



VENTSPILS NAFTA



JSC VENTSPILS NAFTA
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012



Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC Ventpils nafta

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of JSC Ventpils nafta and its subsidiaries ("the Group"), set out on pages 19 to 76 of the accompanying annual report which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of income, 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.



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 2012 and 2011 comprises the investment in JSC Latvijas Naftas Tranzits of LVL 15 996 thousand and LVL 16 100 thousand, respectively. 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 2012 and 2011. 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 2012, 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 2012 set out on pages 16 to 18 of the accompanying annual report for 2012 and the Corporate Governance Report for 2012 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 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

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Information about *Ventspils nafta*

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

Information about Ventspils nafta (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.

The mission of the VN Group is to safeguard transport infrastructure for some of the world's most important raw materials and sources of energy – crude oil and petroleum products, by working in an advantageous and significant geographical intersection between Eastern and Western Europe. Combining long-term experience of employees, high quality service, developed infrastructure and continuous modernisation of technologies, we transport and store petroleum products and provide shipping services: with care for growth and for people, while paying the highest attention to our impact on the environment.

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.

The goal of the VN Group is to become a Group, which is globally recognised in transportation of petroleum products, storage and shipping; so that the name of *Ventspils nafta* to our partners and the Latvian people signifies reliability, excellent quality of service, high environmental protection standards and an intent to always be a good corporate citizen.

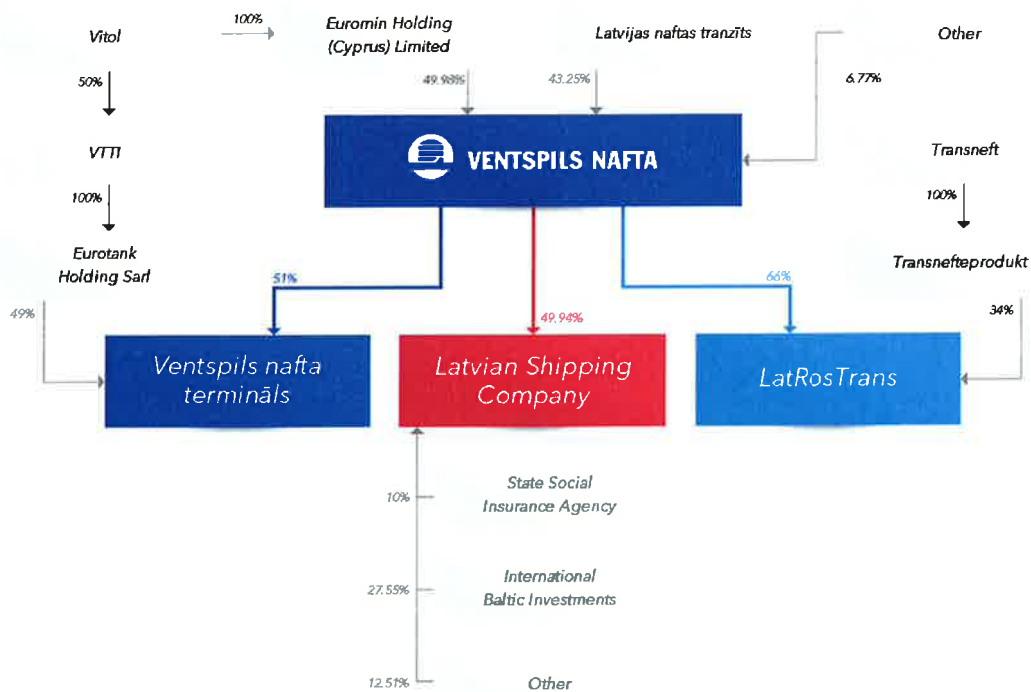
Strategy

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.

Information about Ventspils nafta (cont'd)

