JOINT STOCK COMPANY VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2012

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ventspils nafta JSC

Report on the Financial Statements

We have audited the accompanying financial statements of Ventspils nafta JSC set out on pages 16 to 41 of the accompanying annual report, which comprise the balance sheet as of 31 December 2011 and the profit and loss account and the statements of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Report on Other Legal and Regulatory Requirements

We have read the Management Report for 2011 set out on pages 12 to 15 of the accompanying annual report for 2011 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2011.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ahmed Abu Sharkh
Chairman of the Board

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Riga, Latvia
26 April 2012

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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SUPERVISORY COUNCIL OF JSC VENTSPILS NAFTA

Supervisory Council (as at the date of signing of the financial statements):

Appointed:

Chairman of the Council	Vladimir Egger
Deputy Chairman of the Council	Mikhail Dvorak
Members of the Council:	Javed Ahmed Rubel Yilmaz Mark Ware Christophe Theophanis Matsacos Rudolf Meroni David Guy Anstis Jānis Hāze David Alexander Schlaff Aivars Gobiņš

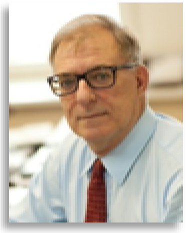
The changes in the Council during the period from 1 January 2011 to 26 April 2012 were as follows:

Elected	Dismissed	Name	Position held
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

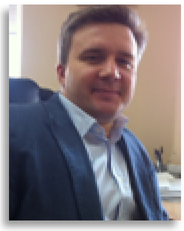
According to the Council's resolution of 27 February 2012 Vladimir Egger has been re-elected as the Chairman of the Supervisory Council and Mikhail Dvorak has been elected as deputy chairman of the Supervisory Council.

SUPERVISORY COUNCIL OF JSC VENTSPILS NAFTA (CONT'D)

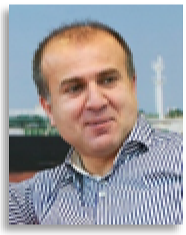
Professional experience of the members of the Supervisory Council



Vladimir Egger has worked as the Chairman of the Supervisory Council of Ventspils Nafta since January 20, 2010. He has almost 30 years of professional experience in the field of commodities trading. He was appointed to the position of Chief Representative in the Vitol Group's company VNT SA in Moscow. Prior to working for Vitol, he was the Managing Director of the company Lukoil Asia Pacific based in Singapore and Beijing, China. He holds a Bachelor of Arts degree in Economics and a Master of Business Administration degree.
Mr Vladimir Egger does not possess any Ventspils nafta shares.



Mikhail Dvorak has worked as the Deputy Chairman of the Supervisory Council of Ventspils Nafta since January 20, 2010. He is also a member of the Audit Committee at the Company. He was appointed as the Financial Controller of Vitol Group and Finance Director at Vitol Group's companies in the former Soviet Union countries. He was also appointed as a member of the Supervisory Council of LatRosTrans Ltd on behalf of Ventspils Nafta AS on January 29, 2010.
Mr Mikhail Dvorak does not possess any Ventspils nafta shares.



Rubel Yilmaz has worked as a member of the Supervisory Council of Ventspils Nafta since January 20, 2010. He is the Chief Financial Director of VTTI (Vitol Tank Terminals International). He was appointed as a member of the Supervisory Council of Ventspils nafta terminals Ltd.
Mr Rubel Yilmaz does not possess any Ventspils nafta shares.

Mark Morrell Ware has worked as a member of the Supervisory Council of Ventspils Nafta since January 20, 2010. He is the Director of Corporate Affairs for the Vitol Group. Prior to joining Vitol he had been working for BP plc in different positions and countries for 28 years. In his last position with BP (2002 – 2007) he was the Group Vice President, Communication and External Affairs.
Mr Mark Morrell Ware does not possess any Ventspils nafta shares.

Javed Ahmed has worked as a member of the Supervisory Council of Ventspils Nafta since January 20, 2010. He was appointed as the Head of Acquisitions and Investments for Vitol Group, Board Member of the Group Vitol Tank Terminals International, and Board Member of the company Blue Knight Energy Partners.
He holds a Juris Doctor degree from Harvard University, a Master of Business Administration degree from Harvard University, and a Bachelor's degree from Yale University.
Mr Javed Ahmed does not possess any Ventspils nafta shares.

Christophe Theophanis Matsacos has worked as a member of the Supervisory Council of Ventspils Nafta since July 7, 2010. He joined the Finance Team of Vitol in 2008. He is posted in the Representative Office of Vitol in Moscow with responsibility for business development in Russia and the former CIS countries. He has a banking background and joined Vitol from VTB Europe (London) (formerly Moscow Narodny Bank), where he was responsible for oil business development, in trade finance and structured trade finance, in Russia and CIS countries.
Mr Christophe Theophanis Matsacos does not possess any Ventspils nafta shares.

SUPERVISORY COUNCIL OF JSC VENTSPILS NAFTA (CONT'D)

Professional experience of the members of the Supervisory Council (cont'd)

David Anstis is currently on the Management Board of several steveadoring companies in Ventspils. Previously, he worked for Moore Stephens LLP, Chartered Accountants, in London, where he was a partner in the International Business Group, focusing on clients in the maritime industry. Mr David Anstis does not possess any Ventspils nafta shares.

Jānis Hāze was a member of Management Board of JSC Latvijas Nafta Tranzits.
Mr Jānis Hāze does not possess any Ventspils nafta shares.

Rudolf Meroni has worked as a member of the Supervisory Council of Ventspils Nafta since July 7, 2010. He was the Chairman of the Supervisory Council of JSC Latvijas Nafta Tranzits in 2010 and 2011.
Mr Meroni has a legal practice in Switzerland.
Mr Rudolf Meroni does not possess any Ventspils nafta shares.

David Alexander Schlaff has worked as a member of the Supervisory Council of Ventspils Nafta since November 22, 2011. He also works as the Chief Investment Officer of the company M-Tel Holding GmbH. Since 2007 he is a member of the Supervisory Council of Latrobe Specialty Steel Company – one of the largest steel producers in the USA. Since 2010 he is also member of the Supervisory Council of RHI AG, which is one of the leading manufacturers of fire-resistant products. Previously he was a member of the Management Board at LH Financial.
Mr David Alexander Schlaff does not possess any Ventspils nafta shares.

Aivars Gobiņš has worked as a member of the Supervisory Council of Ventspils Nafta since November 22, 2011. He is the Chairman of the Baltic Association Transport and Logistics and a member of the Management Board of Ventspils Commercial Port. He is also the Deputy Chairman of the Supervisory Council of Baltijas Ekspresis.
Mr Aivars Gobiņš does not possess any Ventspils nafta shares.

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 26 April 2012.

Professional experience of the members of the Management Board

Simon Boddy has worked as the Chairman of the Management Board of Ventspils Nafta since January 20, 2010. He has worked in the oil business for more than 30 years. After gaining a degree in Mathematics from the University of Oxford, he worked for the energy company Shell and then for BP. In 1989 he joined the Vitol Group and has held senior positions in trading, refinery supply and economics, and as the Chief Representative in Vitol's Moscow office from 2006 to 2008. He was appointed as a Board Member of Vitol Tank Terminals International and is also a qualified United Kingdom Barrister. He holds a post-graduate diploma in Law from the College of Law of England and Wales in London.
Mr. Simon Boddy does not possess any Ventspils nafta shares.

