum of the long-term loan to the company *Euromin Holding (Cyprus) Limited* from USD 90 million to the equivalent amount in euro (EUR 67.96 million) has proved to be farsighted - reducing exposure to foreign currency fluctuations. Thus the variable part of interest rate of the long term loan was fixed 3 months EUR Libor instead of 3 months USD Libor for the aforementioned conversion, which will ensure additional interest income as a result of interbank rise in EUR interest rates.

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. Part of the *JSC Ventspils nafta* shares capital is listed on NASDAQ OMX Riga.

In the reporting period, price of *JSC Ventspils nafta* shares has ranged from LVL 1.27 to LVL 1.48, with the average price per share reaching LVL 1.35. Market capitalization of *JSC Ventspils nafta* shares in the end of first half-year of 2011 was LVL 151.5 million in comparison with LVL 137.9 million in the respective period in 2010. The price of *JSC Ventspils nafta* shares had a tendency to increase in the second quarter of 2011; thus, the price per share was LVL 1.35 in the end of the first quarter of 2011, but in the end of the first half- year of 2011, the price per share reached already LVL 1.45, growing by approximately 7.4% during the second quarter. Correspondingly, the market capitalization has increased: in the end of first quarter of 2011 market capitalization of *JSC Ventspils nafta* was LVL 141 million, yet in the end of first half-year of 2011 – already LVL 151.5 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 was LVL 21 thousand in the first six months of 2011, which is only 0.014% of the total share market capitalization amount. During the six month period of 2011, on the NASDAQ OMX, 1,504,048 shares of *JSC Ventspils nafta* were traded, comprising the total turnover of LVL 2,169,688.

The turnover of the *JSC Ventspils nafta* subsidiary *Ventspils nafta termināls Ltd* has reached LVL 29.1 million in the first six months of 2011. *Ventspils nafta terminals Ltd* handled nearly 6 million tons of petroleum products in the first half-year of 2011, which is 24% or 1.2 million tons more than in the same period in 2010.

The largest proportion of the products transshipped by *Ventspils nafta termināls Ltd* in the first half-year was petroleum product received by pipeline, which was transshipped in the amount of over 3 million tons in this period of time, thus exceeding 50% of the total volumes. The next largest volume of transshipped products is petroleum product transshipped by rail in the amount of 1.9 million tons, which is more than a third of the total volumes.

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

*JSC Ventspils nafta* subsidiary, owner and operator of crude oil and petroleum products pipeline in the territory of Latvia *LatRosTrans Ltd* has reached the operating income of LVL 5.9 million in the first six months of 2011, which is 29% more than budgeted. Increase of transportation volumes in comparison with the budgeted volumes was the main reason for improvement of the economic activity results of *LatRosTrans Ltd*.

Petroleum product transportation volumes of *LatRosTrans Ltd* in the accounting period amounted to 3,252 thousand tons, which is 289 thousand tons (9.8%) more than in the first half-year of 2010.

The actual losses of *LatRosTrans Ltd* in the accounting period were LVL 1.37 million. The main reason of financial losses in the half-year is writing off the fixed assets that are not used in economic activity in the amount of LVL 1.4 million.

In the first half-year of 2011, the *JSC Ventspils nafta* associated company *JSC Latvian Shipping Company* worked with losses in the amount of USD 8.75 million which was three times less than in the same period in 2010. These losses have substantial effect on the consolidated profit of the *JSC Ventspils nafta Group* for the accounting period, however, positive trends are observed in operation of *JSC Latvian Shipping Company* in 2011 in comparison with 2010. The gross profit (USD 7.02 million) of *JSC Latvian Shipping Company* in the first half-year of 2011 was a considerable improvement (309%) compared to the same period in 2010 and was sufficient to fully cover administrative costs. These administrative costs were reduced by 34% compared to the first half-year of 2011.

In the second half-year of 2011 the management of *JSC Ventspils nafta* will continue working on ensuring execution of budget of 2011, as well as on cutting down costs within the Group. One of the main short-term goals of the management of *JSC Ventspils nafta* is to ensure positive trends in the economic activity results of all companies of the *JSC Ventspils nafta Group*.

Riga, 25 August 2011

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 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 2011, changes in shareholders' equity, cash flows and the results of the Group for the period ended 30 June 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, 25 August 2011

On behalf of the Management Board:

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Simon Boddy  
Chairman of the Management Board



### Consolidated statement of comprehensive income

	6 months of 2011 EUR thousand	6 months of 2010 EUR thousand
Revenue	49 721	41 404
Cost of sales	(41 305)	(30 310)
<b>Gross profit</b>	<b>8 416</b>	<b>11 094</b>
General and administrative expense	(2 588)	(2 567)
Other operating income	487	212
Other operating expense	(2 804)	(12 444)
Share of (loss)/ profit in associate	(2 804)	(9 492)
Financial income	1 286	12 537
<b>Profit/ (loss) before tax</b>	<b>1 993</b>	<b>(660)</b>
Corporate income tax	(676)	(285)
<b>Net profit/ (loss) for the period</b>	<b>1 317</b>	<b>(945)</b>
Attributable to:		
Non-controlling interest	2 341	4 101
Parent company's shareholders	(1 024)	(5 046)
	<b>1 317</b>	<b>(945)</b>
<b>Other comprehensive (loss)/ income</b>		
Cash flow hedge reserve from investment in associate	553	-
Foreign currency translation resulting from investment in associate	(9 323)	34 146
<b>Other comprehensive (loss)/ income for the period, net of tax</b>	<b>(8 770)</b>	<b>34 146</b>
<b>Total comprehensive (loss)/ income for the period, net of tax</b>	<b>(7 453)</b>	<b>33 201</b>
Attributable to:		
Non-controlling interest	2 341	4 101
Parent company's shareholders	(9 794)	29 100
	<b>(7 453)</b>	<b>33 201</b>
<b>Earnings/ (loss) per share</b> (EUR per share)		
attributable to the Parent company's shareholders:		
Diluted and basic earnings/ (loss) per share	(0,010)	(0,048)