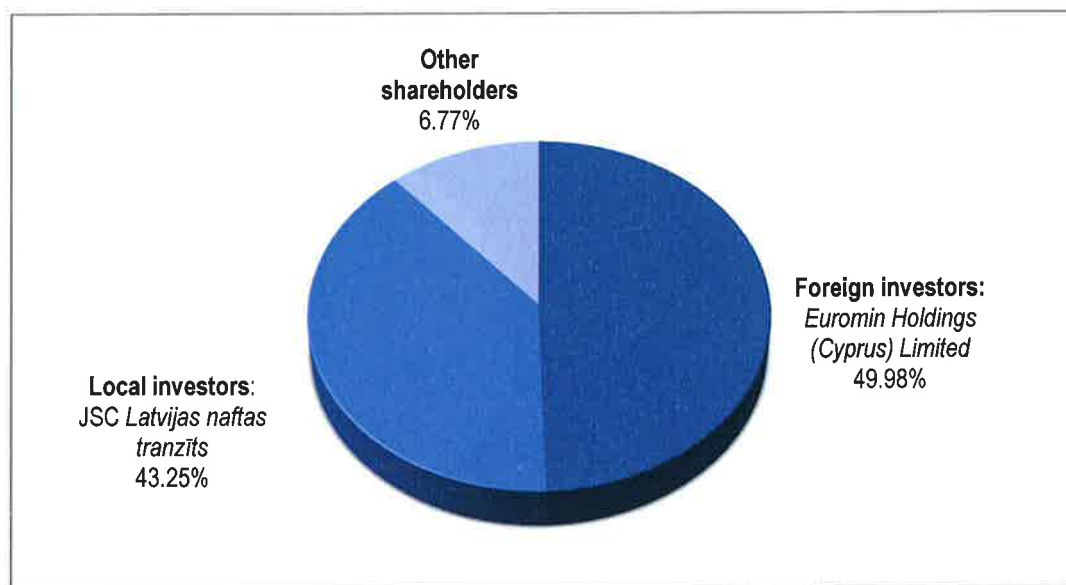
Corporate structure

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



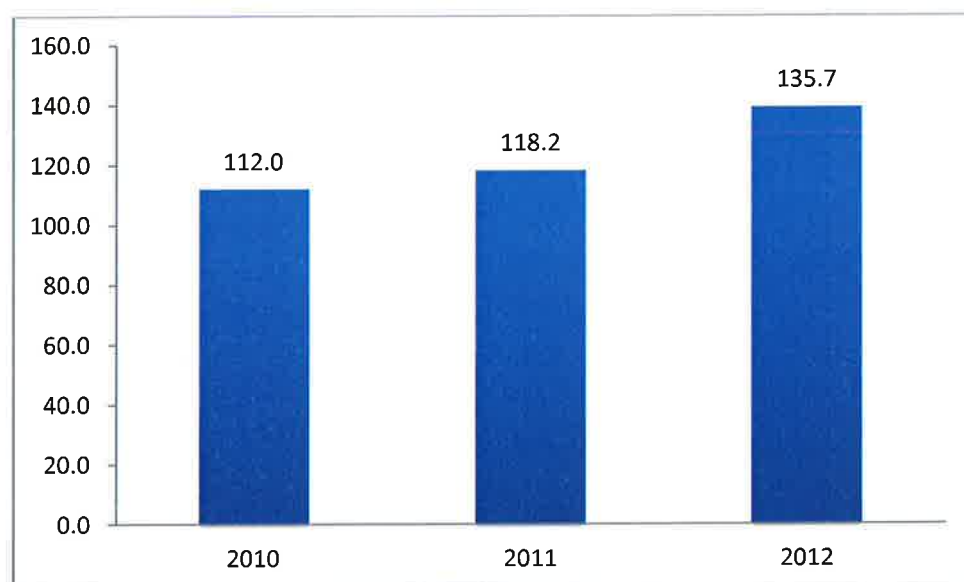
Information about *Ventspils nafta* (cont'd)

Key figures

	2008*	2009*	2010*	2010 restated	2011	2012
Turnover (million LVL)	63.12	66.68	53.35	112.02	118.24	135.67
Net profit / (loss) (million LVL)	27.29	(17.54)	(25.27)	(65.57)	(12.19)	3.87
Gross profit before depreciation (million LVL)	10.57	14.78	21.77	39.55	40.56	50.66
Profit's / (loss) share of turnover	43.2%	(26.3%)	(47.4%)	(58.5%)	(10.3)	2.9%
EBITDA (million LVL)	22.56	11.08	23.84	24.05	23.34	40.32
EBITDA's share of turnover	35.7%	16.6%	44.7%	21.5%	19.7%	29.7%
EBIT (million LVL)	13.2	1.78	14.70	(0.38)	1.10	16.62
Return on Assets (%)	6.2%	(4.8%)	(7.2%)	(10.4%)	(1.9%)	0.6%
Return on Equity (%)	6.57%	(4.43%)	(7.19%)	(14.56%)	(2.90%)	0.94%
EPS (LVL)	0.28	(0.18)	(0.28)	(0.29)	(0.07)	0.04
Liquidity ratio	6.05	12.69	7.20	2.58	3.43	3.66
Dividends (LVL per share)	-	0.48	-	-	-	-

*In 2008, 2009 and 2010 JSC Ventspils nafta accounted for its investment in JSC Latvian Shipping Company by the equity method and recognized this investment as investment in associated company.

Ventspils nafta Group's revenue (million LVL)



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)

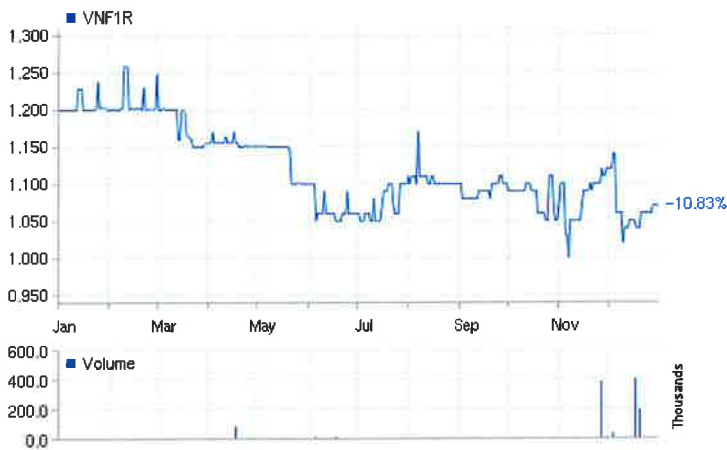
Open	1.200 LVL
Max	1.259 LVL
Min	1.000 LVL
Last	1.070 LVL
Average price	1.12 LVL
Change	-10.83 %
Deals	1 559
No of shares traded	1 222 348
Turnover	1 635 699.12 LVL
Capitalisation on 31/12/2012	111 793 085.33 LVL

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

Information on shares (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 Igor Skoks Olafs Berķis Genādijs Ševcovs Ivars Bērziņš

To the best of the Group's knowledge, no member of the Supervisory Council has more than 5% of direct ownership in related companies of Group's business partners, suppliers and clients.

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	-	Igor 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 resolutions 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 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 Odessa 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 has 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

No member of the Management Board has more than 5% of direct ownership in any of Group's business partners, suppliers and clients.

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. Mendeleev 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 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 2012, 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.

On behalf of the Management Board:

Simon Boddy
Chairman of the Management
Board of *Joint Stock Company*
Ventspils nafta
Riga, 22 April 2013

Management Report

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 the *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 *VN* has proposed to transfer the net profit of 2012 to other reserves.

In 2011 *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 2011, *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 group* 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 markets.

Management Report (cont'd)

Ventspils nafta terminals

In 2012, *Ventspils nafta termināls Ltd.* (hereafter – *VNT*) increased its transshipment 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.

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 were 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 transshipment 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.

Management Report (cont'd)

Financial Instruments and Financial risk management related to the operations of *JSC Ventspils nafta* Group are disclosed in Note 35 to the consolidated financial statement.

The consolidated annual report for 2012 and Corporate Governance Report for 2012 have been submitted to the NASDAQ OMX Riga as well as published on *JSC Ventspils nafta* website www.vnafta.lv.

On behalf of the Management Board:

Simon Boddy
Chairman of the Management
Board of *Joint Stock Company*
Ventspils nafta
Riga, 22 April 2013

Consolidated statement of income

for the year ended 31 December 2012

	Notes	2012 LVL thousand	2011 LVL thousand
Revenue	4	135 673	118 241
Cost of goods sold	5	(108 702)	(99 924)
Gross profit		26 971	18 317
General and administrative expense	6	(8 905)	(11 184)
Other operating income	7	16 495	10 894
Other operating expense	8	(1 722)	(7 809)
Impairment of other non-financial assets	10	(15 279)	(14 262)
Finance income	11	1 360	3 147
Finance costs	11	(10 628)	(10 427)
Profit/ (Loss) before tax		8 292	(11 324)
Corporate income tax	12	(4 423)	(862)
Profit/ (Loss) for the year		3 869	(12 186)
Attributable to:			
Parent company's shareholders		4 081	(6 994)
Non-controlling interest	25	(212)	(5 192)
		3 869	(12 186)
Earnings/ (Loss) per share (Lats per share) attributable			
to the Parent company's shareholders:		0,04	(0,07)
Earnings/ (Loss) per share (Lats per share)		0,04	(0,12)

