JOINT STOCK COMPANY VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

PREPARED IN ACCORDANCE WITH

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

Riga, 2013

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ventspils nafta JSC

Report on the Financial Statements

We have audited the accompanying financial statements of Ventspils nafta JSC set out on pages 17 to 44 of the accompanying annual report, which comprise the balance sheet as of 31 December 2012 and the statements of 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 Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Report on Other Legal and Regulatory Requirements

We have read the Management Report for 2012 set out on pages 15 to 16 of the accompanying annual report for 2012 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2012.

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
29 April 2013

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

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GENERAL INFORMATION

Name of the company	*Ventspils nafta*
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	50003003091 Riga, 9 May 1991 Registered in Commercial Register on 5 August 2004
Legal address	Vaļņu street 3-18, LV-1050, Riga, Republic of Latvia
Subsidiaries of *JSC Ventspils nafta*	66% *LatRosTrans Ltd.* LRDS "Ilūkste", Šēderes pagasts, Ilūkstes novads, LV-5474 51% *Ventspils nafta termināls Ltd.* Talsu street 75, Ventspils, LV-3602 49.94% *JSC Latvian Shipping Company* Elizabetes street 1, Riga, LV-1807
Financial year	1 January – 31 December 2012
Auditors	*PricewaterhouseCoopers Ltd.* Kr. Valdemāra iela 21 - 21, Riga Latvia, LV - 1010 Licence No. 5 Sworn auditor: Ilandra Lejiņa Latvian Certified Auditor Certificate No. 168

GENERAL INFORMATION (CONT'D)

About the Company

VN Group (*JSC Ventspils nafta* and its subsidiaries) is one of the largest groups of companies in Latvia. The core companies of the group are the crude oil and petroleum products terminal *Ventspils nafta termināls Ltd*, which is the largest in the Baltics; the largest Latvian-Russian joint venture in the Baltic States *LatRosTrans*, which provides transportation of petroleum products by the main diesel pipeline and which also owns the main pipeline for transport of crude oil; as well as *Latvian Shipping Company*, which owns one of the largest global fleets in the medium size and handy tanker segment.

Mission

The mission of JSC *Ventspils nafta*, the Group's parent company, is to manage investments in the Group's companies with a view to ensure development and maximise investment returns; to strengthen the position of the Group's companies in the global market; and to make maximum use of the unique resources of *Ventspils nafta* – the experience and professionalism of employees, well developed infrastructure, modern technology and advantageous geographic location – always with a view to increase the economic value of the VN Group.

Vision

The goal of *JSC Ventspils nafta*, the Group's parent company, is to increase the value of investments in its managed companies and to ensure maximum operating efficiency; to maintain open dialogue with all shareholders, the Supervisory Council, management and other interested parties; to ensure transparency of the parent company's operations and manage the company in line with best principles of good governance; to plan for any potential risks for the group of companies; and focus on having in place the best long term strategy for the Group.

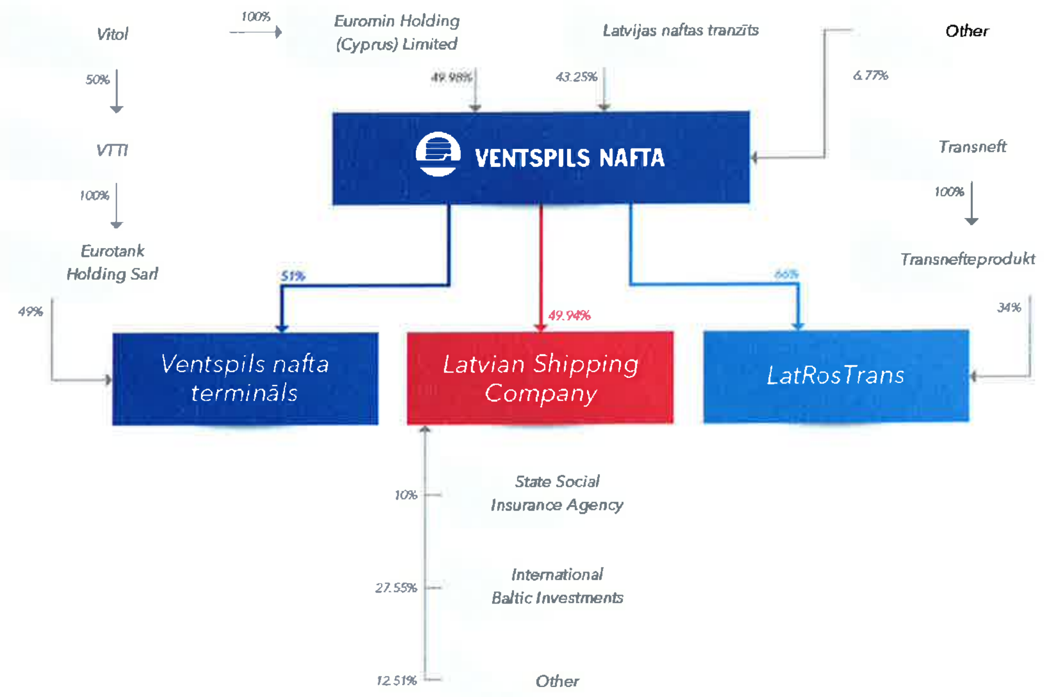
Strategy

The strategy of *JSC Ventspils nafta*, the Group's parent company, is to improve performance of Group companies by providing policy advice and international know-how on down-stream oil business, by organising joint public procurement tenders and coordinating business activities including corporate loans and communication policy. In this respect the intention of VN Group is to streamline Group's activities by introducing best business practices and good corporate governance standards to improve shareholders value.

GENERAL INFORMATION (CONT'D)

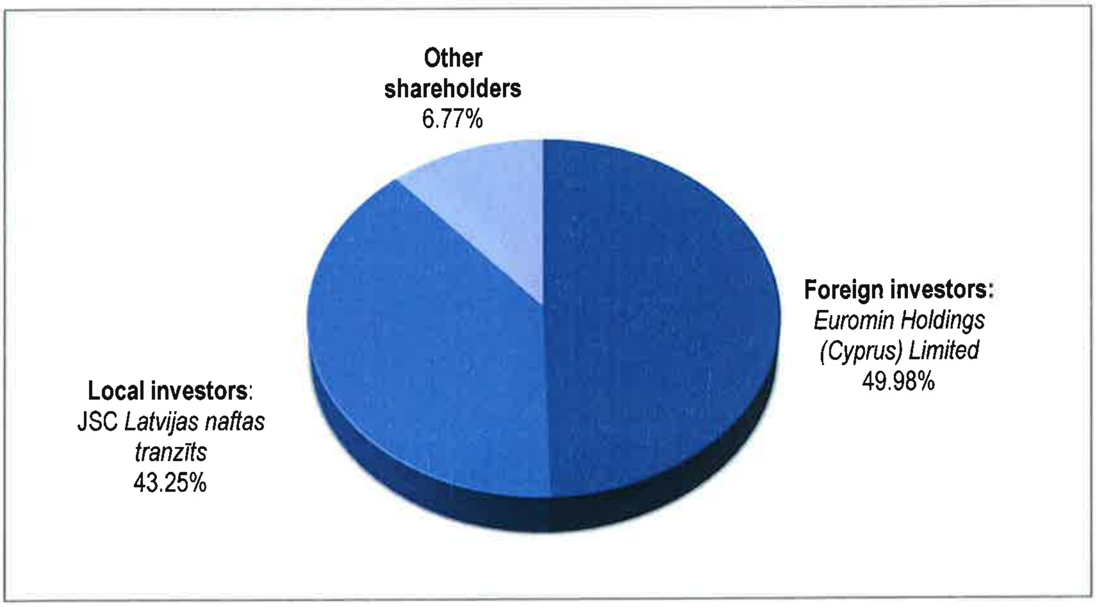
Corporate structure

Corporate structure of *JSC Ventspils nafta* as at 31 December 2012



Shareholders

Main shareholders (over 5%) of *JSC Ventspils nafta* as at 31 December 2012



GENERAL INFORMATION (CONT'D)