Boris Bednov has worked as a member of the Management Board of Ventspils Nafta AS since April 28, 2010. He is an oil industry professional. He began his career in the oil and transit business in 1982 as a Refinery Engineer. Since 1993 he has been working as Oil Trader. He has been the Head of the Lithuanian office of Vitol, based in Mazeikai, since 1996. He has graduated the D. Mendeleyev University of Chemical Technology of Russia.
Mr. Boris Bednov does not possess any Ventspils nafta shares.

Aleksej Tarasov has worked as a member of the Management Board of Ventspils Nafta AS since January 6, 2011. He has worked for Mazekiu Nafta since 1986. In 1997, he joined the Vitol Lithuania office and since then has continuously worked there as Technical Specialist. Main fields of his expertise include logistics, transportation, storage, and product quality preservation. He graduated in Engineering from St-Petersburg VVMURE Academy (currently Naval Institute of Radioelectronics, VVMURE named after A.S. Popov).
Mr. Aleksej Tarasov does not possess any Ventspils nafta shares.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of *JSC Ventspils nafta* (the Company) is responsible for the preparation of *JSC Ventspils nafta* financial statements for each financial year.

Accompanying financial statements, presented on pages 15 through 40, are prepared based on accounting records and give a true and fair view of the state of affairs of the Company, the cash flows and the results of the Company for the reporting year 2011.

The financial statements have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports, based on going concern principle. Suitable accounting policies have been selected and applied consistently. Reasonable and prudent judgments and estimates have been used while preparing the financial statements.

The Management Board of *JSC Ventspils nafta* is responsible for accounting records and for safeguarding the Company's assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Riga, 26 April 2012

On behalf of the Supervisory Council:	On behalf of the Management Board:
Vladimir Egger Chairman of the Supervisory Council	Simon Boddy Chairman of the Management Board

GENERAL INFORMATION ON SHARES

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

ISIN	LV0000100816
Ticker	VNF1R
Nominal value	1.00 LVL
Total number of securities	104 479 519
Number of listed securities	60 598 121
Liquidity providers	None
Indexes	B2000GI, B2000PI, B2700GI, B2700PI, OMXBGI, OMXBPI, OMXRGI

The registered and paid-up share capital of *JSC Ventspils nafta* is LVL 104'479'519. 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 1.26. 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

GENERAL INFORMATION ON SHARES (CONT'D)

Share price development of *JSC Ventspils nafta* for the period 01.01.11 – 31.12.11

Open	1.449 LVL
Max	1.479 LVL
Min	1.013 LVL
Last	1.200 LVL
Average price	1.260 LVL
Change	-14.29 %
Deals	966
No of shares traded	1 632 287
Turnover	2 321 990,57 LVL
Capitalization on 2011.12.31	125 375 422.80 LVL

Share price development of *JSC Ventspils nafta* (01.01.09 – 31.12.11)

Share price development of JSC Ventspils nafta in comparison with *NASDAQ OMX Riga* index for the period 01.01.09 – 31.12.11

Indekss	01.01.2009	31.12.2011	+/-%
OMX Riga	271,29	371,16	36,81
VNF1R	0,70 LVL	1,20 LVL	71,43

MANAGEMENT REPORT OF JSC VENTSPILS NAFTA

Dear shareholders, clients and cooperation partners,

JSC Ventspils nafta and its subsidiaries (hereafter – *JSC Ventspils nafta Group)* is one of the largest groups of companies in Latvia and works in the petroleum product transport and storage sector. *JSC Ventspils nafta* (hereafter – *Company)* manages investments in subsidiary companies, by promoting the Group's joint values and growth in value of each individual company.

JSC 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 owns 49,94% of shares of *JSC Latvian Shipping Company*, which is among the leading ship owners in the world in the medium-sized and handy tankers category.

On April 29, 2011 the *JSC Ventspils nafta Group* published the audited consolidated financial statements for 2009 and 2010, as well as the financial statements of *JSC Ventspils nafta* for 2010 that were all 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 of 2011, replacing the long-term auditor *Ernst&Young Baltic Ltd*.

In 2011 the *Company* has worked with audited revenue of LVL 323 thousand, which is by LVL 192 thousand or 147% more than in 2010. One of the main reasons for revenue growth is an increase of proportion of the rendered management consultations. Within the rendered management consultations, the emphasis is mainly on organizing united procurements for the *JSC Ventspils nafta Group's companies*, as well as receiving various corporate service discounts, thus achieving decrease of administrative costs for the *JSC Ventspils nafta Group*.

In 2011 the net profit of *JSC Ventspils nafta* reached LVL 362 thousand. Although the net profit has substantially decreased compared to 2010 when the net profit of *JSC Ventspils nafta* was LVL 3.64 million, the main reason for that is impairment of *LASCO Investment Ltd* debt in the amount of LVL 4.4 million that was recognized in 2011. For a comparison, in 2010 *JSC Ventspils nafta* recognized impairment for the debt of *LASCO Investment Ltd* in the amount of LVL 2.97 million.

In 2011 the *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 2011 with the decrease in the reporting year by 25,2%. *JSC Ventspils nafta* 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 Latvian Shipping Company and its subsidiaries (hereafter - LSC Group)* – in 2011 *JSC Ventspils nafta* issued a loan of EUR 1.5 million to Latmar Holdings Corporation – a subsidiary of *JSC Latvian Shipping Company*, as well as acquired the real estate 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 March 29, 2012, *JSC Ventspils nafta* issued an additional loan in the amount of EUR 5 million to Latmar Holdings Corporation.

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

According to the Supervisory Council's resolution of February 27, 2012, Vladimir Egger has been re-elected as the Chairman of the Supervisory Council and Mikhail Dvorak has been elected as the Deputy Chairman of the Supervisory Council.

The Management Board of *JSC Ventspils nafta* has proposed to transfer the net profit of 2011 to other reserves.

MANAGEMENT REPORT OF JSC VENTSPILS NAFTA (CONT'D)

Ventspils nafta terminals Ltd.

As a company, *Ventspils nafta terminals Ltd* has been in the transit business for eight years already, providing services such as receipt of crude oil and gas oil by pipelines, receipt of gas oil, gasoline and other oil products delivered by rail and sea, as well as storing and reloading such products. *Ventspils nafta terminals Ltd* is the largest company of this type in the region. The *Ventspils nafta terminals Ltd* operates storage facilities for petroleum products with the total capacity of 1.2 million cubic meters, making it by far larger than any other company involved in similar business in Latvia or the neighbouring countries.

Ventspils nafta terminals Ltd has increased its transhipment volumes of various petroleum products from 9 million metric tons in 2010 to 11.4 million metric tons In 2011. Throughput of products delivered by railway and vessels was 5.7 million metric tons and throughput of pipeline gasoil was 5.6 million metric tons.

At the same time, in 2011, *Ventspils nafta terminals Ltd* continued actively implementing various modernisation measures by optimising its operational processes and procedures of *Ventspils nafta terminals Ltd,* increasing work efficiency, ensuring introduction of higher requirements for environmental protection, as well as adapting to new economic conditions which allowed strengthening its position on the local market and worldwide.

In 2011, the net turnover of *Ventspils nafta terminals Ltd* exceeded LVL 58.8 million, while the net profit for the reporting period amounted to LVL 8.5 million. For a comparison, in 2010 the audited revenue of *Ventspils nafta terminals Ltd* was 43.4 million lats, but net profit was LVL 9.7 million. Turnover has mainly increased owing to the higher proportion of railway services – their amount has increased about two times in the past year in comparison with 2010.

LatRosTrans Ltd.

The *JSC Ventspils nafta* subsidiary, owner and operator of crude oil and petroleum products pipeline in the territory of Latvia *LatRosTrans Ltd* has reached the audited revenue of LVL 10.18 million in 2011, which is 2.8% more than in 2010.