The accompanying notes on pages 25 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on April 22, 2013 and signed on its behalf by:

Simon Boddy
Chairman of the Management Board
of Joint Stock Company Ventspils nafta
Riga, 22 April 2013

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	2012	2011
	LVL thousand	LVL thousand
Profit/ (Loss) for the year	3 869	(12 186)
Other comprehensive income/ (loss)		
- Foreign currency translation reserve	(2 784)	(52)
- Cash flow hedge reserve	459	788
Other comprehensive (loss)/ income for the year	(2 325)	736
Total comprehensive income/ (loss) for the year	1 544	(11 450)
Attributable to:		
Parent company's shareholders	2 920	(6 626)
Non-controlling interests	(1 376)	(4 824)
	1 544	(11 450)

The accompanying notes on pages 25 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on April 22, 2013 and signed on its behalf by:

Simon Boddy
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 22 April 2013

Consolidated statement of financial position

as of 31 December 2012

	Notes	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Assets			
Non-current assets			
Intangible assets	13	25 252	25 361
Property, plant and equipment	14	394 150	401 397
Investment properties	15	1 145	883
Investments in associated entities	17	7	7
Loans to affiliated companies	18	47 759	47 759
Other non-current financial assets	19 (a)	23 780	25 753
Total non-current assets		492 093	501 160
Current assets			
Inventories	20	3 051	2 949
Trade and other receivables	21	13 381	25 610
Short term deposits	22	32 512	18 045
Other current financial assets	19 (b)	15 996	16 100
Cash and cash equivalents	23	50 619	33 304
		115 559	96 008
Assets classified as held for sale	24	-	32 314
Total current assets		115 559	128 322
Total assets		607 652	629 482

The accompanying notes on pages 25 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on April 22, 2013 and signed on its behalf by:

Simon Boddy
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 22 April 2013

Consolidated statement of financial position (cont'd)

as of 31 December 2012

	Notes	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Equity and liabilities			
Equity			
Share capital	25	104 479	104 479
Share premium		42 343	42 343
Legal reserve	25	-	715
Foreign currency revaluation reserve	25	(6 445)	(5 054)
Cash flow hedge reserve	25	(501)	(731)
Other reserves	25	119 729	126 008
Result for the year		4 081	(6 994)
Equity attributable to equity holders of the parent		263 686	260 766
Non-controlling interest	25	150 076	151 452
Total equity		413 762	412 218
Non-current liabilities			
Borrowings	26	141 227	161 678
Finance leases	28	12 935	14 021
Deferred tax liability	12	5 028	1 070
Deferred income	29	2 471	2 623
Derivative financial instruments	27	643	500
Total non-current liabilities		162 304	179 892
Current liabilities			
Borrowings	26	16 570	16 962
Finance leases	28	768	687
Trade and other payables	30	11 069	11 498
Taxes payable	31	413	436
Derivative financial instruments	27	401	963
Deferred income	29	1 441	5 735
Provisions	32	924	1 091
Total current liabilities		31 586	37 372
Total liabilities		193 890	217 264
Total equity and liabilities		607 652	629 482

The accompanying notes on pages 25 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on April 22, 2013 and signed on its behalf by:

Simon Boddy
Chairman of the Management Board
of Joint Stock Company Ventspils nafta
Riga, 22 April 2013

Consolidated statement of cash flows

for the year ended 31 December 2012

		2012	2011
	Notes	LVL thousand	LVL thousand
Operating activities			
Profit/ (Loss) before tax		8 292	(11 324)
Non-cash adjustments to reconcile profit/ (loss) before tax to net cash flows:			
Depreciation of property, plant and equipment and fleet	14	23 547	21 267
Amortisation of intangible assets	13	130	958
Depreciation of investment properties	15	14	14
Decrease in financial instruments		-	(11)
Loss on disposal of non-financial assets	8	292	1 765
Currency translation difference		637	(1 465)
Finance income	11	(1 360)	(1 752)
Finance costs	11	9 473	10 324
Recognized impairment	10	15 279	14 262
Changes in fair value of financial assets		-	(11)
		56 304	34 027
Working capital adjustments:			
Decrease/ (increase) in trade and other receivables and prepayments		13 808	(10 101)
Increase in inventories		(102)	(967)
(Decrease)/ increase in trade and other payables		(6 050)	2 095
		63 960	25 054
Corporate income tax paid		(846)	(2 282)
Net cash flows from operating activities		63 114	22 772
Investing activities			
Proceeds from sale of non-current assets held for sale		766	15 749
Purchase of non-current assets		(6 727)	(41 498)
Proceeds from sale of financial instruments		-	1 680
Grants from ERDF		-	553
Decrease in short term deposits		(14 466)	8 974
Loans issued		(281)	(293)
Interest received		1 408	1 714
Net cash flows used in investing activities		(19 300)	(13 121)
Financing activities			
Payment of finance lease liabilities		(791)	(559)
Dividends paid		-	(4 753)
Proceeds from borrowings		1 401	25 616
Repayment of borrowings		(17 738)	(16 924)
Interest paid		(8 750)	(9 426)
Prepaid financing expenses		(221)	(686)
Net cash flows used in financing activities		(26 099)	(6 732)
Net increase in cash and cash equivalents		17 715	2 919
Cash and cash equivalents at 1 January		33 304	30 756
Exchange losses on cash and cash equivalents		(400)	(371)
Cash and cash equivalents at 31 December	23	50 619	33 304

The accompanying notes on pages 25 to 76 form an integral part of these Consolidated Financial Statements.

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Attributable to the equity holders of the parent							Non-controlling interest	Total
	Share capital	Share premium	Legal reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Total		
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Balances as of 1 January 2011	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
Profit/(Loss) for the year	-	-	-	-	-	4 081	4 081	(212)	3 869
Other comprehensive (loss)/income	-	-	-	(1 391)	230	-	(1 161)	(1 164)	(2 325)
Total comprehensive income/(loss)	-	-	-	(1 391)	230	4 081	2 920	(1 376)	1 544
Reclassification of legal reserves	-	-	(715)	-	-	715	-	-	-
Balances as of 31 December 2012	104 479	42 343	-	(6 445)	(501)	123 810	263 686	150 076	413 762

The accompanying notes on pages 25 to 76 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 Valņu Street 3-18, LV-1050, Riga, the 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 its subsidiaries:

Name of the entity	31.12.2012.	31.12.2011.	Legal address
<u>Subsidiaries of <i>JSC Ventspils nafta</i></u>			
<i>LatRosTrans Ltd</i>	66%	66%	LRDS "Ilukste" Sederes pagasts, Ilukstes novads, Latvia, LV - 5474
<i>Ventspils nafta termināls Ltd</i>	51%	51%	Talsu iela 75, LV-3602, Ventspils, Latvia, LV - 3062
<i>JSC Latvian Shipping Company</i>	49.94%	49.94%	Elizabetes iela 1, LV-1807, Riga, Latvia, LV - 1807

The main activities carried out by subsidiaries during 2012 and 2011 were as follows:

LatRosTrans – transporting oil products via pipelines;

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

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 April 22, 2013.