Information on shares

ISIN	LV0000100816
Ticker	VNF1R
Nominal value	1.00 LVL
Total number of securities	104 479 519
Number of listed securities	60 598 121
List	Baltic Official List, NASDAQ OMX Riga
Listing date	20 October 1998
Liquidity providers	None
Indexes	B2000GI, B2000PI, B2700GI, B2700PI, OMXBGI, OMXBPI, OMXRGI

Trading information (1 January 2012 – 31 December 2012)

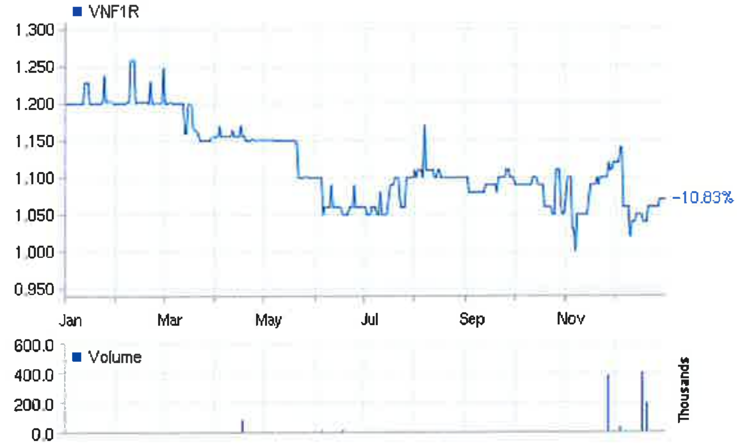
Open	1.200 LVL
Max	1.259 LVL
Min	1.000 LVL
Last	1.070 LVL
Average price	1.12 LVL
Change	-10.83 %
Deals	1 559
No of shares traded	1 222 348
Turnover	1 635 699.12 LVL
Capitalisation on 31/12/2012	111 793 085.33 LVL

Trading information (2008-2012)

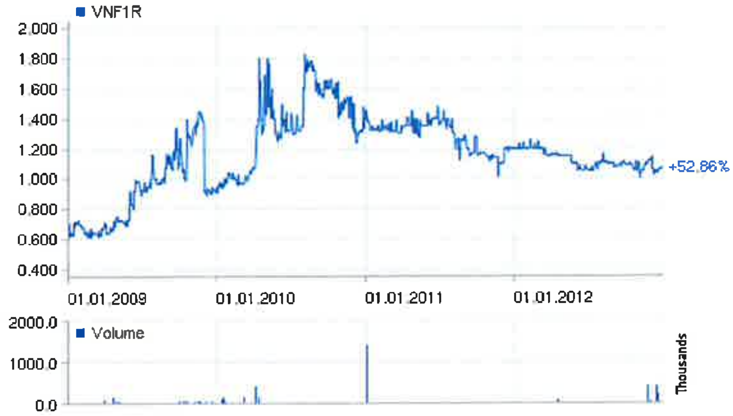
Price	2008	2009	2010	2011	2012
Open, LVL	2.200	0.700	0.920	1.449	1.200
High, LVL	2.400	1.500	1.890	1.479	1.259
Low, LVL	0.680	0.590	0.910	1.013	1.000
Last, LVL	0.700	0.940	1.400	1.200	1.070
Traded volume	1,439,542	900,402	1,492,345	1,632,287	1,222,348
Turnover, million LVL	2.77	0.89	2.22	2.32	1.64
Capitalisation, million LVL	73.14	98.21	146.27	125.38	111.79

GENERAL INFORMATION (CONT'D)

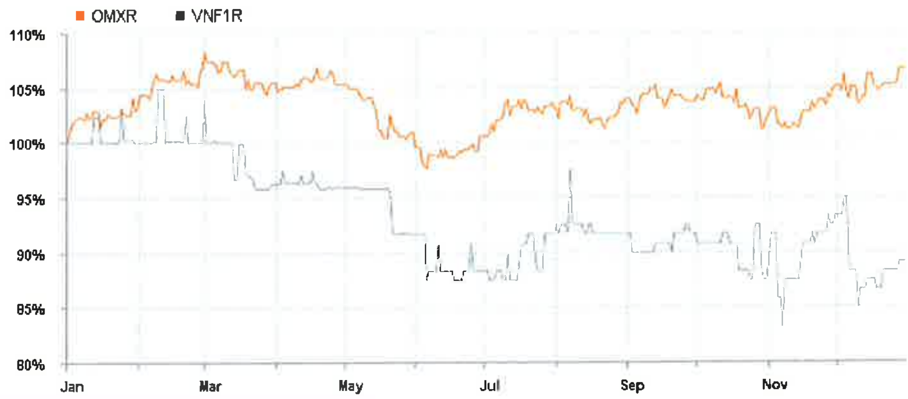
Share price (LVL) (1 January 2012 – 31 December 2012)



Share price (LVL) (1 January 2009- 31 December 2012)



Share price in comparison with *NASDAQ OMX Riga* index (1 January 2012 – 31 December 2012)



Index/Equity	01.01.2012	31.12.2012	+/-%
– OMX Riga	371.16	395.91	6.67 ↑
– VNF1R	1.20 LVL	1.07 LVL	-10.83 ↓

Information source: *JSC NASDAQ OMX Riga* webpage www.nasdaqomxbaltic.com

SUPERVISORY COUNCIL

Chairman of the Council	Vladimir Egger
Deputy Chairman of the Council	Mikhail Dvorak
Members of the Council	Javed Ahmed Rubel Yilmaz Mark Morrell Ware Christophe Theophanis Matsacos Oļegs Stepanovs Igors Skoks Olafs Berķis Genādijs Ševcovs Ivars Bērziņš

The changes in the Council during the period from 1 January 2012 to 22 April 2013 were as follows:

Elected	Dismissed	Name	Position held
25/07/2012	-	Oļegs Stepanovs	Member of the Council
25/07/2012	-	Igors Skoks	Member of the Council
25/07/2012	-	Olafs Berķis	Member of the Council
25/07/2012	-	Genadijs Ševcovs	Member of the Council
25/07/2012	-	Ivars Bērziņš	Member of the Council
07/07/2010	25/07/2012	Rudolf Meroni	Member of the Council
27/07/2011	25/07/2012	David Guy Anstis	Member of the Council
27/07/2011	25/07/2012	Jānis Hāze	Member of the Council
22/11/2011	25/07/2012	Aivars Gobiņš	Member of the Council
22/11/2011	25/07/2012	David Alexander Schlaff	Member of the Council

According to the Council's resolution of 27 February 2012 and of 30 August 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 respectively.

SUPERVISORY COUNCIL (CONT'D)

Professional experience of the members of the Supervisory Council

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

Mikhail Dvorak has worked as the Deputy Chairman of the Supervisory Council of JSC Ventspils Nafta since January 20, 2010. He is the Financial Controller of Vitol Group and Finance Director at Vitol Group's companies in the CIS countries, Georgia and the Baltic States. In 2010 he was also appointed as a member of the Supervisory Council of LatRosTrans Ltd on behalf of JSC Ventspils Nafta in 2010. Professional education: he has graduated the Moscow State Linguistic University and the International Institute of Law and Economics in the specialty of finances and crediting.
Mr Mikhail Dvorak does not own any shares of JSC Ventspils nafta.

