Public Joint Stock Company
VENTSPILS NAFTA

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC Ventspils nafta

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of JSC Ventspils nafta and its subsidiaries ("the Group"), set out on pages 16 to 79 of the accompanying annual report which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of comprehensive income, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

PricewaterhouseCoopers SIA, Kr. Valdemāra iela 19, Rīga, LV-1010, Latvia, LV40003142793
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv

pwc

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

Basis for Qualified Opinion

The Group's available-for-sale financial asset in the consolidated statement of financial position as at 31 December 2011 and 2010 comprises the investment in JSC Latvijas Naftas Tranzits of LVL 16 100 thousand and LVL 16 465 thousand, respectively. The Group has recognised a loss from the investment in the amount of LVL 2 675 thousand in 2010. The Group had no access to any financial information relating to the investee and, accordingly, was unable to reliably determine the fair value or recoverable value of the investment as of these dates. As a result, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the investment as at 31 December 2011 and 2010. Consequently, we were unable to determine whether any adjustments to the carrying amount were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph the consolidated financial statements present fairly, in all material respects the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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 Corporate Governance Report for 2011 and did not identify material inconsistencies between the financial information contained in the Management Report, Corporate Governance Report and that contained in the consolidated 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

CONTENTS

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

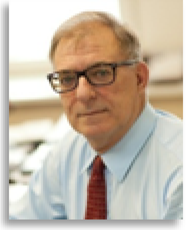
The changes in the Council during the period from 1 January 2011 to 26 April 2012 were as follows:

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

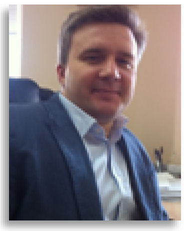
According to the Council's resolution of 27 February 2012 Vladimir Egger has been re-elected as the Chairman of the Supervisory Council and Mikhail Dvorak has been elected as deputy chairman of the Supervisory Council.

Supervisory Council of JSC Ventspils nafta (cont'd)

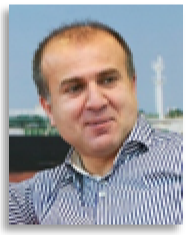
Professional experience of the members of the Supervisory Council



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 consolidated 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 following statement, which should be read in conjunction with the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of *JSC Ventspils nafta* and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2011, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU).

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and preventing and detecting fraud and other irregularities.

Riga, 26 April 2012

On behalf of the Supervisory Council:	On behalf of the Management Board:
Vladimir Egger	Simon Boddy
Chairman of the Council	Chairman of the 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 – *Group's parent 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 has an investment in *JSC Latvian Shipping Company*, which is among the leading ship owners in the world in the medium-sized and handy tankers category.

JSC Ventspils nafta owns 49.94% share capital of *JSC Latvian Shipping Company*, thus giving it de facto control over *JSC Latvian Shipping Company*. The consolidated financial statements of *JSC Ventspils nafta Group* have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The current IFRS do not address application of de facto control, therefore consolidation on that basis is considered as an accounting policy choice. Considering the development of IFRS, in particular the revised definition of control and respective application guidance in IFRS 10: Consolidated financial statements, it is likely that entities that are controlled de facto will be required to be consolidated in the future. Therefore, in 2011 the *JSC Ventspils nafta Group* has changed its accounting policy and consolidates now based on de facto control. In the financial statements, comparatives have been restated to conform with the new accounting policy.

Due to the above mentioned change of accounting policy in the audited consolidated statements of *JSC Ventspils nafta Group*, and because of provision for impairment of *LASCO Investment Ltd debt* in accordance with the IFRS, *JSC Ventspils nafta Group's* previously unaudited 2011 results reported to NASADQ OMX Riga differ from the actual audited results by more than 10%.

<u>*JSC Ventspils nafta Group*</u>

The audited consolidated revenue of *JSC Ventspils nafta Group* in 2011 was LVL 118.2 million and the audited net loss was LVL 12.2 million. For comparison, the consolidated revenue of *JSC Ventspils nafta Group* in 2010 was LVL 112 million, but net loss was LVL 65.57 million. In 2011 the audited loss attributable to the Parent company's shareholders was LVL 7.0 million, but in 2010 – LVL 30.49 million.

The overall annual results of *JSC Ventspils nafta Group* are still substantially affected by the operating results of its subsidiary *JSC Latvian Shipping Company*. It is positive that despite the adverse situation continuing already for several years in the worldwide shipping market in respect of low market rates, in 2011 *JSC Latvian Shipping Company* has operated with significantly lower net losses (USD 48.27 million) than in 2010 (USD 141.75 million).

In 2011 one of the main reasons for increase in revenue of the *JSC Ventspils nafta Group* is the increase in reloading services of crude oil and oil by 35.3% compared to 2010.

In 2011 the audited gross profit of the *JSC Ventspils nafta Group* was LVL 17.16 million, which is LVL 2.05 million or 13.6% higher than in 2010 when the audited gross profit was LVL 15.11 million.

As at December 31, 2011, the audited assets of *JSC Ventspils nafta Group* amount to LVL 629.48 million, which is LVL 4 million less than in 2010 when assets of the *JSC Ventspils nafta Group* amounted to LVL 633.48 million.

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* as a parent company 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 the audit of the annual reports for 2011. The shareholders' meeting elected *SIA PriceWaterhouseCoopers* as the auditor of the reports of 2011, replacing the long-term auditor *Ernst&Young Baltic Ltd*.

Management Report of JSC Ventspils nafta (cont'd)

JSC Ventspils nafta

In 2011 the *Group's parent company* has worked with audited revenue of LVL 323 thousand, which is LVL 192 thousand or 147% more than in 2010. 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 *Group's parent company* continued implementing the strict cost cutting policy that was commenced in 2010 with the most substantial savings achieved in administrative expenses, which have decreased from LVL 1.47 million in 2010 to LVL 1.1 million in 2011 having a decrease in the reporting year by 25,2%. *JSC Ventspils nafta* as a parent company has achieved that administrative expenses have more than halved over a period of two years, saving approximately 1.3 million lats in 2011 versus the 2009.

On November 22, 2011, in the extraordinary shareholders' meeting of *JSC Ventspils nafta*, which was convened at the 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.

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 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 high appraisal from 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.

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, the *JSC Ventspils nafta* subsidiary *JSC Latvian Shipping Company* and its subsidiaries (hereafter – *LSC Group*) 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 impairment, provisions 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 USD12.56 million,

(2) total fleet value adjustment, in the amount of USD15.08 million,

(3) value adjustment of investment in real estate properties in the amount of USD1.29 million.

Management Report of JSC Ventspils nafta (cont'd)

JSC Latvian Shipping Company (cont'd)

At 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 under 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 - USD12.69 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. The previous year's 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* Group are disclosed in Note 36 to the consolidated financial statement.

The consolidated annual report includes (on pages 80 to 96) information on compliance with the corporate governance principles in 2011.

The consolidated annual report for 2011 has been submitted to the NASADQ OMX Riga as well as published on *JSC Ventspils nafta* website www.vnafta.lv.

Riga, 26 April 2012

On behalf of the Supervisory Council:

Vladimir Egger
Chairman of the Council

On behalf of the Management Board:

Simon Boddy
Chairman of the Board

Consolidated income statement

	Notes	2011 LVL thousand	2010 (restated) LVL thousand
Revenue	4	118 241	112 016
Cost of goods sold	5	(101 080)	(96 906)
Gross profit		**17 161**	**15 110**
General and administrative expense	6	(10 028)	(14 956)
Other operating income	7	10 894	1 282
Other operating expense	8	(7 809)	(11 091)
Impairment of other non-financial assets	10	(14 262)	(51 687)
Deconsolidation of net financial liabilities	11	-	5 868
Finance income	12	3 147	5 864
Finance costs	12	(10 427)	(14 027)
Loss before tax		**(11 324)**	**(63 637)**
Corporate income tax	13	(862)	(1 936)
Loss for the year		**(12 186)**	**(65 573)**
Attributable to:			
Parent company's shareholders		(6 994)	(30 490)
Non-controlling interest		(5 192)	(35 083)
		(12 186)	**(65 573)**
Loss per share (Lats per share) attributable to the Parent company's shareholders:		(0,07)	(0,29)
Loss per share (Lats per share)		(0,12)	(0,62)

The accompanying notes on pages 22 to 79 form an integral part of these Consolidated Financial Statements.

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

Vladimir Egger
Chairman of the Supervisory Council

Simon Boddy
Chairman of the Management Board

Consolidated statement of comprehensive income

	2011	2010 (restated)
	LVL thousand	LVL thousand
Loss for the year	**(12 186)**	**(65 573)**
Other comprehensive (loss)/ income		
- Foreign currency revaluation reserve	(52)	21 623
- Cash flow hedge reserve	788	(371)
Other comprehensive income for the year	**736**	**21 252**
Total comprehensive loss for the year	**(11 450)**	**(44 321)**
Attributable to:		
Parent company's shareholders	(6 626)	(19 876)
Non-controlling interests	(4 824)	(24 445)
	(11 450)	**(44 321)**

The accompanying notes on pages 22 to 79 form an integral part of these Consolidated Financial Statements.

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

Vladimir Egger
Chairman of the Supervisory Council

Simon Boddy
Chairman of the Management Board

Consolidated statement of financial position

	Notes	31.12.2011. LVL thousand	31.12.2010. (restated) LVL thousand	01.01.2010. (restated) LVL thousand
Assets				
Non-current assets				
Intangible assets	14	25,361	26,309	27,231
Property, plant and equipment	15	401,397	436,434	455,263
Investment properties	16	883	1,549	48,712
Investments in associated entities	18	7	13	190
Loans to affiliated companies	19	47,759	47,759	44,010
Other non-current financial assets	20 (a)	25,753	30,040	1,358
Total non-current assets		**501,160**	**542,104**	**576,764**
Current assets				
Inventories	21	2,949	1,897	4,048
Trade and other receivables	22	25,571	10,452	11,438
Short term deposits	23	18,045	27,019	35,607
Other current financial assets	20 (b)	16,100	18,160	645
Cash and cash equivalents	24	33,343	30,766	52,889
		96,008	**88,294**	**104,627**
Assets classified as held for sale	25	32,314	3,082	11,881
Total current assets		**128,322**	**91,376**	**116,508**
Total assets		**629,482**	**633,480**	**693,272**

The accompanying notes on pages 22 to 79 form an integral part of these Consolidated Financial Statements.

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

Vladimir Egger
Chairman of the Supervisory Council

Simon Boddy
Chairman of the Management Board

Consolidated statement of financial position (cont'd)

	Notes	31.12.2011. LVL thousand	31.12.2010. (restated) LVL thousand	01.01.2010. (restated) LVL thousand
Equity and liabilities				
Equity				
Share capital	26	104 479	104 479	104 479
Share premium		42 343	42 343	42 343
Legal reserve	26	715	715	715
Foreign currency revaluation reserve	26	(5 054)	(5 029)	(15 828)
Cash flow hedge reserve	26	(731)	(1 124)	(939)
Other reserves	26	126 008	156 498	175 168
Loss for the year		(6 994)	(30 490)	(18 670)
Equity attributable to equity holders of the parent		**260 766**	**267 392**	**287 268**
Non-controlling interest	26	151 452	161 029	185 284
Total equity		**412 218**	**428 421**	**472 552**
Non-current liabilities				
Borrowings	27	161 678	150 843	169 151
Finance lease	28	14 021	14 495	13 971
Deferred tax liability	13	1 070	1 706	1 719
Deferred income	29	2 623	1 737	383
Derivative financial instruments	20 (b)	500	757	-
Other non-current liabilities		-	161	1 584
Total non-current liabilities		**179 892**	**169 699**	**186 808**
Current liabilities				
Borrowings	27	16 962	16 708	14 450
Finance lease	28	687	592	514
Trade and other payables	30	11 498	10 954	16 268
Taxes payable	31	436	1 656	568
Derivative financial instruments	20 (b)	963	1 494	-
Deferred income	29	5 735	2 922	1 786
Provisions	32	1 091	1 034	326
Total current liabilities		**37 372**	**35 360**	**33 912**
Total liabilities		**217 264**	**205 059**	**220 720**
Total equity and liabilities		**629 482**	**633 480**	**693 272**

The accompanying notes on pages 22 to 79 form an integral part of these Consolidated Financial Statements.

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

Vladimir Egger
Chairman of the Supervisory Council

Simon Boddy
Chairman of the Management Board

Consolidated statement of cash flows

	Notes	2011 LVL thousand	2010 (restated) LVL thousand
Operating activities			
Loss before tax		(11,324)	(63,637)
Non-cash adjustments to reconcile loss before tax to net cash flows			
Depreciation of property, plant and equipment and fleet	15	21,267	23,061
Amortisation of intangible assets	14	958	991
Depreciation of investment properties	16	14	385
Decrease in financial instruments		(11)	(10)
Loss on disposal of non-financial assets	8	1,765	1,721
Currency translation difference		(1,465)	5,754
Finance income	12	(1,752)	(4,335)
Finance costs	12	10,324	13,722
Recognized impairment	10	14,262	51,687
Changes in fair value of financial assets		(11)	2,959
Deconsolidation of net financial liabilities	11	-	(5,868)
		34,027	**26,430**
Working capital adjustments:			
(Increase)/ decrease in trade and other receivables and prepayments		(10,072)	5,037
(Increase)/ decrease in inventories		(967)	2,453
Increase/ (decrease) in trade and other payables		2,095	(3,703)
		25,083	**30,217**
Corporate income tax paid		(2,282)	(381)
Net cash flows from operating activities		**22,801**	**29,836**
Investing activities			
Proceeds from sale of non-current assets held for sale		15,749	13,941
Purchase of non-current assets		(41,498)	(8,948)
Acquisition of subsidiary		-	(15,579)
Acquisition of other financial instruments		-	(1,340)
Net cash flow from deconsolidation of net financial liabilities		-	(365)
Proceeds from sale of financial instruments		1,680	100
Proceeds from disposal of subsidaries		-	78
Grants from ERDF		553	985
Decrease in short term deposits		8,974	10,302
Loans issued		(293)	(784)
Interest received		1,714	2,368
Net cash flows from investing activities		**(13,121)**	**758**
Financing activities			
Payment of finance lease liabilities		(559)	(558)
Dividends paid		(4,753)	(3,185)
Proceeds from borrowings		25,616	14,651
Repayment of borrowings		(16,924)	(48,733)
Interest paid		(9,426)	(10,880)
Prepaid financing expenses		(686)	(1,071)
Net cash flows from financing activities		**(6,732)**	**(49,776)**
Net increase/ (decrease) in cash and cash equivalents		2,948	(19,182)
Cash and cash equivalents at 1 January (restated)		30,766	52,889
Exchange losses on cash and cash equivalents		(371)	(2,941)
Cash and cash equivalents at 31 December		**33,343**	**30,766**

The accompanying notes on pages 22 to 79 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Attributable to the equity holders of the parent								Non-controlling interest	Total
	Share capital	Share premium	Legal reserve	Foreign currency revaluation reserve	Cash flow hedge reserve	Reserves resulting from investment in associates	Other reserves	**Total**		
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Balances as of 1 January 2010	104,479	42,343	715	-	-	(15,958)	155,748	**287,327**	73,959	**361,286**
Adjustment to prior year other reserves	-	-	-	-	-	(809)	750	**(59)**	-	**(59)**
Effect of changes in accounting policy (Note 2.1.)	-	-	-	(15,828)	(939)	16,767	-	**-**	111,325	**111,325**
Balances as of 1 January 2010 (restated)	**104,479**	**42,343**	**715**	**(15,828)**	**(939)**	**-**	**156,498**	**287,268**	**185,284**	**472,552**
Loss for the year	-	-	-	-	-	-	(30,490)	**(30,490)**	(35,083)	**(65,573)**
Adjustment to prior year other reserves	-	-	-	1,854	-	-	-	**1,854**	-	**1,854**
Other comprehensive income/ (loss)	-	-	-	8,945	(185)	-	-	**8,760**	10,638	**19,398**
Total comprehensive (loss)/ income	-	-	-	10,799	(185)	-	(30,490)	**(19,876)**	(24,445)	**(44,321)**
Non-controlling interest as a result of acquisition (Note 26)	-	-	-	-	-	-	-	**-**	3,375	**3,375**
Dividends declared	-	-	-	-	-	-	-	**-**	(3,185)	**(3,185)**
Balances as of 31 December 2010 (restated)	**104,479**	**42,343**	**715**	**(5,029)**	**(1,124)**	**-**	**126,008**	**267,392**	**161,029**	**428,421**
Loss for the year	-	-	-	-	-	-	(6,994)	**(6,994)**	(5,192)	**(12,186)**
Other comprehensive income/ (loss)	-	-	-	(25)	393	-	-	**368**	368	**736**
Total comprehensive (loss)/ income	-	-	-	(25)	393	-	(6,994)	**(6,626)**	(4,824)	**(11,450)**
Dividends declared	-	-	-	-	-	-	-	**-**	(4,753)	**(4,753)**
Balances as of 31 December 2011	**104,479**	**42,343**	**715**	**(5,054)**	**(731)**	**-**	**119,014**	**260,766**	**151,452**	**412,218**

The accompanying notes on pages 22 to 79 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Corporate information

JSC Ventspils nafta (hereinafter – the Company or the Parent company) is a public joint stock company organized under the laws of the Republic of Latvia. The Parent 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.

The legal address of the Parent 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. *JSC Ventspils nafta* Group consisting of *JSC Ventspils nafta* and its subsidiaries (hereinafter also – the Group) is a multi-industrial holding company.

The following table summarizes ownership of the Group in subsidiaries:

Name of the entity	31.12.2011.	31.12.2010.	Legal address
Subsidiaries of *JSC Ventspils nafta*			
Ltd LatRosTrans	66%	66%	LRDS "Ilukste" Sederes pagasts, Ilukstes novads, Latvia, LV - 5474
Ltd Ventspils nafta termināls	51%	51%	Talsu iela 75, LV-3602, Ventspils, Latvia
JSC Latvian Shipping Company	49.94%	49.94%	Elizabetes iela 1, LV-1807, Riga, Latvia

The main activities carried out by subsidiaries during 2011 and 2010 were as follows:

Ltd LatRosTrans – transporting oil products via pipelines;

Ltd Ventspils nafta termināls – reloading and storage of crude oil and oil products and oil products delivered by rail;

JSC Latvian Shipping Company – marine shipping business.

The consolidated financial statements of the Group were authorized for issue in accordance with resolution of the Board on 20 April 2012.

The Group's shareholders in accordance with the Articles of Association have the right to amend the consolidated financial statements after issue.

2.1 Basis of preparation

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments and available for sale financial assets that have been measured at fair value.

Reporting currency and units of measurement

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

Statement of compliance

The consolidated financial statements of *JSC Ventspils nafta* and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Notes to the consolidated financial statements (cont'd)

2.1 Basis of preparation (cont'd)

Change in accounting policy regarding consolidation

Consolidation of *JSC Latvian Shipping Company.*

The current International Financial Reporting Standards (IAS 27) do not address application of *de facto control*, therefore consolidation on that basis is considered as an accounting policy choice. Considering the development of IFRS, in particular the revised definition of control and respective application guidance in IFRS 10: Consolidated financial statements, it is likely that entities which are controlled *de facto* will be required consolidated in the future. Therefore, the Group has changed it's accounting policy and consolidates now based on *de facto control*. Comparatives have been restated to conform with the new accounting policy. *JSC Ventspils nafta* considers having *de facto control* over investment in *JSC Latvian Shipping Company* due to the following reasons: decisions on shareholders' meeting are taken by simple majority, considering the dispersion of other shareholders and participation at shareholders' meeting, *JSC Ventspils nafta* has been able to pass decisions on shareholders' meeting. Moreover, based on rules in articles of association of *JSC Latvian Shipping Company* regarding appointing the members of Supervisory Council, *JSC Ventspils nafta* has been able (and in Management's view will continue to be able) to appoint the based on majority of votes having in Supervisory Council members.

In 2011 the Group has made certain reclassifications between different captions of the consolidated income statement, consolidated statement of financial position, consolidated statement of cash flows and consolidated statement of changes in equity. This includes reclassification of technological crude oil from inventories to property, plant and equipment, as the oil is used for operating the pipelines rather than for sales. The comparatives have been restated to conform the above changes.

In 2011 the Group has made a correction in the 2010 consolidated financial statements due to an error identified in cash and cash equivalents and short term deposits in the amount of LVL 6 111 thousand.