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

LatRosTrans Ltd has finished the reporting year with profit for the first time since 2001. The net profit of *LatRosTrans Ltd* reached LVL 8.02 million in 2011. In 2010 *LatRosTrans Ltd* worked with net losses of LVL 1.62 million.

In 2011, *LatRosTrans Ltd* completed such important projects as the rearrangement of the organizational structure and functions of *LatRosTrans Ltd* and the establishment of a single process control centre. *LatRosTrans Ltd* also completed a unique project, which has won a high appraisal from the industry specialists, for chemical cleaning and preservation of a 102 km section of the crude oil pipeline Polotsk–Ventspils. A part of the crude oil belonging to the *LatRosTrans Ltd* was sold in the end of the reporting year.

In December 2010, the Byelorussian company OJSC Polotsktransneft Druzhba (after taking over the procedural rights of the initial claimant – Druzhba Novopolotsk Republican Unitary Oil Transportation Enterprise) filed a claim in court, requesting to recognize the ownership right and possession of the OJSC Polotsktransneft Druzhba (hereafter – *Claimant*) over the technological crude oil contained in the main crude oil pipelines possessed by *LatRosTrans Ltd*, as well as to satisfy the Claimant's application for securing the claim.

In 2011, the *Claimant* made amendments to its claim statement, maintaining that *LatRosTrans Ltd* had pumped 40 thousand tons of crude oil out of the main crude oil pipeline before the beginning of litigation, and since this crude oil could no longer be the subject of the claim on ownership, the Claimant asked to recover the cost of the evaluated crude oil from *LatRosTrans Ltd* in form of money in the amount of LVL 13 040 thousand.

MANAGEMENT REPORT OF JSC VENTSPILS NAFTA (CONT'D)

LatRosTrans Ltd (cont'd)

On December 9, 2011, the Judicial Division for Civil Cases of the Latgale Regional Court passed its judgment in the case, by which it ruled to reject the *Claimant's* claim in full, recognizing this claim to be unsubstantiated and unproven. However, the judgment has not taken effect because of the petition of appeal filed by the Byelorussian company.

On March 7, 2012, the Chamber of Civil Cases of the Supreme Court ruled to cancel the securing of the claim in the part that prohibited *LatRosTrans Ltd* and its associated persons to take any actions to pump out and remove the technological crude oil from the crude oil pipeline Polotsk–Ventspils in the territory of the Republic of Latvia. As a result, *LatRosTrans Ltd* now has legal rights to pump out and remove the remaining crude oil and to use the crude oil pipeline for other purposes of its economic activity.

On March 19, 2012, *LatRosTrans Ltd* filed a special appeal in the Department for Civil Cases of the Senate of the Supreme Court, requesting to cancel the remaining interim remedy, i.e. to cancel the attachment of the technological crude oil, which in case of a favourable ruling from the court would allow *LatRosTrans Ltd* to sell the technological crude oil.

JSC Latvian Shipping Company

In 2011, *JSC Latvian Shipping Company* and its subsidiaries worked with consolidated audited losses in the amount of USD 48.27 million. For a comparison, the consolidated net losses of the *LSC Group* reached USD 141.75 million in 2010.

Both in 2011 and in 2010, a considerable amount of the net losses were related to the impairments, provisions for which are required to be made pursuant to IFRS. The impairment provisions made in 2011 are as follows:

(1) assets held for sale (3 older handy-size vessels), in the amount of USD 12.56 million,

(2) total fleet value adjustment, in the amount of USD 15.08 million,

(3) value adjustment of investment in real estate properties in the amount of USD 1.29 million.

In the end of 2011, the fleet under the commercial management of *LSC Group* consisted of 20 tankers, 19 of which are owned by the *LSC Group*, with 1 vessel chartered in from a sale and leaseback deal. During 2011, the *LSC Group* took delivery of two newly built tankers, the "Latgale" and the "Zemgale", which were ordered in 2007 from the "Hyundai Mipo Dockyard Co., Ltd" shipyard in Korea, and sold the 17 year old vessel "Indra" for scrap. Further, *LSC Group* has reclassified three of its oldest vessels as assets held for sale in order to ensure sustainable financing for the remaining fleet.

In 2011 the total net voyage result from shipping was USD 87.99 million (in 2010 – USD 88.31 million), showing stabilization in income. The net voyage result is calculated by deducting voyage costs (bunkers, port and agent charges, etc.) from voyage income and shows the company's income, irrespective of whether the fleet is employed in the spot market or time charter market. The operating profit of vessels was USD15.24 million, a 21% improvement compared to the previous year (2010 – USD 12.69 million), however, the operating profit did not cover the fleet financing expenses (USD 20.27 million).

On December 31, 2011 the total assets of the *LSC Group* amounted to USD 650.30 million. In previous year the figure was USD 680.47 million. The decrease is mainly attributed to the impairment provisions as explained above. The total carrying value of the *LSC Group's* fleet has decreased from USD 570.50 million to USD 508.05 million and, in addition to the impairment provisions, also reflects depreciation. The total equity of the *LSC Group* as at December 31, 2011 was USD 265.64 million (2010 – USD 313.18 million).

Improvement of Investor Relations

In 2011, the *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. *JSC Ventspils nafta* along with its group companies – *LatRosTrans Ltd*, *Ventspils nafta termināls Ltd* and *JSC Latvian Shipping Company* held a business update meeting for the first time on December 8, 2011, to which investors, the media, state representatives and opinion leaders where 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*.

Financial Instruments and Financial risk management related to the operations of *JSC Ventspils nafta* are disclosed in Note 24 and Note 25 to the financial statements.

Riga, 26 April 2012

On behalf of the Supervisory Council:	On behalf of the Management Board:
Vladimir Egger Chairman of the Council	Simon Boddy Chairman of the Board

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Unified registration number: 50003003091

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 LVL'000	2010 LVL'000
Net sales	3	323	131
Gross profit		**323**	**131**
General and administrative expense	4	(1,095)	(1,465)
Other operating income		-	3
Other operating expense	5	(41)	(183)
Result from operating activities		**(813)**	**(1,514)**
Income from securities forming non-current assets, net	6	4,947	3,530
Impairment of other financial assets	8	(4,400)	(2,970)
Finance income	9	1,233	5,469
Result before taxes		**967**	**4,515**
Corporate income tax	10	(605)	(878)
Net result		**362**	**3,637**

The accompanying notes on pages 21 to 41 form an integral part of these Financial Statements.

These Financial Statements were approved by the Management Board and Supervisory Council on April 26, 2012 and signed on its behalf by:

On behalf of the Supervisory Council:

Vladimir Egger
Chairman of the Supervisory Council

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

Address: Vaļņu iela 3-18, LV-1050,
Riga, Latvia
Unified registration number: 50003003091

BALANCE SHEET AS AT 31 DECEMBER 2011

ASSETS

	Note	31/12/2011	31/12/2010
		LVL'000	LVL'000
NON-CURRENT ASSETS			
Property, plant and equipment			
Property, plant and equipment	11	799	79
TOTAL		**799**	**79**
Investments			
Investments in subsidiaries	12	119,187	119,187
Investments in associates	13	34,945	34,945
Loan note	14a	48,813	47,759
Other financial assets	14c	21,259	25,659
TOTAL		**224,204**	**227,550**
TOTAL NON-CURRENT ASSETS		**225,003**	**227,629**
CURRENT ASSETS			
Receivables			
Short term deposits	15	7,306	4,555
Receivables from related companies	14b	97	44
Other receivables	16	18	7
Other assets	17	170	120
TOTAL		**7,591**	**4,726**
Cash	18	**84**	**97**
TOTAL CURRENT ASSETS		**7,675**	**4,823**
TOTAL ASSETS		**232,678**	**232,452**

The accompanying notes on pages 21 to 41 form an integral part of these Financial Statements.