Rubel Yilmaz has worked as a member of the Supervisory Council of JSC 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 on March 1, 2010. Professional education: he has obtained a degree in economics in University of Groningen (Netherlands).
Mr Rubel Yilmaz does not own any shares of JSC Ventspils nafta.

Mark Morrell Ware has worked as a member of the Supervisory Council of JSC 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. Professional education: he has graduated the Durham University with distinction (BA Honours in Economics and Politics).
Mr Mark Morrell Ware does not own any shares of JSC Ventspils nafta.

Javed Ahmed has worked as a member of the Supervisory Council of JSC Ventspils Nafta since January 20, 2010. He is currently 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. Professional education: *Juris* Doctor degree from Harvard University, a Master of Business Administration degree from Harvard University, and a Bachelor's degree in Economics and Mathematics from Yale University.
Mr Javed Ahmed does not own any shares of JSC Ventspils nafta.

Christophe Theophanis Matsacos has worked as a member of the Supervisory Council of JSC Ventspils Nafta since July 17, 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 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 own any shares of JSC Ventspils nafta.

SUPERVISORY COUNCIL (CONT'D)

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

Oļegs Stepanovs is a member of the Supervisory Council of JSC Ventspils nafta since July 25, 2012. Member of the Supervisory Council of JSC Latvian Shipping Company. He was President of the Baltic association – Transport and Logistics from 2006 until 2011, Chairman of the Supervisory Board of JSC Ventspils Commercial Port from 2009 until 2010, Chairman of the Supervisory Council of JSC SS&F Group since 2008, and Member of the Supervisory Council of JSC Baltic Coal Terminal since 2009. Professional education: he has obtained a Doctor's degree in Economics in the Institute of Market Problems and Economic and Ecological Research (Ukraine) and has graduated the Oddessa Marine Engineering Institute, faculty of Marine Transport Organisation and Management.
Mr Oļegs Stepanovs does not own any shares of JSC Ventspils nafta.

Igors Skoks is a member of the JSC Ventspils nafta Supervisory Council since 25 July 2012. Worked for JSC Ventspils nafta from 1995 to 2002 – held top positions in the company's administration from the Executive Director of Economic issues to Chairman of the Management Board. For several years worked in the Management Board of the Ventspils Port, as well as in the Supervisory Council of LatRosTrans Ltd. and JSC Preses nams. He was the Chairman of the JSC Aureus kapitāls Supervisory Council.
Professional education: graduated the University of Latvia, faculty of Economics.
Mr Igors Skoks does not own any shares of JSC Ventspils nafta.

Olafs Berķis is a member of the JSC Ventspils nafta Supervisory Council since 25 July 2012. He has been the Chairman of the oil product terminal JSC Ventbunkers Supervisory Council, member of the JSC Aureus kapitāls Supervisory Council. Previously has worked in Management Board of the JSC Ventspils nafta, as well as in Supervisory Council of LatRosTrans Ltd. Professional education: graduated Riga Maritime School in the specialty of ship driver.
Mr Olafs Berķis does not own any shares of JSC Ventspils nafta.

Genādijs Ševcovs is a member of the JSC Ventspils nafta Supervisory Council since 25 July 2012. He has been a member of the JSC Ventbunkers Supervisory Council, Deputy Chairman of the JSC Aureus kapitāls Supervisory Council. He has comprehensive experience in oil product transit business – he has held the position of the JSC Ventspils nafta Vice-president and Director of Technology, member of JSC Rietumu cauruļvadu sistēma Supervisory Council, Director of Technology of LatRosTrans Ltd and JSC VB Holdings, as well as Ventspils nafta terminals Ltd. Professional education: graduated the I.M.Gubkin Moscow Institute of the Petrochemical and Gas Industry in the specialty "Design and Operation of Gas and Oil Pipeline, Gas Storages and Oil Depots".
Mr Genādijs Ševcovs owns 2525 shares of JSC Ventspils nafta.

Ivars Bērziņš is a member of the JSC Ventspils nafta Supervisory Council since 25 July 2012. Member of Supervisory Council of JSC Latvijas naftas tranzīts and authorised representative of Skonto nafta Ltd. Professional education: Master's degree in law.
Mr Ivars Bērziņš does not own any shares of JSC Ventspils nafta.

MANAGEMENT BOARD

Chairman of the Board:	Simon Boddy
Members of the Board	Boris Bednov Aleksej Tarasov

On 30 August 2012 the Supervisory Council has re-appointed Simon Boddy in the position of Chairman of the Management Board for the next three years. The new term of office of Simon Boddy starts on October 15, 2012. There were no other changes in the Management Board during the period from 1 January 2012 to 22 April 2013.

Professional experience of the members of the Management Board

Simon Boddy has worked as the Chairman of the Management Board of JSC Ventspils Nafta since January 20, 2010. He has worked in the oil business for more than 30 years. He has 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. Professional education: academic degree in Mathematics from the Oxford University, post-graduate diploma in Law from the College of Law of England and Wales in London.
Mr Simon Boddy does not own any shares of JSC Ventspils nafta.

Boris Bednov has worked as a member of the Management Board of JSC Ventspils Nafta since April 28, 2010. He is an oil and transit 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. Professional education: he has graduated the D. Mendeleyev University of Chemical Technology in Russia.
Mr Boris Bednov does not own any shares of JSC Ventspils nafta.

Aleksej Tarasov has worked as a member of the Management Board of JSC Ventspils Nafta since January 6, 2011. He has worked for Mazeikiu 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. Professional education: degree in Engineering from the St-Petersburg VVMURE Academy (currently – the Naval Institute of Marine Radioelectronics, VVMURE named after A.S. Popov).
Mr Aleksej Tarasov does not own any shares of JSC Ventspils nafta.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

Accompanying financial statements, presented on pages 17 through 44, are prepared based on accounting records and give a true and fair view of the state of affairs of the Company, the cash flows and the results of the Company for the reporting year 2012.

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

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

Riga, 22 April 2013

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

MANAGEMENT REPORT OF JSC VENTSPILS NAFTA

Dear shareholders, clients and cooperation partners,

JSC *Ventspils nafta* and its subsidiaries (hereafter – *VN 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 – *VN)* manages investments in subsidiary companies, by promoting the Group's joint values and growth in value of each individual company.

VN Group

The revenue of the *VN Group* in 2012 was LVL 135.7 million, which is LVL 17.4 million or 14.8% more than in 2011. The gross profit of the *VN Group* reached LVL 26.97 million, exceeding the gross profit of 2011 by LVL 8.65 million. The *VN Group*'s net profit of 2012 was LVL 3.87 million, which can be evaluated as a positive result opposite to the losses of the *VN Group* in 2011 (LVL 12.19 million). In 2012, the net profit attributable to shareholders of the parent company of the *VN Group* was LVL 4.08 million. The administrative costs of the *VN Group* in 2012 were 20.38 % lower compared to 2011. The *VN Group's* joint financial results are still substantially affected by losses of the *Latvian Shipping Company (LSC) Group* from impairment of the fleet. The *VN Group*'s assets were LVL 607.65 million as at December 31, 2012 (31.12.2011: LVL 629.48 million).

The audited consolidated profit of the *VN Group* in 2012 differs by more than 10% from the previously published unaudited profit of *VN Group* for 2012, which was LVL 3.226 million. Increase in the audited profit versus unaudited profit is mainly due to changes in calculations of JSC *Latvian Shipping Company* in relation to the company's possible liabilities towards third parties – payments to Professional service providers and difference between advance payment of Corporate Income Tax for 2012 and the actually calculated Corporate Income Tax for 2012.