Consolidated statement of financial position

	31.12.2010.	**Adjustments**			**31.12.2010.**	**1.1.2010.**	**Adjustments**		**1.1.2010.**
	(Originally stated) LVL thousand	**Change in Accounting policy** LVL thousand	**Reclassi-fication** LVL thousand	**Error** LVL thousand	**Restated** LVL thousand	**(Originally stated)** LVL thousand	**Change in Accounting policy** LVL thousand	**Reclassi-fication** LVL thousand	**Restated** LVL thousand
Assets									
Non-current assets									
Intangible assets	26,020	289	-	-	26,309	26,809	422	-	27,231
Property, plant and equipment	128,263	307,385	786	-	436,434	131,122	323,960	181	455,263
Investment properties	-	1,549	-	-	1,549	-	48,712	-	48,712
Investments in associated entities	82,102	(82,089)	-	-	13	106,772	(106,582)	-	190
Loans to affiliated companies	47,759	-	-	-	47,759	44,010	-	-	44,010
Other non-current financial assets	25,910	4,130	-	-	30,040	282	1,076	-	1,358
Total non-current assets	**310,054**	**231,264**	**786**	-	**542,104**	**308,995**	**267,588**	**181**	**576,764**
Current assets									
Inventories	1,808	1,086	(997)	-	1,897	2,050	3,029	(1,031)	4,048
Trade and other receivables	3,624	6,617	211	-	10,452	32,462	(21,874)	850	11,438
Short term deposits	20,908	-	-	6,111	27,019	8,229	27,378	-	35,607
Other current financial assets	-	18,160	-	-	18,160	-	645	-	645
Cash and cash equivalents	14,155	22,722	-	(6,111)	30,766	16,167	36,722	-	52,889
	40,495	**48,585**	**(786)**	-	**88,294**	**58,908**	**45,900**	**(181)**	**104,627**
Assets classified as held for sale	-	3,082	-	-	3,082	-	11,881	-	11,881
Total current assets	**40,495**	**51,667**	**(786)**	-	**91,376**	**58,908**	**57,781**	**(181)**	**116,508**
Total assets	**350,549**	**282,931**	**-**	-	**633,480**	**367,903**	**325,369**	**-**	**693,272**

Notes to the consolidated financial statements (cont'd)

2.1 Basis of preparation (cont'd)

Change in accounting policy regarding consolidation *(cont'd)*

	31.12.2010.	Adjustments		31.12.2010.	1.1.2010.	Adjustments		1.1.2010.
	(Originally stated)	Change in Accounting policy	Reclassi-fication	Restated	(Originally stated)	Change in Accounting policy	Reclassi-fication	Restated
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Equity and liabilities								
Equity								
Share capital	104,479	-	-	104,479	104,479	-	-	104,479
Share premium	42,343	-	-	42,343	42,343	-	-	42,343
Legal reserve	715	-	-	715	715	-	-	715
Reserves resulting from investment in associates	(7,198)	7,198	-	-	(15,958)	15,958	-	-
Foreign currency revaluation reserve	-	(5,029)	-	(5,029)	-	(15,828)	-	(15,828)
Cash flow hedge reserve	-	(1,124)	-	(1,124)	-	(939)	-	(939)
Other reserves	155,748	750	-	156,498	174,423	745	-	175,168
Loss for the year	(29,456)	(1,034)	-	(30,490)	(18,670)	-	-	(18,670)
Equity attributable to equity holders of the parent	**266,631**	**761**	**-**	**267,392**	**287,332**	**(64)**	**-**	**287,268**
Non-controlling interest	74,962	86,067	-	161,029	73,959	111,325	-	185,284
Total equity	**341,593**	**86,828**	**-**	**428,421**	**361,291**	**111,261**	**-**	**472,552**
Non-current liabilities								
Interest bearing loans	-	150,843	-	150,843	-	169,151	-	169,151
Finance lease	-	14,495	-	14,495	-	13,971	-	13,971
Deferred tax liability	1,595	111	-	1,706	1,588	131	-	1,719
Deferred income	1,737	-	-	1,737	383	-	-	383
Derivative financial instruments	-	757	-	757	-	-	-	-
Other non-current liabilities	-	161	-	161	-	1,584	-	1,584
Total non-current liabilities	**3,332**	**166,367**	**-**	**169,699**	**1,971**	**184,837**	**-**	**186,808**
Current liabilities								
Interest bearing loans	-	16,708	-	16,708	-	14,450	-	14,450
Finance lease	-	592	-	592	-	514	-	514
Trade and other payables	3,608	7,346	-	10,954	3,899	12,369	-	16,268
Taxes payable	1,078	578	-	1,656	280	288	-	568
Derivative financial instruments	-	1,494	-	1,494	-	-	-	-
Deferred income	106	2,816	-	2,922	43	1,743	-	1,786
Provisions	832	202	-	1,034	419	(93)	-	326
Total current liabilities	**5,624**	**29,736**	**-**	**35,360**	**4,641**	**29,271**	**-**	**33,912**
Total liabilities	**8,956**	**196,103**	**-**	**205,059**	**6,612**	**214,108**	**-**	**220,720**
Total equity and liabilities	**350,549**	**282,931**	**-**	**633,480**	**367,903**	**325,369**	**-**	**693,272**

Notes to the consolidated financial statements (cont'd)

2.1 Basis of preparation (cont'd)

Change in accounting policy regarding consolidation *(cont'd)*

Consolidated income statement

	2010	Adjustments		2010
	Originally stated	**Change in Accounting policy**	**Reclassification**	**Restated**
	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Revenue	53,352	58,664	-	112,016
Cost of goods sold	(40,722)	(55,261)	(923)	(96,906)
Gross profit	**12,630**	**3,403**	**(923)**	**15,110**
General and administrative expense	(4,527)	(10,872)	443	(14,956)
Other operating income	842	490	(50)	1,282
Other operating expense	(2,481)	(9,140)	530	(11,091)
Share of loss in associate	(37,712)	37,712	-	-
Impairment of other non-financial assets	-	(51,687)	-	(51,687)
Impairment of other financial receivables	(2,970)	2,970	-	-
Deconsolidation of net financial liabilities	-	5,868	-	5,868
Finance income	6,135	(271)	-	5,864
Finance costs	-	(14,027)	-	(14,027)
Loss before tax	**(28,083)**	**(35,554)**	**-**	**(63,637)**
Corporate income tax	(1,471)	(465)	-	(1,936)
Discontinued operations	**4,286**	**(4,286)**	**-**	**-**
Loss for the year	**(25,268)**	**(40,305)**	**-**	**(65,573)**
Attributable to:				
Parent company's shareholders	(29,456)	(1,034)	-	(30,490)
Non-controlling interest	4,188	(39,271)	-	(35,083)
	(25,268)	**(40,305)**	**-**	**(65,573)**
Loss per share (Lats per share) attributable to the Parent company's shareholders:	(0.32)	-	-	(0.29)
Profit / (Loss) per share (Lats per share)	0.04	-	-	(0.62)

Notes to the consolidated financial statements (cont'd)

2.1 Basis of preparation (cont'd)

Change in accounting policy regarding consolidation (cont'd)

Consolidated statement of cash flows

	2010	Adjustments		2010
	Originally stated	**Change in Accounting policy**	**Reclassification**	**Restated**
	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Operating activities				
Loss before tax	(23,797)	(39,840)	-	(63,637)
Non-cash adjustments to reconcile loss before tax to net cash flows				
Depreciation of property, plant and equipment and fleet	8,346	14,715	-	23,061
Amortisation of intangible assets	789	202	-	991
Depreciation of investment properties	-	385	-	385
Decrease in financial instruments	-	(10)	-	(10)
Decrease in provision for construction in progress	324	(324)	-	-
Disposal of investment	(4)	4	-	-
Loss on disposal of non-financial assets	354	1,367	-	1,721
Currency translation difference	(3,749)	9,503	-	5,754
Finance income	(2,184)	(2,151)	-	(4,335)
Finance costs	-	13,722	-	13,722
Recognized impairment	2,970	48,717	-	51,687
Share of net loss in associate	37,712	(37,712)	-	-
Changes in fair value of financial assets	-	2,959	-	2,959
Deconsolidation of net financial liabilities	(4,282)	(1,586)	-	(5,868)
	16,479	**9,951**		**26,430**
Working capital adjustments:				
Decrease in trade and other receivables and prepayments	1,623	2,429	(985)	5,037
Decrease in inventories	242	2,177	34	2,453
Increase/ (decrease) in trade and other payables	514	(4,217)	-	(3,703)
	18,858	**12,310**	**(951)**	**30,217**
Corporate income tax paid	(381)	-	-	(381)
Net cash flows from operating activities	**18,477**	**12,310**	**(951)**	**29,836**

Notes to the consolidated financial statements (cont'd)

2.1 Basis of preparation (cont'd)

Change in accounting policy regarding consolidation *(cont'd)*

Consolidated statement of cash flows (cont'd)

	2010	Adjustments		2010
	Originally stated	Change in Accounting policy	Reclassification	Restated
	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Investing activities				
Proceeds from sale of non-current assets held for sale	-	13,941	-	13,941
Proceeds from sale of property, plant and equipment and investment properties	62	(62)	-	-
Purchase of non-current assets	(6,086)	(2,862)	-	(8,948)
Acquisition of subsidiary	(17)	(15,562)	-	(15,579)
Acquisition of other financial instruments	-	(1,340)	-	(1,340)
New cash flow from deconsolidation of net financial liabilities	-	(365)	-	(365)
Proceeds from sale of financial instruments	21	79	-	100
Proceeds from disposal of subsidaries	-	78	-	78
Grants from ERDF	-	-	985	985
(Increase)/ Decrease in short term deposits	(12,679)	22,981	-	10,302
Loans issued	-	(784)	-	(784)
Interest received	1,395	973	-	2,368
Net cash flows from investing activities	**(17,304)**	**17,077**	**985**	**758**
Financing activities				
Payment of finance lease liabilities	-	(558)	-	(558)
Dividends paid	(3,185)	-	-	(3,185)
Proceeds from borrowings	-	14,651	-	14,651
Repayment of borrowings	-	(48,733)	-	(48,733)
Interest payments	-	(10,880)	-	(10,880)
Prepaid financing expenses	-	(1,071)	-	(1,071)
Net cash flows from financing activities	**(3,185)**	**(46,591)**	**-**	**(49,776)**
Net decrease in cash and cash equivalents	(2,012)	(17,170)	-	(19,182)
Cash and cash equivalents at 1 January	16,167	36,722	-	52,889
Exchange gains / (losses) on cash and cash equivalents	-	(2,941)	-	(2,941)
Cash and cash equivalents at 31 December	**14,155**	**16,611**	**-**	**30,766**

Notes to the consolidated financial statements (cont'd)

2.1 Basis of preparation (cont'd)

Other changes in accounting policies

Certain new IFRSs became effective for the Group from 1 January 2011. The new or amended standards or interpretations which became effective from 1 January 2011 are not expected to have a material impact to the Group.

Standards issued but not yet effective

Certain new standards and interpretations have been published that will become effective for the accounting periods beginning on or after 1 January 2012.

- **Presentation of Items of Other Comprehensive Income – Amendment to IAS 1** (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU). The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.
- **IFRS 9, Financial Instruments Part 1: Classification and Measurement** (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU). IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities, and in December 2011 to change its effective date and add transition disclosures. Key features of the standard are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

    The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.
- **IFRS 10, Consolidated financial statements** (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.
- **IFRS 12, Disclosures of interests in other entities** (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

Notes to the consolidated financial statements (cont'd)

2.1 Basis of preparation (cont'd)

Other changes in accounting policies *(cont'd)*

- **IFRS 13, Fair value measurement** (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU) aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries: *Ventspils nafta termināls Ltd, LatRosTrans Ltd* and *Latvian Shipping Company JSC* as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such legal control ceases. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in income statement
- Reclassifies the Parent's share of components previously recognised in other comprehensive income statement.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in income statement or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Business combinations and goodwill (cont'd)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Investments in associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise impairment losses on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the income statement.

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Foreign currency translation

The Group's consolidated financial statements are presented in Latvian Lat, which is also the Parent company's functional currency. Each subsidiary in the Group determines its own functional currency and items included in the financial statements of each subsidiary are measured using its functional currency.

Transactions and balances

The functional and presentation currency of *Ventspils Nafta Termināls Ltd, LatRosTrans Ltd and Ventspils Nafta JSC* is Latvian lat (LVL), the functional currency of *Latvian Shipping Company JSC* is U.S. Dollar (USD).

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian Lat applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Presentation of financial statements in LVL is done using exchange rate set by the Bank of Latvia according to the following rates:

		31.12.2011.	31.12.2010.
As at the reporting year-end	USD/LVL	0.544000	0.535000
	EUR/LVL	0.702804	0.702804
Average rate per period	USD/LVL	0.505410	0.530425

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

The services rendered by the Group comprise pipeline transportation of oil products. 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.

Reloading of crude oil and oil products

Revenue from reloading of oil products and corresponding expenses are recognised by reference to the stage of completion as at the year-end.

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the revenue can be reliably measured.

Voyages revenue

Revenue from time charters and bareboat charter, which are of operating lease in nature, is recognised on a straight-line basis over the period of each charter. Revenue from voyage charter on spot market is recognised on a percentage-of-completion basis, which is determined on the time proportion method of each individual voyage. The percentage is calculated based on the number of days completed of the estimated voyage period.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Revenue recognition *(cont'd)*

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.

Dividends

Income is recognized when the Group's right to receive dividend payment is established.

Government grants

Ventspils nafta termināls Ltd is entitled to European Regional Development Fund (ERDF) grants supervised by the European Commission of the European Union, with participation of the Latvian Investment and Development Agency. The grants are related to certain investment projects. *Ventspils nafta termināls Ltd* invests in the agreed projects and is subsequently partially reimbursed by the grants. The subsidiary recognises the grants upon the actual receipt of cash at its bank account.

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the subsidiary will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Taxes

Corporate income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income, respectivetely and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Taxes *(cont'd)*

Corporate income tax *(cont'd)*

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside income statement is recognised outside income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Financial assets

Initial recognition and measurement

Financial assets of the Group have been classified as financial assets at fair value through profit or loss, financial assets available for sale, and loans and receivables. The Group 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 Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments**.**

Subsequent measurement

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

<u>Financial assets at fair value through profit or loss</u>

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value.

<u>Loans and receivables</u>

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. The losses arising from impairment are recognised in the income statement in other operating expense and for operating receivables related to shipping activity in voyage costs.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Financial assets *(cont'd)*

Financial assets available for sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for- sale financial assets are subsequently carried at fair value. All gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in other comprehensive income except for dividends on available-for-sale equity instruments, which are recognised in the income statement when the Group's right to receive payments is established, and impairment losses, which are recognised in the income statement. Unquoted equity instruments which fair value cannot be measured reliably are carried at cost, less any impairment losses.

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 Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group 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 Group 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 Group 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.

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 Group. 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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Financial assets *(cont'd)*

Financial assets available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. For unquoted equity instruments that are carried at cost because their fair value cannot be reliably measured, if there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified financial liabilities at amortised cost and as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group 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 Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, and derivative financial instruments.

Subsequent measurement

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost 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 effective interest rate (EIR) method 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. The EIR amortisation is included in finance cost in the income statement.

Derecognition

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Financial liabilities *(cont'd)*

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 20.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

The Group uses cash flow hedges when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognised liability.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects income statement, such as when the hedged financial income or financial expense is recognised. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects income statement.

Current versus non-current classification

Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings and pipeline networks	over 5 to 100 years
Machinery and equipment	over 2 to 20 years
Other property, plant and equipment	over 2 to 33.33 years
Fleet	25 years

Fleet depreciation has been provided on the basis that the carrying value of the vessels, less an estimated scrap value of LVL 245 per lightweight ton (2010: LVL 161).

The part of the cost of a new vessel or a newly acquired vessel representing that element which will be utilised over the period to the next dry-docking is depreciated over the remaining period to the expected next dry-docking.

Dry-docking and special survey costs are capitalised and written off to direct operating expenses on a straight line basis over the estimated period to the next dry-docking.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated depreciation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets consist of land usage rights and other intangible assets related to the business of the Group.

Land use rights are stated at contributed value as agreed by the subsidiary's *LatRosTrans Ltd* founders and amortized over their estimated useful lives on a straight-line basis. Land use rights are the intangible assets to the land where the *LatRosTrans Ltd* existing pipelines are located. The estimated periods of useful life of land use rights are 47 years, except for the crude oil pipeline Polotsk - Ventspils sections of which useful life is estimated at 25 years.

Licenses for the use of software programmes are granted for periods ranging between 1 and 3 years. Therefore licenses are assessed as having finite useful life and are amortised on a straight line basis over the license period.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Leases

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease contract that allows the use of an asset, but does not convey rights similar to ownership of the asset. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight line basis over the useful life of the asset using 2% per annum.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, cost value is used, net of accumulated depreciation and accumulated impairment losses, if any. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Materials

The cost of materials and supplies are determined using the weighted average cost method. These materials are recorded as inventory when purchased and then expensed. The Group writes off unrealizable inventory and records an allowance for obsolete inventory as such items are identified.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses are recognised in the income statement as impairment of non-financial assets.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Restructuring

The Group recognises a provision for restructuring costs only when the general recognition criteria for provisions are met – when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Related parties

The parties are considered related when one party has the possibility to control the other one or has significant influence over the other party in making financial and operating decisions.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Earnings per share

Earnings per share are calculated by dividing the net result for the year attributable to ordinary equity holders of the Parent company shares by the average number of shares in issue during the year. The average number of the issued shares during the year has been weighted to take into account the timing of the issuance of new shares, if any. As the Group has neither in 2011 nor in 2010 outstanding instruments with dilutive effects the diluted and basic earnings per share are equal.

Subsequent events

Post-year-end events that provide additional information about the Group's position at the reporting 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.

2.3 Significant accounting judgments, estimates and assumptions

Judgments

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

According to the decision of the Court made on 3 January 2011, SIA LASCO Investment insolvency proceedings is considered to be initiated as of 17 December 2010. Accordingly it is considered that the Group has lost the control over this company as of 17 December 2010. The Company was deconsolidated from the Group as of that date.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-current assets of crude oil and oil product segment's

The Group's crude oil and oil product segment's non-current assets amounting to LVL 76 423 thousand (31.12.2010.: LVL 81 814 thousand) are considered as two separate cash generating units (CGU), for which cash inflows are largely independent.
The recoverable amount of one CGU is determined based on the value in use calculation using discounted cash flow projections approved by the management and covering a five-year period and the estimate of the terminal value at the end of the five-year period. The recoverable amount of the other CGU is determined based on the fair value less cost to sell calculation.

The impairment test of one CGU with carrying value of 17 865 thousand lats as of 31 December 2011 presumes that the Group's company is able to sell the technological crude oil in the pipelines. If the Group would not be able to sell the crude oil in the pipelines than impairment charge of LVL 17 million would be recognized in the income statement.

Recoverable value of fleet

The recoverable amount is the most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 17.

Notes to the consolidated financial statements (cont'd)

2.3 Significant accounting judgments, estimates and assumptions (cont'd)

Estimates and assumptions *(cont'd)*

Anticipated useful economic life of the fleet

Depreciation of vessels is charged so as to allocate the depreciable amount of these assets over their respective estimated useful lives. Management is required to assess the useful economic lives and residual value of the assets so that depreciation is charged on a systematic basis up to the estimated residual value. Estimates of useful economic life of vessels are based on management's experience by comparison to similar vessels in the industry. However, the actual life of a vessel may be different. Residual values are difficult to estimate given the long lives of vessels, the uncertainty as to future economic conditions and the future price of steel. Residual values are calculated by reference to the scrap value as of the reporting date, obtained from independent professional brokers. Changes to estimates of useful lives and residual values may affect the annual depreciation charge and thereby the results for the period significantly.

Management have made sensitivity analysis of residual value by increasing/ decreasing expected life of fleet by 5 years. The effect of this change in estimate would decrease depreciation expenses by LVL 2.0 million or increase depreciation expenses by LVL 3.4 million.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised deferred tax asset at 31 December 2011 is LVL 4 040 thousand (2010: LVL 5 155 thousand) and the unrecognised deferred tax assets at 31 December 2011 is LVL 345 thousand (2010: LVL 3 074 thousand). Further details are contained in Note 13.