These Financial Statements were approved by the Management Board and Supervisory Council on April 26, 2012 and signed on its behalf by:

On behalf of the Supervisory Council:

Vladimir Egger
Chairman of the Supervisory Council

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

BALANCE SHEET AS AT 31 DECEMBER 2011 (CONT'D)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	31/12/2011 LVL'000	31/12/2010 LVL'000
SHAREHOLDERS' EQUITY			
Share capital	19	104,479	104,479
Share premium		42,343	42,343
Other reserves		85,277	81,640
Retained earnings for the period		362	3,637
TOTAL SHAREHOLDERS' EQUITY		**232,461**	**232,099**
LIABILITIES			
Non-current liabilities			
Deferred corporate income tax	10	9	-
TOTAL		**9**	**-**
Current liabilities			
Prepayments received		12	-
Trade payables		46	51
Payables to related companies	22	4	3
Taxes payable	20	8	156
Accrued liabilities	21	138	143
TOTAL		**208**	**353**
TOTAL LIABILITIES		**217**	**353**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**232,678**	**232,452**

The accompanying notes on pages 21 to 41 form an integral part of these Financial Statements.

These Financial Statements were approved by the Management Board and Supervisory Council on April 26, 2012 and signed on its behalf by:

On behalf of the Supervisory Council:

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 LVL'000	2010 LVL'000
Operating activities			
Result before taxes		967	4,515
Adjustments:			
Interest income	9	(1,225)	(1,682)
Depreciation	11	12	26
Reversal of impairment of investments		-	(211)
Dividends	6	(4,947)	(3,315)
Impairment of other financial assets	8	4,400	2,970
Loss on disposal of property, plant and equipment		-	83
Gain on sale of investments		-	(4)
Income from fluctuations of currency exchange rates		-	(3,749)
Operating loss before changes in current assets and liabilities		***(793)***	***(1,367)***
(Increase)/ Decrease in receivables		(15)	4
(Decrease)/ Increase in current liabilities		(15)	262
Net cash used in operating activities		***(823)***	***(1,101)***
Corporate income tax paid	20	(726)	(119)
Net cash used in operating activities		**(1,549)**	**(1,220)**
Investing activities			
Purchase of property, plant and equipment	11	(732)	(5)
Interest received		1,126	935
Loans issued		(1,054)	-
Dividends received		4,947	3,315
Proceeds from disposal of investments		-	21
Proceeds from disposal of property, plant and equipment		-	2
Increase in short-term deposits		(2,751)	(4,555)
Investments in subsidiaries		-	(17)
Net cash flow generated from / (used in) investing activities		**1,536**	**(304)**
Net decrease in cash		**(13)**	**(1,524)**
Cash at the beginning of the year		**97**	**1,621**
Cash at the end of the year	18	**84**	**97**

The accompanying notes on pages 21 to 41 form an integral part of these Financial Statements.

Address: Vaļņu iela 3-18, LV-1050,
Riga, Latvia
Unified registration number: 50003003091

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital	Share premium	Other reserves	Retained earnings for the period	**Total**
	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**
Balance as at 31 December 2009	**104,479**	**42,343**	**80,495**	**1,145**	**228,462**
Transfer of 2009 net result	-	-	1,145	(1,145)	-
Profit for the reporting year	-	-	-	3,637	3,637
Balance as at 31 December 2010	**104,479**	**42,343**	**81,640**	**3,637**	**232,099**
Transfer of 2010 net result	-	-	3,637	(3,637)	-
Profit for the reporting year	-	-	-	362	362
Balance as at 31 December 2011	**104,479**	**42,343**	**85,277**	**362**	**232,461**

The accompanying notes on pages 21 to 41 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

JSC Ventspils nafta (hereinafter– the Company) is a public joint stock company incorporated under the laws of the Republic of Latvia. The Company was first registered in the Enterprise Register on 9 May 1991, and then re-registered in the Commercial Register on 5 August 2004 (under the number 50003003091). Since 20 October 1998 *JSC Ventspils nafta* is listed on the *NASDAQ OMX Riga* main list. Legal address of the Company is Vaļņu street 3 - 18, LV-1050, Riga, Republic of Latvia.

JSC Ventspils nafta is a holding company dealing mainly with investment management in *JSC Ventspils nafta* Group companies. Previously *JSC Ventspils nafta* was involved in reloading of crude oil and oil products, however, as a result of *JSC Ventspils nafta* restructuring in 2003 all reloading activities were transferred to the subsidiary *Ventspils nafta termināls Ltd*. Initially, the Company's assets used in reloading transactions were partly invested in, partly sold to and partly rented to *Ventspils nafta termināls Ltd*. During 2004 the restructuring process was completed with *JSC Ventspils nafta* selling all non-current assets previously used in reloading activities to *Ventspils nafta termināls Ltd*.

In 2011 and 2010, the main activities carried out by the subsidiaries *JSC Ventspils nafta* are as follows:

- Transporting oil products via pipelines (*LatRosTrans Ltd*),
- Storage and reloading of crude oil and oil products from/ to rail tank cars and vessels (*Ventspils nafta termināls Ltd*).

The following table summarizes ownership of the Company in subsidiaries:

Ownership, %	31/12/2011	31/12/2010	Registration number	Legal address
Subsidiaries				
LatRosTrans Ltd	66.00	66.00	40003190740	LRDS "Ilukste", Sederes pagasts, Ilukstes novads, Latvia, LV-5474
Ventspils nafta termināls Ltd	51.00	51.00	41203019923	Talsu iela 75, LV-3602, Ventspils, Latvia

In addition, the Company holds a 49.94% stake in the associated company *JSC Latvian Shipping Company*, the main activity of which is marine shipping business.

The financial statements of the Company were authorized for issue in accordance with resolution of the Management Board on 20 April 2012. The Company's shareholders, in accordance with statutes, have the right to amend the financial statements after issue.

2. Significant accounting policies

Basis of preparation

These financial statements represent the financial situation of JSC Ventspils nafta on a stand alone basis: the financial situation of JSC Ventspils nafta Group companies (i.e., JSC Ventspils nafta and its subsidiaries) is presented in a separate set of the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements of the Company have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports.

The financial statements are prepared on a historical cost basis.

The financial statements cover the period 1 January 2011 through 31 December 2011.

Reporting currency and units of measurement

The accompanying financial statements are presented in thousands of lats (LVL 000's), unless otherwise stated. Lat (LVL) is the monetary unit of the Republic of Latvia.

2. Significant accounting policies (cont'd)

Foreign currency transactions

The Company maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted to Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place. Monetary assets and liabilities denominated in foreign currencies are translated into Lats in accordance with the official Bank of Latvia exchange rate for the last day of the reporting period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

	31/12/2011	**31/12/2010**
USD	0.544000	0.535000
EUR	0.702804	0.702804

Property, plant and equipment

Fixed assets are stated at historical cost net of accumulated depreciation and accumulated impairment losses.

The historical cost of fixed assets comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The following depreciation rates were established and applied by management:

	% per annum
Buildings	*1.25*
Machinery and equipment	*10 – 33.33*
Other property, plant and equipment	*10 - 50*

Depreciation is calculated starting with the following month after the fixed asset is put into operation or engaged in commercial activity. Each part of an item of fixed asset with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of fixed asset, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

Where the carrying amount of fixed asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of the fair value less costs to sell and the value in use of the related fixed asset.

Subsequent costs are included in the asset's carrying amount or recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Such costs are depreciated over the remaining useful life of the related asset. Capitalising the cost of mounted spare parts, the carrying value of the part replaced is written off to the income statement.