Ventspils nafta

In 2012 the revenue of *VN* was LVL 255 thousand, which is 21% less in comparison with 2011. This revenue came mostly from management consultations provided by *VN* to companies of the *VN Group*. The financial income of *VN* in 2012 was LVL 964 thousand, which is LVL 269 thousand less than in 2011. Regardless of the decrease in income, in 2012 *VN* worked with net profit of LVL 258 thousand.

The Management Board of JSC *Ventspils nafta* has proposed to transfer the net profit of 2012 to other reserves.

In 2012 *VN* continued working on cost reduction. The administrative costs of *VN* have decreased from LVL 1 095 thousand in 2011 to LVL 907 thousand in 2012, or by 17.2%.

In the beginning of 2012, *VN* changed its policy in relation to consolidation of financial results of companies of the *VN Group*, by further including the financial result of *LSC* in the consolidation.

As at December 31, 2012, the registered and paid-up share capital of *VN* is LVL 104 479 519, and it is formed by 104 479 519 shares having a nominal value of LVL 1 per share. There are 60 598 121 shares in public circulation listed at NASDAQ OMX Riga (previous title – Riga Stock Exchange) and included in the Baltic Official List. According to the decisions of the extraordinary shareholders' meeting held on 6 November 2012 the shareholders decided convert registered 43 881 398 paper form registered shares into 43 881 398 dematerialised bearer shares. The extraordinary shareholders' meeting of November 6, 2012 also decided to include in the Baltic Official List of JSC *NASDAQ OMX Riga* 43 881 398 bearer shares of *VN*, which previously were not included in the regulated market.

The Management Board of JSC *Ventspils nafta* has proposed to transfer the net profit of 2012 to other reserves.

Ventspils nafta terminals

In 2012, *Ventspils nafta termināls* Ltd. (hereafter – *VNT)* increased its transhipment volumes from 11.4 million metric tons in 2011 to 12.0 million metric tons of various petroleum products. Throughput of products delivered by railway and vessels was 5.5 million metric tons and throughput of pipeline gasoil was 6.5 million metric tons.

In 2012, revenue of *Ventspils nafta termināls* Ltd. exceeded LVL 60.4 million, while the net profit for the reporting period amounted to LVL 10.4 million.

LatRosTrans

In 2012 *LatRosTrans* Ltd. (hereafter – *LRT)* has worked with net profit of LVL 11.82 million, the company's revenue was LVL 12.16 million. From the profit of 2012, LVL 15.06 million is attributable to net income from sale of crude oil, by deducting the related costs.

MANAGEMENT REPORT OF JSC VENTSPILS NAFTA (CONT'D)

Petroleum product transport volumes of *LatRosTrans* Ltd. reached 6.308 million tons in the reporting year, which has increased by 517 thousand tons or 8.20% compared to the 2011.

Latvian Shipping Company

In 2012, *LSC Group* has worked with a net loss of USD 34.60 million and the consolidated revenue of USD 115.56 million. The main reason why *LSC Group* has worked with the loss is the impairment of the fleet.

Improvement of Investor Relations

In 2012, the *VN 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 Group has gone through in recent years. Group companies held a second business update meeting on 28 November 2012, to which investors, the media, state representatives and opinion leaders where invited. The parent company also held a webinar for investors and created new corporate websites for all Group companies helping to achieve higher levels of disclosure and transparency on-line. Since 2012 all Group companies are present in social media.

Goals 2012 and 2013

The goals set for 2012 by *VN* have been met – *VN* has made a profit, the administrative costs of the Company have been maintained at an historically low level and the Company has shown tremendous improvement in investor relations and increased level of transparency.

In 2013 the Company aims to show positive financial results and further improve its corporate governance standards. The whole *VN Group* aims to finish 2013 with better financial results than 2012.

Operational environment

The parent company operates solely in Latvia by providing services of a holding company, however two companies of *VN Group* – *LRT* and *VNT* while operating in Latvia provide their transhipment for oil products coming mainly from Russia and Belorussia and sent all over the world. Thus their business, especially that of *LRT*, is influenced by regional politics of the countries supplying oil products.

In addition, *VNT* like all terminals is subject to the shape of the global oil product market. *VNT*'s operations are also affected by rail tariffs where encouraging news has appeared recently indicating that regional rail tariffs will be WTO compliant, which would provide a major boost to Baltic States transit.

LSC operates globally by providing shipping services to and from more than 50 countries. The most important external factor influencing *LSC*'s operations is global demand for oil products which directly correlates with global economic activity. Thus the operational environment of *LSC* is directly linked to the future development of the oil product market, affected both by the global economic situation and by international and regional politics, which means that in 2013 it will continue to be rather unpredictable and volatile.

Financial Instruments and Financial risk management related to the operations of JSC *Ventspils nafta* are disclosed in Note 25 and Note 26 to the financial statements.

Riga, 22 April 2013

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 LVL'000	2011 LVL'000
Net sales	3	255	323
Gross profit		**255**	**323**
General and administrative expense	4	(907)	(1 095)
Other operating expense	5	(34)	(41)
Result from operating activities		**(686)**	**(813)**
Income from securities forming non-current assets, net	6	-	4 947
Impairment of other financial assets	8	-	(4 400)
Finance income	9	964	1 233
Result before taxes		**278**	**967**
Corporate income tax	10	(20)	(605)
Net result		**258**	**362**

The accompanying notes on pages 22 to 44 form an integral part of these Financial Statements.

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

22 April 2013

BALANCE SHEET AS AT 31 DECEMBER 2012

ASSETS

	Note	31/12/2012 LVL'000	31/12/2011 LVL'000
NON-CURRENT ASSETS			
Property, plant and equipment			
Property, plant and equipment	11	59	799
TOTAL		**59**	**799**
Investments			
Investments in subsidiaries	12	119 187	119 187
Investments in associates	13	34 945	34 945
Loan note to related parties	14a	63 042	48 813
Other financial assets	14c	21 259	21 259
TOTAL		**238 433**	**224 204**
TOTAL NON-CURRENT ASSETS		**238 492**	**225 003**
CURRENT ASSETS			
Receivables			
Short term deposits	15	4 702	7 306
Receivables from related companies	14b	33	97
Other receivables	16	91	18
Other assets	17	55	170
TOTAL		**4 881**	**7 591**
Cash	18	**76**	**84**
TOTAL CURRENT ASSETS		**4 957**	**7 675**
TOTAL ASSETS		**243 449**	**232 678**

The accompanying notes on pages 22 to 44 form an integral part of these Financial Statements.

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

22 April 2013

BALANCE SHEET AS AT 31 DECEMBER 2012 (CONT'D)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	31/12/2012 LVL'000	31/12/2011 LVL'000
SHAREHOLDERS' EQUITY			
Share capital	19	104 479	104 479
Share premium		42 343	42 343
Other reserves		85 639	85 277
Retained earnings for the year		258	362
TOTAL SHAREHOLDERS' EQUITY		**232 719**	**232 461**
LIABILITIES			
Non-current liabilities			
Payables to related companies	20a	10 589	-
Deferred corporate income tax	10	3	9
TOTAL		**10 592**	**9**
Current liabilities			
Prepayments received		-	12
Trade payables		9	46
Payables to related companies	20b	2	4
Taxes payable	21	17	8
Accrued liabilities	22	110	138
TOTAL		**138**	**208**
TOTAL LIABILITIES		**10 730**	**217**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**243 449**	**232 678**

The accompanying notes on pages 22 to 44 form an integral part of these Financial Statements.