Revenue

As part of logistics for delivering oil products to the terminal for loading onto vessels, the Group provides railway transit services to its clients. The service comprises coordinating the deliveries with the local railway providers (*LDz Cargo Ltd* and *Baltijas Tranzīta Serviss JSC*) and full administration of the railway deliveries. The Group employs specific human resources, systems and infrastructure for these purposes. The Group bears the credit risk for payments to the customers. Considering the above, the management has determined that the Group is acting as a principal in the railway transit services and accounts the correspondent revenue and expenses on a gross basis in the income statement.

Recognition of technological crude oil reserve

The crude oil that is kept in the subsidiary's *LatRosTrans Ltd's* crude oil pipelines is treated as contingent asset until all relevant asset recognition criteria have been met. In order to classify the crude oil as an asset there should not be any legal restrictions to alienate the crude oil and the amount of the crude oil must be measurable with sufficient reliability. The legal dispute regarding the crude oil has been described in Note 37. The reliable measurement of the quantity is in the management's view possible only upon pumping the oil out of the pipelines. Based on the court decision in December 2011, the management decided to sell the crude oil in the amount of 40 thousand tons. The respective amount of crude oil was pumped out in 2010 and recognised as an asset at 0 cost. The resulting gain on sale (net of expenses related to pumping and storage in the amount of LVL 5 536 thousand) amounted to LVL 10 406 thousand (Note 7). The remaining crude oil in the pipelines is continuously carried as a contingent asset (Note 34).

Notes to the consolidated financial statements (cont'd)

3. Segment information

Operating segments are determined on the basis of reports reviewed by the Management Board who is the chief operating decision maker that are used to make operating decisions. Reports submitted to the Management Board are prepared on the basis of International Financial Reporting Standards as adopted by EU.

For management purposes the Group is organised into business units based on their business activities and has three reportable operating segments – Crude oil and oil products, Shipping and Holding activities.

- Crude oil and oil products reportable segment mainly derives its revenues from the transporting, storage and reloading of crude oil and oil products in Latvia. The segment includes the activities of two subsidiaries which are monitored and managed separately, but have been aggregated and presented as one reportable segment in accordance with IFRS 8.
- Shipping segment primarily derives its revenues from the handy sized and medium range tankers transportation services mainly on the basis of time charter agreements. Segment's expenses include voyage costs, vessel operating expenses (including crew expenses and training) and administrative expenses relating to the management of shipping segment. The Group carries out its shipping operations in global markets. Management does not consider business analysis based on geographical segments because of the known difficulties in identifying the geographical distribution of the Group's activities.
- The holding activities represent financial income from investments made and gain or loss from holding and selling shares in subsidiaries and associated companies. Segment's major revenues and expenses are related to general and administrative expenses of holding and other activities relate to remuneration and statutory social insurance contributions, as well as professional charges and legal costs. Revenues from holding activities are mainly derived in Latvia.

In 2010 the Other segment included operations with investment property and aggregated also real estate segment represented by LASCO Investment SIA and its subsidiaries. Other operating segment assets are allocated to Latvia. Other segment included also the impairment of investment property. After deconsolidation of LASCO Investment SIA and its subsidiaries Other segment becomes insignificant.

On 17 December 2010 insolvency proceedings was initiated with respect to LASCO Investment SIA, therefore, it is considered that the Group lost control over the company on 17 December 2010, and it is deconsolidated as of 17 December 2010. For deconsolidation of other reportable segment refer to Note 11.

Management assesses the performance of the segments based on the measure of net result before taxes, as well as assets of the segments. The amounts provided to the Management with respect to total assets, and net result before taxes are measured in a manner consistent with that of the financial statements.

Sales between segments are carried out at arm's length basis. Income and expenses of business segments include income and expenses directly generated by the segment. The expenses of the Parent Company (general management expenses of the Group) and decrease in fair value of financial assets are not allocated to segments.

Revenues of approximately LVL 11 537 thousand and LVL 4 631 thousand, (2010: LVL 7 966 thousand and LVL 6 164 thousand, respectively) are derived from two external customers in the shipping segment. Revenues of LVL 67 860 thousand (2010: LVL 52 937 thousand) are derived from one related party of a shareholder with significant influence in Crude oil and oil products segment.

The table in the next page present the breakdown of income statement items, as well as assets by operating segments. Adjustments and eliminations represent consolidation entries on transactions.

Notes to the consolidated financial statements (cont'd)

3. Segment information (cont'd)

	Crude oil and oil products		Shipping		Other		Holding activities		**Total segments**		Adjustments and eliminations		**Consolidated**	
	2011 LVL th	2010 LVL th	2011 LVL th	2010 LVL th	2011 LVL th	2010 LVL th	2011 LVL th	2010 LVL th	**2011 LVL th**	**2010 LVL th**	2011 LVL th	2010 LVL th	**2011 LVL th**	**2010 LVL th**
Revenue from external customers	**68,928**	**53,352**	**48,839**	**57,601**	**-**	**1,063**	**-**	**-**	**117,767**	**112,016**	**-**	**-**	**117,767**	**112,016**
Intersegment revenue	-	-	13	73	-	180	323	131	**336**	**384**	(336)	(384)	-	-
Voyage costs	-	-	(4,392)	(11,034)	-	-	-	-	**(4,392)**	**(11,034)**	-	-	**(4,392)**	**(11,034)**
Vessel operating costs	-	-	(23,808)	(27,336)	-	-	-	-	**(23,808)**	**(27,336)**	-	-	**(23,808)**	**(27,336)**
Cost of sales (vessel operating costs excluding)	(48,877)	(31,924)	(1,281)	(2,397)	-	(626)	-	-	**(50,158)**	**(34,947)**	9	232	**(50,149)**	**(34,715)**
Other revenue	-	-	475	564	-	718	-	-	**475**	**1,282**	(1)	-	**474**	**1,282**
Depreciation and amortisation	(9,064)	(8,789)	(13,162)	(14,736)	-	(563)	(12)	(29)	**(22,238)**	**(24,117)**	-	-	**(22,238)**	**(24,117)**
Impairment of non-financial assets	-	(320)	(14,262)	(27,005)	-	(24,682)	-	-	**(14,262)**	**(52,007)**	-	-	**(14,262)**	**(52,007)**
Deconsolidation of net financial liabilities	-	-	-	-	-	-	-	5,868	**-**	**5,868**	-	-	**-**	**5,868**
Interest income	883	666	-	-	-	-	1,233	2,047	**2,116**	**2,713**	-	(426)	**2,116**	**2,287**
Interest expense	-	-	(10,434)	(12,501)	-	(1,221)	-	-	**(10,434)**	**(13,722)**	7	426	**(10,427)**	**(13,296)**
Net result before taxes	**11,870**	**12,985**	**(18,012)**	**(36,771)**	**-**	**(25,131)**	**1,544**	**8,017**	**(4,598)**	**(40,900)**	**(321)**	**(152)**	**(4,919)**	**(41,052)**
Segment assets	**197,592**	**190,171**	**335,249**	**343,376**	**-**	**3,405**	**77,376**	**78,276**	**610,217**	**615,228**	**-**	**-**	**610,217**	**615,228**
Unallocated:														
Assets of subsidiaries not included in segment													3,165	92
Financial assets at fair value through profit and loss													-	1,704
Available-for-sale financial assets													16,100	16,456
Total consolidated assets													**629,482**	**633,480**
Capital expenditure	2,098	6,817	38,324	2,652	-	-	732	5	**41,154**	**9,474**	-	-	**41,154**	**9,474**

Notes to the consolidated financial statements (cont'd)

3. Segment information (cont'd)

Reconciliation of segment results to consolidated income statement:

	2011 LVL thousand	2010 LVL thousand
Segment result	(4,919)	(41,183)
Reconciliation to loss before taxes:		
General and administrative expenses (excluding depreciation)	(9,893)	(14,209)
Impairment of financial assets	(4,704)	(7,964)
Other operating expenses, net	6,819	(3,127)
Other financial income, net	1,052	2,846
Adjustments and eliminations	321	-
LOSS BEFORE TAXES:	**(11,324)**	**(63,637)**

4. Revenue

	2011 LVL thousand	2010 (restated) LVL thousand
Voyage income	48,839	57,601
Reloading of crude oil and oil products	58,753	43,440
Transportation of oil products by pipeline	10,175	9,901
Other income	474	1,074
TOTAL:	**118,241**	**112,016**

5. Cost of goods sold

	2011 LVL thousand	2010 (restated) LVL thousand
Railway services	32,650	15,199
Depreciation and amortisation (Note 14, 15, 16)	21,753	23,821
Crew expenses (expenses related to wages included in Note 9)	10,987	12,991
Maintenance and repairs	8,172	5,670
Personnel expenses (Note 9)	6,536	7,433
Chartering expenses	2,794	5,344
Bunkering	2,646	7,047
Utilities	2,426	2,054
Insurance	2,240	3,034
Utilization of piers	1,881	1,694
Statutory social insurance contributions (Note 9)	1,531	1,673
Luboil	1,170	1,419
Commissions	1,031	1,621
Port expenses	715	2,366
Other	4,548	5,540
TOTAL:	**101,080**	**96,906**

Notes to the consolidated financial statements (cont'd)

6. General and administrative expense

	2011 LVL thousand	2010 (restated) LVL thousand
Professional fees	4 621	5 065
Personnel expenses (Note 9)	2 290	4 774
Statutory social insurance contributions (Note 9)	513	1 118
Depreciation and amortization (Note 15, 16)	486	616
Occupation and repairs	406	840
Other administrative expenses	1 712	2 543
TOTAL:	**10 028**	**14 956**

7. Other operating income

	2011 LVL thousand	2010 (restated) LVL thousand
Net result from sale of the tehnological crude oil (Note 2.3)	10 406	-
Oil extracted from wastewater	-	343
Other income	488	939
TOTAL:	**10 894**	**1 282**

8. Other operating expense

	2011 LVL thousand	2010 (restated) LVL thousand
Impairment of loans and receivables	4,715	5,005
Payments to local municipality	909	891
Non-current assets written off	1,402	559
Result from disposal of fleet	363	1,162
Sponsorship	58	178
Impairment of financial assets available for sale	-	2,959
Other operating expenses	362	337
TOTAL:	**7,809**	**11,091**

Notes to the consolidated financial statements (cont'd)

9. Personnel expenses

	2011	2010 (restated)
Average number of employees during the reporting year	**1 016**	**1 108**

Remuneration for work and insurance contributions

	2011	2010 (restated)
	LVL thousand	LVL thousand
Employees		
Remuneration	17 232	20 318
Statutory social insurance contributions	1 952	2 267
Other personnel expense	425	527
Management, Board and Members of the Council		
Remuneration	486	2 244
Statutory social insurance contributions	106	524
Other personnel expense	11	-
TOTAL:	**20 212**	**25 880**

Personnel expense is included in the following captions of the income statement:

	2011	2010 (restated)
	LVL thousand	LVL thousand
Cost of sales	17,409	19,988
General and administrative expense	2,803	5,892
TOTAL:	**20,212**	**25,880**

10. Impairment of other non-financial assets

	2011	2010 (restated)
	LVL thousand	LVL thousand
Impairment of fleet (see Note 15)	7,126	24,375
Impairment of assets clasified as held for sale (see Note 25)	6,484	2,630
Impairment of investment properties (see Note 16)	652	24,166
Impairment of property, plant and equipment (see Note 15)	-	516
TOTAL:	**14,262**	**51,687**

Notes to the consolidated financial statements (cont'd)

11. Deconsolidation

According to the decision of the court, insolvency proceedings in respect of Group's subsidiary *LASCO Investment Ltd* were started from 17 December 2010 and, as a result, it was deconsolidated as of 17 December 2010. On 3 January 2011 insolvency of *LASCO Investment Ltd* was announced by the Vidzeme Suburb Court.

Derecognition of assets and liabilities

On deconsolidation of LASCO Investment Group companies assets and liabilities were derecognised as presented below, resulting in recognition of a gain from deconsolidation of net financial liability.

	17.12.2010. (restated) LVL thousand
Other fixed assets	786
Investment property	23,850
Current assets	904
Total deconsolidated assets	**25,540**
Deferred corporate income tax	(3,596)
Borrowings (intragroup)	(44,765)
Trade and other payables	(28,371)
Total deconsolidated liabilities	**(76,732)**
Loans and trade receivables recognized on deconsolidation	73,492
Foreign exchange rate fluctuations	(222)
Allowance on doubtful debt recongized on deconsolidation	(45,324)
Gain on deconsolidation	**5,868**

Notes to the consolidated financial statements (cont'd)

11. Deconsolidation (cont'd)

The results of the operations of *LASCO Investment Group* until the loss of control are consolidated on a line by line basis within the Group's income statement as presented below:

	2010 (restated)
	LVL thousand
Net sales	855
Cost of sales	(1,126)
Gross loss	**(271)**
Selling costs	(4)
Administrative expenses	(693)
Result from disposal of non-financial assets	(169)
Impairment of investment property	(24,166)
Other operating income	281
Other operating expenses	(43)
Operating loss	**(25,065)**
Finance income	-
Finance costs	(3,433)
Loss before tax	**(28,498)**
Deferred income tax	-
Net loss for the reporting period until loss of control	**(28,498)**

12. Finance income and costs

	2011	2010 (restated)
	LVL thousand	LVL thousand
Interest income	1,091	4,252
Foreign currency exchange profit, net	1,395	1,529
Other	661	83
TOTAL finance income:	**3,147**	**5,864**
Interest expense	10,324	13,722
Bank charges	103	305
TOTAL finance costs:	**10,427**	**14,027**

13. Corporate income tax

In accordance with Latvian tax legislation current corporate income tax is applied at the rate of 15% (2010: 15%) on taxable income generated by the Parent company and its subsidiaries during the taxation period ending 31 December 2011.

	2011	2010 (restated)
	LVL thousand	LVL thousand
Current corporate income tax	1,498	1,949
Deferred tax	(636)	(13)
Total corporate income tax for the reporting year:	**862**	**1,936**

Notes to the consolidated financial statements (cont'd)

13. Corporate income tax (cont'd)

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

	2011	2010 (restated)
	LVL thousand	LVL thousand
Total loss before tax for the reporting year	**(11,324)**	**(63,637)**
Corporate income tax at 15%	*(1,699)*	*(9,546)*
The effect of different tax rates and tax rebates	(523)	(1,189)
Non-deductible loss from foreign subsidiaries	3,726	15,462
Non-taxable income / non - deductible expense	2,087	909
Decrease in unrecognized deferred tax asset	(2,729)	(1,321)
Non-taxable income related to deconsolidation	-	(2,379)
Total corporate income tax for the reporting year:	**862**	**1,936**

Deferred corporate income tax:

	Statement of financial position		Income statement	
	31/12/2011	31/12/2010 (restated)	2011	2010 (restated)
Deferred tax liability	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Accelerated depreciation for tax purposes	(9,480)	(11,210)	1,730	(591)
Gross deferred corporate income tax liability	*(9,480)*	*(11,210)*	*1,730*	*(591)*
Deferred tax asset				
Tax losses carried forward	4,385	8,229	(3,844)	1,766
Deferred tax assets related to other temporary differences	204	183	21	133
Tax rebate on investment projects above LVL 10 000 thousand*	4,166	4,166	-	-
Unrecognized deferred tax asset**	(345)	(3,074)	2,729	(1,321)
Gross deferred corporate income tax asset	*8,410*	*9,504*	*(1,094)*	*578*
TOTAL	**(1,070)**	**(1,706)**	**636**	**(13)**

*According to Decision No. 613 of the Latvian Cabinet of Ministers, dated 30 October 2002, *LatRosTrans Ltd* was eligible for an investment tax relief amounting to LVL 4 166 thousand. The tax relief expires in 2013 and it can be used to reduce corporate income tax payable. Considering that as corporate income tax payable only arises when all the tax losses for the previous taxation periods have been utilised, the application of the tax relief granted to *LatRosTrans Ltd* can only be utilised when the company has utilised all other tax losses. During the period of *LatRosTrans Ltd* eligibility for this tax relief, corporate income tax is applied at the rate of 25%.

** According to the *LatRosTrans Ltd* estimates, the sale of the remaining part of the *LatRosTrans Ltd* assets related to the *LatRosTrans Ltd* pipeline will result in taxable income; therefore, *LatRosTrans Ltd* will be able to utilise the tax losses in the amount of LVL 4 040 thousand carried forward fully as well as all of the above mentioned tax relief unless the litigation process (see Note 33) is postponed to as far as till 2014 in the most unfavourable case. In this most unfavourable case, the tax losses may be utilised partially as well as the tax relief may or may not be utilised depending on the timing of the asset sales transaction before or after the expiry date of the tax relief in 2013. However, the Company's management believes that the litigation case will not follow the most unfavourable case.

Notes to the consolidated financial statements (cont'd)

13. Corporate income tax (cont'd)

Group's management estimates that *the Group* will not be able to fully utilize tax rebate before its expiry (April 2013), and, as a result, a valuation allowance of LVL 57 thousand (31/12/2010: LVL 2 790 thousand) has been recorded.

As at 31 December 2011, *Ventspils nafta termināls Ltd* was eligible for the maximum applicable discounts for direct taxes (applicable mainly to corporate income tax and real estate tax) in the amount of LVL 35 820 thousand (2010: LVL 38 295 thousand).

In 2011 *Ventspils nafta termināls Ltd* applied a 3% (2010: 5%) corporate income tax rate to estimate deferred corporate income tax liabilities based on management's assumption that *Ventspils nafta termināls Ltd* will benefit from an 80% corporate income tax discount applied to companies operating in accordance with the Law of the Republic of Latvia on Tax Application in Free Ports and Special Economic Zones.

Group's tax losses carried forward expire as follows:

	Tax loss (LVL'000)	Expiry term
Tax loss for 2005	2,284	2013
Tax loss for 2006	2,601	2014
Tax loss for 2007	6,070	2015
Tax loss for 2008	4,743	
Tax loss for 2009	2,357	
Tax loss for 2010	185	
Tax loss for 2011	-	
TOTAL:	**18,240**	

Notes to the consolidated financial statements (cont'd)

14. Intangible assets

	Licenses and other intangibles	Land use rights*	Total
	LVL thousand	LVL thousand	LVL thousand
Cost:			
Restated cost at 1 January 2010	**942**	**49,658**	**50,600**
Additions	118	-	118
Disposals	(168)	-	(168)
31 December 2010	**892**	**49,658**	**50,550**
Additions	10	-	10
Disposals	(70)	-	(70)
31 December 2011	**832**	**49,658**	**50,490**
Amortisation and impairment:			
Restated at 1 January 2010	**520**	**22,849**	**23,369**
Amortisation	202	789	991
Disposals	(119)	-	(119)
31 December 2010	**603**	**23,638**	**24,241**
Amortisation charge for the year	170	788	958
Disposals	(70)	-	(70)
31 December 2011	**703**	**24,426**	**25,129**
Net book value:			
At 1 January 2010 (restated)	422	26,809	27,231
At 31 December 2010 (restated)	289	26,020	26,309
At 31 December 2011	129	25,232	25,361

As at 31 December 2011 the remaining amortization period of land use rights is 30 years.

* Upon the foundation of subsidiary *LatRosTrans Ltd* (the "Subsidiary"), the Republic of Latvia, represented by *JSC LaSam*, contributed land usage rights, where the subsidiary's transmission pipelines were located at an estimated value of LVL 49 658 thousand. The contribution value was agreed on by the founders of the subsidiary *LatRosTrans Ltd* according to an agreement dated 29 September 1995.

The subsidiary's right to the contributed land usage rights is based on the Law on Restriction Zones dated 5 February 1997 and Latvian Civil Law, according to which *LatRosTrans Ltd* has usage rights to the land where the subsidiary's existing pipelines are located. In case of repairs or similar activities on the pipelines, any damage to the land must be compensated to the owners. Further, use of land for new pipelines must be compensated to the owners, new pipelines being defined as pipelines established after the law came into force.

In 2011 and 2010, based on the discounted cash flow projections, no impairment loss for intangible assets was deemed necessary.