Leasehold improvements are amortised on a straight-line basis over the shorter of the estimated useful life of the leasehold improvement and the term of the lease.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the income statement during the period in which they are incurred.

Investments in subsidiary undertakings and associated companies

Investments in subsidiary undertakings and associated companies are accounted for at cost net of accumulated impairment loss. The Company recognises the income only to the extent the distribution of the profit accumulated after the acquisition date is received from the respective subsidiary or associated company. Received distributions in excess of such profit are regarded as recovery of the investment and are booked as a decrease of the cost of investment.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

Investments in subsidiary undertakings and associated companies *(cont'd)*

When there is objective evidence that the carrying amount of the investment in subsidiary undertaking or associated company has impaired, the impairment loss is calculated as a difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is determined as the higher of its fair value less costs to sell and its value in use. An impairment loss recognised in prior periods can be reversed only if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

Financial instruments - initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement
Financial assets of the Company have been classified as loans and receivables. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Regular purchases and sales of financial assets are recognised on the trade-date.

The Company's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income for cash and cash equivalents and in other operating income for other loans and receivables.

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

ii) Impairment of financial assets
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2. Significant accounting policies (cont'd)

Financial instruments - initial recognition and subsequent measurement (cont'd)

ii) Impairment of financial assets *(cont'd)*

Financial assets carried at amortised cost (cont'd)
If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted using the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at amortised cost. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost

After initial recognition, trade and other payables are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash comprises cash at bank and on hand and short-term deposits with an original maturity of three months or less.

2. Significant accounting policies (cont'd)

Net sales and revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Rendering of services

Revenue is recognized in the period when the services are provided. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Interest income

Interest income is recognized using the effective interest method. Interest income on term deposits and interest on cash balances is classified as Finance income. Accrual of interest income is ceased, if it's recoverability is uncertain.

Dividends

Revenue is recognized when the Company's right to receive dividend payment is established.

Accrued unused annual leave expenses

Amount of accrual for unused annual leave is determined by multiplying the average daily wage of employees for the last six months of the reporting year by the amount of accrued but unused annual leave at the end of the reporting year.

Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided for, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, accruals for unused vacations and unpaid annual bonuses. The deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Related parties

Related parties are defined as subsidiaries and associated entities of the Company as well as shareholders that may exercise control or significant influence over the Company's operations, Council and Board members, their close members of the families and entities over which these persons exercise significant influence or control.

Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. Net sales

		2011	2010
		LVL'000	LVL'000
Management services		323	131
	TOTAL:	**323**	**131**

The costs for provided management services mainly include remuneration for work, statutory social insurance contributions and professional charges and legal costs. These costs are included in General and administrative expense (see Note 4).

4. General and administrative expense

		2011 LVL'000	2010 LVL'000
Professional charges and legal costs		473	378
Remuneration for work (see also Note 7)		354	499
Statutory social insurance contributions (see also Note 7)		83	120
Bank charges		29	29
Audit fees		22	21
Lease of premises		20	62
Depreciation		12	26
Vehicle maintenance expense		-	31
Other expense		102	299
	TOTAL:	**1 095**	**1 465**

5. Other operating expense

		2011 LVL'000	2010 LVL'000
Sponsorship		38	165
Other expense		3	18
	TOTAL:	**41**	**183**

6. Income from securities forming non-current assets, net

		2011 LVL'000	2010 LVL'000
Dividends received		4 947	3 315
Reversal of impairment		-	211
Gain on sale of investments, net		-	4
	TOTAL:	**4 947**	**3 530**

7. Personnel expense

	2011	2010
Average number of employees during the reporting year	24	24

Remuneration for work and statutory social insurance contributions

	2011 LVL'000	2010 LVL'000
Remuneration for work	294	279
Statutory social insurance contributions	71	67
Management and Board Members		
Remuneration for work	48	217
Statutory social insurance contributions	12	52
Council Members		
Remuneration for work	12	3
Statutory social insurance contributions	-	1
TOTAL:	**437**	**619**

The total personnel expense is included in the income statement as follows:

	2011 LVL'000	2010 LVL'000
General and administrative expense	437	619
TOTAL:	**437**	**619**

8. Impairment of other financial assets

Recoverable value of *LASCO Investment Ltd* debt at 31 December 2011 is LVL 21 259 thousand (31/12/2010: LVL 25 659 thousand). The cost of *LASCO Investment Ltd* debt as at 31 December 2011 is LVL 28 629 thousand (31/12/2010: LVL 28 629). In 2011 *JSC Ventspils nafta* recognized LVL 4 400 thousand as impairment of the *LASCO Investment Ltd* debt.

JSC Latvian Shipping Company lost control over the entity on 17 December 2010 due to the insolvency procedures. Subsequently, *JSC Latvian Shipping Company* deconsolidated *LASCO Investment Ltd* as at 31 December 2010. Consequently, the receivable from *LASCO Investment Ltd* is not considered a related party in these financial statements as at 31 December 2011 and as at 31 December 2010. In addition to that, the receivable had been reclassified from current to non-current assets due to the insolvency procedure which is expected to take 3 years. The debt is secured by real estate properties and shares of the companies holding the sold companies and real properties (Please see Note 14c). The market value of the pledged real estate properties is LVL 21 259 thousand as at 31 December 2011.

9. Finance income

	2011 LVL'000	2010 LVL'000
Interest income from loans and receivables	1 080	1 634
Interest on bank account balances	145	48
Currency exchange gain, net	4	3 781
Proceeds from purchase/ sale of foreign currency, net	4	6
TOTAL:	**1 233**	**5 469**

10. Corporate income tax

	2011 LVL'000	2010 LVL'000
Current corporate income tax		
Current corporate income tax charge for the reporting year	(596)	(895)
Deferred corporate income tax		
Deferred corporate income tax due to changes in temporary differences	(9)	17
TOTAL:	**(605)**	**(878)**

Deferred corporate income tax:

	Balance sheet LVL'000		Income statement LVL'000	
Deferred corporate income tax liability	31/12/2011	31/12/2010	2011	2010
Accelerated depreciation for tax purposes	(16)	(7)	(9)	14
Gross deferred tax liability	(16)	(7)	(9)	14
Deferred corporate income tax asset				
Provisions established	667	453	214	449
Valuation allowance for deferred income tax asset	(660)	(446)	(214)	(446)
Gross deferred income tax asset	**7**	**7**	**-**	**3**
Net deferred income tax liability	**(9)**	**-**	**(9)**	**17**

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

	2011 LVL'000	2010 LVL'000
Profit before tax	967	4 515
Corporate income tax at 15%	*145*	*677*
The effect of impairment of other financial assets	660	446
Permanent differences, net	(200)	(245)
Corporate income tax charged to the income statement:	**605**	**878**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. Property, plant and equipment

	Land and buildings	Equipment and machinery	Other property, plant and equipment	**TOTAL**
	LVL'000	LVL'000	LVL'000	**LVL'000**
Cost:				
At 1 January 2010	-	18	843	861
Additions	-	-	5	5
Disposals	-	(18)	(691)	(709)
31 December 2010	**-**	**-**	**157**	**157**
Additions	731	-	1	732
31 December 2011	**731**	**-**	**158**	**889**
Depreciation and impairment				
At 1 January 2010	-	18	658	676
Deprecition charge for the year	-	-	26	26
Disposals	-	(18)	(606)	(624)
31 December 2010	**-**	**-**	**78**	**78**
Deprecition charge for the year	-	-	12	12
31 December 2011	**-**	**-**	**90**	**90**
Net book value				
31 December 2011	731	-	68	799
31 December 2010	-	-	79	79
1 January 2010	-	-	185	185

The total depreciation charge is included in General and administrative expense caption. See also Note 4.