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

22 April 2013

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 LVL'000	2011 LVL'000
Operating activities			
Profit before taxes		278	967
Adjustments:			
Interest income	9	(1 191)	(1 225)
Depreciation	11	19	12
Dividends	6	-	(4 947)
Impairment of financial assets	8	-	4 400
Interest expense	9	213	-
Loss on sales/ disposal of property, plant and equipment	5	20	-
		(661)	***(793)***
Decrease/ (Increase) in receivables		86	(15)
Decrease in current liabilities		(96)	(15)
Net cash used in operating activities		***(671)***	***(823)***
Corporate income tax paid	21	(100)	(726)
Net cash used in operating activities		**(771)**	**(1 549)**
Investing activities			
Purchase of property, plant and equipment	11	(2)	(732)
Interest received		977	1 126
Loans issued		(14 373)	(1 054)
Dividends received		-	4 947
Proceeds from disposal of property, plant and equipment		703	-
Decrease/(increase) in short-term deposits		2 604	(2 751)
Net cash flow (used in) / generated from investing activities		**(10 091)**	**1 536**
Financing activities			
Loans received		10 854	-
Net cash generated from financing activities		**10 854**	-
Net decrease in cash and cash equivalents		**(8)**	**(13)**
Cash and cash equivalents at the beginning of the reporting year		**84**	**97**
Cash and cash equivalents at the end of the reporting year	18	**76**	**84**

The accompanying notes on pages 22 to 44 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Share premium	Other reserves	Retained earnings for the year	**Total**
	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**
Balance as at 31 December 2010	**104 479**	**42 343**	**81 640**	**3 637**	**232 099**
Transfer of 2010 net result	-	-	3 637	(3 637)	-
Profit for the reporting year	-	-	-	362	362
Balance as at 31 December 2011	**104 479**	**42 343**	**85 277**	**362**	**232 461**
Transfer of 2011 net result	-	-	362	(362)	-
Profit for the reporting year	-	-	-	258	258
Balance as at 31 December 2012	**104 479**	**42 343**	**85 639**	**258**	**232 719**

The accompanying notes on pages 22 to 44 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

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

The Company's main business types (NACE 2nd wording) are operation of head offices (70.1), operation of holding companies (64.2) and other business types. *JSC Ventspils nafta* is a holding company mainly engaged in management of investments in companies of the *JSC Ventspils nafta* Group.

In 2012, the main activities carried out by the subsidiaries of *JSC Ventspils nafta* were as follows:

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

The following table summarizes ownership of the Company in subsidiaries:

Ownership, %	31/12/2012	31/12/2011	Registration number	Legal address
Subsidiaries				
LatRosTrans Ltd	66.00	66.00	40003190740	LRDS "Ilūkste", Šederes pagasts, Ilūkstes novads, Latvia, LV-5474
Ventspils nafta termināls Ltd	51.00	51.00	41203019923	Talsu iela 75, Ventspils, Latvia, LV-3602

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

The financial statements of the Company were authorized for issue in accordance with resolution of the Management Board on 22 April 2013. The Company's shareholders, in accordance with statutes, have the right to amend the financial statements after issue.

2. Significant accounting policies

Basis of preparation

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

The Company's financial statements have been prepared in accordance with Law of the Republic of Latvia On Accounting and the Annual Accounts Law.

The financial statements are prepared on a historical cost basis.

Cash flow report has been prepared by the indirect method.

Compared with the previous reporting year, the accounting and evaluation methods used by the Company have not changed.

The financial statements cover the period 1 January 2012 through 31 December 2012.

Reporting currency and units of measurement

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

Foreign currency transactions

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

	31/12/2012	31/12/2011
USD	0.531000	0.544000
EUR	0.702804	0.702804

Property, plant and equipment

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

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

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

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

Depreciation is calculated starting with the following month after the fixed asset is put into operation or engaged in commercial activity. Significant parts of fixed assets, which requires regular replacement, are recognized as seperate fixed assets, for which useful life is determined individually; also depreciation of these fixed assets are calculated individually.

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

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

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

Investments in subsidiary undertakings and associated companies

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

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

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

Financial instruments - initial recognition and subsequent measurement

i) Financial assets

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

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

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

Subsequent measurement

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

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

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

Financial assets carried at amortised cost (cont'd)

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

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

iii) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at amortised cost

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

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

Derecognition

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

iv) Offsetting of financial instruments

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

Cash and cash equivalents

Cash comprises cash at bank and on hand and short-term deposits with an original maturity of 90 days or less.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

Provisions

Provisions are recognised when the Company 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.

Accrued unused annual leave expenses

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

Net sales and revenue recognition

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

Rendering of services

Revenue from rendering of services is recognized in the period when the services are provided by reference to the stage of completion of the transaction.

Interest income

For all financial instruments that are listed in the depreciated purchase value, interest income or costs are recognized using the actual interest rate, namely, the rate that in fact discounts the estimated future money income throughout the entire time of useful usage of the financial instrument, or – depending on circumstances – in a shorter time period until the balance sheet value of the respective financial asset or liability.

Dividends

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

Taxes

Corporate income tax

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

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

Related parties

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

Subsequent events

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. Net sales

	2012 LVL'000	2011 LVL'000
Management services	198	323
Income from lease of premises	57	-
TOTAL:	**255**	**323**

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

4. General and administrative expense

	2012 LVL'000	2011 LVL'000
Remuneration for work (see also Note 7)	391	342
Professional charges and legal costs	236	473
Statutory social insurance contributions (see also Note 7)	94	83
Bank charges	22	29
Lease of premises	21	20
Depreciation	19	12
Audit fees	12	22
Remuneration of the Audit Committee	12	12
Other expense	100	102
TOTAL:	**907**	**1 095**

5. Other operating expense

	2012 LVL'000	2011 LVL'000
Loss on disposal of property, plant and equipment	20	-
Sponsorship	2	38
Other expense	12	3
TOTAL:	**34**	**41**

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

	2012 LVL'000	2011 LVL'000
Dividends received	-	4 947
TOTAL:	**-**	**4 947**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

7. Personnel expense

	2012	2011
Average number of employees during the reporting year	12	12

Remuneration for work and statutory social insurance contributions

	2012 LVL'000	2011 LVL'000
Remuneration for work	343	294
Statutory social insurance contributions	82	71
Management and Board Members		
Remuneration for work	48	48
Statutory social insurance contributions	12	12
TOTAL:	**485**	**425**

In accordance with resolution adopted by shareholders of *JSC Ventspils nafta*, the remuneration fund for Supervisory Council members for fulfilment of duties as the Company's Supervisory Council members was fixed in the amount of zero lats in 2012 (in 2011: LVL 0).

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

	2012 LVL'000	2011 LVL'000
General and administrative expense	485	425
TOTAL:	**485**	**425**

8. Impairment of other financial assets

The net present value of *LASCO Investment Ltd* debt at 31 December 2012 is LVL 21 259 thousand (31/12/2011: LVL 21 259 thousand). The cost of *LASCO Investment Ltd* debt as at 31 December 2012 is LVL 28 629 thousand (31/12/2011: LVL 28 629 thousand). In 2011 *JSC Ventspils nafta* recognized LVL 4 400 thousand as impairment of the *LASCO Investment Ltd* debt.