Amortization expenses have been included in the following captions of the income statement:

	2011	2010 (restated)
	LVL thousand	LVL thousand
Cost of sales	958	991

Notes to the consolidated financial statements (cont'd)

15. Property, plant and equipment

	Land, buildings and pipeline networks	Fleet	Machinery and equipment	Other property, plant and equipment	Construction in progress/ Newbuildings under construction*	Total
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Cost:						
Restated at 1 January 2010	**214,975**	**330,716**	**69,377**	**13,885**	**40,617**	**669,570**
Additions	254	2,085	73	221	6,723	**9,356**
Disposals	(2,328)	(6,883)	(399)	(3,126)	(329)	**(13,065)**
Deconsolidation (Note 11)	(2,728)	-	-	(374)	-	**(3,102)**
Reclassification (Note 25)	729	(14,351)	2,363	1,228	(5,434)	**(15,465)**
Exchange differences	-	30,904	-	-	3,673	**34,577**
31 December 2010	**210,902**	**342,471**	**71,414**	**11,834**	**45,250**	**681,871**
Additions	762	1,697	149	169	38,367	**41,144**
Disposals	(3,144)	(969)	(1,446)	(693)	(21,452)	**(27,704)**
Reclassification (Note 25)	1,596	4,287	1,551	307	(58,712)	**(50,971)**
Exchange differences	-	6,180	-	-	(2,340)	**3,840**
31 December 2011	**210,116**	**353,666**	**71,668**	**11,617**	**1,113**	**648,180**
Depreciation and impairment:						
Restated at 1 January 2010	**124,144**	**51,060**	**29,111**	**9,992**	**-**	**214,307**
Depreciation	3,795	14,249	3,785	1,232	-	**23,061**
Disposals	(1,269)	(5,989)	(332)	(2,842)	-	**(10,432)**
Reclassification (Note 25)	(82)	(8,683)	-	(12)	-	**(8,777)**
Deconsolidation (Note 11)	(2,210)	-	-	(106)	-	**(2,316)**
Impairment	516	-	-	-	24,375	**24,891**
Exchange differences	-	4,703	-	-	-	**4,703**
31 December 2010	**124,894**	**55,340**	**32,564**	**8,264**	**24,375**	**245,437**
Depreciation	3,618	12,765	3,880	1,004	-	**21,267**
Disposals	(1,792)	(969)	(1,369)	(629)	(8,245)	**(13,004)**
Reclassification (Note 25)	-	(14,599)	-	-	-	**(14,599)**
Impairment	-	21,340	-	-	(14,214)	**7,126**
Exchange differences	-	2,472	-	-	(1,916)	**556**
31 December 2011	**126,720**	**76,349**	**35,075**	**8,639**	**-**	**246,783**
Net book value:						
At 1 January 2010 (restated)	90,831	279,656	40,266	3,893	40,617	455,263
At 31 December 2010 (restated)	86,008	287,131	38,850	3,570	20,875	436,434
At 31 December 2011	83,396	277,317	36,593	2,978	1,113	401,397

* Construction in progress represents unfinished construction related to a new pipeline and support structures and dry docks in progress.

The total original cost value of fully depreciated property, plant and equipment still in use as at 31 December 2011 was LVL 76 720 thousand (31/12/2010: LVL 75 677 thousand).

Notes to the consolidated financial statements (cont'd)

15. Property, plant and equipment (cont'd)

Depreciation expenses have been included in the following caption in the income statement:

	2011	2010 (restated)
	LVL thousand	LVL thousand
Cost of sales	20,781	22,445
General and administrative expense	486	616
Total depreciation for the reporting year:	**21,267**	**23,061**

16. Investment properties

	Land, buildings and other assets	Construction in progress *	**Total**
	LVL thousand	LVL thousand	LVL thousand
Cost:			
Restated at 1 January 2010	**67,359**	**3,737**	**71,096**
Additions	111	177	**288**
Disposals	(358)	(69)	**(427)**
Reclassification (Note 11)	1,113	-	**1,113**
Deconsolidation	(54,021)	(3,840)	**(57,861)**
31 December 2010	**14,204**	**5**	**14,209**
Additions	-	-	-
Disposals	-	-	-
Reclassification	5	(5)	-
31 December 2011	**14,209**	**-**	**14,209**
Depreciation and impairment:			
Restated at 1 January 2010	**20,367**	**2,017**	**22,384**
Depreciation	385	-	**385**
Impairment	24,121	45	**24,166**
Reclassification (Note 11)	94	-	**94**
Deconsolidation	(31,949)	(2,062)	**(34,011)**
Disposals	(358)	-	**(358)**
31 December 2010	**12,660**	**-**	**12,660**
Depreciation	14	-	**14**
Impairment	652	-	**652**
31 December 2011	**13,326**	**-**	**13,326**
Net book value:			
At 1 January 2010 (restated)	46,992	1,720	48,712
At 31 December 2010 (restated)	1,544	5	1,549
At 31 December 2011	883	-	883

Notes to the consolidated financial statements (cont'd)

16. Investment properties (cont'd)

Depreciation expenses have been included in the following captions of the income statement:

	2011	2010 (restated)
	LVL thousand	LVL thousand
Cost of sales	14	385
Total depreciation for the reporting year:	**14**	**385**

The fair value of Investment Property as of 31 December 2011 and 31 December 2010 approximate its carrying value.

At the end of 2011 and 2010 the Group engaged an independent certified valuation specialist to determine fair value of assets.

For the valuation purposes the appraiser used a discounted cash flow model and comparable deal method. The valuations were done for each of the investment properties on individual basis.

In 2010, the impairment of Investment properties mainly related to the assets of *LASCO Investment Ltd*, recoverable amount of which was defined based on valuations performed by independent certified appraiser at the end of the year. *LASCO Investment Ltd* was deconsolidated as at 31 December 2010 (see Note 11).

The valuation of the investment property held as at 31 December 2010 has been performed based on a number of assumptions, including rent rates, occupancy, discounting and capitalization rates applied which were as follows:

- Rent rates: LVL 21 – LVL 22 per square meter;
- Occupancy rates: 0% in initial year until 100% after four years;
- Discounting rate: 9.6%;
- Capitalization rate: 8.6%.

In 2011, impairment was recognized on one investment property. Valuation of the respective investment property has been based on a number of assumptions, including rent rates, occupancy, capitalization rate applied which are as follows:

- Rent rates: LVL 3.7 per square meter;
- Occupancy: May - September;
- Capitalization rate: 12%.

17. Impairment of non-current assets

The Group's non-current assets are tested for impairment when indicators of impairment exist. The total net carrying value of the non-current assets of the Group tested for impairment is LVL 353 848 thousand (31/12/2010: LVL 387 033 thousand) and consist of intangible assets (land usage rights) and property, plant and equipment.

As at 31 December 2011 no indications of impairment were noted for *Ventspils nafta terminals Ltd* therefore no impairment test was performed for this subsidiary. For *Latvian Shipping Company JSC* and *LatRosTrans Ltd* indications of impairment were noted therefore an impairment test was performed as detailed below. As at 31 December 2010 impairment indications were noted and impairment test was performed for *Latvian Shipping Company JSC* and *LatRosTrans Ltd*.

Latvian Shipping Company JSC

The fleet is tested for impairment annually according to requirements imposed by the lending financial institutions. The global economic environment and shipping are closely aligned. A weaker global economy has resulted in lower shipping rates and lower earnings in the shipping industry. The management believes that less demand for refined products in developed western economies has negatively impacted the shipping industry.
As at 31 December 2010 the recoverable value of the fleet approximates the estimated value in use and recoverable value of the newbuildings under construction constitutes the fair value less cost to sell.

Notes to the consolidated financial statements (cont'd)

17. Impairment of non-current assets (cont'd)

As at 31 December 2011 the recoverable value of the fleet is determined by using following approaches for three groups of vessels:

- Fair value less costs to sell:
  - fleet held for sale (3 HS vessels) in total balance sheet value of LVL 32.4 million (see Note 25), for which the recoverable amount constitutes fair value less cost to sell. Total impairment loss recognised LVL 6.8 million;
  - operating fleet (1 HS and 6 MR vessels) and newbuildings delivered in the middle of 2011 (2 MR vessels) in total balance sheet value of LVL 131.4 million, for which the recoverable amount constitutes fair value. Total impairment loss recognised LVL 7.1 million.
- Value in use:
  - operating fleet (1 Panamax, 3 HS and 4 MR vessels) in total balance sheet value of LVL 153.1 million, for which the recoverable amount constitutes the value in use. There is no impairment loss recognised.

Fair value less cost to sell is determined based on valuation carried out by an independent appraiser. Valuation was performed on "willing seller and willing buyer" basis and was given to the best of their knowledge and based on the sale and purchase market condition prevailing at the time mentioned subject to the vessel being in sound condition and made available for delivery.

Value in use in 2010 was determined for each vessel individually based on discounted cash flow projections. The following assumptions were used: for 2011 and for the following years the Group has used its budgeted time charter rates (during the agreement period) as well as charter market forecasts (periods not covered by particular periods); operating costs are planned at the current level; discount rate applied is 6.6%; and the scrap value applied is LVL 163 per light weight ton.

Value in use in 2011 is determined for each vessel individually based on discounted cash flow projections. Key assumptions used as of 31 December 2011 are as follows: the Company has used vessels historical (starting from the year of delivery) time charter equivalent rates and operating costs; operating costs are increased every 5 years considering necessary dry-docking; last 5 years income and operating expenses are adjusted considering age of the vessel; discount rate applied is 9.06%; and the scrap value applied is LVL 245 per light weight ton.

Sensitivity to changes in assumptions

With regard to the assessment of recoverable value of total fleet in use, management believes that no reasonably possible change in any of the above key assumptions would cause a decrease in estimated recoverable value.

In 2010 impairment loss of newbuildings under construction was recognised in the amount of LVL 13.7 million. In 2011 impairment was recognised on 8 vessels as the carrying value of vessels in use exceeded their recoverable value by LVL 14.0 million.

The following individual change in each of the key assumptions would make vessels, which were not impaired, recoverable amount approximate its carrying amount as of 31 December 2011:

- Decrease in time charter rates by 5.4% in average (2010: 6.6%) per day.
- Increase in operating costs by 7% (2010:10%).
- Increase in discount rate by 1pp (2010: 1pp).

LatRosTrans Ltd

Non-current assets that include property, plant and equipment and intangible assets are split into two separate cash generating units (CGU), for which cash inflows are largely independent. These are as follows:

- crude oil pipeline Polotsk – Mazeikiai (operations ceased in July 2006) and crude oil pipeline Polotsk – Ventspils (operations ceased in December 2002) and related land usage rights;
- oil product pipeline Polotsk – Ventspils and related land usage rights.

17. Impairment of non-current assets (cont'd)

LatRosTrans Ltd (cont'd)

The recoverable amount of operating CGU is determined based on the value in use calculation using discounted cash flow projections approved by the management and covering a five-year period and the estimate of the terminal value at the end of the five-year period.
Key assumptions made by management are as follows:

- terminal growth rate used 2.4%;
- discount rate used 8.8%.

If a discount rate would be increased and terminal growth rate decreased by 1 pp than the impairment would be in amount of LVL 1.2 million.
The recoverable amount of the non-operating CGU is determined based on the fair value less cost to sell calculation. Fair value less cost to sell is based on the current market prices of oil.

18. Investments in associated entities

The following table summarizes the ownership (%) of the Group in its associated entities:

	Ownership (%)		
Associated entities:	31/12/2011	31/12/2010	Country of registration
*Futbola klubs Ventspils Ltd***	44.31	44.31	Latvia
*Lord World Travel Ltd (dormant)**	50	50	Gibraltar
Via Una SIA	45.45	45.45	Latvia

**Lord World Travel Ltd* was liquidated in 2011.

19. Loans to affiliated companies

	2011.12.31	**2010.12.31 (restated)**
	LVL thousand	LVL thousand
Euromin Loan note	47 759	47 759
TOTAL:	**47 759**	**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 Group's management believes that debt is fully recoverable.

Notes to the consolidated financial statements (cont'd)

20. Other financial assets

20 (a) Other non-current financial assets

	31.12.2011.	31.12.2010. (restated)	01.01.2010. (restated)
	LVL thousand	LVL thousand	LVL thousand
Debt due from *LASCO Investment Group*	73,830	73,492	-
Allowance for doubtful debt	(50,312)	(45,324)	-
Other*	2,235	1,872	1,358
TOTAL:	**25,753**	**30,040**	**1,358**

As at 31 December 2011 the amount due from LASCO Investment Group was LVL 73.83 million (31/12/2010: LVL 73.49 million). The net value of the loans issued has been decreased to the fair value of real estate assets pledged (mainly due to changes in the zoning in Jurmala district, where one of the real estate property is located) as of 31 December 2011 representing LVL 23.52 million (2010: LVL 28.17 million). The balances due from LASCO Investment Group are not past due, however, considering the circumstances described in Note 11 the loans were impaired. Carrying value of debt from LASCO Investment Group approximates its fair value.

* Other financial assets are neither past due nor impaired and their carrying value approximates their fair value.

20 (b) Other current financial assets

	31.12.2011.	31.12.2010. (restated)	01.01.2010. (restated)
	LVL thousand	LVL thousand	LVL thousand
Assets at fair value through profit or loss	-	1,704	645
Available-for-sale financial assets	16,100	16,456	-
TOTAL:	**16,100**	**18,160**	**645**

Financial assets at fair value through profit or loss

	31.12.2011.	31.12.2010. (restated)	01.01.2010. (restated)
	LVL thousand	LVL thousand	LVL thousand
Shares in Ventspils Nafta JSC	-	976	-
Bonds of Latvian Government	-	728	645
TOTAL:	**-**	**1 704**	**645**

Fair value in 2010 of equity securities of listed entities is based on their current bid prices in an active market.

Notes to the consolidated financial statements (cont'd)

20. Other financial assets (cont'd)

20 (b) Other current financial assets (cont'd)

Changes in financial assets at fair value through profit or loss:

	2011	2010 (restated)
	LVL thousand	LVL thousand
At 1 January	**1,704**	**645**
Additions	-	4,197
Settlements	(1,708)	(90)
Change in fair value	11	(2,876)
Changes in provisions	(22)	(2)
Exchange differences	15	(170)
At 31 December	**-**	**1,704**

Fair value in 2010 of unlisted securities is based on expected cash flows discounted using rate based on the market interest rate and specific risk premium rate.

Available for sale financial assets

On 21 May 2010 the Group acquired 100% of *NAFTA Invest Ltd* shares for LVL 15.7 million cash consideration with the purpose to earn capital gains on its main asset - *JSC Latvijas Naftas Tranzīts* shares. The contribution was paid in cash. In accordance with independent appraiser's valuation report the value of the company's equity as at the day of acquisition was LVL 15.7 million, which is equal to consideration paid on acquisition. As the subsidiary acquired did not constitute a business, the transaction was treated as purchase of assets and the consideration was allocated between the individual identifiable assets and liabilities based on their relative fair values at the acquisition date. Shares of *JSC Latvijas Naftas Tranzīts* are classified as available-for-sale financial asset in accordance to IAS 39. Non-controlling interest is measured at its proportionate share in the recognised amounts of net identifiable assets of *Skonto Nafta Ltd*, which is 71.43% subsidiary of the acquired *NAFTA Invest Ltd*.

The consideration paid was allocated to the purchased assets and liabilities based on their relative fair values as follows:

	Fair value recognised on acquisition 2010 (restated)
	LVL thousand
Other assets acquired on acquisition	210
Shares in JSC "Latvijas Naftas Tranzits" acquired on acquisition*	19,131
	19,341
Trade and other payables	(289)
	(289)
Net assets	**19,052**
Non-controlling interest	(3,375)
Net asssets acquired	**15,677**
Cash outflow on acquisition	
Net cash acquired with the subsidiary	115
Cash paid in 2010	(15,677)
Net cash outflow	**(15,562)**

* *Skonto Nafta Ltd* owns 15.91% shareholding in *JSC Latvijas Naftas Tranzīts*. The shares of *JSC Latvijas Naftas Tranzīts* are not publicly traded.

Notes to the consolidated financial statements (cont'd)

20. Other financial assets (cont'd)

20 (b) Other current financial assets (cont'd)

Available for sale financial assets *(cont'd)*

	31.12.2011.	**31.12.2010. (restated)**	**01.01.2010. (restated)**
	LVL thousand	LVL thousand	LVL thousand
Shares in Latvijas Naftas tranzīts JSC	16 100	16 456	-
TOTAL:	**16 100**	**16 456**	**-**

Due to lack of information the Management was not able to assess the fair value of shares in JSC "Latvijas Naftas Tranzīts". As of 2011 the investment is accounted at cost less any impairment charge recognised.

21. Inventories

	31.12.2011.	**31.12.2010. (restated)**	**01.01.2010. (restated)**
	LVL thousand	LVL thousand	LVL thousand
Stock on vessels	1,069	1,052	2,945
Other raw materials and supplies	1,880	845	1,103
TOTAL:	**2,949**	**1,897**	**4,048**

22. Trade and other receivables

	31.12.2011.	**31.12.2010. (restated)**	**01.01.2010. (restated)**
	LVL thousand	LVL thousand	LVL thousand
Financial assets			
Trade receivables	989	546	3,447
Doubtful debts	7,571	7,299	5,732
Allowance for doubtful debts	(7,571)	(7,299)	(5,732)
Other debtors, net	852	2,149	428
Accounts receivable from related parties	17,613	1,161	2,608
Accrued income	1,633	680	132
Other accounts receivable	319	522	224
Non-financial assets			
Advance payments	2,131	1,390	2,504
Corporate income tax receivable	92	-	651
Deferred expenses	1,143	2,693	781
Tax receivable	799	1,311	663
TOTAL:	**25,571**	**10,452**	**11,438**

All allowances are individually assessed.
Other current receivables are non-interest bearing and are generally receivable on 30 - 90 days' terms.

Notes to the consolidated financial statements (cont'd)

22. Trade and other receivables (cont'd)

The analysis of financial assets are as follows:

	Total LVL'000	**Neither past due nor impaired**	**Past due** up to 90 days	91 to 180 days	181 to 365 days	More than 365 days	**Impaired**
31.12.2010.	**12 357**	4 470	181	202	104	101	7 299
31.12.2011.	**28 977**	21 077	7	196	108	18	7 571

Analysis of the credit quality of financial assets does not include deferred expenses, tax receivable and advance payments.

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to historical information about counterparty default rates. The receivables that are not due (LVL 21 077 thousand; 2010: LVL 4 470 thousand) comprise of receivables to related parties in the amount of LVL 17 613 thousand (2010: LVL 1 161 thousand) – see the related party information in Note 35. The remaining amount of receivables not due in the amount of LVL 3 013 thousand (2010: LVL 3 496 thousand) is to customers with no significant defaults in the past.

The carrying value of the trade and other receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the carrying value of receivables. The Group does not hold any collateral as security.

23. Short term deposits

	31.12.2011.	**31.12.2010. (restated)**	**01.01.2010. (restated)**
	LVL thousand	LVL thousand	LVL thousand
Short-term deposits	18 045	27 019	35 607
TOTAL:	**18 045**	**27 019**	**35 607**

Credit quality of short-term deposits (Fitch's):

	31.12.2011.	**31.12.2010. (restated)**	**01.01.2010. (restated)**
	LVL thousand	LVL thousand	LVL thousand
A+	18,045	27,019	7,800
A	-	-	27,378
Not rated	-	-	429
TOTAL:	**18,045**	**27,019**	**35,607**

Short-term deposits are placed for periods ranging from three months to twelve months depending on the immediate cash requirements and earn interest at the respective short-term deposit rates. Interest for short-term deposits is calculated at the respective short-tem deposit rates, which during the reporting year ranged from 1.15% to 2.15%.

Notes to the consolidated financial statements (cont'd)

24. Cash and cash equivalents

	31.12.2011.	31.12.2010. (restated)	01.01.2010. (restated)
	LVL thousand	LVL thousand	LVL thousand
Term deposits	17 230	6 608	36 626
Current bank accounts	16 037	24 112	16 194
Cash on hand	76	46	69
TOTAL:	**33 343**	**30 766**	**52 889**

The credit quality of cash at bank and short-term deposits (Fitch's) were as follows:

	LVL thousand	LVL thousand	LVL thousand
AAA	8 910	15 444	10 756
AA-	9	251	-
A+	23 655	11 240	24 736
A	693	3 785	9 054
B+	-	-	4 828
Not rated	-	-	3 446
Cash on hand	76	46	69
TOTAL:	**33 343**	**30 766**	**52 889**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

25. Assets classified as held for sale

In order to ensure sustainable financing for the remaining fleet the decision was made to sell 3 vessels (2010: one vessel) and those where re-classified to assets classified as held for sale.

	LVL thousand
Cost	
Restated at 1 January 2010	**61,829**
Disposals	(61,829)
Reclassification (Note 15)	5,668
Exchange differences	44
At 31 December 2010	**5,712**
Reclassification (Note 15)	36,371
Disposals	(5,396)
Exchange rate differences	2,462
At 31 December 2011	**39,149**
Depreciation	
Restated at 1 January 2010	**49,948**
Disposals	(49,948)
Impairment	2,630
At 31 December 2010	**2,630**
Impairment	6,484
Disposals	(2,485)
Exchange rate differences	206
At 31 December 2011	**6,835**
Carrying amount:	
At 1 January 2010 (restated)	11,881
At 31 December 2010 (restated)	3,082
At 31 December 2011	32,314

As of 31 December 2011 assets held for sale are stated at fair value less costs to sell, which comprises LVL 32.3 million (31.12.2010.: LVL 3.1 million). In 2011 impairment of assets held for sale was charged to income statement in the amount of LVL 6.5 million (2010: LVL 2.5 million).