As at 31 December 2011, the cadastral value of the Company's real estate was LVL 620 thousand..

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

12. Investments in subsidiaries

The following table summarises the Company's investments in subsidiaries as at 31 December 2011 and 2010, as well as the key performance indices, core business activities and registered offices of the subsidiaries:

	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	2011	2010		
	Shareholding, %		Investment, LVL'000		Equity of subsidiary, LVL'000		Profit/(loss) of subsidiary LVL'000		Business activity	Legal address
LatRosTrans Ltd.	66.00	66.00	79 494	79 494	101 271	93 247	8 024	(1 619)	Crude oil and oil product transportation by pipeline	LRDS "Ilukste", Sederes pagasts, Ilukstes novads, Latvia, LV-5474
Ventspils nafta termināls Ltd.	51.00	51.00	39 693	39 693	87 047	88 278	8 469	9 670	Crude oil and oil product reloading and storage	Talsu iela 75, LV-3602, Ventspils, Latvia
		TOTAL:	**119 187**	**119 187**						

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

12. Investments in subsidiaries (cont'd)

The investments in the subsidiaries can be specified as follows:

	LatRosTrans Ltd	*Ventspils nafta termināls Ltd*	**Total**
	LVL'000	*LVL'000*	***LVL'000***
Cost:			
At 1 January 2010	**80,250**	**39,693**	**119,943**
At 31 December 2010	**80,250**	**39,693**	**119,943**
At 31 December 2011	**80,250**	**39,693**	**119,943**
Accumulated impairment:			
At 1 January 2010	756	211	967
Reversal of impairment	-	(211)	(211)
At 31 December 2010	**756**	**-**	**756**
At 31 December 2011	**756**	**-**	**756**
Net carrying amount:			
At 31 December 2011	79,494	39,693	**119,187**
At 31 December 2010	79,494	39,693	**119,187**
At 1 January 2010	79,494	39,482	**118,976**

Information on the recoverable amount of the non-current investments in subsidiaries

The Company's investments in the subsidiaries are tested for impairment on an annual basis. The total net carrying value of the Company's investments in its subsidiaries tested for impairment in 2011 was LVL 119 187 thousand (2010: LVL 119 187 thousand). In 2011 and 2010, based on the cash flow projections, no additional impairment loss on investments in the subsidiaries was recognized.

Information on the operations of the subsidiaries

Ventspils nafta termināls Ltd

Ventspils nafta termināls Ltd has been in the transit business for eight years already, providing services such as receipt of crude oil and gas oil by pipelines, receipt of gas oil, gasoline and other oil products delivered by rail and sea, storing and reloading such products. Ventspils nafta termināls Ltd is the largest company of this type in the region. Ventspils nafta termināls Ltd operates storage facilities for petroleum products with total capacity of 1.2 million cubic meters making it by far larger than any other company involved in similar business in Latvia or the neighbouring countries.

In 2011, *Ventspils nafta termināls Ltd* increased its transhipment volumes from 9.0 million metric tons in 2010 to 11.4 million metric tons of various petroleum products. Throughput of products delivered by railway and vessels was 5.7 million metric tons and throughput of pipeline gasoil was 5.6 million metric tons.

In 2011, net turnover of *Ventspils nafta termināls Ltd* exceeded LVL 58.8 million, while the net profit for the reporting period amounted to LVL 8.5 million.

LatRosTrans Ltd

LatRosTrans Ltd provides oil product transit services. In the territory of the Republic of Latvia, *LatRosTrans Ltd* owns a pipeline network consisting of three main pipelines: Polotsk – Mazeikiai crude oil pipeline, Polotsk – Ventspils crude oil pipeline, and Polotsk – Ventspils oil product pipeline.

The sales of *LatRosTrans Ltd* in 2011 amounted to LVL 10.2 million, and oil product transportation for the year reached 5.791 million tons which is by 3% more if compared to the year 2010. LatRosTrans Ltd closed the year 2011 with a net profit of LVL 8 024 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

13. Investments in associates

The following table presents the investments in the associates:

	31/12/2011	31/12/2010	Legal address
	Shareholding, %		
JSC Latvian Shipping Company	49.94	49.94	Elizabetes iela 1, LV-1807, Riga, Latvia

The investments in the associates can be specified as follows:

	Latvian Shipping Company JSC
	LVL'000
Cost:	
At 1 January 2010	34,945
Acquisitions	21
Disposals	(21)
At 31 December 2010	**34,945**
At 31 December 2011	**34,945**
Net carrying amount:	
At 31 December 2011	34,945
At 31 December 2010	34,945
At 1 January 2010	34,945

Information on the operations of associate

JSC Latvian Shipping Company

JSC Latvian Shipping Company is treated as an associated company of *JSC Ventspils nafta* because *JSC Ventspils nafta* owns 49.94% of the share capital of *JSC Latvian Shipping Company*. For the consolidated reports of the *JSC Ventspils nafta* that are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, it is considered that *JSC Ventspils nafta* has *de facto* control in *JSC Latvian Shipping Company*, and it is treated as part of consolidation group.

The share price on NASDAQ OMX Riga at the end of the year was LVL 0.308 per share (31/12/2010: 0.379 per share). On a net asset value basis *JSC Ventspils nafta's* 49.94% share of *JSC Latvian Shipping Company* as at 31 December 2011 is LVL 71 103 thousand (31/12/2010: LVL 82 758 thousand). Impairment test for investment in associate *JSC Latvian Shipping Company* was performed; as a result no impairment was recognised.

In 2011, the net losses of the *JSC Latvian Shipping Company* Group amounted to 48.27 million US dollars (24.09 million lats). In the same period of 2010, net losses of the *JSC Latvian Shipping Company* amounted to 141.75 million US dollars (77.95 million lats).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

14. Loans to related companies, receivables from related companies and other financial assets

14 (a) Non-current loans:	31/12/2011	31/12/2010
	LVL'000	LVL'000
Receivable from *Euromin Holdings (Cyprus) Limited**	47 759	47 759
Receivable from *Latmar Holdings Corporation***	1 054	-
TOTAL non-current loans:	**48 813**	**47 759**

* Pursuant to the decision of the *JSC Ventspils nafta* Council dated 26 October 2006, an Option agreement on sale of 49% of shares in the subsidiary *Ventspils nafta termināls Ltd* has been concluded with *Euromin Holdings (Cyprus) Limited* (a subsidiary of *Vitol SA*). The option has been exercised in March 2007 when a share sale agreement was signed after the necessary permit was obtained from the Latvian Competition Council. The change of shareholders in the subsidiary has been registered on 15 March 2007. The Group has received a loan note from *Euromin Holdings (Cyprus) Limited* in the amount of USD 90 million (LVL 47 880 thousand) bearing interest at LIBOR + 1% or 9.99%, whichever is lower.

On 8 December 2010, the principal amount of the loan note issued by *Euromin Holdings (Cyprus) Limited* was converted from USD 90 000 thousand to an equivalent amount in Euro, namely, Euro 67 955 thousand. In accordance with the mentioned conversion, as of 8 December 2010, the interest rate of the loan note is fixed at 3M EUR LIBOR + 1% or 9.99% per year, whichever is lower. All other conditions of the loan note remained unchanged.

The loan note is repayable either when *Euromin Holdings (Cyprus) Limited* disposes of its investment in JSC Ventspils nafta or when *Vitol SA* disposes of its investment in *Euromin Holdings (Cyprus) Limited* or 15 October 2016, whichever is the earliest.