JSC Latvian Shipping Company lost control over the entity on 17 December 2010 due to the commenced insolvency procedures. Consequently, the receivable from *LASCO Investment Ltd* is not considered as a receivable from a related party. This receivable has been classified as non-current assets due to the insolvency procedures which are expected to take several years. The debt is secured by real estate properties and shares of the companies holding the sold companies and real properties (see Note 14c). The market value of the pledged real estate properties is LVL 23 176 thousand as at 31 December 2012 (31/12/2011: LVL 21 259 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

9. Finance income, net

	2012 LVL'000	2011 LVL'000
Interest income from loans and receivables	1 129	1 080
Interest on bank account balances	62	145
(Losses)/ gains from purchase/ sale of foreign currency, net	(6)	4
(Losses)/ gains from currency exchange, net	(8)	4
Interest expense	(213)	-
TOTAL:	**964**	**1 233**

10. Corporate income tax for the reporting year and deferred income tax

	2012 LVL'000	2011 LVL'000
Corporate income tax charge for the current year	(19)	(596)
Correction of corporate income tax for previous reporting periods	(7)	-
Deferred corporate income tax credit / (charge)	6	(9)
TOTAL:	**(20)**	**(605)**

Deferred corporate income tax:

	Balance sheet LVL'000		Income statement LVL'000	
Deferred corporate income tax liability	31/12/2012	31/12/2011	2012	2011
Accelerated depreciation for tax purposes	(4)	(16)	12	(9)
Gross deferred tax liability	(4)	(16)	12	(9)
Deferred corporate income tax asset				
Provisions established	1	667	(666)	214
Valuation allowance for deferred income tax asset	-	(660)	660	(214)
Gross deferred income tax asset	**1**	**7**	**(6)**	**-**
Net deferred income tax liability	**(3)**	**(9)**	**6**	**(9)**

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

	2012 LVL'000	2011 LVL'000
Profit before tax	278	967
Corporate income tax at 15%	*42*	*145*
The effect of impairment of other financial assets	-	660
Permanent differences, net	(22)	(200)
Corporate income tax charged to the income statement:	**20**	**605**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. Property, plant and equipment

	Land and buildings	Other property, plant and equipment	**TOTAL**
	LVL'000	LVL'000	**LVL'000**
Cost:			
At 1 January 2011	-	157	157
Additions	731	2	733
31 December 2011	**731**	**159**	**890**
Additions	-	1	1
Disposals	(731)	-	(731)
31 December 2012	**-**	**160**	**160**
Depreciation			
At 1 January 2011	-	78	78
Depreciation charge for 2011	-	12	12
31 December 2011	**-**	**90**	**90**
Depreciation charge for 2012	8	11	19
Disposals	(8)	-	(8)
31 December 2012	**-**	**101**	**101**
Net book value			
31 December 2012	-	59	59
31 December 2011	731	69	800
1 January 2011	-	79	79

The total depreciation charge is included in General and administrative expense caption (see Note 4).

As at December 31, 2011, the cadastral value of the Company's real estate in Riga, Ganību dambis 10a, was LVL 620 thousand. The real estate in Riga, Ganību dambis 10a, was sold on October 24, 2012.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

12. Investments in subsidiaries

The investments in subsidiaries of the Company as at 31 December 2012 and 2011, as well as the key performance indicators, core business activity and registered office of the subsidiaries:

	Shareholding, % 31/12/2012	Shareholding, % 31/12/2011	Investment, LVL'000 31/12/2012	Investment, LVL'000 31/12/2011	Equity of subsidiary, LVL'000 31/12/2012	Equity of subsidiary, LVL'000 31/12/2011	Profit of subsidiary LVL'000 2012	Profit of subsidiary LVL'000 2011	Business activity	Legal address
LatRosTrans Ltd.	66.00	66.00	79 494	79 494	113 090	101 271	11 819	8 024	Crude oil and oil product transportation by pipeline	LRDS "Ilūkste", Šederes pagasts, Ilūkstes novads, Latvia, LV-5474
Ventspils nafta terminĀls Ltd.	51.00	51.00	39 693	39 693	97 489	87 047	10 442	8 469	Crude oil and oil product reloading and storage	Talsu iela 75, Ventspils, LV-3602, Latvia
		TOTAL:	**119 187**	**119 187**						

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

12. Investments in subsidiaries (cont'd)

The investments in the subsidiaries can be specified as follows:

	LatRosTrans Ltd.	*Ventspils nafta termināls Ltd.*	**Total**
	LVL'000	*LVL'000*	***LVL'000***
Cost:			
At 1 January 2011	**80 250**	**39 693**	**119 943**
At 31 December 2011	**80 250**	**39 693**	**119 943**
At 31 December 2012	**80 250**	**39 693**	**119 943**
Accumulated impairment:			
At 1 January 2011	756	-	756
At 31 December 2011	**756**	**-**	**756**
At 31 December 2012	**756**	**-**	**756**
Net carrying amount:			
At 31 December 2012	79 494	39 693	**119 187**
At 31 December 2011	79 494	39 693	**119 187**
At 1 January 2011	79 494	39 693	**119 187**

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

The Company's investments in the subsidiaries are tested for impairment on an annual basis. The total net carrying value of the Company's investments in its subsidiaries tested for impairment in 2012 was LVL 119 187 thousand (2011: LVL 119 187 thousand). In 2012 and 2011, based on the cash flow projections, no additional impairment loss on investments in the subsidiaries was recognized.

Information on the operations of the subsidiaries

Ventspils nafta termināls Ltd

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

Ventspils nafta termināls Ltd increased its transhipment volumes from 11.4 million metric tons in 2011 to 12.0 million metric tons of various petroleum products in reporting year. Throughput of products delivered by railway and vessels was 5.5 million metric tons and throughput of diesel by pipeline was 6.5 million metric tons.

In 2012, net turnover of *Ventspils nafta termināls Ltd* exceeded LVL 60.4 million (2011: LVL 58.8 million), while the net profit for the reporting period amounted to LVL 10.4 million (2011: LVL 8.5 million).

LatRosTrans Ltd

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

The sales of *LatRosTrans Ltd* in 2012 amounted to LVL 12.2 million (2011: LVL 10.2 million), and oil product transportation for the year reached 6.3 million tons (2011: 5.8 million tons) which is by 9% more if compared to 2011. *LatRosTrans Ltd* closed 2012 with a net profit of LVL 11.82 million (2011: LVL 8.02 million).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

13. Investments in associates

The following table presents the investments in the associates:

	31/12/2012	31/12/2011	Legal address
	Shareholding, %		
JSC Latvian Shipping Company	49.94	49.94	Elizabetes iela 1, Riga, LV-1807, Latvia

The investments in the associates can be specified as follows:

	Latvian Shipping Company JSC
	LVL'000
Cost:	
At 1 January 2011	34 945
At 31 December 2011	**34 945**
At 31 December 2012	**34 945**
Net carrying amount:	
At 31 December 2012	34 945
At 31 December 2011	34 945
At 1 January 2011	34 945

Information on the operations of associate

<u>*JSC Latvian Shipping Company*</u>

JSC Latvian Shipping Company is treated as an associated company of *JSC Ventspils nafta* because *JSC Ventspils nafta* owns 49.94% of the share capital of *JSC Latvian Shipping Company*. In the consolidated financial report of *JSC Ventspils nafta*, which has been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, the investment of *JSC Ventspils nafta* into the capital *JSC Latvian Shipping Company* is consolidated.

Interest of *JSC Ventspils nafta* in *JSC Latvian Shipping Company* has not changed since obtaining it.

The share price on NASDAQ OMX Riga at the end of the year was LVL 0.252 per share (31/12/2011: 0.308 per share). On a net asset value basis *JSC Ventspils nafta's* 49.94% share of *JSC Latvian Shipping Company* as at 31 December 2012 is LVL 60 639 thousand (31/12/2011: LVL 71 103 thousand). Impairment test for investment in associate *JSC Latvian Shipping Company* was performed; as a result no impairment was recognised.