26. Share capital, earnings per share, reserves and non-controlling interests

Share capital

The following table represents the distribution between bearer shares and registered shares:

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

Information on shareholders' equity participation is summarized shortly before shareholders' general meeting. 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, owning 49.5% of the Parent company's share capital.

All shares issued are authorized and fully paid. The nominal value of each share is LVL 1.

Notes to the consolidated financial statements (cont'd)

26. Share capital, earnings per share, reserves and non-controlling interests (cont'd)

Earnings per share and dividends

Basic and diluted earnings per share attributable to the Parent company shareholders are calculated by dividing the net loss attributable to parent company's shareholders for the reporting year of LVL 6 994 thousand (for 2010: net loss attributable to parent company's shareholders of LVL 30 490 thousand) by weighted average number of shares during the year of 104 479 thousand (2010: 104 479 thousand).

Reserves

Legal reserve

Legal reserves represent the Group's share of subsidiary's *LatRosTrans Ltd* legal reserve which was previously provided for in accordance with the Law of the Republic of Latvia on Limited Liability Companies in amount of 5% of the prior years' profits. Pursuant to the Commercial Law of the Republic of Latvia, formation of such reserves is no longer required. Legal reserve can be distributed by a resolution of the shareholders.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiary for which functional currency is other than lats.

According to the Articles of Association net result after restricted reserves and dividends is allocated to Other reserves. Other reserves can be distributed by a resolution of the shareholders.

Cash flow hedge reserve

This reserve records the effective portion of the gain or loss on hedging instruments in cash flow hedges. The loss on cash flow hedges recognized in other comprehensive income stands for the effective portion of changes in the fair value of interest rate swaps.

Non-controlling interests

As at 31 December 2011 non-controlling interests are represented by:

- 34% non-controlling interest in *LatRosTrans Ltd* capital shares,
- 49% non-controlling interest in *Ventspils nafta termināls Ltd* capital shares, and
- 50.06% non-controlling interest in *Latvian Shipping Company JSC* capital shares.

Notes to the consolidated financial statements (cont'd)

26. Share capital, earnings per share, reserves and non-controlling interests (cont'd)

***Non-controlling interests** (cont'd)*

The Income statement non-controlling interest of LVL 5 192 thousand represents net result attributable to non-controlling shareholders on year 2011 net result.

	2011	2010 (restated)
	LVL thousand	LVL thousand
Attributable to *Ventspils nafta termināls Ltd* non-controlling interest holders	4 150	4 738
Attributable to *LatRosTrans Ltd* non-controlling interest holders	2 728	(550)
Attributable to *Latvian Shipping Company JSC* non-controlling interest holders	(12 070)	(39 271)
TOTAL:	**(5 192)**	**(35 083)**

27. Borrowings

	31.12.2011.	31.12.2010. (restated)	01.01.2010. (restated)
	LVL thousand	LVL thousand	LVL thousand
Repayments due within next 12 months	17,643	17,297	14,955
Overdraft	-	-	3
Unamortized prepaid financing expenses*	(681)	(589)	(508)
Net current portion	**16,962**	**16,708**	**14,450**
Non-current portion	164,231	153,482	171,988
Unamortized prepaid financing expenses*	(2,553)	(2,639)	(2,837)
Net non-current portion	**161,678**	**150,843**	**169,151**
Total loans outstanding	181,874	170,779	186,946
Total unamortized prepaid financing expenses	(3,234)	(3,228)	(3,345)
Total loans, net of unamortised financing expenses	**178,640**	**167,551**	**183,601**

* Prepaid financing expenses are amortised within the loan repayment period, using EIR.

In 2004 the Group signed a long term loan agreement with a loan facility of US $ 360 million (LVL 186.44 million) and another long term loan agreement with a loan facility of US $ 75 million (LVL 38.84 million) to finance the purchase of vessels.

In 2011 the Group signed a long term loan agreement with a loan facility of US $ 48.6 million (LVL 23.79 million) to finance the purchase of new vessels. There are no undrawn loan balances as at the end of 2011 and 2010.

Loans are denominated in US $ and are advanced to the Group's single vessel companies. *Latvian Shipping Company JSC* has issued a corporate guarantee to secure the loans (US $ 360 million, US $ 75 million). Guarantees are given in the normal course of business. As a security, the lenders have mortgages over the vessels together with common assignments and pledges.

The loans are repayable in quarterly instalments and carry interest at US $ LIBOR plus margin 2.75%.

In 2009 the Group entered into two long term loan agreements in the amount of US $ 32.5 million (LVL 16.38 million). US $ 32.5 million was repaid in 2010.

In 2010 *Latvian Shipping Company JSC* received and repaid a loan in the amount of US $ 27.6 million (LVL 14.55 million).

As at 31 December 2011 and 2010 the Group is not in breach of any loan covenants (see Note 38).

Notes to the consolidated financial statements (cont'd)

27. Borrowings (cont'd)

The loans are scheduled to be repaid as follows:

Year	LVL million
2012	17.6
2013	17.6
2014	17.6
2015	17.6
2016	35.1
2017	76.4
TOTAL	**181.9**

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	31.12.2011. LVL thousand	**31.12.2010. (restated)** LVL thousand	**01.01.2010. (restated)** LVL thousand
Borrowings bearing fixed interest rate (considering effect of SWAP agreements)	65 234	82 963	82 408
Borrowings bearing variable interest rate repriced 3 month	116 640	87 816	104 538
TOTAL:	**181 874**	**170 779**	**186 946**

Derivative financial instruments

In 2008 LSC Holdings Ltd. has entered into 2 interest rate swap agreements and in 2011 Arctic Holdings has entered into 2 interest rate swap agreements:

	Start date	**Maturity date**	**Notional amount, USD `000**	**Rate receivable**
Interest rate swap	29.12.2008.	28.12.2011.	91 000	2.9975%
Interest rate swap	29.12.2008.	28.12.2012.	91 000	2.3950%
Interest rate swap	22.06.2011.	22.06.2016.	24 300	1.9200%
Interest rate swap	21.07.2011.	21.07.2016.	24 300	1.8900%

These interest rate swaps are used to hedge the Group's cash flow risk from fluctuation of the LIBOR rates.

As of 31 December 2011 the negative fair value of the swaps amounting to LVL 1.46 million (31.12.2010.: negative fair value of LVL 2.25 million) was recognized in equity within Cash flow hedge reserve.

Gains and losses recognized in hedging reserve in equity and interest rate swap contract as of 31 December 2011 will be continuously released to income statement within finance costs until the repayment of bank loans.

28. Finance lease

In August 2009 *Latvian Shipping Company JSC* entered into an agreement for the m.t. Riga sale and leaseback transaction in the amount of US $ 30 million (LVL 14.67 million) with the floating interest rate and final payment being due in 2014. As of the end of the reporting year finance lease liabilities amounted to LVL 14.71 million (31.12.2010.: LVL 15.1 million).

Notes to the consolidated financial statements (cont'd)

28. Finance lease (cont'd)

Future minimum payments under finance lease together with the present value of the net minimum lease payments are as follows:

	Minimum payments			Present value of payments		
	31.12.2011.	**31.12.2010. (restated)**	**01.01.2010. (restated)**	**31.12.2011.**	**31.12.2010. (restated)**	**01.01.2010. (restated)**
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Within one year	2 727	2 675	2 445	751	643	514
Unamortised prepaid financing expenses*	(64)	(52)	-	(64)	(51)	-
Net current protion	**2 663**	**2 623**	**2 445**	**687**	**592**	**514**
After one year but not more than five years	17 070	19 470	20 241	14 137	14 642	13 971
Unamortised prepaid financing expenses*	(116)	(147)	-	(116)	(147)	-
Net non-current protion	**16 954**	**19 323**	**20 241**	**14 021**	**14 495**	**13 971**
Minimum lease payments	19 617	21 946	22 686	14 708	15 086	14 485
Less amounts representing finance charges*	(4 909)	(6 860)	(8 201)	-	-	-
Present value of minimum lease payments	**14 708**	**15 086**	**14 485**	**14 708**	**15 086**	**14 485**

* For finance charge calculation purposes constant rate applied and unamortised prepaid expenses, which are amortised within the finance lease period.

29. Deferred income

	31.12.2011.	**31.12.2010. (restated)**	**01.01.2010. (restated)**
	LVL thousand	LVL thousand	LVL thousand
Non-current portion of deferred income	2,623	1,737	383
Current portion of deferred income	5,735	2,922	1,786
Total	**8,358**	**4,659**	**2,169**

Non-current part of deferred income represents compensation and European Regional Development Fund (ERDF) funding for re-implementation of a complex for the treatment of gasoline with butane

Current portion of deferred income includes revenue from time charters and ERDF financing. ERDF share of financing of butanization process amounting to LVL 1 446 thousand (2010: LVL 963 thousand), and compensation for the Groups's technological base improvements and new equipment installations, which are related to providing a new service to the client amounting to LVL 1 330 thousand (2010: LVL 880 thousand). Deferred income is amortised to the statement of comprehensive income proportionally to the calculated finance depreciation of the underlying fixed assets. The expected useful life of the real estate incorporated into the butanization complex commissioned in 2010, is 50 years.

There are no unfulfilled conditions or contingencies attached to this funding.

Notes to the consolidated financial statements (cont'd)

30. Trade and other payables

	31.12.2011. LVL thousand	31.12.2010. (restated) LVL thousand	01.01.2010. (restated) LVL thousand
Due to related parties	223	67	-
Accrued expenses	4,140	5,371	6,520
Trade payables	4,494	4,523	5,762
Other payables	2,641	993	3,986
TOTAL:	**11,498**	**10,954**	**16,268**

Terms and conditions on the above financial liabilities:

- For terms and conditions relating to related parties, *refer to Note 35*;
- For explanations on the Group's liquidity risk management processes, *refer to Note 36*;
- Trade and other payables are non-interest bearing and have an average term of six months.

31. Taxes payable

	31.12.2011. LVL thousand	31.12.2010. (restated) LVL thousand	01.01.2010. (restated) LVL thousand
Social security contributions	265	298	324
Personal income tax	156	212	191
Real estate tax	-	28	-
Value added tax	8	13	-
Corporate income tax	-	1 097	46
Natural resources tax	7	8	7
TOTAL:	**436**	**1 656**	**568**

32. Provisions

	31.12.2011. LVL thousand	31.12.2010. (restated) LVL thousand
Provisions for restructuring expenses	450	680
Provisions for sub-lease of piers	474	354
Other	167	-
TOTAL:	**1,091**	**1,034**

Restructuring expenses

The provision on restructuring expenses relates to restructuring provision of the subsidiary *Ventspils nafta termināls Ltd*. The restructuring plan of *Ventspils nafta termināls Ltd* was drawn up and announced to the employees of the subsidiary in 2011. The restructuring provision is relating to optimizing activities of the terminal.

Notes to the consolidated financial statements (cont'd)

32. Provisions

Movements in the provisions were as follows:

	Total
	LVL thousand
Restated as at 1 January 2010	**326**
Utilized	(224)
Charged	932
Restated as at 31 December 2010	**1 034**
Utilised	(230)
Charged	287
As at 31 December 2011	**1 091**

33. Commitments and Contingent liabilities

Ventspils nafta termināls Ltd

Environmental commitments

Ventspils nafta termināls Ltd (previously *JSC Ventspils nafta*) has been reloading crude oil and oil products for 50 years. During this time, a certain amount of leaked oil products has accumulated in the soil. In the last decade, the subsidiary has implemented new technologies to reduce and control the pollution level in the soil and ground waters, as well as performed all required monitoring and treatment operations which resulted in reducing the historical pollution. The subsidiary plans to continue with these works in future.

Future expenses related to the complete environmental recovery cannot be estimated precisely, as these are dependent on the intensity of the subsidiary's operations, effectiveness of the environmental recovery measures taken, as well as potential changes in laws.

Payments to the Ventspils City Council

Under the agreement signed between *Ventspils nafta termināls Ltd* and the *Ventspils City Council*, every year *Ventspils nafta termināls Ltd* has to pay to the *Ventspils City Council* fees for the transportation of crude oil and oil products through the Ventspils city territory amounting to LVL 700 thousand plus a variable amount not exceeding 1% of the subsidiary's net turnover for development of the social infrastructure in Ventspils. In 2007, the agreement with the *Ventspils City Council* was renewed for the period till 2032. Starting with 2007 and in the coming years the fixed portion of the payment will be adjusted for the Harmonised Consumer Price Index (HICP) published by the EU statistics office. In 2011, HICP was 2.7% (2010: 0.3%).

Assuming that the variable amount will remain at the 2011 level and the HICP determined by the EU statistics office will be 2.7% each year, the subsidiary has estimated the total amount of contingency payable to the *Ventspils City Council* as at 31 December 2011 to be LVL 25 million (2010: LVL 21 million).

Legal claims

JSC Ventbunkers had made a claim against *Ventspils nafta termināls Ltd*, seeking to resume possession of jetties No. 2 and No. 3 and hand them over to *JSC Ventbunkers* (the claim amount - LVL 282 thousand), cancel the sub-lease agreement and declare it void (the claim amount - LVL 161 thousand) and to collect damages in the amount of LVL 29 thousand. On 27 March 2008, the Judicial for Civil Cases of the Kurzeme Regional Court rejected the claim filed by *JSC Ventbunkers*.

On October 22, 2009, the Chamber of Civil Cases of the Supreme Court of the Republic of Latvia passed a judgment to partially satisfy the claim of *JSC Ventbunkers* against *Ventspils nafta termināls Ltd* and to declare the jetty sub-lease agreement, concluded on May 15, 2006 between *JSC Ventbunkers* and *Ventspils nafta termināls Ltd*, void from the moment of signing thereof. To reject the part of the claim of *JSC Ventbunkers* on preventing disturbance of possession, recognising and resuming possession, collecting of damages and cancelling of the jetty sub-lease agreement concluded on May 15, 2006. On December 18, 2009, *Ventspils nafta termināls Ltd* filed an appeal to the Department of Civil Cases of the Supreme Court of the Republic of Latvia, indicating the misapplication of substantive law standards and violation of procedural norms by the appellate instance court.

On the 20th of April, 2011, the Supreme Court of the Republic of Latvia ruled that the judgement should be rejected in the appeal part and the case is to be filed to the appeal instance for new review. At the moment the court hearing date is not announced.

The subsidiary has not established any specific provision with respect to the legal expense related to the above described claim.

Notes to the consolidated financial statements (cont'd)

33. Commitments and Contingent liabilities (cont'd)

Commitments

Capital commitments

No capital commitments entered into as at 31 December 2011. As at 31 December 2010 the Group's capital commitments of LVL 37 million represented signed contracts with Hyunday Mipo Dockyard Co., Ltd. (HMD) for the building of four medium-range ice-classed tankers of 52 000 DWT.

Operating lease commitments – Group as a lessor

During the normal course of business the Group concludes time charter agreements ranging from 3 months to 2 years and bareboat agreements for a 5 years period.

Operating lease commitments – Group as a lessee

The Group has time chartered 2 tankers from the other ship-owners for five years, which was terminated in the middle of 2011. The Group has entered into real estate rent agreement and into several transport operating lease agreements, which have the following payment schedule:

	31.12.2011.	**31.12.2010. (restated)**
	LVL thousand	LVL thousand
Non-cancelable payments within one year	86	4,574
Non-cancelable payments after one year	222	264
TOTAL:	**308**	**4,838**

34. Contingent assets

Technological crude oil reserve

Based on the measurements taken by the *LatRosTrans Ltd* approximately 110 thousand tons of crude oil is kept in the subsidiary's non-operating crude oil pipelines. That is not accounted for by the *LatRosTrans Ltd* in the balance sheet due to the restrictions of the court to alienate the crude oil in the amount of approximately 110 thousand tons (see Note 38).

35. Related party transactions

The parties are considered related when one party has the possibility to control the other one or has significant influence over the other party in making financial and operating decisions.

Significant shareholders of *JSC Ventspils nafta* are *JSC Latvijas naftas tranzīts* and *Euromin Holdings (Cyprus) Limited.* The entities related to these shareholders considered related parties of the Group. In the accounting period the transactions have been conducted with the following entities:

Related party	**The nature of the related party relationship**
Euromin Holdings (Cyprus) Ltd	Shareholder with significant influence
Vitol S.A	Parent of shareholder with significant influence
Ventspils Tank Services S.A. Vitol Tank Terminals International B.V. Mansel Oil Ltd. Eurotank Holding SARL VITOL BAHRAIN E.C. Vitol ASIA PTE LTD	Related parties of a shareholder with significant influence

Notes to the consolidated financial statements (cont'd)

35. Related party transactions (cont'd)

The related party transactions performed by the Group during the reporting year can be seen in the table below:

2011 Related party	Nature of services	Income LVL thousand	Expense LVL thousand	Amounts due from related parties LVL thousand	Amounts due to related parties LVL thousand
Euromin Holdings' (Cyprus) Ltd	Interest income	1 068	-	47 759	-
Ventspils Tank Services SA*	Reloading services/ transportation of oil products	67 861	-	1 463	(1 330)
Eurotank Holding SARL	Consulting services	-	(327)	-	(176)
Vitol Tank Terminals International B.V.	Consulting and IT services, supply of goods	-	(71)	-	-
Ventspils Tank Services SA*	Storage of oil	-	(4 264)	-	(47)
Mansel Oil Ltd.	Bunkering	-	(325)	-	-
Mansel Oil Ltd.	Management fee/IT services	81	-	-	-
Mansel Oil Ltd.	Voyage income	11 537	-	30	(4 634)
Vitol S.A.	other services	-	(9)	-	-
Vitol S.A.	Voyage income	1 007	-	-	-
VITOL BAHRAIN E.C.	Voyage income	668	-	-	-
Vitol S.A	Selling of crude oil	15 942	-	16 120	-
	TOTAL:	**98 164**	**(4 996)**	**65 372**	**(6 187)**

	Note	Amounts due from related parties	Amounts due to related parties
Including:			
Non-current	19	47 759	-
Current	22, 30	17 613	(223)
Deferred income	29	-	(5 964)
TOTAL:		**65 372**	**(6 187)**

The related party transactions performed by the Group during the previous reporting year can be seen in the table below:

2010 Related party	Nature of services	Income (restated) LVL thousand	Expense (restated) LVL thousand	Amounts due from related parties (restated) LVL thousand	Amounts due to related parties (restated) LVL thousand
Euromin Holdings' (Cyprus) Ltd	Interest income	679	-	47,759	-
Ventspils Tank Services SA	Reloading services/ transportation of oil products	52,937	-	877	(880)
Ventspils Tank Services SA	Storage of oil	-	(532)	-	-
SIA Etos Latvija	Consulting services	-	(60)	-	-
Mansel Oil Ltd.	Voyage income	6,474	-	212	-
Vitol S.A.	Voyage income	2,536	-	65	-
Vitol ASIA PTE LTD	Voyage income	304	-	7	-
VITOL INC.	Voyage income	180	-	-	-
Vitol Tank Terminals International B.V.	Consulting and IT services, supply of goods	-	(90)	-	(67)
Vitol S.A Ltd	Supply of goods	-	(18)	-	-
	TOTAL:	**63,110**	**(700)**	**48,920**	**(947)**

	Note	Amounts due from related parties	Amounts due to related parties
Including:			
Non-current	19	47,759	-
Current	22, 30	1,161	(67)
Deferred income	29	-	(880)
TOTAL:		**48,920**	**(947)**

Notes to the consolidated financial statements (cont'd)

35. Related party transactions (cont'd)

* *Ventspils nafta termināls Ltd* has concluded a contract with *Ventspils Tank Services S.A.*, which commenced on 1 March, 2007 and continues through 31 December 2011 regarding terminal services. This contract has an option of prolongation for further 5 years which could be exercised by *Ventspils Tank Services S.A*. According to the current contract *Ventspils Tank Services S.A.* is obliged to pay monthly fixed fees for terminal services which are based on reserved terminal capacities. The monthly fees are due even if the agreed capacities are not fully utilised by *Ventspils Tank Services S.A.*

36. Financial instruments and financial risk management

The Group's principal financial instruments comprise cash, trade and other accounts receivable, financial assets at fair value through profit or loss, financial assets available for sale, bank loans, finance lease, trade and other accounts payables and derivatives. The main purpose of these financial instruments which mainly arise directly from operations is to raise finance for the Group's operations.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

31.12.2011.