The balance of the loan note at 31 December 2011 and 2010 was Euro 67 955 thousand (LVL 47 759 thousand). As at 31 December 2011 and 31 December 2010 the loan note balance was neither due nor impaired. The Company's management believes that debt is fully recoverable.

**On August 29, 2011, a loan agreement on EUR 1 500 thousand was concluded between *JSC Ventspils nafta* and *Latmar Holdings Corporation* - a subsidiary of its associated company *JSC Latvian Shipping Company*. The loan was issued in three parts in the period of time from September 2, 2011 until October 24, 2011. The loan term is until September 2, 2013 and the interest rate is fixed as 3M EUR LIBOR +1%. The loan security is the real property at Jēkaba Street 30, Riga.

Amendments were made to the loan agreement on March 29, 2012, fixing that the repayment time is June 30, 2017, but the loan interest rate is fixed as 3M EUR LIBOR + 2.75%.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

14. Loans to related companies and receivables from related companies (cont'd)

14 (b) Receivables from related companies:	31/12/2011 LVL'000	31/12/2010 LVL'000
Receivable from *JSC Latvian Shipping Company* in relation to management consulting services (current)	41	-
Receivable from *Ventspils nafta termināls Ltd* in relation to management consulting services (current)	31	39
Receivable from *LatRosTrans Ltd* in relation to management consulting services (current)	25	5
TOTAL receivables from related companies:	**97**	**44**

14 (c) Other financial assets:

LASCO Investment Ltd

Recoverable value of *LASCO Investment Ltd* debt at 31 December 2011 is LVL 21 259 thousand (31/12/2010: LVL 25 659 thousand). The cost of *LASCO Investment Ltd* debt as at 31 December 2011 is LVL 28 629 thousand (31/12/2010: LVL 28 629).

On 17 December 2008, the Company signed a share sales agreement with *LASCO Investment Ltd,* the subsidiary of *JSC Latvian Shipping Company,* on the sale of the shares in the following subsidiaries of *JSC Ventspils Nafta: JSC Preses Nams, Mediju Nams Ltd*, *LASCO nekustamie īpašumi Ltd* (*until March 2009 - Nekustamie īpašumi VN Ltd), Rīgas Līcis Ltd (until March 2009 - Rīgas Līcis VN Ltd),* as well as on the sale of its the real estate located at Aristida Briāna iela 3, Riga, Talsu iela 75D, Ventspils, and Lejastiezumi, Rendas pag., Kuldīga district, and its movable property. The total transaction amount was LVL 81 550 thousand.

For the outstanding payments the buyer pays interest to the seller on the actually outstanding amount at the annual rate of EUR 3 month LIBOR plus 2.75%.

In 2008 the Company received payment in the amount of LVL 18 927 thousand for the above mentioned sale transaction, and in 2009 – LVL 36 188 thousand (including interest income). In 2010, LVL 266 thousand (interest for 2009) were received. Payment of debt in 2010 was delayed.

The aforementioned debt is secured against real estate properties and shares of the companies holding the sold companies and real properties are pledged.

On 3 January 2011, the insolvency of *LASCO Investment Ltd* was announced by the Vidzeme Suburb Court.

On 26 January 2011, *JSC Ventspils nafta* submitted a creditor's claim to the administrator of the insolvent *LASCO Investment Ltd*, which was rejected by the administrator on January 31, 2011. *JSC Ventspils nafta* is pursuing a claim in the Riga Regional Court against the insolvent *LASCO Investment Ltd*, requesting the court to recognize *JSC Ventspils nafta* as a secured creditor and to recover debt amount. In 2011 also the administrator of the insolvent *LASCO Investment Ltd* has initiated a claim in the Riga Regional Court against *JSC Ventspils nafta*, requesting the reversal a sale of the shares of *Nekustamie īpašumi VN Ltd* and *JSC Preses nams*. Both above mentioned cases are joint in one proceeding. At the moment of preparation of this report cases are not reviewed by merits in first instance of the court.

In view of the above mentioned proceeding, it is management opinion that the recoverable amount of the debt directly relates to the value of real properties and shares of companies holding real properties that are pledged for *JSC Ventspils nafta*. On 31 December 2011, the carrying value of the debt is the net present value in today's market (See also Note 8). The market value will increase as the economic situation improves.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

15. Short-term deposits

	31/12/2011	31/12/2010
	LVL'000	LVL'000
Short-term deposits	7 306	4 555
TOTAL:	**7 306**	**4 555**

Short-term deposits are placed for periods ranging from three months to twelve months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates. Interests for short-term deposits are calculated corresponding with the respective short-tem deposit rates. Annual rates of short-term deposits that are placed in the reporting period range from 1.15% to 2.15%.

After maturity date in January 2011, deposits have been prolonged for the next short term period in the same bank.

16. Other receivables

	31/12/2011	31/12/2010
	LVL'000	LVL'000
Corporate income tax receivable	5	-
Personal income tax receivable	5	-
Advances for services to be provided	5	-
Other	3	7
TOTAL:	**18**	**7**

17. Other assets

	31/12/2011	31/12/2010
	LVL'000	LVL'000
Accrued interest income	170	105
Accrued income	-	12
Other prepaid expense	-	3
TOTAL:	**170**	**120**

18. Cash

	31/12/2011	31/12/2010
	LVL'000	LVL'000
Current bank accounts	84	97
TOTAL:	**84**	**97**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

19. Share capital

The following table presents the distribution between bearer shares in the public offering and registered shares:

	Registered shares	Bearer shares	**Total, LVL**
31 December 2011	43 881 398	60 598 121	**104 479 519**
31 December 2010	43 881 398	60 598 121	**104 479 519**

All shares are authorized, issued and fully paid.

The nominal value of each share is LVL 1.

Earnings per share of LVL 0.004 (2010: LVL 0.04) are calculated by dividing the net profit for the reporting year of LVL 362 thousand (2010: LVL 3 637 thousand) by the weighted average number of shares in issue of 104 479 thousand (2010: 104 479 thousand) during the reporting year. As on 22 November 2011, when the last shareholders' general meeting of *JSC Ventspils nafta* took place, *Euromin Holdings (Cyprus) Limited*, was registered as the largest shareholder by owning 49.5% of Parent company's share capital.

20. Taxes receivable/ (payable)

	31/12/2011 LVL'000	Charge for 2011 LVL'000	Paid in 2011 LVL'000	31/12/2010 LVL'000
Statutory social insurance contributions	-	(120)	128	(8)
Personal income tax	5	(74)	92	(13)
Corporate income tax	5	(596)	726	(125)
Value added tax	(8)	(8)	10	(10)
TOTAL:	**2**	**(796)**	**956**	**(156)**
TOTAL PAYABLE:	**(8)**			**(156)**
TOTAL RECEIVABLE:	**10**			**-**

21. Accrued liabilities

	31/12/2011 LVL'000	31/12/2010 LVL'000
Accrued personnel expense	72	72
Vacation pay reserve	47	47
Other accrued liabilities	19	24
TOTAL:	**138**	**143**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

22. Related party disclosures

Related party	Nature of services	2011 Income from related parties LVL'000	2011 Purchases from related parties LVL'000	31/12/2011 Amounts owed by related parties LVL'000	31/12/2011 Amounts owed to related parties LVL'000
Ventspils Nafta Termināls Ltd	Consulting services received/ provided	70	1	31	-
JSC Latvian Shipping Company	Consulting services received/ provided	233	1	41	1
Euromin Holdings' (Cyprus) Ltd	Interest income	1 068	-	47 759	-
Latmar Holdings Corporation	Interest income	5	-	1 054	-
LatRosTrans Ltd	Rent of premises/ Consulting services provided	31	21	25	3
Total		**1 407**	**24**	**48 910**	**4**