In 2012, the net losses of the *JSC Latvian Shipping Company* Group amounted to USD 34.6 million (LVL 18.65 million). In the same period of 2011, net losses of the *JSC Latvian Shipping Company* amounted to USD 48.27 million (LVL 24.09 million).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

14 (a) Non-current loans:	31/12/2012 LVL'000	31/12/2011 LVL'000
Receivable from *Euromin Holdings (Cyprus) Limited**	47 759	47 759
Receivable from *Latmar Holdings Corporation***	15 283	1 054
TOTAL:	**63 042**	**48 813**

* 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 million 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 2012 and 2011 was Euro 67 955 thousand (LVL 47 759 thousand). As at 31 December 2012 and 31 December 2011 the loan note balance was neither due nor impaired. The Company's management believes that debt is fully recoverable.

**Loans of *JSC Ventspils nafta* to *Latmar Holdings Corporation*

On August 29, 2011, a loan agreement was concluded for Euro 1 500 thousand between *JSC Ventspils nafta* and *Latmar Holdings Corporation* – a subsidiary of its associated company *JSC Latvian Shipping Company.* The initial loan repayment time was fixed until September 2, 2013, and the initial interest rate was fixed at 3 months EUR LIBOR + 1%.
Amendments were made to the loan agreement on March 29, 2012, determining the new loan amount of Euro 1 518 thousand (the principal of previous loan agreement and the accrued interest as at the time of amending the agreement), the new repayment time was fixed as at June 30, 2017, but the new loan interest rate was fixed at 3 months EUR LIBOR + 2.75%.
The loan security is the real property at Jēkaba Street 30, Riga.

On March 29, 2012, a loan agreement was concluded for Euro 5 000 thousand between *JSC Ventspils nafta* and *Latmar Holdings Corporation* – a subsidiary of its associated company *JSC Latvian Shipping Company.* The loan is repayable until June 30, 2017, and the interest rate is fixed 3 months EUR LIBOR + 2.75%. Loan securities are the real property at Elizabetes Street 1, Riga, the real property at Jēkaba Street 30, Riga, as well as the commercial pledge of *Latmar Holdings Corporation* subsidiary *Skonto nafta Ltd* for a part of registered shares of *JSC Latvijas Naftas Tranzīts* owned by it.

On May 18, 2012, a loan agreement was concluded for USD 19 557 thousand between *JSC Ventspils nafta* and *Latmar Holdings Corporation* – a subsidiary of its associated company *JSC Latvian Shipping Company.* The loan is repayable until June 30, 2017, and the interest rate is fixed 3 months USD LIBOR + 2.75%. The loan security is the commercial pledge of *Latmar Holdings Corporation* subsidiary *Skonto nafta Ltd* for a part of registered shares of *JSC Latvijas Naftas Tranzīts* owned by it.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

14 (b) Receivables from related companies (current):	31/12/2012	31/12/2011
	LVL'000	LVL'000
Receivable from *JSC Latvian Shipping Company* in relation to management consulting services	25	41
Receivable from *Ventspils nafta terminals Ltd* in relation to management consulting services	-	31
Receivable from *LatRosTrans Ltd* in relation to management consulting services	8	25
TOTAL receivables from related companies (current):	**33**	**97**

14 (c) Other financial assets:

LASCO Investment Ltd

Net present value of *LASCO Investment Ltd* debt at 31 December 2012 is LVL 21 259 thousand (31/12/2011: LVL 25 659 thousand). The cost of *LASCO Investment Ltd* debt as at 31 December 2012 is LVL 28 629 thousand (31/12/2011: LVL 28 629).

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

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

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

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

On December 17, 2010 the administrator filed in court an insolvency application of *LASCO Investment Ltd.* On 3 January 2011, the insolvency of *LASCO Investment Ltd* was announced by the Vidzeme Suburb Court.

On 26 January 2011, *JSC Ventspils nafta* submitted a creditor's claim to the administrator of the insolvent *LASCO Investment Ltd,* which was rejected by the administrator on January 31, 2011. *JSC Ventspils nafta* is pursuing a claim in the Riga Regional Court against the insolvent *LASCO Investment Ltd,* requesting the court to recognize *JSC Ventspils nafta* as a secured creditor and to recover debt amount. In 2011 also the administrator of the insolvent *LASCO Investment Ltd* has initiated a claim in the Riga Regional Court against *JSC Ventspils nafta,* requesting the reversal a sale of the shares of *Nekustamie īpašumi VN Ltd* and *JSC Preses nams.* Both above mentioned cases are joint in one proceeding. At the moment of preparation of this report cases are not reviewed by merits in first instance of the court. The next court hearing is scheduled on June 5, 2013.

In view of the above mentioned proceeding, it is management opinion that the recoverable amount of the debt directly relates to the value of real properties and shares of companies holding real properties that are pledged for *JSC Ventspils nafta.* On 31 December 2012, the carrying value of the debt is the net present value (See also Note 8).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

15. Short-term deposits

	31/12/2012 LVL'000	31/12/2011 LVL'000
Short-term deposits	4 702	7 306
TOTAL:	**4 702**	**7 306**

Short-term deposits are placed for periods ranging from three months to twelve months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates. Interests for short-term deposits are calculated corresponding with the respective short-tem deposit rates. Annual rates of short-term deposits that are placed in the reporting period range from 0.88% to 1.75%.

16. Other receivables

	31/12/2012 LVL'000	31/12/2011 LVL'000
Corporate income tax receivable (See Note 21)	82	5
Personal income tax receivable (See Note 21)	5	5
Advances for services to be provided	1	5
Other	3	3
TOTAL:	**91**	**18**

17. Other assets

	31/12/2012 LVL'000	31/12/2011 LVL'000
Accrued interest income	50	170
Accrued income	5	-
TOTAL:	**55**	**170**

18. Cash

	31/12/2012 LVL'000	31/12/2011 LVL'000
Current bank accounts	76	84
TOTAL:	**76**	**84**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

19. Share capital

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

	Registered shares	Bearer shares	Total, LVL
31 December 2012	-	104 479 519	**104 479 519**
31 December 2011	43 881 398	60 598 121	**104 479 519**

All shares are authorized, issued and fully paid.

The nominal value of each share is LVL 1.

Earnings per share of LVL 0.002 (2011: LVL 0.004) are calculated by dividing the net profit for the reporting year of LVL 258 thousand (2011: LVL 362 thousand) by the weighted average number of shares in issue of 104 479 thousand (2011: 104 479 thousand) during the reporting year. As on 6 November 2012, when the last shareholders' general meeting of *JSC Ventspils nafta* took place, *Euromin Holdings (Cyprus) Limited*, was registered as the largest shareholder by owning 49.5% of Parent company's share capital.

According to the decisions of the extraordinary shareholders' meeting held on 6 November 2012 the shareholders decided convert registered 43 881 398 paper form registered shares into 43 881 398 dematerialised bearer shares. The extraordinary shareholders' meeting of November 6, 2012 also decided to include in the Baltic Official List of *JSC NASDAQ OMX Riga* 43 881 398 bearer shares of *JSC Ventspils nafta*, which previously were not included in the regulated market.