The Company'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 the 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)

Changes in accounting standards

The following new and amended IFRSs and interpretations became effective in 2012, but are not relevant for the Group's operations and did not have an impact on these consolidated financial statements.

Amendments to IFRS 7 "Financial instruments: Disclosures" on transfers of assets (effective for annual periods beginning on or after 1 July 2011).

Amendments to IFRS 1 "First time adoption" on fixed dates and hyperinflation (effective for annual periods beginning on or after 1 July 2011).

Amendments to IAS 12 "Income taxes" on deferred tax (effective for annual periods beginning on or after 1 January 2012).

Standards issued but not yet effective

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2013 or later periods. The Group has not yet assessed the impact of these standards.

Amendments to IAS 19 "Employee benefits" (effective for annual periods beginning on or after 1 January 2013).

Amendments to IAS 1 "Financial statement presentation" regarding other comprehensive income (effective for annual periods beginning on or after 1 January 2012, endorsed by the EU on June 2012).

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 10 "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IFRS 11 "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IFRS 12 "Disclosures of interests in other entities" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

Amendments to IFRS 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2013).

IFRS 13 "Fair value measurement" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012).

IAS 27 (revised 2011) "Separate financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IAS 28 (revised 2011) "Associates and joint ventures" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

Amendments to IFRS 7 "Financial instruments: Disclosures" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

Notes to the consolidated financial statements (cont'd)

2.1 Basis of preparation (cont'd)

Amendments to IAS 32 "Financial instruments: Presentation" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014, endorsed by the EU on December 2012).

Amendments to IFRS 1 "First time adoption" on government loans (effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU).

Improvements to IFRS (issued in May 2012; most of the amendments are effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU):

- IFRS 1 "First time adoption";
- IAS 1 "Financial statement presentation";
- IAS 16 "Property, plant and equipment";
- IAS 32 "Financial instruments: Presentation";
- IAS 34 "Interim financial reporting".

Amendments to IFRS 10, IFRS 12 and IAS 27 on investment entities (effective for annual periods beginning on or after 1 January 2014, not yet endorsed by the EU).

IFRIC 20, "Stripping costs in the production phase of a surface mine" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

2.2 Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries: *Ventspils nafta termināls Ltd*, *LatRosTrans Ltd* and *Latvian Shipping Company JSC* as at 31 December 2012.

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 control ceases. The group 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 Group periodically assess the potential impact of major changes in the business of the subsidiaries on the consolidated financial position and results of the Group. Any adverse changes in the operations of Latvian Shipping Company will have a significant impact on the consolidated results of the Group, but no significant impact on the Group's ability to continue in business (see Note 2.3.).

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

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.

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Investments in associates (cont'd)

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.

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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates; 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:

		31.12.2012.	31.12.2011.
As at the reporting year-end	USD/LVL	0.531000	0.544000
	EUR/LVL	0.702804	0.702804
Average rate per period	USD/LVL	0.546937	0.505410
	EUR/LVL	0.702804	0.702804

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

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 charter 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.

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.

Grants from the government are initially 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 current and 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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

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, respectively 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.

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Taxes (cont'd)

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:

Financial assets at fair value through profit or loss

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.

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. The losses arising from impairment are recognised in the income statement in other operating expense and for operating receivables related to shipping activity in Costs of good sold.

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Financial assets (cont'd)

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 19.

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 80 years
Machinery and equipment	over 2 to 30 years
Other property, plant and equipment	over 2 to 10 years
Fleet	25 years

Fleet

Fleet depreciation has been provided on the basis that the carrying value of the vessels, less an estimated scrap value of LVL 239 per lightweight ton (2011: LVL 245).

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.

The vessels are required to undergo planned dry-dockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an "Intermediate Survey") and the fifth annual inspection being the most comprehensive survey (a "Special Survey"). The inspection cycle resumes after each Special Survey.

Vessels are typically required to undergo Special Surveys, which include inspection of underwater parts ("Bottom Survey"), every 60 months. Dry-docking surveys are required to be held twice within the five-year survey cycle, with a maximum of 36 months between inspections, for bottom surveys and for repairs related to inspections. An in-water survey may be permitted in lieu of a dry-docking for the Intermediate Survey, although the vessel must carry out a dry-docking in conjunction with a Special Survey.

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.

The fleet's residual value, useful lives and methods are reviewed, and adjusted prospectively if appropriate, at each financial year end.

Until delivery vessels under construction are presented in the statement of financial position as assets under construction.

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

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.

Assets with indefinite useful life are tested for impairment annually.

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

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 till 2011. The estimated periods of useful life of land use rights till 2011 were 47 years, except for the crude oil pipeline Polotsk - Ventspils sections of which useful life is estimated at 25 years.

From 2012 these intangible assets are considered to be assets that have an indefinite useful life and therefore these assets are not subject to amortisation and are tested annually for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Licenses

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.

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

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 applying a useful life of 20 to 50 years to buildings. Land is not depreciated.

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.

Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and paid vacation benefits are included in Cost of goods sold and General and administrative expenses on an accrual basis.

The Group pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. In accordance with the Rules of the Cabinet of Ministers of Latvia Republic 76.20% (2011: 72.84%) of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group pays fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the Group.

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Related parties

Related parties are the shareholders of the Group that can control the Group or have a substantial influence on the activities of the Group as well as the companies controlled by them. The Board and Council members of the Group, their close relatives as well as the Group's controlled or substantially influenced by these persons are also regarded as related parties.

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 2012 nor in 2011 outstanding instruments (e.g., share options, warrants, convertible bonds etc.) 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.

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 segments

The Group's crude oil and oil product segment's non-current assets amounting to LVL 72 706 thousand (31.12.2011.: LVL 76 423 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 this CGU presumes that the Group is able to sell the technological crude oil in the pipelines.

For sensitivity analysis of impairment of non-current assets of crude oil and oil product segment see Note 16.