Assets as per statement of the financial position as at 31 December 2011	**Loans and receivables** LVL thousand	**Available for sale financial assets** LVL thousand	**Total** LVL thousand
Interest bearing loans	47,759	-	47,759
Other non – current financial assets	25,753	-	25,753
Trade accounts receivables	3,793	-	3,793
Current proportion of receivables from related parties	17,613	-	17,613
Other current financial assets	-	16,100	16,100
Short term deposits	18,045	-	18,045
Cash and cash equivalents	33,343	-	33,343
TOTAL	**146,306**	**16,100**	**162,406**

31.12.2011.

Liabilities as per statement of the financial position as at 31 December 2011	**Derivatives used for hedging** LVL thousand	**Other financial liabilities at amortized cost** LVL thousand	**Total** LVL thousand
Interest bearing loans	-	178,640	178,640
Finance lease	-	14,708	14,708
Derivative financial instruments	1,463	-	1,463
Trade and other payables	-	8,857	8,857
TOTAL	**1,463**	**202,205**	**203,668**

Notes to the consolidated financial statements (cont'd)

36. Financial instruments and financial risk management (cont'd)

31.12.2010. (restated)

Assets as per statement of the financial position as at 31 December 2010	**Loans and receivables** LVL thousand	**Available for sale financial assets** LVL thousand	**Assets at fair value through profit or loss** LVL thousand	**Total** LVL thousand
Interest bearing loans	47,759	-	-	47,759
Other non – current financial assets	30,040	-	-	30,040
Trade accounts receivables	3,897	-	-	3,897
Current proportion of receivables from related parties	1,161	-	-	1,161
Other current financial assets	-	16,456	1,704	18,160
Short term deposits	27,019	-	-	27,019
Cash and cash equivalents	30,766	-	-	30,766
TOTAL	**140,642**	**16,456**	**1,704**	**158,802**

31.12.2010. (restated)

Liabilities as per statement of the financial position as at 31 December 2010	**Derivatives used for hedging** LVL thousand	**Other financial liabilities at amortized cost** LVL thousand	**Total** LVL thousand
Interest bearing loans	-	167,551	167,551
Finance lease	-	15,087	15,087
Derivative financial instruments	2,251	-	2,251
Trade and other payables	-	9,961	9,961
TOTAL	**2,251**	**192,599**	**194,850**

01.01.2010. (restated)

Assets as per statement of the financial position as at 1 January 2010	**Loans and receivables** LVL thousand	**Assets at fair value through profit or loss** LVL thousand	**Total** LVL thousand
Interest bearing loans	44,010	-	44,010
Other non – current financial assets	1,358	-	1,358
Trade account and other receivables	4,231	-	4,231
Current proportion of receivables from related parties	2,608	-	2,608
Other current financial assets	-	645	645
Short term deposits	35,607	-	35,607
Cash and cash equivalents	52,889	-	52,889
TOTAL	**140,703**	**645**	**141,348**

Notes to the consolidated financial statements (cont'd)

36. Financial instruments and financial risk management (cont'd)

01.01.2010. (restated)

Liabilities as per statement of the financial position as at 1 January 2010	Other financial liabilities at amortized cost LVL thousand	Total LVL thousand
Interest bearing loans	183,601	183,601
Finance lease	14,485	14,485
Derivative financial instruments	-	-
Trade and other payables	12,282	12,282
TOTAL	**210,368**	**210,368**

The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the consolidated statement of financial position date.

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk, interest rate risk and liquidity risk. The Management Board reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk

The Group is exposed to credit risk through trade receivables, long-term and short-term loans, short-term deposits and cash and cash equivalents. The Group's cash equivalents have been invested in secure financial institutions.

The Group manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised.

As at 31 December 2011 the Group had a credit risk concentration to related parties amounting to 95% of total trade receivables 31/12/2010: 67%).

Maximum exposure to credit risk from financial assets as at 31 December 2011 for the Group amounted to LVL 143 502 thousand (31/12/2010: LVL 137 291 thousand), out of which LVL 73 512 thousand (31/12/2010: LVL 77 799 thousand) are due in more than after one year.

Foreign currency risk

The Group's financial assets and liabilities exposed to foreign currency risk comprise long-term loan, cash and cash equivalents, trade receivables, short-term loans, and trade payables.

A significant part of the revenues of the oil and oil products segment are derived in Euro whilst the major part of expenses is in Latvian Lats. The functional currency of *Latvian Shipping Company JSC* is U.S. dollars as this is the universally accepted trading currency in the shipping business. In order to manage its foreign currency risk the Group balances the currencies of short-term and long-term borrowings with the currencies of future cash flows from operations and enters into contracts on substantial capital investments and services in euro and U.S. dollars.

The Group does not use any financial derivatives to manage their exposure to foreign currency risk.

Notes to the consolidated financial statements (cont'd)

36. Financial instruments and financial risk management (cont'd)

Foreign currency risk (cont'd)

Since the functional currency of *JSC Latvian Shipping Company* is US dollars, then mostly the Group's currency risk in relation to US dollars affects other companies of the Group, except *JSC Latvian Shipping Company*. The Group'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.	01.01.2010.
Financial assets denominated in EUR'000	152 999	154 433	35 871
Financial liabilities denominated in EUR'000	(487)	(422)	(244)
Net balance sheet position in EUR'000	**152 512**	**154 011**	**35 627**
Net balance sheet position in LVL'000	**107 186**	**108 239**	**25 039**
Financial assets denominated in USD'000	30 207	672	93 580
Financial liabilities denominated in USD'000	-	-	(23)
Net balance sheet position in USD'000	**30 207**	**672**	**93 557**
Net balance sheet position in LVL'000	**16 433**	**359**	**45 750**

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 also ensures that the market rate does not differ from the official rate by more than 1%. Therefore, the Group'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 Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in US Dollar rate	Effect on profit before tax (LVL thousand)
31.12.2011.	+5%	822
	-5%	(822)
31.12.2010.	+5%	18
	-5%	(18)
01.01.2010.	+5%	2 288
	-5%	(2 288)

Interest rate risk

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the risk of changes in market interest rates primarily through its received loans, issued loans and placed short-term deposits. Interest rate risk is related mainly to the floating interest rate of the loans advanced to the Group. Interest on borrowings is fixed every 3 months.

US $ LIBOR

The Group manages its interest rate risk by entering into interest rate swap agreements that are designated to comply with hedge accounting and were re-measured prospectively and retrospectively to test whether they are effective within the hedging period. It was established that they are fully effective and therefore there is no ineffective portion to be recognized within profit or loss in the Consolidated Income Statement. The Group's policy is to keep between 25% and 50% of its borrowings at the fixed rates of interest as well as monitor market trends and fix the interest rates for loans and deposits for the subsequent period based on the market expectations. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

Notes to the consolidated financial statements (cont'd)

36. Financial instruments and financial risk management (cont'd)

Interest rate risk (cont'd)

These swaps are designated to hedge underlying debt obligations. At 31 December 2011 LVL 193 million (31.12.2010.: LVL 183 million) of financial liabilities are bearing variable interest rate (before SWAP effect). At 31 December 2011, after taking into account the effect of interest rate swaps (LVL 125 million), approximately 11% of the Group's borrowings are at a fixed rate of interest.

At 31 December 2011 LVL 48 million (31.12.2010.: LVL 48 million) of financial assets are having variable interest rate. A general rise in the interest rate by 0.5 percentage point would, all other things being equal, have no material effect on the financial result. The effect on equity excluding tax effect on an increase in the interest rate as mentioned above is estimated to be positive with approximately LVL 243 thousand. A general decrease in the interest rate by 0.1 percentage point would have positive effect on equity with approximately LVL 47 thousand.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings considering effect of SWAP agreements). There is no impact on the Group's equity other than current year's result.

	31.12.2011.		31.12.2010. (restated)		01.01.2010. (restated)	
	Increase/decrease in basic points	Effect on profit before tax (LVL thousand)	Increase/decrease in basic points	Effect on profit before tax (LVL thousand)	Increase/decrease in basic points	Effect on profit before tax (LVL thousand)
US $- LIBOR	0,5%	(423)	0,5%	(444)	2,0%	(1 027)
	-0,1%	85	-0,1%	83	-0,2%	103
EUR - LIBOR	0,5%	243	0,5%	1 915	2,0%	(267)
	-0,1%	(47)	-	-	-0,2%	27

Liquidity risk

The Group manages its liquidity risk by planning terms of payments and receivables by analyzing future cash flows. Risk analysis and designing of risk management plans are conducted at the top management level.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011, 31 December 2010 and 1 January 2010 based on contractual undiscounted payments.

Fair value

Year ended 31 December 2011

LVL thousand	On demand	< 3 months	to 12 months	1 to 5 years	> 5 years	Total
Bank loans	-	6,020	17,605	108,913	73,042	205,580
Finance lease	-	902	2,057	16,838	-	19,797
Derivative financial instruments	-	271	765	1,049	-	2,085
Trade and other accounts payable	1,567	8,368	12	-	-	9,947
TOTAL:	**1,567**	**15,561**	**20,439**	**126,800**	**73,042**	**237,409**

The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the balance sheet date.

Notes to the consolidated financial statements (cont'd)

36. Financial instruments and financial risk management (cont'd)

***Liquidity risk** (cont'd)*

Year ended 31 December 2010

LVL thousand		On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans		-	6 184	16 832	78 569	85 348	186 933
Finance lease		-	660	2 015	19 470	-	22 145
Derivative financial instruments		-	-	1 494	757	-	2 251
Trade and other accounts payable		1 287	7 693	783	198	-	9 961
	TOTAL:	**1 287**	**14 537**	**21 124**	**98 994**	**85 348**	**221 290**

At 1 January 2010

LVL thousand		On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans		-	5 113	15 297	94 482	90 904	205 796
Finance lease		-	603	1 842	20 241	-	22 686
Derivative financial instruments		-	-	1 535	345	-	1 880
Trade and other accounts payable		2 177	3 556	7 500	1 240	-	14 473
	TOTAL:	**2 177**	**9 272**	**26 174**	**116 308**	**90 904**	**244 835**

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of 31 December 2011 and 31 December 2010, the Group held the following financial instruments measured at fair value.

	Total 31.12.2011. LVL thousand	**Level 2 31.12.2011.** LVL thousand
Derivative financial instruments measured at fair value	**1,463**	**1,463**
Non-current SWAP transactions	500	500
Current SWAP transactions	963	963

Notes to the consolidated financial statements (cont'd)

36. Financial instruments and financial risk management (cont'd)

Liquidity risk *(cont'd)*

Fair value hierarchy *(cont'd)*

	Total 31.12.2010. (restated) LVL thousand	**Level 1 31.12.2010. (restated)** LVL thousand	**Level 2 31.12.2010. (restated)** LVL thousand	**Level 3 31.12.2010. (restated)** LVL thousand
Assets measured at fair value	**18,160**	**1,704**	**-**	**16,456**
Short term securities	728	728	-	-
Equity instruments	17,432	976	-	16,456
Derivative financial instruments measured at fair value	**2,251**	**-**	**2,251**	**-**
Non-current SWAP transactions	757	-	757	-
Current SWAP transactions	1,494	-	1,494	-

	Total 01.01.2010. (restated) LVL thousand	**Level 1 01.01.2010. (restated)** LVL thousand	**Level 2 01.01.2010. (restated)** LVL thousand	**Level 3 01.01.2010. (restated)** LVL thousand
Assets measured at fair value	**645**	**645**	**-**	**-**
Short term securities	645	645	-	-
Equity instruments	-	-	-	-
Derivative financial instruments measured at fair value	**1 880**	**-**	**1 880**	**-**
Non-current SWAP transactions	345	-	345	-
Current SWAP transactions	1 535	-	1 535	-

Capital management

The primary objective of the Group'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 maximise shareholder value.

The Group 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. The Group's capital management objectives, policies and procedures have not been changed in 2011 and 2010.

The Group 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 Group's plan for next three years is to maintain the gearing ratio in the level not exceeding 35%.

	31.12.2011. LVL thousand	**31.12.2010. (restated)** LVL thousand	**01.01.2010. (restated)** LVL thousand
Loans from credit institutions and finance lease liabilities	195 359	182 638	198 086
Less cash and cash equivalents	(33 343)	(30 766)	(52 889)
Net debt	***162 016***	***151 872***	***145 197***
Total capital	412 218	428 421	472 552
GEARING RATIO:	**39%**	**35%**	**31%**

Notes to the consolidated financial statements (cont'd)

37. Subsequent events

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, except as mentioned below.

LatRosTrans Ltd

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 with the court requesting to acknowledge the ownership right and possession of the Byelorussian company *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.

By the decision of the court the Claimant's application for securing the claim was satisfied and the claim was secured by:

1. attaching the technological crude oil contained in the Polotsk – Ventspils crude oil pipeline in the territory of the Republic of Latvia,

2. prohibiting *LatRosTrans Ltd* and its associated persons to perform actions related to pumping out and removal of technological crude oil from the Polotsk – Ventspils crude oil pipeline in the territory of the Republic of Latvia.

The claim was secured in the amount of 150 thousand tons of crude oil.

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

On 9 December 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 launched by the Byelorussian company.

During 2012, the following significant events related to the litigation have taken place:

1. The Chamber of Civil Cases of the Supreme Court, on 7 March 2012, ruled to cancel the securing of the claim in its part prohibiting *LatRosTrans Ltd* and its associated persons to perform actions related to pumping out and removal of the technological crude oil from the Polotsk – Ventspils crude oil pipeline in the territory of the Republic of Latvia. As a result of this, *LatRosTrans Ltd* has legal rights to pump out and remove the remaining crude oil and to use the crude oil pipeline for other purposes related to its economic activities.

2. On 19 March 2012, *LatRosTrans Ltd* launched 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.

The management of the *LatRosTrans Ltd* believes that the petition of appeal by the company Polotsktransneft Druzhba will not be satisfied, due to which no additional note has been included in the financial statements.

Apart from the above, since the last day of the reporting year until the signing of these financial statements there have not occurred any other events that might require adjustments or disclosure in the financial statements or notes thereto.

38. Going concern

As disclosed in Note 27, the Group has a significant balance of interest bearing loans, most of which are payable by the Group's subsidiary *JSC Latvian Shipping Company* and its subsidiaries *(hereafter - LSC Group)*, as at 31 December 2011. The loans are advanced to *Latvian Shipping Company's* single vessel companies. As security the lenders have mortgages on the vessels together with common assignments and pledges over *LSC Group* assets. *LSC Holdings Ltd*. and *JSC Latvian Shipping Company* are guarantors of these secured debts. The Group considers that it has complied with the conditions and covenants set by the Banks syndicates as at 31 December 2011 and the financial statements reporting date.
Subsequent to the year-end specific covenants set under the loan agreements were not met. Particularly, as at 31 March 2012 *LSC Group* did not meet the financial covenants: EBITDA/ Debt service ratio and Cash reserve as set under the loan agreement. During 2012, the existing lenders have formally approved the issuance of a temporary waiver of EBITDA/ Debt service covenant and the reduction of minimum Cash reserve covenant down to USD 17 million until 31 December 2013. The waiver is expected to be formally formalized and received in May 2012.

Notes to the consolidated financial statements (cont'd)

38. Going concern (cont'd)

The management of the *LSC Group* acknowledges that certain breaches of the bank loan covenants might occur onwards. These conditions give rise to a material uncertainty which may cast a significant doubt about the *LSC Group*'s ability to continue as a going concern; and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. However the management is confident that, if needed, an agreement on debt restructuring or further waivers of covenants will be successfully obtained.

The management of the Group believes that the uncertainty's around the ability of *LSC Group* to continue as a going concern do not impact the Group's ability to continue as a going concern as *JSC Latvian Shipping Company* and the Group are both limited liability joint stock companies and there are no guarantees issued by the Group relating to *LSC Group* or its debt. The management believes that the maximum risk exposure of the Group in the event that *LSC Group* ceases to be a going concern is the loss of the investment in and the loss of control over *JSC Latvian Shipping Company*. In addition, the Group excluding *LSC Group* have no concerns about their future liquidity and profitability to enable the Group to continue to operate at or beyond its current levels. As a result, the consolidated financial statements have been prepared on a going concern basis.

Corporate governance report

Introduction

This Corporate Governance Report of joint stock company "Ventspils nafta" (hereafter – Ventspils nafta) covers year 2011 (hereinafter – the Report) and is prepared on the basis of requirements of the Financial Instruments Market Law 56.[2], Paragraph 15.14 of NASDAQ OMX Riga Rules "On Listing and Trading of Financial Instruments on the Markets Regulated by the Exchange" and "Corporate Governance Principles and Recommendations on their Implementation" issued by NASDAQ OMX Riga, in force from June 1, 2010, and which are available at the website www.nasdaqomxbaltic.com in the section's "Exchange information" subsection "Rules and regulations".

The Report is prepared by the Management Board of Ventspils nafta and reviewed by the Supervisory Council of Ventspils nafta. The Report takes into consideration the "comply or explain" principle recommended in "Corporate Governance Principles and Recommendations on their Implementation" issued by NASDAQ OMX Riga.

In 2011, Ventspils nafta complied with majority of the corporate governance principles contained in "Corporate Governance Principles and Recommendations on their Implementation" issued by NASDAQ OMX Riga. The principles that Ventspils nafta did not comply with in 2011 are included in this report with explanations for non-compliance or inadequate implementation.

The Report is submitted to JSC "NASDAQ OMX Riga" together with Ventspils nafta audited consolidated financial statement for 2011, published on the official web site of Ventspils nafta www.vnafta.lv in Latvian and English.

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

Corporate governance report (cont'd)

Principles of good corporate governance implemented by JSC "Ventspils Nafta" in 2011

A. Shareholders meeting

Shareholders exercise their right to participate in the management of the Issuer at shareholders' meetings. In compliance with legal acts the Issuer shall call the annual shareholders' meeting as minimum once a year. Extraordinary shareholders' meetings shall be called as required.

1. Ensuring shareholders' rights and participation at shareholders' meetings

The Issuer shall ensure equal attitude towards all the shareholders – holders of one category of shares. All shareholders shall have equal rights to participate in the management of the Issuer – to participate at shareholders' meetings and receive information that shareholders need in order to make decisions.

1.1. It shall be important to ensure that all the holders of shares of one category have also equal rights, including the right to receive a share of the Issuer's profit as dividends or in another way in proportion to the number of the shares owned by them if such right is stipulated for the shares owned by them.

According to the Articles of Association, Ventspils nafta has issued bearer and registered shares that are of one category and all entitle shareholders to receive dividends, liquidation quotas and right to vote at shareholders' meetings. Bearer shares are currently included in the regulated market of NASDAQ OMX Riga. Ventspils nafta has in total issued 104,479,519 shares, which include 60,598,121 bearer shares and – 43,881,398 registered shares. Therefore, Ventspils nafta complied with this best practice provision.

1.2. The Issuer shall prepare a policy for the profit distribution. In the preparation of the policy, it is recommended to take into account not only the provision of immediate benefit for the Issuer's shareholders by paying dividends to them but also the expediency of profit reinvesting, which would increase the value of the Issuer in future. It is recommended to discuss the policy of profit distribution at a shareholders' meeting thus ensuring that as possibly larger a number of shareholders have the possibility to acquaint themselves with it and to express their opinion on it. In the Report, the Issuer shall specify where the Issuer's profit distribution policy is available.

At the moment, Ventspils nafta has not developed a profit distribution policy. According to the Commercial Law the shareholders' meeting shall resolve on profit distribution. Taking into consideration the fact that the Management Board and the Supervisory Council of Ventspils nafta have not received proposals from its shareholders relating to profit distribution policy, administrative bodies of Ventspils nafta have not made a decision about development of a profit distribution policy.

1.3. In order to protect the Issuer's shareholders' interest to a sufficient extent, not only the Issuers but also any other persons who in compliance with the procedure stipulated in legislative acts call, announce and organize a shareholders' meeting are asked to comply with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information.

In 2011 only the Management Board convoked shareholders meetings and complied with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information. Therefore, Ventspils nafta complied with this best practice provision.