Related party	Nature of services	2010 Income from related parties LVL'000	2010 Purchases from related parties LVL'000	31/12/2010 Amounts owed by related parties LVL'000	31/12/2010 Amounts owed to related parties LVL'000
SIA Ventspils Nafta Termināls	Consulting services received/ provided	71	3	39	-
Euromin Holdings' (Cyprus) Ltd	Interest income	679	-	47 759	-
LASCO Investment Ltd	Interest income	955	-	-	-
LatRosTrans Ltd	Rent of premises/ Consulting services provided	50	22	5	3
Total		**1 755**	**25**	**47 803**	**3**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

23. Total fee to commercial company of certified auditors Ernst & Young Baltic Ltd for:

	2011	2010
	LVL'000	LVL'000
Audit of financial statements	6	21
Tax and consulting	-	15
TOTAL:	**6**	**36**

Total fee to commercial company of certified auditors PricewaterhouseCoopers Ltd for:

	2011	2010
	LVL'000	LVL'000
Audit of financial statements	16	-
Tax and consulting	11	3
TOTAL:	**27**	**3**

24. Financial instruments

The main financial instruments of the Company are issued loans and cash. The main purpose of these financial instruments is to ensure the financing of the operations of the Company. The Company also deals with several other financial instruments which are a result of its operations, for example, trade accounts receivable and other debtors, trade payables and other payables.

	31/12/2011		
Financial assets	Loans and receivables LVL'000	Financial assets and liabilities at amortised cost LVL'000	**Total LVL'000**
Non-current portion of loan note	48 813	-	**48 813**
Receivables from related parties	97	-	**97**
Other financial assets (non-current)	21 259	-	**21 259**
Other assets	7 494	-	**7 494**
Cash and cash equivalents	84	-	**84**
Total financial assets:	**77 747**	**-**	**77 747**
Trade payables	-	46	46
Payables to related companies	-	4	4
Other accrued liabilities	-	19	19
Total financial liabilities:	**-**	**69**	**69**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

24. Financial instruments (cont'd)

	31/12/2010		
Financial assets	Loans and receivables LVL'000	Financial assets and liabilities at amortised cost LVL'000	**Total LVL'000**
Non-current portion of loan note	47 759	-	**47 759**
Receivables from related parties	44	-	**44**
Other financial assets (non-current)	25 659	-	**25 659**
Other assets	4 682	-	**4 682**
Cash and cash equivalents	97	-	**97**
Total financial assets:	**78 241**	**-**	**78 241**
Trade payables	-	51	51
Payables to related companies	-	3	3
Other accrued liabilities	-	24	24
Total financial liabilities:	**-**	**78**	**78**

25. Financial risk management

The main financial risks arising from the Company's financial instruments are foreign currency risk, interest rate risk, liquidity risk, interest rate risk and credit risk.

Foreign currency risk

The Company's financial assets and liabilities exposed to foreign currency risk comprise cash and cash equivalents, trade receivables, current and non-current loans, trade payables.

The Company does not use any financial instruments to manage their exposure to foreign currency risk.

The Company's currency risk in U.S. dollars and euros as at 31 December 2011 and 2010 may be specified as follows:

	31/12/2011	31/12/2010
Financial assets denominated in EUR'000	109 770	110 584
Financial liabilities denominated in EUR'000	-	-
Net balance sheet position in EUR'000	**109 770**	**110 584**
Net balance sheet position in LVL'000	**77 147**	**77 719**
Financial assets denominated in USD'000	575	651
Financial liabilities denominated in USD'000	-	-
Net balance sheet position in USD'000	**575**	**651**
Net balance sheet position in LVL'000	**313**	**348**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

25. Financial risk management (cont'd)

***Foreign currency risk** (cont'd)*

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Latvian lat against euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%. Therefore, the Company's future profit or loss due to fluctuations of the euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of financial assets and liabilities) and the Company's equity.

	Increase/ decrease in US dollar exchange rate	Effect on profit before tax (LVL'000)	Effect on equity (LVL'000)
2011			
	+5%	16	(16)
	-5%	(16)	16
2010			
	+5%	17	(17)
	-5%	(17)	17

Liquidity risk

The Company manages its liquidity risk by planning of terms of payment of trade payables. The budgeting system which is being successfully applied by the Company is of great use for liquidity risk management and control.

Risk analysis and designing of risk management plans are conducted at the top management level.

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2009 and 2010 based on contractual undiscounted payments.

2011	On demand (LVL'000)	< 3 months (LVL'000)	3 to 12 months (LVL'000)	1 to 5 years (LVL'000)	> 5 years (LVL'000)	Total (LVL'000)
Trade payables	-	46	12	-	-	58
Payables to related companies	4	-	-	-	-	4
TOTAL:	**4**	**46**	**12**	**-**	**-**	**62**

2010	On demand (LVL'000)	< 3 months (LVL'000)	3 to 12 months (LVL'000)	1 to 5 years (LVL'000)	> 5 years (LVL'000)	Total (LVL'000)
Trade payables	-	51	-	-	-	51
Payables to related companies	3	-	-	-	-	3
TOTAL:	**3**	**51**	**-**	**-**	**-**	**54**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

25. Financial risk management (cont'd)

Credit risk

The Company is exposed to credit risk through its non-current loan to *Euromin Holdings (Cyprus) Limited, Latmar Holdings Corporation* and the receivable from *LASCO Investment Ltd,* as well as through cash and cash equivalents. The Company manages credit risk arising out of cash and cash equivalents by investing in EU-registered credit institutions. The credit risk arising out of non-current loans and other financial non-current asset is managed by evaluating the creditworthiness of business partners. See also Notes 14 and 22.

Interest rate risk

The Company is exposed to the interest rate risk mainly through its current loans. The interest rate receivable on the loans is disclosed in Note 14.

	2011		2010	
	Increase/ decrease in basis points	Effect on profit before tax (LVL'000)	Increase/ decrease in basis points	Effect on profit before tax (LVL'000)
EUR - LIBOR	+0.20%	98	+0.20%	96

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy debt to equity ratio in order to support its business growth in line with strategic development guidelines, ensure continuity of operations, maintain low credit risk and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions in Latvia and the European Union, the capital market trends and interest rate fluctuations. To maintain optimum capital structure, the Company may use a share capital increase or decrease, distribution of dividends or various forms of borrowed capital. The Company's capital management objectives, policies and procedures have not been changed in 2010 and 2011.

The Company manages its capital structure by using the gearing ratio of net debt against total capital. Total capital is the sum of net debt and equity. Net debt is calculated as the sum of interest-bearing loans and other non-current liabilities less cash and cash equivalents. Equity includes share capital with share premium, reserves and retained earnings or accumulated deficit. The Company's policy is to maintain the gearing ratio not exceeding 25 percent in medium term.

	2011 LVL'000	2010 LVL'000
Borrowings	-	-
Less cash and cash equivalents	(84)	(97)
Net debt	*(84)*	*(97)*
Equity	232 461	232 099
Total capital	232 377	232 002
GEARING RATIO:	**0%**	**0%**

26. Events after balance sheet date

On March 29, 2012, *JSC Ventspils nafta* issued a loan amount of EUR 5 000 thousand to *Latmar Holdings Corporation* - a subsidiary of its subsidiary *JSC Latvian Shipping Company*. The loan term is until June 30, 2017 and the interest rate is fixed as 3M EUR LIBOR +2,75%. The loan security is real estate properties at Jēkaba Street 30, Riga and Elizabetes Street 1, Riga.

Between the last day of the reporting year and the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.