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.

Notes to the consolidated financial statements (cont'd)

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

Estimates and assumptions (cont'd)

Recognition of technological crude oil reserve (cont'd)

The reliable measurement of the quantity is in the management's view possible only upon pumping the oil out of the pipelines. Based on court decision in March 2012, *LatRosTrans Ltd* pumped out 44 thousand tons of the crude oil. Based on court decision in August 2012, the Council of *LatRosTrans Ltd* passed a decision regarding the sale of the crude oil in the amount of approximately 43 thousand tons. The respective amount of the crude oil was recognized as an asset in the statement of financial position at zero cost. The resulting gain on sale totalled LVL 15 060 thousand (see Note 7), comprising the sale amount of LVL 17 744 thousand less expenses related to pumping and storage in the amount of LVL 2 684 thousand.

Based on the measurements taken by the management approximately 66 thousand tons of crude oil is kept in *LatRosTrans Ltd* crude oil pipelines. That is not accounted for by *LatRosTrans Ltd* in the statement of financial position as management cannot determine the amount of crude oil left precisely.

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 16.

Recoverable value of investment property

To determine the recoverable value of investment properties the Group engages independent certified valuation specialists. The valuer uses valuation techniques based on a discounted cash flow model and comparable market data. The estimated recoverable value of the investment properties is the most sensitive to the estimated rent rates, discount rates as well as other assumptions applied. The key assumptions used in determining the recoverable value of the investment properties as of 31 December 2012 and 2011 is provided in Note 15.

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 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 2.7 million (2011: LVL 2.0 million) or increase depreciation expenses by LVL 4.5 million (2011: LVL 3.4 million).

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.

Notes to the consolidated financial statements (cont'd)

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

Estimates and assumptions (cont'd)

Going concern

As disclosed in Note 26, 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*). 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.

In 2013 the *LSC Group* continued to be in breach of certain financial covenants, such as EBITDA/Debt service and Cash covenant, set in the loan agreements and waived by the lenders until the end of 2012. Towards the end of the reporting year the banking syndicates agreed to extend the waivers of the EBITDA/ Debt service covenant and to reduce the minimum Cash reserve covenant down to USD 17 million until 31 December 2013.

The management of the *LSC Group* acknowledges that certain breaches of the bank loan covenants might occur in the future. 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; 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.

If *LSC Group* were not a going concern, the assets and liabilities should be booked at different values reflecting their fair values at the balance sheet date and, as *LSC Group* represents more than half of the total VN Group assets and revenue, the impact on the consolidated financial position and results of operation of VN Group would be material.

The management of the Group believes that the uncertainties 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 Parent Company are both limited liability joint stock companies and there are no guarantees issued by other Group companies relating to *LSC Group* or its debt. Several intra-group loans were issued to *LSC Group* in the year 2012 and 2011 which are secured by the real estate properties owned by *LSC Group* and commercial pledge of *LSC Group* company *Skonto nafta Ltd* for registered shares of *JSC Latvijas Naftas Tranzīts* owned by it. 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.

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 which 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.

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 15 864 thousand and LVL 4 843 thousand, (2011: LVL 11 537 thousand and LVL 4 631 thousand, respectively) are derived from two external customers in the shipping segment. Revenues of LVL 71 547 thousand (2011: LVL 67 860 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		Holding activities		Total segments		Adjustments and eliminations		Consolidated	
	2012 LVL th	2011 LVL th	2012 LVL th	2011 LVL th	2012 LVL th	2011 LVL th	2012 LVL th	2011 LVL th	2012 LVL th	2011 LVL th	2012 LVL th	2011 LVL th
Revenue from external customers	72 589	68 928	62 561	48 839	1	-	135 151	117 767	-	-	135 151	117 767
Intersegment revenue	-	-	-	13	254	323	254	336	(254)	(336)	-	-
Voyage costs	-	-	(14 301)	(4 392)	-	-	(14 301)	(4 392)	-	-	(14 301)	(4 392)
Chartering expenses	-	-	-	(2 794)	-	-	-	(2 794)	-	-	-	(2 794)
Vessel operating costs	-	-	(20 139)	(21 014)	-	-	(20 139)	(21 014)	-	-	(20 139)	(21 014)
Cost of sales (vessel operating costs excluding)	(50 647)	(49 626)	(380)	(383)	-	-	(51 027)	(50 009)	-	9	(51 027)	(50 000)
Other revenue	-	-	522	475	-	-	522	475	-	(1)	522	474
Depreciation and amortisation	(8 147)	(9 065)	(15 525)	(13 162)	(19)	(12)	(23 691)	(22 239)	-	-	(23 691)	(22 239)
Impairment of non-financial assets	-	-	(15 279)	(14 262)	-	-	(15 279)	(14 262)	-	-	(15 279)	(14 262)
Interest income	699	497	15	37	1 191	1 225	1 905	1 759	(545)	7	1 360	1 766
Interest expense	-	-	(9 805)	(10 331)	(213)	-	(10 018)	(10 331)	545	(7)	(9 473)	(10 338)
Net result before taxes	14 494	10 734	(12 331)	(16 974)	1 214	1 536	3 377	(4 704)	(254)	(328)	3 123	(5 032)
Segment assets	222 430	197 592	301 348	335 249	89 317	78 546	613 095	611 387	(25 907)	(1 170)	587 188	610 217
Unallocated:												
Assets of subsidiaries not included in segment											3 323	2 282
Investment properties											1 145	883
Available-for-sale financial assets											15 996	16 100
Total consolidated assets											607 652	629 482
Including additions to non-current assets	4 014	2 933	2 578	38 324	2	732	6 594	41 989	-	-	6 594	41 989

Notes to the consolidated financial statements (cont'd)

3. Segment information (cont'd)

Reconciliation of segment results to consolidated income statement:

	2012	2011
	LVL thousand	LVL thousand
Segment result	3 123	(5 032)
Reconciliation to profit/ (loss) before taxes:		
General and administrative expenses (excluding depreciation)	(8 726)	(11 020)
(Impairment)/ impairment reversal of financial assets	88	(4 715)
Other operating income/ (expenses), net	14 707	7 823
Other financial (expenses)/ income, net	(1 154)	1 292
Adjustments and eliminations	254	328
PROFIT/ (LOSS) BEFORE TAXES:	8 292	(11 324)

4. Revenue

	2012	2011
	LVL thousand	LVL thousand
Voyage income	62 561	48 839
Reloading of crude oil and oil products	60 428	58 753
Transportation of oil products by pipeline	12 161	10 175
Other income	523	474
TOTAL:	135 673	118 241

