



JSC VENTSPILS NAFTA
(UNIFIED REGISTRATION NUMBER 50003003091)

**UNAUDITED CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS OF 2011**

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONTENTS

General information	3
Supervisory Council of JSC <i>Ventspils nafta</i>	4
Management Board of JSC <i>Ventspils nafta</i>	5
Management Report of JSC <i>Ventspils 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
Notes	14

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%) 7 <i>Balvu</i> street, LV-5043, <i>Daugavpils</i> Ventspils <i>nafta termināls</i> Ltd (51%) 75 <i>Talsu</i> 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 <i>Dzintaru</i> 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.

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.

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:

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:

Simon Boddy
Chairman of the Management Board

Consolidated statement of comprehensive income

	Notes	6 months of 2011 LVL thousand	6 months of 2010 LVL thousand
Revenue	1	34 944	29 099
Cost of sales	2	(29 029)	(21 302)
Gross profit		5 915	7 797
General and administrative expense	3	(1 819)	(1 804)
Other operating income	4	342	149
Other operating expense	5	(1 971)	(8 746)
Share of (loss)/ profit in associate		(1 971)	(6 671)
Financial income	6	904	8 811
Profit/ (loss) before tax		1 400	(464)
Corporate income tax		(475)	(200)
Net profit/ (loss) for the period		925	(664)
Attributable to:			
Non-controlling interest		1 645	2 882
Parent company's shareholders		(720)	(3 546)
		925	(664)
Other comprehensive (loss)/ income			
Cash flow hedge reserve from investment in associate		389	-
Foreign currency translation resulting from investment in associate		(6 552)	23 998
Other comprehensive (loss)/ income for the period, net of tax		(6 163)	23 998
Total comprehensive (loss)/ income for the period, net of tax		(5 238)	23 334
Attributable to:			
Non-controlling interest		1 645	2 882
Parent company's shareholders		(6 883)	20 452
		(5 238)	23 334
Earnings/ (loss) per share (Lats per share)			
attributable to the Parent company's shareholders:			
Diluted and basic earnings/ (loss) per share		(0,007)	(0,034)

On behalf of the Management Board:

 Simon Boddy
 Chairman of the Management Board

Consolidated statement of financial position

	30.06.2011	31.12.2010	30.06.2010
	LVL thousand	LVL thousand	LVL thousand
Assets			
Non-current asset			
Intangible assets	25 627	26 020	26 416
Property, plant and equipment	123 499	128 263	130 187
Investments in associated entities	73 968	82 102	138 397
Loan note	47 759	47 759	51 570
Other non-current receivables	25 659	25 659	-
Other non-current financial assets	229	251	257
Total non-current assets	296 741	310 054	346 827
Current assets			
Inventories	1 841	1 808	1 614
Trade accounts receivable	1 902	62	1 628
Receivables from related companies	52	877	28 166
Other receivables	4 748	2 685	2 093
Short term deposits	9 193	20 908	-
Cash and cash equivalents	26 773	14 155	32 570
Total current assets	44 509	40 495	66 071
Total assets	341 250	350 549	412 898

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

Consolidated statement of financial position (cont'd)

	30.06.2011	31.12.2010	30.06.2010
	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	(13 361)	(7 198)	7 407
Other reserves	126 292	155 748	170 845
Loss for the period	(720)	(29 456)	(3 546)
Equity attributable to equity holders of the parent	259 748	266 631	322 243
Non-controlling interest	71 854	74 962	73 489
Total equity	331 602	341 593	395 732
Non-current liabilities			
Deferred corporate income tax liability	1 670	1 595	1 714
Deferred income	2 657	1 737	822
	4 327	3 332	2 536
Current liabilities			
Advances from customers	74	74	74
Trade accounts payable	1 417	1 395	1 109
Payables to related companies	351	-	1
Taxes payable	515	1 078	398
Other liabilities	1 863	2 139	9 371
Deferred income	153	106	91
Provisions	948	832	401
Unpaid dividends	-	-	3 185
Total current liabilities	5 321	5 624	14 630
Total liabilities	9 648	8 956	17 166
Total liabilities and equity	341 250	350 549	412 898

On behalf of the Management Board:

 Simon Boddy
 Chairman of the Management Board

Consolidated statement of cash flows

	6 months of 2011	6 months of 2010
	LVL thousand	LVL thousand
Operating activities		
Net result	1 400	(464)
Non-cash adjustments to reconcile profit before tax to net cash flows		
Amortisation and depreciation	4 578	4 544
Accruals for financial market fluctuations	-	7 560
Interest income	(621)	(784)
Share of net loss of associate	1 971	6 671
Foreign exchange gain	-	(7 560)
Loss on disposal of property, plant and equipment	1 350	58
	8 678	10 025
Working capital adjustments:		
(Increase)/ Decrease in inventories	(34)	435
(Increase)/ decrease in trade accounts receivable and receivables from related parties	(1 858)	1 893
Decrease in liabilities	(245)	(829)
	6 541	11 524
Corporate income tax paid	(720)	(58)
Net cash flows from operating activities	5 821	11 466
Investing activities		
Purchase of intangibles and property, plant and equipment	(842)	(3 273)
Proceeds from sale of property, plant and equipment	49	-
Dividends paid	(4 753)	-
Decrease in short term deposits	11 715	-
Interest received	628	410
Net cash flows from investing activities	6 797	(2 863)
Net increase in cash and cash equivalents	12 618	8 603
Cash and cash equivalents at the beginning of the period	14 155	23 967
Cash and cash equivalents at the end of the period	26 773	32 570

Consolidated statement of changes in equity**Group**

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
	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
(Loss)/ Profit for the period	-	-	-	-	(720)	(720)	1 645	925
Other comprehensive loss	-	-	-	(6 163)	-	(6 163)	-	(6 163)
Total comprehensive income/ (loss)	-	-	-	(6 163)	(720)	(6 883)	1 645	(5 238)
Dividends declared	-	-	-	-	-	-	(4 753)	(4 753)
Balance as of 30 June 2011	104 479	42 343	715	(13 361)	125 572	259 748	71 854	331 602

Notes**1. Net revenues**

	Group	
	6 months of 2011	6 months of 2010
	LVL thousand	LVL thousand
Railway services	16 189	8 822
Reloading of crude oil and oil products	12 878	15 071
Transportation of oil products	5 713	5 206
Other	164	-
TOTAL:	34 944	29 099

2. Cost of sales

	Group	
	6 months of 2011	6 months of 2010
	LVL thousand	LVL thousand
Railway charges	16 129	8 822
Amortization and depreciation	4 501	4 436
Remuneration for work	2 769	2 512
Utilization of piers	971	760
Electricity	737	630
Utilities	673	632
Social security contributions	633	610
Maintenance expenses of production equipment, outsourced expenses	600	899
Land rent	399	399
Environment protection expense	388	283
Insurance expenses	339	350
Raw materials	145	30
Treatment of technological waste water	135	165
Real estate tax	54	-
Security	7	234
Other	549	540
TOTAL:	29 029	21 302

3. General and administrative expense

	Group	
	6 months of 2011	6 months of 2010
	LVL thousand	LVL thousand
Remuneration for work	557	851
Professional charges and legal costs	518	274
Social security contributions	134	204
Real estate tax	102	7
Amortization and depreciation	77	84
Advertising and marketing expense	58	104
Other personnel expense	28	43
Conferences, seminars and training	22	21
Bank charges	15	19
Communication expense	15	22
Vehicle maintenance expense	12	47
Insurance fees	4	6
Rent of premises	-	-
Other administrative expense	277	122
TOTAL:	1 819	1 804

4. Other operating income

	Group	
	6 months of 2011	6 months of 2010
	LVL thousand	LVL thousand
Income from oil extracted from groundwater and waste waters	58	69
Other income	284	80
TOTAL:	342	149

5. Other operating expense

	<u>Group</u>	
	6 months of 2011	6 months of 2010
	LVL thousand	LVL thousand
Property, plant and equipment written off	1 398	162
Payments to local municipality	455	523
Personnel expenses	-	92
Amortization and depreciation	-	23
Maintenance of premises and territory	-	125
Accruals for financial market fluctuations	-	7 560
Other expenses	118	261
TOTAL:	1 971	8 746

6. Financial income

	<u>Group</u>	
	6 months of 2011	6 months of 2010
	LVL thousand	LVL thousand
Interest income from loans and receivables	499	776
Interest income from bank account balances and deposits	275	263
Foreign currency exchange profit, net	130	7 772
TOTAL:	904	8 811

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>30.06.2011.</u>	<u>31.12.2010.</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>30.06.2011.</u>	<u>31.12.2010.</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