1.4. Shareholders of the Issuers shall be provided with the possibility to receive in due time and regularly all the required information on the relevant Issuer, participate at meetings and vote on agenda issues. The Issuers shall carry out all the possible activities to achieve that as many as possible shareholders participate at meetings; therefore, the time and place of a meeting should not restrict the attendance of a meeting by shareholders. Therefore, it should not be admissible to change the time and place of an announced shareholders' meeting shortly before the meeting, which thus would hinder or even make it impossible for shareholders to attend the meeting.

In 2011 all shareholders' meetings of Ventspils nafta were held in Riga, at the hotel "Hotel de Rome" and the hotel "Konventa Sēta", which is convenient for shareholders. The time and venue of the meeting were not changed. Therefore, Ventspils nafta complied with this best practice provision in 2011.

Corporate governance report (cont'd)

1.5. The Issuers shall inform their shareholders on calling a shareholders' meeting by publishing a notice in compliance with the procedure and the time limits set forth in legislative acts. The Issuers are asked to announce the shareholders' meeting as soon as the decision on calling the shareholders' meeting has been taken; in particular, this condition applies to extraordinary shareholders' meetings. The information on calling a shareholders' meeting shall be published also on the Issuer's website on the Internet, where it should be published also at least in one foreign language. It is recommended to use the English language as the said other language so that the website could be used also by foreign investors. When publishing information on calling a shareholders' meeting, also the initiator of calling the meeting shall be specified.

Ventspils nafta complied with this best practice provision.

1.6. The Issuer shall ensure that comprehensive information on the course and time of the meeting, the voting on decisions to be adopted, as well as the agenda and draft decisions on which it is planned to vote at the meeting is available in due time to the shareholders. The Issuers shall also inform the shareholders whom they can address to receive answers to any questions on the shareholders' meeting and the agenda issues and ensure that the required additional information is provided to the shareholders.

See comment on Clause 1.4. In 2011 Ventspils nafta complied with this best practice provision.

1.7. The Issuer shall ensure that at least 14 (fourteen) days prior to the meeting the shareholders have the possibility to acquaint themselves with the draft decisions on the issues to be dealt with at the meeting, including those that have been submitted additionally already after the announcement on calling the meeting. The Issuer shall ensure the possibility to read a complete text of draft decisions, especially if they apply to voting on amendments to the Issuer's statutes, election of the Issuer's officials, determination of their remuneration, division of the Issuer's profit and other issues.

See comment on Clause 1.4. In 2011 Ventspils nafta complied with this best practice provision.

1.8. In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for Supervisory Council elections. The candidates to the Supervisory Council and candidates to other offices shall be nominated in due time so that the information on the said persons would be available to the shareholders to the extent as stipulated in Clause 1.9 of this Section as minimum 14 (fourteen) days prior to the shareholders' meeting.

Ventspils nafta encourages shareholders to nominate the candidates to the Supervisory Council and candidates to other offices in due time so that the information on the said persons is be available to all shareholders to the extent as stipulated in Clause 1.9 of this Section as minimum 14 (fourteen) days prior to the shareholders' meeting. Therefore in 2011, Ventspils nafta complied with this best practice provision as much as it was dependent on the management board of the Ventspils nafta.

1.9. Special attention should be paid that the shareholders at least 14 (fourteen) days prior to the shareholders' meeting have the possibility to acquaint themselves with information on Supervisory Council member candidates, as well as candidates of members of the audit committee whose approval is planned at the meeting. When disclosing information on Supervisory Council member candidates, also a short personal biography of the candidates shall be published.

Ventspils nafta encourages shareholders to nominate candidates to the Supervisory Council and other offices at least 14 (fourteen) days prior to the shareholders' meeting, so that shareholders are able to acquaint themselves with information on candidates, whose approval is planned at the meeting. Ventspils nafta encourages shareholders when disclosing information on Supervisory Council member candidates, to also publish a short personal biography of the candidates. Therefore in 2011, Ventspils nafta complied with this best practice provision as much as it was dependent on the management board of the Ventspils nafta.

1.10. The Issuer may not restrict the right of shareholders to consult among themselves during a shareholders' meeting if it is required in order to adopt a decision or to make clear some issue.

Ventspils nafta does not restrict the right of shareholders to consult among themselves during a shareholders' meeting if it is required in order to adopt a decision or to make clear some issue; therefore, Ventspils nafta complied with this best practice provision.

1.11. To provide shareholders with comprehensive information on the course of the shareholders' meeting, the Issuer shall prepare the regulations on the course of shareholders' meeting, in which the agenda of shareholders' meeting and the procedure for solving any organizational issues connected with the shareholders' meeting (e.g., registration of meeting participants, the procedure for the adoption of decisions on the issues to be dealt with at the meeting, the Issuer's actions in case any of the issues on the agenda is not dealt with, if it is impossible to adopt a decision etc.). The procedures adopted by the Issuer in relation to participation in voting shall be easy to implement.

In order to ensure smooth process of shareholders' registration for the meeting and in due time solve possible problem, Ventspils nafta has determined that shareholders shall inform the Management Board of Ventspils nafta about the representatives and authorised persons of shareholders who shall participate in the meeting, by submitting copies of the power of attorneys or the documents certifying the authorisation at least 5 (five) days before the day of shareholders' meeting.

At the shareholders meetings of Ventspils nafta the chairman of the meeting who is elected according to the Commercial law, suggests to determine the regulations for the discussions and decision making during the shareholders' meeting which is in force only in case the shareholders meeting approves them with majority of votes; therefore, Ventspils nafta complied with this best practice provision.

1.12. The Issuer shall ensure that during the shareholders' meeting the shareholders have the possibility to ask questions to the candidates to be elected at the shareholders' meeting and other attending representatives of the Issuer. The Issuer shall have the right to set reasonable restrictions on questions, for example, excluding the possibility that one shareholder uses up the total time provided for asking of questions and setting a time limit of speeches.

The shareholders meetings in 2011 were attended only by members of the Management Board and a part of the candidates to be elected at the shareholders' meeting; therefore, Ventspils nafta partly complied with this best practice provision.

1.13. When recording the course and contents of discussions on the agenda issues to be dealt with at the shareholders' meeting in the minutes, the chairperson of the meeting shall ensure that, in case any meeting participant requires it, particular debates are reflected in the minutes, or that shareholder proposals or questions are appended thereto in written form.

Ventspils nafta complied with this best practice provision.

Corporate governance report (cont'd)

2. Participation of members and member candidates of the Issuer's management institutions at shareholders' meetings

Shareholders' meetings shall be attended by the Issuer's Management Board members, auditors, and as possibly many Supervisory Council members.

2.1. The attendance of members of the Issuer's management institutions and auditor at shareholders' meetings shall be necessary to ensure information exchange between the Issuer's shareholders and members of management institutions as well as to fulfill the right of shareholders to receive answers from competent persons to the questions submitted. The attendance of the auditor shall not be mandatory at shareholders' meetings not discussing the finances of the Issuer. By using the right to ask questions, shareholders have the possibility to obtain information on the circumstances that might affect the evaluation of the financial report and the financial situation of the Issuer.

Ventspils nafta complied with this best practice provision.

2.2. Shareholders' meetings shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall in particular apply to Supervisory Council members. If a Supervisory Council member candidate or auditor candidate is unable to attend the shareholders' meeting due to an important reason, then it shall be admissible that this person does not attend the shareholders' meeting. In this case, all the substantial information on the candidate shall be disclosed before the shareholders' meeting.

See comment on Clause 2.1. Ventspils nafta complied with this best practice provision.

2.3. During shareholders' meetings, the participants must have the possibility to obtain information on officials or official candidates who do not attend the meeting and reasons thereof. The reason of non-attendance should be entered in the minutes of shareholders' meeting.

During shareholders' meetings, the shareholders had the possibility to obtain information on officials or official candidates who do not attend the meeting and reasons thereof. It is recorded in the minutes of the shareholders' meeting, which officials have arrived to the shareholders' meeting, yet the reason of absence of individual officials is not specified. Ventspils nafta complied with this best practice provision.

B. Management Board

The Management Board is the Issuer's executive institution, which manages and represents the Issuer in its everyday business, therefore the Issuer shall ensure that it is efficient, able to take decisions, and oriented to increasing the company's value, therefore its obligations and responsibilities have to be clearly determined.

3. Obligations and responsibilities of the Management Board

The Issuers shall clearly and expressively determine the obligations and authorities of the Management Board and responsibilities of its members, thus ensuring a successful work of the Management Board and an increase in the Issuer's value.

3.1. The Management Board shall have the obligation to manage the business of the Issuer, which includes also the responsibility for the realization of the objectives and strategies determined by the Issuer and the responsibility for the results achieved. The Management Board shall be responsible for the said to the Supervisory Council and the shareholders' meeting. In fulfillment of its obligations, the Management Board shall adopt decisions based on interests of all shareholders and avoiding the possibilities of conflicts of interests.

The Management Board of Ventspils nafta adopts decisions based on interests of all shareholders and avoiding the possibilities of conflicts of interests. Therefore, Ventspils nafta complied with this best practice provision.

3.2. The powers of the Management Board shall be stipulated in the Management Board Regulations or a similar document, which is to be published on the website of the Issuer on the Internet. This document must be also available at the registered office of the Issuer.

The powers of the Management Board are stipulated in the Articles of Association of Ventspils nafta that are published in the website of Ventspils nafta. The Management Board Regulations, which are elaborated on the basis of Articles of Association of Ventspils nafta and rules of the Commercial Law provide for the organizing working principles of the Management Board. The Management Board Regulations are available in the registered office of Ventspils nafta but not published on the website of the Company; therefore, Ventspils nafta complied with this best practice provision.

Corporate governance report (cont'd)

3.3. The Management Board shall be responsible also for the compliance with all the binding regulatory acts, risk management, as well as the financial activity of the Issuer.

Ventspils nafta complied with all the binding regulatory acts, ensured risk management, as well as the financial activity of the Ventspils nafta. Therefore, Ventspils nafta complied with this best practice provision.

3.4. The Management Board shall perform certain tasks, including:

1) corporate strategies, work plan, risk control procedure, assessment and advancement of annual budget and business plans, ensuring control on the fulfilment of plans and the achievement of planned results;

2) selection of senior managers of the Issuer, determination of their remuneration and control of their work and their replacement, if necessary, in accordance with the effective internal procedures (e.g. by complying with the personnel policy adopted by the Issuer; remuneration policy, etc.)

3) timely and qualitative submission of reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled.

Ventspils nafta complied with this best practice provision.

3.5. In annual reports, the Management Board shall confirm that the internal risk procedures are efficient and that the risk management and internal control have been carried out in compliance with the said control procedures throughout the year.

In the annual report, the Management Board confirmed that the internal risk procedures are efficient and that the risk management and internal control have been carried out in compliance with the determined control procedures throughout the year; therefore, Ventspils nafta complied with this best practice provision.

3.6. It shall be preferable that the Management Board submits decisions that determine the objectives and strategies for achievement thereof (participation in other companies, acquisition or alienation of property, opening of representation offices or branches, expansion of business etc) to the Issuer's Supervisory Council for approval.

Ventspils nafta complied with this best practice provision.

4. Management Board composition and requirements for the Management Board members

A Management Board composition approved by the Issuer shall be able to ensure sufficiently critical and independent attitude in assessing and taking decisions.

4.1. In composing the Management Board, it shall be observed that every Management Board member has appropriate education and work experience. The Issuer shall prepare a summary of the requirements to be set for every Management Board member, which specifies the skills, education, previous work experience and other selection criteria for every Management Board member.

Ventspils nafta complied with this best practice provision.

4.2. On the Issuer's website on the Internet, the following information on every Issuer's Management Board member shall be published: name, surname, year of birth, education, office term, position, description of the last three year's professional experience, number of the Issuer's or its parent company's/subsidiary's shares owned by the member, information on positions in other capital companies.

Ventspils nafta partially complied with this best practice provision.

4.3. In order to fulfill their obligations successfully, Management Board members must have access in due time to accurate information on the activity of the Issuer. The Management Board must have the possibility to provide objective evaluation on the activity of the Issuer. Management Board members must have enough time for the performance of their duties.

Ventspils nafta complied with this best practice provision.

4.4. It is not recommended to elect one and the same Management Board member for more than four successive terms. The Issuer has to evaluate whether its development will be facilitated in the result of that and whether it will be possible to avoid a situation where greater power is concentrated in hands of one or a number of separate persons due to their long-term work at the Issuer. If, however, such election is admitted, it shall be recommended to consider changing of the field of work of the relevant Management Board member at the Issuer.

None of the members of the Management Board of Ventspils nafta has been elected for more than four successive terms; therefore, Ventspils nafta complied with this best practice provision.

5. Identification of interest conflicts in the work of the Management Board members

Every Management Board member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances and wishing to assume responsibility for the decisions taken and comply with the general ethical principles in adopting any decisions connected with the business of the Issuer.

5.1. It shall be the obligation of every Management Board member to avoid any, even only supposed, interest conflicts in his/her work. In taking decisions, Management Board members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit.

Ventspils nafta complied with this best practice provision.

5.2. On the occurrence of any interest conflict or even only on its possibility, a Management Board member shall notify other Management Board members without delay. Management Board members shall notify on any transaction or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the Management Board member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements.

For the purposes of these Recommendations the following shall be regarded as persons who have close relationship with a board member: spouses, a relative or brother-in-law, including kinship of second degree or brother-in-law of first degree, or persons with whom the Management Board member has had a common household for at least one year. For the purposes of these recommendations the following shall be regarded as persons who are connected with a Management Board member: legal persons where the Management Board member or a person closely related to him/her is a Management Board or Supervisory Council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.

Ventspils nafta complied with this best practice provision.

5.3. Management Board members should not participate in taking decisions that could cause an interest conflict.

Ventspils nafta complied with this best practice provision.

C. Supervisory Council

In compliance with legal acts a Supervisory Council is the institution that supervises the Issuer and represents interests of shareholders between meetings and, in cases stipulated in the law and in the statutes of the Issuer, supervises the work of the Management Board.

6. Obligations and responsibilities of the Supervisory Council

The objective of the Issuer's Supervisory Council is to act in the interests of all the shareholders, ensuring that the value of the Issuer grows. The Issuer shall clearly determine the obligations of the Supervisory Council and the responsibility of the Supervisory Council members, as well as ensure that individual Supervisory Council members or a group thereof do not have a dominating role in decision making.

6.1. The functions of the Supervisory Council shall be set forth in the Supervisory Council regulation or a document equated thereto that regulates the work of the Supervisory Council, and it shall be published on the Issuer's website on the Internet. This document shall be also available at the Issuer's office.

The functions of the Supervisory Council are stipulated in the Articles of Association of Ventspils nafta that are published in the website of Ventspils nafta. The Supervisory Council Regulations, which are elaborated on the basis of Articles of Association of Ventspils nafta and rules of the Commercial Law, provide for the organizing working principles of the Supervisory Council. The Supervisory Council Regulations of Ventspils nafta are available in the registered office of Ventspils nafta but not on the website; therefore, Ventspils nafta complied with this best practice provision.

6.2. The supervision carried out by the Supervisory Council over the work of the Management Board shall include supervision over the achievement of the objectives set by the Issuer, the corporate strategy and risk management, the process of financial accounting, Management Board's proposals on the use of the profit of the Issuer, and the business performance of the Issuer in compliance with the requirements of regulatory acts. The Supervisory Council should discuss every of the said matters and express its opinion at least annually, complying with frequency of calling Supervisory Council meetings as laid down in regulatory acts, and the results of discussions shall be reflected in the minutes of meetings of the Supervisory Council's.

In 2011 the Supervisory Council carried out sufficient supervision over the achievement of the objectives set by the Company, the corporate strategy and risk management, the process of financial accounting and the business performance of the Company in compliance with the requirements of regulatory acts; therefore, Ventspils nafta complied with this best practice provision.

6.3. The Supervisory Council and every its member shall be responsible that they have all the information required for them to fulfill their duties, obtaining it from Management Board members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the Supervisory Council chairperson shall contact the Issuer's Management Board, inter alia the Management Board chairperson, on a regular basis and discuss all the most important issues connected with the Issuer's business and development strategy, business activities, and risk management.

Ventspils complied with this best practice provision.

6.4. When determining the functions of the Supervisory Council, it should be stipulated that every Supervisory Council member has the obligation to provide explanations in case the Supervisory Council member is unable to participate in Supervisory Council meetings. It shall be recommended to disclose information on the Supervisory Council members who have not attended more than a half of the Supervisory Council meetings within a year of reporting, providing also the reasons for non-attendance.

The Regulations of the Supervisory Council do not provide that a Supervisory Council member shall have an obligation to provide explanations in case of being unable to participate in a Supervisory Council meeting.

7. Supervisory Council composition and requirements for Supervisory Council members

The Supervisory Council structure determined by the Issuer shall be transparent and understandable and ensure sufficiently critical and independent attitude in evaluating and taking decisions.

7.1. The Issuer shall require every Supervisory Council member as well as Supervisory Council member candidate who is planned to be elected at a shareholders' meeting that they submit to the Issuer the following information: name, surname, year of birth, education, office term as a Supervisory Council member, description of the last three year's Professional experience, number of the Issuer's or its parent companies/subsidiaries shares owned by the member, information on positions in other capital companies. The said information shall be published also on the Issuer's website on the Internet, providing, in addition to the said information, also the term of office for which the Supervisory Council member is elected, its position, including also additional positions and obligations, if any.

Ventspils nafta partially complied with this best practice provision.

7.2. When determining the requirements for Supervisory Council members as regards the number of additional positions, attention shall be paid that a Supervisory Council member has enough time to perform his or her duties in order to fulfill their duties successfully and act in the interests of the Issuer to a full extent.

Ventspils nafta complied with this best practice provision.

7.3. In establishing the Issuer's Supervisory Council, the qualification of Supervisory Council members should be taken into account and assessed on a periodical basis. The Supervisory Council should be composed of members whose knowledge, opinions and experience is varied, which is required for the Supervisory Council to fulfil their tasks successfully.

Ventspils nafta complied with this best practice provision.

7.4. Every Supervisory Council member in his or her work shall be as possibly independent from any external circumstances and have the will to assume responsibility for the decisions taken and comply with the general ethical principles when taking decisions in relation to the business of the Issuer.

Ventspils nafta complied with this best practice provision.

7.5. It is impossible to compile a list of all the circumstances that might threaten the independence of Supervisory Council members or that could be used in assessing the conformity of a certain person to the status of an independent Supervisory Council member. Therefore, the Issuer, when assessing the independence of Supervisory Council members, shall be guided by the independence criteria of Supervisory Council members specified in the Annex hereto.

The Management Board of Ventspils nafta encourages its shareholders to apply this best practice provision.

7.6. It shall be recommended that at least a half of Supervisory Council members are independent according to the recommended independence criteria specified by NASDAQ OMX Riga. If the number of Supervisory Council members is an odd number, the number of independent Supervisory Council members may be one person less than the number of the Supervisory Council members who do not conform to the recommended independence criteria specified by NASDAQ OMX Riga.

The Management Board of Ventspils nafta encourages its shareholders to apply this best practice provision.

7.7. As independent shall be considered persons that conforms to the recommended independence criteria specified by NASDAQ OMX Riga. If a Supervisory Council member does not conform to any of the recommended independence criteria specified by NASDAQ OMX Riga but the Issuer does consider the Supervisory Council member in question to be independent, then it shall provide an explanation of its opinion in detail on the tolerances permitted.

Ventspils nafta did not comply with this best practice provision. According to Commercial Law nominating candidates for the Supervisory Council and electing members of the Supervisory Council is in the competency of the shareholders' meeting.

Corporate governance report (cont'd)

7.8. The conformity of a person to the independence criteria of Supervisory Council members recommended by NASDAQ OMX Riga shall be evaluated already when the Supervisory Council member candidate in question has been nominated for election to the Supervisory Council. The Issuer shall specify in the Report who of the Supervisory Council members are to be considered as independent every year.

The Management Board of Ventspils nafta encourages its shareholders to apply this best practice provision. Ventspils nafta did not comply with this best practice provision, see also Article 7.7 above.

8. Identification of interest conflicts in the work of the Supervisory Council members

Every Supervisory Council member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances. Supervisory Council members shall comply with the general ethical principles in adopting any decisions connected with the business of the Issuer and assume responsibility for the decisions taken.

8.1. It shall be the obligation of every Supervisory Council member to avoid any, even only supposed, interest conflicts in his/her work. When taking decisions, Management Board members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit.

Ventspils nafta complied with this best practice provision.

8.2. On the occurrence of any interest conflict or even only on its possibility, a Supervisory Council member shall notify other Supervisory Council members without delay. Supervisory Council members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the Supervisory Council member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements.