5. Cost of goods sold

	2012	2011
	LVL thousand	LVL thousand
Railway services	32 842	32 650
Depreciation and amortisation (Note 13, 14, 15)	23 238	21 726
Crew expenses (expenses related to wages included in Note 9)	11 790	10 987
Fuel expenses	10 066	2 646
Maintenance and repairs	6 833	8 112
Personnel expenses (Note 9)	5 553	5 685
Port expenses	3 080	715
Utilities	2 822	2 426
Utilization of piers	1 994	1 881
Insurance	1 760	2 240
Statutory social insurance contributions (Note 9)	1 281	1 326
Commissions	1 155	1 031
Luboil	1 047	1 170
Chartering expenses	-	2 794
Other	5 241	4 535
TOTAL:	108 702	99 924

Notes to the consolidated financial statements (cont'd)

6. General and administrative expense

	2012	2011
	LVL thousand	LVL thousand
Professional fees	3 196	4 621
Personnel expenses (Note 9)	2 815	3 097
Statutory social insurance contributions (Note 9)	667	732
Depreciation and amortization (Note 14)	453	513
Occupation and repairs	525	475
IT and communication expenses	365	238
Other administrative expenses	884	1 508
TOTAL:	8 905	11 184

7. Other operating income

	2012	2011
	LVL thousand	LVL thousand
Net result from sale of the technological crude oil (Note 2.3)	15 060	10 406
Income from sale of oil, net	585	-
Oil extracted from wastewater	191	58
Amortisation of deferred income	153	143
Other income	506	287
TOTAL:	16 495	10 894

8. Other operating expense

	2012	2011
	LVL thousand	LVL thousand
Payments to local municipality	928	909
Non-current assets written off	292	1 402
Sponsorship	42	58
Impairment of loans and receivables	-	4 715
Result from disposal of fleet	-	363
Other operating expenses	460	362
TOTAL:	1 722	7 809

Notes to the consolidated financial statements (cont'd)

9. Personnel expenses

	2012	2011
Average number of employees during the reporting year	955	1 004

Remuneration for work and insurance contributions

	2012	2011
	LVL thousand	LVL thousand
<i>Employees</i>		
Remuneration	18 047	17 279
Statutory social insurance contributions	1 862	1 952
Other personnel expense	246	348
<i>Management, Board and Members of the Council</i>		
Remuneration	335	428
Statutory social insurance contributions	86	106
Other personnel expense	20	11
TOTAL:	20 596	20 124

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

	2012	2011
	LVL thousand	LVL thousand
Cost of sales	17 114	16 295
General and administrative expense	3 482	3 829
TOTAL:	20 596	20 124

10. Impairment of other non-financial assets

	2012	2011
	LVL thousand	LVL thousand
Impairment of fleet (see Note 14)	15 279	7 126
Impairment of assets clasified as held for sale (see Note 24)	-	6 484
Impairment of investment properties (see Note 15)	-	652
TOTAL:	15 279	14 262

Notes to the consolidated financial statements (cont'd)

11. Finance income and costs

	2012	2011
	LVL thousand	LVL thousand
Interest income from loans	798	1 091
Other interest income	562	661
Foreign currency exchange profit, net	-	1 395
TOTAL finance income:	1 360	3 147
Interest expense	9 473	10 324
Foreign currency exchange losses, net	1 019	-
Bank charges	136	103
TOTAL finance costs:	10 628	10 427

12. Corporate income tax

In accordance with Latvian tax legislation current corporate income tax is applied at the rate of 15% (2011: 15%) on taxable income generated by the Parent company and its subsidiaries during the taxation period ending 31 December 2012.

	2012	2011
	LVL thousand	LVL thousand
Current corporate income tax	465	1 498
Deferred tax	3 958	(636)
Total corporate income tax for the reporting year:	4 423	862

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

	2012	2011
	LVL thousand	LVL thousand
Total profit / (loss) before tax for the reporting year	8 292	(11 324)
Corporate income tax at 15%	1 244	(1 699)
The effect of different tax rates and tax rebates	34	(523)
Non-deductible loss from foreign subsidiaries	2 835	3 726
Adjustment of 2011	(28)	-
Non-taxable income / non - deductible expense	280	2 087
Decrease in unrecognized deferred tax asset	58	(2 729)
Total corporate income tax for the reporting year:	4 423	862

Notes to the consolidated financial statements (cont'd)

12. Corporate income tax (cont'd)

Deferred corporate income tax:

	Statement of financial position		Income statement	
	2012.12.31 LVL thousand	2011.12.31 LVL thousand	2012 LVL thousand	2011 LVL thousand
Deferred tax liability				
Accelerated depreciation for tax purposes	(8 804)	(9 480)	676	1 730
Adjustments of accelerated depreciation for tax purposes 2011	(74)	-	(74)	-
Gross deferred corporate income tax liability	(8 878)	(9 480)	602	1 730
Deferred tax asset				
Tax losses carried forward	331	4 385	(4 054)	(3 844)
Adjustments of 2011	(46)	-	(46)	-
Deferred tax assets related to other temporary differences	201	204	(3)	21
Tax rebate on investment projects above LVL 10 000 thousand*	3 651	4 166	(515)	-
Unrecognized deferred tax asset	(287)	(345)	58	2 729
Gross deferred corporate income tax asset	3 850	8 410	(4 560)	(1 094)
TOTAL	(5 028)	(1 070)	(3 958)	636

*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. *LatRosTrans Ltd* used part of the relief in 2012, and relief amounting to LVL 3 651 thousand is available as at 31 December 2012. 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 in 2013 will result in taxable income; therefore, *LatRosTrans Ltd* will be able to utilise all of the above mentioned tax relief. 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 management of the *LatRosTrans Ltd* believes that the rest of the crude oil sales will take place in 2013, therefore deferred corporate income tax asset from tax relief on investment project is recognized as at 31 December 2012.

Tax losses carried forward as at 31/12/2012 was LVL 1 897 (31.12.2011: LVL 18 304). As at 31 December 2012, *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 34 171 thousand (2011: LVL 35 820 thousand).

Ventspils nafta termināls Ltd applied a 3% corporate income tax rate to estimate deferred corporate income tax liabilities as at 31 December 2012 and as at 31 December 2011. All the calculations have been 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.