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

	<u>30.06.2011</u>	<u>31.12.2010</u>	<u>30.06.2010</u>
	EUR thousand	EUR thousand	EUR thousand
<b>Assets</b>			
<b>Non-current asset</b>			
Intangible assets	36 464	37 023	37 587
Property, plant and equipment	175 723	182 502	185 239
Investments in associated entities	105 247	116 821	196 921
Loan note	67 955	67 955	73 377
Other non-current receivables	36 509	36 509	-
Other non-current financial assets	326	357	366
<b>Total non-current assets</b>	<b>422 224</b>	<b>441 167</b>	<b>493 490</b>
<b>Current assets</b>			
Inventories	2 620	2 573	2 297
Trade accounts receivable	2 706	88	2 316
Receivables from related companies	74	1 248	40 077
Other receivables	6 756	3 820	2 976
Short term deposits	13 080	29 749	-
Cash and cash equivalents	38 095	20 141	46 343
<b>Total current assets</b>	<b>63 331</b>	<b>57 619</b>	<b>94 009</b>
<b>Total assets</b>	<b>485 555</b>	<b>498 786</b>	<b>587 499</b>

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:

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 Simon Boddy  
 Chairman of the Management Board

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

	<u>30.06.2011</u>	<u>31.12.2010</u>	<u>30.06.2010</u>
	EUR thousand	EUR thousand	EUR thousand
<b>Equity and liabilities</b>			
<b>Equity</b>			
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	(19 011)	(10 242)	10 539
Other reserves	179 697	221 609	243 091
Loss for the period	(1 024)	(41 912)	(5 046)
<b>Equity attributable to equity holders of the parent</b>	<b>369 588</b>	<b>379 381</b>	<b>458 510</b>
Non-controlling interest	102 239	106 661	104 565
<b>Total equity</b>	<b>471 827</b>	<b>486 042</b>	<b>563 075</b>
<b>Non-current liabilities</b>			
Deferred corporate income tax liability	2 376	2 269	2 439
Deferred income	3 781	2 472	1 170
	<b>6 157</b>	<b>4 741</b>	<b>3 609</b>
<b>Current liabilities</b>			
Advances from customers	105	105	105
Trade accounts payable	2 016	1 985	1 578
Payables to related companies	499	-	1
Taxes payable	733	1 534	566
Other liabilities	2 651	3 044	13 333
Deferred income	218	151	129
Provisions	1 349	1 184	571
Unpaid dividends	-	-	4 532
<b>Total current liabilities</b>	<b>7 571</b>	<b>8 003</b>	<b>20 815</b>
<b>Total liabilities</b>	<b>13 728</b>	<b>12 744</b>	<b>24 424</b>
<b>Total liabilities and equity</b>	<b>485 555</b>	<b>498 786</b>	<b>587 499</b>

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:

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 Simon Boddy  
 Chairman of the Management Board

**Consolidated statement of cash flows**

	<b>6 months of 2011</b>	<b>6 months of 2010</b>
	EUR thousand	EUR thousand
<b>Operating activities</b>		
Net result	1 993	(660)
Non-cash adjustments to reconcile profit before tax to net cash flows		
Amortisation and depreciation	6 514	6 465
Accruals for financial market fluctuations	-	10 757
Interest income	(884)	(1 116)
Share of net loss of associate	2 804	9 492
Foreign exchange gain	-	(10 757)
Loss on disposal of property, plant and equipment	1 921	83
	<b>12 348</b>	<b>14 264</b>
Working capital adjustments:		
(Increase)/ Decrease in inventories	(48)	619
(Increase)/ decrease in trade accounts receivable and receivables from related parties	(2 644)	2 693
Decrease in liabilities	(350)	(1 178)
	<b>9 306</b>	<b>16 398</b>
Corporate income tax paid	(1 024)	(83)
<b>Net cash flows from operating activities</b>	<b>8 282</b>	<b>16 315</b>
<b>Investing activities</b>		
Purchase of intangibles and property, plant and equipment	(1 198)	(4 657)
Proceeds from sale of property, plant and equipment	70	-
Dividends paid	(6 763)	-
Decrease in short term deposits	16 669	-
Interest received	894	583
<b>Net cash flows from investing activities</b>	<b>9 672</b>	<b>(4 074)</b>
Net increase in cash and cash equivalents	17 954	12 241
Cash and cash equivalents at the beginning of the period	20 141	34 102
<b>Cash and cash equivalents at the end of the period</b>	<b>38 095</b>	<b>46 343</b>

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
<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>408 837</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>
(Loss)/ Profit for the period	-	-	-	-	(1 024)	(1 024)	2 341	1 317
Other comprehensive loss	-	-	-	(8 770)	-	(8 770)	-	(8 770)
Total comprehensive income/ (loss)	-	-	-	(8 770)	(1 024)	(9 794)	2 341	(7 453)
Dividends declared	-	-	-	-	-	-	(6 763)	(6 763)
<b>Balance as of 30 June 2011</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(19 011)</b>	<b>178 673</b>	<b>369 588</b>	<b>102 239</b>	<b>471 827</b>

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