For the purposes of these recommendations the following shall be regarded as persons who have close relationship with a Supervisory Council member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Supervisory Council member has had a common household for at least one year. For the purposes of these recommendations the following shall be regarded as persons who are connected with a Supervisory Council member: legal persons where the Supervisory Council member or a closely related to him/her person is a Management Board or Supervisory Council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.

Ventspils nafta complied with this best practice provision.

8.3. A Supervisory Council member who is in a possible interest conflict should not participate in decision taking that might be a cause of an interest conflict.

Ventspils nafta complied with this best practice provision.

D. Disclosure of information

Good practice of corporate governance for an Issuer whose shares are included in the market regulated by the Stock Exchange means that the information disclosed by the Issuer has to provide a view on the economic activity of the Issuer and its financial results. This facilitates a justified determination of the price of financial instruments in public circulation as well as the trust in finance and capital markets. Disclosure of information is closely connected with investor relations (hereinafter – the IR), which can be defined as the process of developing Issuer's relations with its potential and existing investors and other parties interested in the business of the Issuer.

9. Transparency of the Issuer's business

The information disclosed by the Issuer shall be provided in due time and allowing the shareholders to assess the management of the Issuer, to get an idea on the business of the company and its financial results, as well as to take grounded decisions in relation to the shares owned by them.

9.1. The structure of corporate governance shall be established in a manner that ensures provision of timely and exhaustive information on all the substantial matters that concern the Issuer, including its financial situation, business results, and the structure of owners.

Ventspils nafta complied with this best practice provision.

9.2. The information disclosed shall be checked, precise, and unambiguous and prepared in compliance with high-quality standards.

Ventspils nafta complied with this best practice provision.

9.3. The Issuers should appoint a person who would be entitled to contact the press and other mass media on behalf on the Issuer, thus ensuring uniform distribution of information and evading publication of contradictory and untruthful information, and this person could be contacted, if necessary, by the Stock Exchange and investors.

Ventspils nafta complied with this best practice provision.

9.4. The Issuers should ensure timely and compliant with the existing requirements preparation and disclosure of financial reports and annual reports of the Issuer. The procedure for the preparation of reports should be stipulated in the internal procedures of the Issuer.

Ventspils nafta has established a control and risk management system, which is applied when preparing financial statements. The internal control and management system of Ventspils nafta, which is applied for preparation of financial reports is formed so that it would give sufficient assurance that the financial statements that are prepared for the needs of external users in accordance with International Financial Statement Standards give a clear and true view of the financial situation of Ventspils nafta and its operating results. The internal control and risk management system of Ventspils nafta, which is applied in preparation of financial statements, includes procedures that:

(1) ensure that complete, precise and systematically arranged accounting entries are timely made and saved in order to truly reflect economic transactions made by Ventspils nafta, as well as extent of assets and liabilities of Ventspils nafta;

(2) ensure sufficient assurance that transactions are reflected in such way that financial statements could be prepared in accordance with International Financial Statement Standards;

(3) ensure that receipts and expenditures of Ventspils nafta are made only in accordance with authorization of Ventspils nafta management;

(4) ensure sufficient assurance that unauthorized acquisition, usage or sale of assets of Ventspils nafta, which could considerably affect financial reports of Ventspils nafta, is prevented and timely discovered.

Therefore, Ventspils nafta complied with this best practice provision.

Corporate governance report (cont'd)

10. <u>Investor relations</u>

Considering that shares of the Issuers are offered on a regulated market, also such activity sphere of the Issuers as investor relations (hereinafter – the IR) and the development and maintaining thereof is equally important, paying special attention to that all the investors have access to equal, timely and sufficient information.

10.1. The main objectives of the IR are the provision of accurate and timely information on the business of the Issuer to participants of finance market, as well as the provision of a feedback, i.e. receiving references from the existing and potential investors and other persons. In the realization of the IR process, it shall be born in mind that the target group consists not only of institutional investors and finance market analysts. A greater emphasis should be put on individual investors, and more importance should be attached to informing other interested parties: employees, creditors and business partners.

Ventspils nafta complied with this best practice provision.

10.2. The Issuer shall ensure that all investors have equal and convenient access to important information related to the Issuer, including information on the Issuer's financial position, property structure and administration. The issuer shall provide information in clear and easily comprehensible language, revealing both the positive and the negative information in relation to the Issuer, thereby providing the investors with complete and comprehensive information on the Issuer, enabling the investors to evaluate all the information before taking a decision.

Ventspils nafta complied with this best practice provision.

10.3. A number of channels shall be used for the information flow in the IR. The IR strategy of the Issuer shall be created using both the possibilities provided by technologies (website) and relations with mass media and the ties with the participants of finance market. Considering the development stage of modern technologies and the accessibility thereof, the Internet is used in the IR of every modern company. This type of media has become one of the most important means of communications for the majority of investors.

For the information flow in the IR Ventspils nafta uses possibilities provided by technologies (website), relations with mass media and ties with the participants of finance market; therefore, Ventspils nafta complied with this best practice provision.

10.4. The basic principles that should be observed by the Issuers in preparing the IR section of their websites:

1) The IR section of website shall be perceived not only as a store of information or facts but also as one of the primary means of communication by means of which it is possible to inform the existing and potential shareholders;

2) all the visitors of the IR section of website shall have the possibility to obtain conveniently all the information published there. Information on websites shall be published in all the foreign languages in which the Issuer normally distributes information so that in no way would foreign investors be discriminated, however, it shall be taken into account that information must be disclosed at least in Latvian and English;

3) It shall be recommended to consider a solution that would allow the existing and potential investors to maintain ties with the Issuer by using the IR section of website – submit questions and receive answers thereto, order the most recent information, express their opinions etc.;

4) the information published on websites shall be updated on a regular basis, and the news in relation to the Issuer and its business shall be published in due time. It shall not be admissible that outdated information that could mislead investors is found on websites;

5) after the website is created the creators themselves should assess the IR section of the website from the point of view of users – whether the information of interest can be found easily, whether the information published provides answers to the most important questions etc.

Ventspils nafta complied with this best practice provision.

10.5. The Issuer shall ensure that at least the following information is contained in the IR section of website:

1) general information on the Issuer - history of its establishment and business, registration data, description of industry, main types of business;

2) Issuer's Report ("comply or explain") on the implementation of the principles of corporate governance;

3) Number of issued and paid financial instruments, specifying how many of them are included in a regulated market;

4) information on shareholders' meetings, draft decisions to be examined, decisions adopted – at least for the last year of report;

5) Issuer's statutes;

6) Issuer's Management Board or Supervisory Council regulation or a document equated thereto that regulates its work, as well as the Issuer's remuneration policy (or a reference as to where it can be familiarized with) and the shareholders' meeting procedure regulation, if such has been adopted;

7) Information on performance of the Audit Committee;

8) information on present Issuer's Supervisory Council and Management Board members (on each individually): work experience, education, number of the Issuer's shares owned by the member (as at the beginning of year; the information shall be updated as required but at least annually), information on positions in other capital companies, and the term of office of Management Board and Supervisory Council members;

9) Issuer's shareholders which/who own at least 5% of the Issuer's shares; and information on changes of shareholders;

10) Financial reports and annual reports of the Issuer prepared in compliance with the procedure specified in legal acts and the Stock Exchange regulations;

11) Any other information to be disclosed by the Issuer, e.g. information on any substantial events, Issuer's press releases, archived information on Issuer's financial and annual reports on previous periods etc.

Although particular information is not published in the website of Ventspils nafta, overall Ventspils nafta complied with this best practice provision, see also Clause 7.1.

E. *<u>Internal control and risk management</u>*

The purpose of internal control and risk management is to ensure efficient and successful work of the Issuer, the truthfulness of the information disclosed and conformity thereof to the relevant regulatory acts and business principles. Internal control helps the Management Board to identify the shortcomings in the administration of the Issuer as well as facilitates that the Supervisory Council's task - to supervise the work of the Management Board - is fulfilled efficiently.

11. Principles of the Issuer's internal and external control

To ensure successful work of the Issuer, it shall be necessary to plan regular its controls and to determine the procedure of internal and external (audit) control.

11.1. To ensure successful operation, the Issuer shall control its work on a regular basis and define the procedure of internal control.

Ventspils nafta complied with this best practice provision.

11.2. The objective of risk management is to ensure that the risks connected with the commercial activity of the Issuer are identified and supervised. To ensure an efficient risk management, it shall be necessary to define the basic principles of risk management. It is recommended to characterize the most essential potential and existing risks in relation to the business of the Issuer.

Ventspils nafta has characterized the most essential potential and existing risks in relation to the business of the company; therefore, Ventspils nafta complied with this best practice provision.

11.3. Auditors shall be granted access to the information required for the fulfillment of the auditor's tasks and the possibility to attend Supervisory Council and Management Board meetings at which financial and other matters are dealt with.

Ventspils nafta complied with this best practice provision.

11.4. Auditors shall be independent in their work and their task shall be to provide the Issuer with independent and objective auditing and consultation services in order to facilitate the efficiency of the Issuer's business and to provide support in achieving the objectives set for the Issuer's management by offering a systematic approach for the assessment and improvement of risk management and control processes.

Ventspils nafta complied with this best practice provision.

11.5. It shall be recommended to carry out an independent internal control at least annually in order to assess the work of the Issuer, including its conformity to the procedures approved by the Issuer.

Ventspils nafta complied with this best practice provision.

11.6. When approving an auditor, it is recommended that the term of office of one auditor is not the same as the term of office of the Management Board.

Ventspils nafta complies with this best practice provision.

12. Audit Committee of the Issuer

Audit Committee is established by a resolution of shareholders' meeting of the Issuer, defining its operation principles and scope of responsibility in accordance with the requirements of legislative acts.

12.1. Functions and responsibility of the Audit Committee should be defined in regulations of the Committee or an equal document.

Ventspils nafta is currently working on regulations that will specify the Audit Committee's functions in more detail; therefore, Ventspils nafta will comply with this best practice provision in future.

12.2. In order to ensure effective work of the Audit Committee, it is desirable that it would consist of at least members having sufficient knowledge in accounting and preparation of financial statements, as one of the main areas of activities of the Audit Committee is matters related to the Issuer's financial reports and control.

Ventspils nafta complied with this best practice provision.

12.3. Information on the accounting methods used by the Issuer shall be available to all members of the Audit Committee. The Management Board shall inform the Audit Committee on the methods that are used when evaluating significant and uncommon transactions where different methods might be applied to the evaluation, as well as ensure that all the information prescribed by legislative acts shall be available to the Audit Committee.

Ventspils nafta complied with this best practice provision.

12.4. The Issuer shall ensure that it is possible for the Audit Committee to obtain the information necessary to ensure operation of the Committee from the Issuer's officials, Management Board members and other employees, as well as rights to carry out independent investigation in order to discover within its authority violations in the Issuer's activity.

Ventspils nafta complied with this best practice provision.

12.5. Audit Committee shall make decisions within its authority and account for its activity to the shareholders' meeting.

Ventspils nafta complied with this best practice provision.

Corporate governance report (cont'd)

F. Remuneration policy

13. General principles, types and criteria of fixing remuneration

The remuneration policy of Management Board and Supervisory Council members – type, structure and amount of remuneration – is one of the spheres where the involved persons have a potentially greater risk to find themselves in a situation of conflict of interests. To avoid that, the Issuer shall develop a remuneration policy, defining general principles types and criteria of remuneration to be granted to Management Board and Supervisory Council members.

13.1. The Issuers are called on to develop a remuneration policy in which the main principles for setting the remuneration, possible remuneration schemes and other essential related issues are determined. While preparing the remuneration policy Issuer should ensure that the remuneration of the Management Board and Supervisory Council members is proportionate to the remuneration of the Issuer's executive and managing directors and other employees.

Ventspils nafta has not developed a special remuneration policy. The amount of remuneration of the members of administrative bodies of Ventspils nafta is determined according to the Commercial Law, Articles of Association of Ventspils nafta and resolutions of administrative bodies of Ventspils nafta. Remuneration of Supervisory Council members is determined by the shareholders' meeting of Ventspils nafta and currently it is set to zero. Remuneration of the Management Board members is determined by a resolution of the Supervisory Council.

13.2. Without limiting the role and operations of the Issuer's management bodies responsible for setting remuneration to the Management Board and Supervisory Council members, the drafting of the remuneration policy should be made a responsibility of the Issuer's Management Board, which during the preparation of a draft policy should consult with the Issuer's Supervisory Council. In order to avoid conflicts of interest and to monitor the Management Board remuneration policy, the Issuer should appoint a responsible person having sufficient experience and knowledge in the field of remuneration for development of the remuneration policy.

See the comment on Clause 13.1.

13.3. Should the remuneration policy contain a remuneration structure with a variable part in the form of the Issuer's shares or share options or any other payments, including premiums, it should be linked to previously defined short-term and long-term goals and performance criteria. If remuneration depends on fulfillment of short-term goals only, it is not likely to encourage an interest in the company's growth and improved performance in the long-term. The scope and structure of the remuneration should depend on the business performance of the company, share price and other Issuer's events.

See the comment on Clause 13.1.

13.4. While setting the variable part of remuneration, Issuer should set limits on the variable component(s). The non-variable part of remuneration should be sufficient to allow the Issuer to withhold variable part of remuneration when necessary.

See the comment on Clause 13.1.

13.5. Where a variable part of remuneration provides Issuer's shares, share options or any other acquisition rights thereof, it should be desirable to prescribe a minimum non-used period of time.

See the comment on Clause 13.1.

13.6. Remuneration policy should include provisions that permit the Issuer to reclaim variable part of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated. Such provision should be included in contracts concluded between the respective executives and the Issuer.

See the comment on Clause 13.1.

13.7. Remuneration schemes that include Issuer's shares as remuneration may theoretically cause loss to the Issuer's existing shareholders because the share price might drop due to a new issue of shares. Therefore, prior to the preparation and approval of this type of remuneration, it shall be required to assess the possible benefits or losses.

Ventspils nafta does not provide for remuneration schemes that include the Ventspils nafta shares, as well as share options as remuneration.

13.8. When preparing the remuneration policy where a variable part is in the form of the Issuer's shares or share options, the Issuer shall be obliged to disclose information on how the Issuer plans to ensure the amount of shares to be granted in compliance with the approved remuneration schemes– whether it is planned to obtain them by buying on a regulated market or by issuing new shares.

See the comment on Clause 13.7.

Corporate governance report (cont'd)

13.9. While drafting the remuneration policy and envisaging awarding options entitling to the Issuer's shares, the Stock Exchange rules regarding distribution of share options should be taken into account.

See the comment on Clause 13.7.

13.10. While setting remuneration principles with regard to members of the Management Board and Supervisory Council, they should include general approach as to compensations, if any, in cases when contracts with the said officials are terminated (termination payments). Termination payments should not be paid if the termination is due to inadequate performance.

See the comment on Clause 13.1.

13.11. It is recommended to set an adequate maximum amount of the termination payments which should not be higher than two years of the non-variable part of remuneration.

Ventspils nafta complied with this best practice provision.

14. Announcement on remuneration policy

Shareholders shall be ensured with clear and thorough report on the remuneration policy applicable to members of administrative bodies of the Issuer. Publication of the mentioned information would allow the existing and potential shareholders to comprehensively evaluate the Issuer's approach to remuneration issues, therefore the responsible body of the Issuer shall prepare and publish a Remuneration Report once a year.

14.1. The Issuer is obliged to publish a thorough report on the remuneration policy of members of the Issuer's administrative bodies – the Remuneration Report. The Remuneration Report can be prepared as a separate document, or included as a separate section in the Report prepared by the Issuer in line with the provisions of Clause 9 of introduction of these Recommendations. The prepared Remuneration Report shall be place also in the Issuer's web-site.

14.2 Remuneration Report should contain at least the following information:

1) Information as to the application of the remuneration policy to members of the Management Board and Supervisory Council in the previous financial year, specifying the material changes to the Issuer's remuneration policy compared to the previous reporting period;
2) The proportion between the fixed and variable part of the remuneration for the respective category of officials , including information with regard to period of time when a person cannot fully use the share options granted to them, or other type of variable part of remuneration;
3) Sufficient information as to linking the remuneration with performance. To consider the information sufficient, the report should contain:
    - An explanation how the choice of performance criteria contributes to the long term interest of the Issuer;
    - An explanation of the methods applied in order to determine whether performance criteria have been fulfilled;
4) Information about the Issuer's policy with regard to the contracts with the members of the Issuer's management bodies, the terms and conditions of the contracts (duration, notice deadlines about termination, including payments due in case of termination);
5) Information about the incentive schemes and the specifications and reasons for awarding any other benefits;
6) A description of any pension or early retirement schemes;
7) An overview of the remuneration paid to or any benefits received by each individual that has been a member of the Management Board or Supervisory Council in the reporting period – disclosing at least the information required in Items 14.5, 14.5 and 14.7 below.

.

The total remuneration paid to the members of the Supervisory Council and the Management Board is included in the Annual report of Ventspils nafta. Pursuant to a resolution of the shareholders' meeting of Ventspils nafta, at present the Supervisory Council members do not receive a remuneration. Ventspils nafta does not disclose information mentioned in the Clause 14.2 regarding the each separate Management Board member because of social and economic situation in Latvia, as well as considering fact that this information is commercially sensitive. See also the explanations to Clause 13.1 and Clause 13.7.

14.3. In order to avoid overlapping of information, the Issuer is allowed not to specify in the Remuneration Report the information required in sub-clauses 1 to 7 of Clause 14.2 of this section, if it is already mentioned in the Issuer's remuneration policy. In such case, a reference to the remuneration policy shall be given in the Remuneration Report, as well as indication as to where the Issuer's remuneration policy is available.

See comment on Clause 14.2.

14.4. If the Issuer holds a view that as a result of publishing the information mentioned in Clause 14.2. of these recommendations, commercially sensitive information might be disclosed possibly having a harmful effect on the Issuer's strategic position, the Issuer is allowed not to disclose the mentioned information, by stating the respective reason.

See comment on Clause 14.2.

14.5. In relation to remuneration and/or other income, the following information shall be disclosed about each member of the Supervisory Council and Management Board:

1) the total sum of remuneration (salary) paid or due during the accounting year for the performed duties;

2) remuneration and other preferences received from any related company of the Issuer. The term "related company" used in this Clause corresponds to definition of the term of related company given in Section 1 of the Financial Instrument Market Law;

3) remuneration paid as profit distribution or bonuses and substantiation for granting such payments;

4) payment for the activities performed in addition to the direct duties;

5) compensations and other payments to be paid to or received by a member of the Supervisory Council or Management Board that has resigned from the position in the accounting year;

6) total value of any material benefits received as remuneration to which sub-clauses 1) to 5) of this Clause are not referable.

See comment on Clause 14.2., as well as comments on Clause 13.

14.6. The following information shall be disclosed in relation to shares and/or share options or other remuneration schemes, under which the Issuer' s shares can be acquired:

1) the number of shares or share options entitling to acquire the Issuer's shares granted in the accounting year to a member of the Issuer' s administrative body, as well as conditions of their usage;

2) number of options entitling to acquire the Issuer's shares that have been used during the accounting year, on each of them specifying the number of the acquired shares and the set share price, or the value of the part of a member of an administrative body in the remuneration scheme related to shares in the end of the accounting year;

3) the number of the unused share options entitling to acquire the Issuer's shares as at the end of the accounting year, as well as the share price set in the agreement, implementation date and the main provisions regarding usage of the mentioned option;

4) information on the amendments made during the accounting year in the conditions of agreements of the granted options entitling to acquire the Issuer' s shares (e.g. changes made in the provisions regarding usage of the option, changed the period for usage of the option, etc.).

Ventspils nafta did not prescribe remuneration in the form of the Ventspils nafta's shares or share options.

14.7. The following information shall be disclosed in relation to savings or instalments into pension plans of private pension funds:

1) on the amount of instalments made by the Issuer in the benefit of a person into a pension plan or plans and rules regarding paying out the pension capital;

2) on provisions regarding participation in the respective pension plan applicable to the particular person, inter alia regarding termination of participation.

Ventspils nafta does not make accruals or instalments into pension plans of private funds.

14.8. Remuneration schemes, under which remuneration is fixed by granting the Issuer's shares, share options, or in any other way entitling to acquire the Issuer's shares, shall be approved by a resolution of the general shareholders' meeting. Upon deciding on approval of the remuneration scheme, shareholders' meeting shall not resolve on applying it to particular individuals.

Ventspils nafta did not prescribe remuneration in the form of the Ventspils nafta shares or share options.