Notes to the consolidated financial statements (cont'd)

13. Intangible assets

	Licenses and other intangibles LVL thousand	Land use rights* LVL thousand	Total LVL thousand
Cost:			
At 1 January 2011	892	49 658	50 550
Additions	10	-	10
Disposals	(70)	-	(70)
At 31 December 2011	832	49 658	50 490
Additions	21	-	21
Disposals	(74)	-	(74)
At 31 December 2012	779	49 658	50 437
Amortisation:			
At 1 January 2011	603	23 638	24 241
Amortisation	170	788	958
Disposals	(70)	-	(70)
At 31 December 2011	703	24 426	25 129
Amortisation	130	-	130
Disposals	(74)	-	(74)
At 31 December 2012	759	24 426	25 185
Net book value:			
At 31 December 2011	129	25 232	25 361
At 31 December 2012	20	25 232	25 252

* 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.

Prior to 1 January 2012, land usage rights were considered to have a definite life and were amortized over 47 years, except for land usage rights relating to the crude oil pipeline Polotsk - Ventspils, whose useful life was estimated at 25 years. From 1 January 2012, these intangible assets are considered to be assets that have an indefinite useful life and therefore they are not subject to amortization and are tested annually for impairment. Had the Group applied the same basis in 2010 and 2011, the impact would have been immaterial on the 2010 and 2011 financial statements due to prior year impairment charges incurred in addition to amortization.

In 2012 and 2011, 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:

	2012 LVL thousand	2011 LVL thousand
Cost of sales	130	958

Notes to the consolidated financial statements (cont'd)

14. 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:						
At 1 January 2011	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	1 596	4 287	1 551	307	(58 712)	(50 971)
Exchange differences	-	6 180	-	-	(2 340)	3 840
At 31 December 2011	210 116	353 666	71 668	11 617	1 113	648 180
Additions	20	2 481	359	117	4 417	7 394
Disposals	(928)	(1 706)	(381)	(751)	(73)	(3 839)
Reclassification	1 508	55 201	1 784	589	(3 923)	55 159
Reclassification to Investment property (Note 15)	(574)	-	-	-	-	(574)
Exchange differences	-	(10 081)	-	-	(1)	(10 082)
At 31 December 2012	210 142	399 561	73 430	11 572	1 533	696 238
Depreciation and impairment:						
At 1 January 2011	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	-	(14 599)	-	-	-	(14 599)
Impairment (Note 16)	-	21 340	-	-	(14 214)	7 126
Exchange differences	-	2 472	-	-	(1 916)	556
At 31 December 2011	126 720	76 349	35 075	8 639	-	246 783
Depreciation	3 496	15 186	3 884	981	-	23 547
Disposals	(72)	(1 706)	(260)	(743)	-	(2 781)
Reclassification	-	22 671	-	-	-	22 671
Reclassification to Investment property (Note 15)	(298)	-	-	-	-	(298)
Impairment (Note 16)	-	15 279	-	-	-	15 279
Exchange differences	-	(3 113)	-	-	-	(3 113)
At 31 December 2012	129 846	124 666	38 699	8 877	-	302 088
Net book value:						
At 31 December 2011	83 396	277 317	36 593	2 978	1 113	401 397
At 31 December 2012	80 296	274 895	34 731	2 695	1 533	394 150

* Construction in progress as at 31 December 2012 mainly represents unfinished construction related to a new pipeline corridor and construction of pump station (31.12.2011: 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 2012 was LVL 77 738 thousand (31/12/2011: LVL 76 720 thousand).

Notes to the consolidated financial statements (cont'd)

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

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

	2012	2011
	LVL thousand	LVL thousand
Cost of sales	23 094	20 754
General and administrative expense	453	513
Total depreciation for the reporting year:	23 547	21 267

15. Investment properties

	Land, buildings and other assets	Construction in progress	Total
	LVL thousand	LVL thousand	LVL thousand
Cost:			
At 1 January 2011	14 204	5	14 209
Reclassification	5	(5)	-
At 31 December 2011	14 209	-	14 209
Reclassification	574	-	574
At 31 December 2012	14 783	-	14 783
Depreciation and impairment:			
At 1 January 2011	12 660	-	12 660
Depreciation	14	-	14
Impairment	652	-	652
At 31 December 2011	13 326	-	13 326
Depreciation	14	-	14
Reclassification	298	-	298
At 31 December 2012	13 638	-	13 638
Net book value:			
At 31 December 2011	883	-	883
At 31 December 2012	1 145	-	1 145

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

	2012	2011
	LVL thousand	LVL thousand
Cost of sales	14	14
Total depreciation for the reporting year:	14	14

Notes to the consolidated financial statements (cont'd)

15. Investment properties (cont'd)

The fair value of Investment Property as of 31 December 2012 and 31 December 2011 approximate its carrying value.

At the end of 2012 and 2011 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 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%.

In 2012, no impairment was recognised on investment properties. Valuation of the respective investment property, where discounted cash flow method was used, has been carried out based on following assumptions:

- Rent rates: LVL 1.1 per square meter;
- Occupancy: May - September;
- Capitalisation rate: 12%.

16. 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 346 335 thousand (31/12/2011: LVL 345 004 thousand) and consist of intangible assets (land usage rights) and property, plant and equipment.

As at 31 December 2012 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 2011 impairment indications were noted and impairment test was performed for *Latvian Shipping Company JSC* and *LatRosTrans Ltd*. No indications of impairment were noted for *Ventspils nafta terminals Ltd* as at 31 December 2011.

Latvian Shipping Company JSC

The fleet is tested for impairment annually. In addition for the need to test the fleet for impairment when there are any indications of impairment, the bank lenders require the Group to test the fleet for impairment annually. 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 2012 the recoverable value of the fleet is determined by using the following approaches for two groups of vessels:

- Fair value less costs to sell:
 - operating fleet (7 HS and 7 MR vessels), for which the recoverable amount constitutes fair value, and
- Value in use:
 - operating fleet (1 Panamax type vessel and 5 MR vessels) for which the recoverable amount constitutes the value in use.

Fair value is determined based on indicative valuation made by the independent broker's valuation. Valuation was performed on "willing seller and willing buyer" basis and was given to the best of management's 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.

Notes to the consolidated financial statements (cont'd)

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

Latvian Shipping Company JSC (cont'd)

The impairment test was performed by comparing the carrying amounts with the value in use of the fleet. Value in use is calculated as the present value of total expected cash flows until vessels' age of 20 years. Value in use is determined based on discounted cash flow projections. The key assumptions used as of 31 December 2012 and as of 31 December 2011 were as follows: the Group has used vessels historical (starting from the year of delivery) time charter equivalent rates and operating costs; operating costs are increased every 5th year considering necessary dry-docking; discount rate applied is 8.29% (31/12/2011: 9.06%); and the scrap value applied is LVL 239 (31/12/2011: LVL 245) per light weight ton.