20. Payables to related companies

20 (a) Long-term borrowings:	31/12/2012 LVL'000	31/12/2011 LVL'000
Loan payable to LatRosTrans Ltd	10 589	-
TOTAL long-term borrowings:	**10 589**	**-**

On March 23, 2012, a loan agreement was concluded for USD 19 557 thousand between *JSC Ventspils nafta* and its subsidiary *LatRosTrans Ltd*. The loan is repayable until November 1, 2016, and the interest rate is fixed 3 months USD LIBOR + 2.74%. The loan security is the commercial pledge issued by *JSC Ventspils nafta* for a part of the claim pertaining to *JSC Ventspils nafta* from *Euromin Holdings (Cyprus) Limited.*

20 (b) payabes to related companies (current):	31/12/2012 LVL'000	31/12/2011 LVL'000
Payables to *JSC Latvian Shipping Company* in relation to services received	-	1
Payables to *LatRosTrans Ltd* in relation to services received	2	3
TOTAL payables (current):	**2**	**4**

21. Taxes receivable/ (payable)

	31/12/2012 LVL'000	Charge for 2012 LVL'000	Paid in 2012 LVL'000	31/12/2011 LVL'000
Statutory social insurance contributions	-	(145)	145	-
Personal income tax	5	(91)	91	5
Corporate income tax	82	(23)	100	5
Value added tax	(17)	(24)	15	(8)
TOTAL:	**70**	**(283)**	**351**	**2**
TOTAL PAYABLE:	**(17)**			**(8)**
TOTAL RECEIVABLE:	**87**			**10**

22. Accrued liabilities

	31/12/2012 LVL'000	31/12/2011 LVL'000
Accrued personnel expense	87	72
Vacation pay reserve	6	47
Other accrued liabilities	17	19
TOTAL:	**110**	**138**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

23. Related party disclosures

		2012		31/12/2012	
Related party	**Nature of services**	Income from related parties LVL'000	Purchases from related parties LVL'000	Amounts owed by related parties LVL'000	Amounts owed to related parties LVL'000
Ventspils Nafta Termināls Ltd	Consulting services provided	39	1	-	-
JSC Latvian Shipping Company	Consulting services provided	181	-	25	-
Euromin Holdings' (Cyprus) Ltd	Interest income	797	-	47 759	-
Latmar Holdings Corporation	Interest income	332	-	15 283	-
LatRosTrans Ltd	Rent of premises/ Consulting services provided	34	21	8	2
LatRosTrans Ltd	Interest expense	-	213	-	10 589
Total		**1 383**	**235**	**63 075**	**10 591**

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

	2012	2011
	LVL'000	LVL'000
Audit of financial statements	12	16
Tax and consulting	24	11
TOTAL:	**36**	**27**

25. Financial instruments

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

	31/12/2012		
Financial assets	Loans and receivables LVL'000	Financial assets and liabilities at amortised cost LVL'000	**Total LVL'000**
Non-current portion of loan note	63 042	-	**63 042**
Other financial assets (non-current)	21 259	-	**21 259**
Receivables from related parties	33	-	**33**
Other assets	4 760	-	**4 760**
Cash and cash equivalents	76	-	**76**
Total financial assets:	**89 170**	**-**	**89 170**
Non-current liabilities	-	10 589	10 589
Trade payables	-	9	9
Payables to related companies	-	2	2
Other accrued liabilities	-	17	17
Total financial liabilities:	**-**	**10 617**	**10 617**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

25. Financial instruments (cont'd)

	31/12/2011		
Financial assets	Loans and receivables LVL'000	Financial assets and liabilities at amortised cost LVL'000	**Total LVL'000**
Non-current portion of loan note	48 813	-	**48 813**
Other financial assets (non-current)	21 259	-	**21 259**
Receivables from related parties	97	-	**97**
Other assets	7 479	-	**7 479**
Cash and cash equivalents	84	-	**84**
Total financial assets:	**77 732**	**-**	**77 732**
Trade payables	-	46	46
Payables to related companies	-	4	4
Other accrued liabilities	-	19	19
Total financial liabilities:	**-**	**69**	**69**

26. Financial risk management

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

Foreign currency risk

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

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

The Company's currency risk in USD dollars and Euro as at 31 December 2012 and 2011 may be specified as follows:

	31/12/2012	31/12/2011
Financial assets denominated in EUR'000	111 217	109 770
Financial liabilities denominated in EUR'000	-	-
Net balance sheet position in EUR'000	**111 217**	**109 770**
Net balance sheet position in LVL'000	**78 164**	**77 147**
Financial assets denominated in USD'000	20 456	575
Financial liabilities denominated in USD'000	(19 873)	-
Net balance sheet position in USD'000	**583**	**575**
Net balance sheet position in LVL'000	**310**	**313**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

26. Financial risk management (cont'd)

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

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

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

	Increase/ decrease in US dollar exchange rate	Effect on profit before tax (LVL'000)
2012		
	+5%	16
	-5%	(16)
2011		
	+5%	16
	-5%	(16)

Liquidity risk

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

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

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2012 and 2011 based on contractual undiscounted payments.

2012	On demand (LVL'000)	< 3 months (LVL'000)	3 to 12 months (LVL'000)	1 to 5 years (LVL'000)	> 5 years (LVL'000)	Total (LVL'000)
Trade payables	-	9	-	-	-	9
Payables to related companies	2	-	-	-	-	2
TOTAL:	**2**	**9**	**-**	**-**	**-**	**11**

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

26. Financial risk management (cont'd)

Credit risk

The Company is exposed to credit risk through its non-current loan to *Euromin Holdings (Cyprus) Limited, Latmar Holdings Corporation* and the receivable from *LASCO Investment Ltd,* as well as through cash and cash equivalents. The Company manages credit risk arising out of cash and cash equivalents by investing in EU-registered credit institutions. The credit risk arising out of non-current loans and other financial non-current asset is managed by evaluating the creditworthiness of business partners. See also Notes 14, 20 and 23.

Interest rate risk

The Company is exposed to the interest rate risk mainly through its current loans. The interest rate receivable on the loans is disclosed in Notes 14 and 20.

	2012		2011	
	Increase in basis points	Effect on profit before tax (LVL'000)	Increase in basis points	Effect on profit before tax (LVL'000)
Loan receivable				
EUR LIBOR	+0.20%	105	+0.20%	98
USD LIBOR	+0.20%	21	-	-
Borrowings				
USD LIBOR	+0.20%	(21)	-	-

Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions in Latvia and the European Union, the capital market trends and interest rate fluctuations. To maintain optimum capital structure, the Company may use a share capital increase or decrease, distribution of dividends or various forms of borrowed capital. The Company's capital management objectives, policies and procedures have not been changed in 2012 and 2011.

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

	2012 LVL'000	2011 LVL'000
Borrowings	10 589	-
Less cash and cash equivalents	(76)	(84)
Net debt	*10 513*	*(84)*
Equity	232 719	232 461
Total capital	222 206	232 377
GEARING RATIO:	**4,73%**	**0%**

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

27. Events after balance sheet date

On March 13, 2013, a loan agreement was concluded for up to USD 7 000 thousand between *JSC Ventspils nafta* and *Latmar Holdings Corporation* – a subsidiary of its associated company *JSC Latvian Shipping Company*. The loan term is until June 30, 2017 and the interest rate was fixed 3 months USD LIBOR +2.75%. The loan is available for issuing until December 31, 2013 upon the borrower's request. The loan security is the commercial pledge of *Latmar Holdings Corporation* subsidiary *Skonto nafta Ltd* for a part of registered shares of *JSC Latvijas Naftas Tranzīts* owned by it.

On February 28, 2013, *JSC Ventspils nafta* received Euro 6 145 thousand (LVL 4 302 thousand) in dividends from its subsidiary *Ventspils nafta termināls Ltd* for 2011.

On April 19, 2013, *JSC Ventspils nafta* received Euro 7 577 (LVL 5 325 thousand) in dividends from its subsidiary *Ventspils nafta termināls Ltd* for 2012.

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.