With regard to the assessment of recoverable value of the vessel, Management recognised impairment of 9 vessels as the carrying value of vessels in use exceeds their recoverable value by LVL 14.97 million.

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.

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 2012 and 2011:

- Decrease in time charter rates by 6.8% in average (2011: 5.4%) per day.
- Average increase in operating costs by 16% (2011: 7%).
- Increase in discount rate by 0.72pp (2011: 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.

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 as at 31 December 2012 and 2011 were as follows:

- terminal growth rate used 2.3% (2011: 2.4%);
- discount rate used 6.11% (2011: 8.8%).

Based on the assumptions used above, no impairment was recognized in 2012 and 2011.

If both: the discount rate would be increased and terminal growth rate decreased by 0.5% then the impairment for 2012 would be in amount of LVL 6.7 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.

Notes to the consolidated financial statements (cont'd)

17. Investments in associated entities

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

Associated entities:	Ownership (%)		Country of registration
	31/12/2012	31/12/2011	
<i>Futbola klubs Ventspils Ltd</i>	44.31	44.31	Latvia
<i>Lord World Travel Ltd (dormant)*</i>	-	-	Gibraltar
<i>Via Una SIA</i>	45.45	45.45	Latvia

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

18. Loans to affiliated companies

	2012.12.31 LVL thousand	2011.12.31 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 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 Group's management believes that debt is fully recoverable.

Notes to the consolidated financial statements (cont'd)

19. Other financial assets

19 (a) Other non-current financial assets

	31.12.2012.	31.12.2011.
	LVL thousand	LVL thousand
Debt due from <i>LASCO Investment Group</i>	73 346	73 830
Allowance for doubtful debt	(49 882)	(50 312)
Other*	316	2 235
TOTAL:	23 780	25 753

As at 31 December 2012 the amount due from *LASCO Investment Group* was LVL 73.35 million (31/12/2011: LVL 73.83 million). The net value of the loans issued has been decreased to the fair value of real estate assets pledged, as of 31 December 2012 representing LVL 23.46 million (2011: LVL 23.52 million).

The short term loan issued to *LASCO Investment Group* is included in Trade and other receivables. Part of the loans due from *LASCO Investment Ltd Group* are not past due, however, the loans were impaired because on 3 January 2011, the insolvency of *LASCO Investment Ltd* was announced by the Vidzeme Suburb Court. Carrying value of loans issued to *LASCO Investment Ltd Group* approximates their fair value.

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

19 (b) Other current financial assets

	31.12.2012.	31.12.2011.
	LVL thousand	LVL thousand
Available-for-sale financial assets (Shares in <i>Latvijas Naftas tranzīts JSC</i>)	15 996	16 100
TOTAL:	15 996	16 100

Financial assets at fair value through profit or loss

There are no financial assets at fair value through profit or loss owned by the Group as at 31 December 2012 and 2011.

Notes to the consolidated financial statements (cont'd)

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

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 with 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*.

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

Due to lack of information the Management was not able to assess the fair value of shares in *JSC Latvijas Naftas Tranzīts*. As of 2012 and 2011 the investment is accounted at cost less any impairment charge recognised.

20. Inventories

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Fuel (bunkers)	1 321	915
Luboil, victualling and slopchest	1 180	1 126
Other raw materials and supplies	550	908
TOTAL:	3 051	2 949

21. Trade and other receivables

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Financial assets		
Trade receivables	1 276	989
Doubtful debts	214	7 571
Doubtful debts (related parties)	234	-
Allowance for doubtful debts	(448)	(7 571)
Other debtors	1 718	852
Accounts receivable from related parties (Note 34)	1 770	17 613
Accrued income	4 201	1 672
Other accounts receivable	60	319
Non-financial assets		
Advance payments	1 524	2 131
Corporate income tax receivable	258	92
Deferred expenses	1 470	1 143
Tax receivable	1 104	799
TOTAL:	13 381	25 610

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)

21. Trade and other receivables (cont'd)

The analysis of financial assets are as follows:

	Total LVL'000	Neither past due nor impaired	Past due				Impaired
			up to 90 days	91 to 180 days	181 to 365 days	More than 365 days	
31.12.2011.	29 016	21 116	7	196	108	18	7 571
31.12.2012.	9 473	8 763	4	3	252	3	448

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to historical information about counterparty default rates. Receivables from related parties in amount of LVL 234 thousand are past due and fully impaired.

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.

22. Short term deposits

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Short-term deposits	32 512	18 045
TOTAL:	32 512	18 045

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

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
A+	31 458	18 045
B	1 054	-
TOTAL:	32 512	18 045

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-term deposit rates.

Notes to the consolidated financial statements (cont'd)

23. Cash and cash equivalents

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Term deposits	33 787	17 230
Current bank accounts	16 777	15 998
Cash on hand	55	76
TOTAL:	50 619	33 304

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

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
AAA	7 423	8 910
AA-	6 902	9
A+	30 497	23 616
A	355	693
A-	5 387	-
Cash on hand	55	76
TOTAL:	50 619	33 304

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.

Notes to the consolidated financial statements (cont'd)

24. Assets classified as held for sale

In order to ensure sustainable financing for the remaining fleet the decision was made in 2011 to sell 3 vessels and those were re-classified to assets classified as held for sale.

In 2012 the parent company of the Group issued several loans to the Group's subsidiary which resulted in compliance with necessary minimum cash covenant for the *JSC Latvian Shipping Company* and its subsidiaries.

Therefore decision was taken to reclassify the three vessels back to the fleet in 2012.

	LVL thousand
Cost	
At 1 January 2011	5 712
Disposals	(5 396)
Reclassification	36 371
Exchange differences	2 462
At 31 December 2011	39 149
Reclassification	(39 360)
Exchange rate differences	211
At 31 December 2012	-
Depreciation and Impairment	
At 1 January 2011	2 630
Disposals	(2 485)
Impairment	6 484
Exchange rate differences	206
At 31 December 2011	6 835
Reclassification	(6 872)
Exchange rate differences	37
At 31 December 2012	-
Carrying amount:	
At 31 December 2011	32 314
At 31 December 2012	-

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

Notes to the consolidated financial statements (cont'd)

25. 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 2011	43 881 398	60 598 121	104 479 519
31 December 2012	-	104 479 519	104 479 519

Information on shareholders' equity participation is summarized shortly before shareholders' general meeting. 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, 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.

According to the decisions of the extraordinary shareholders' meeting held on 6 November 2012 the shareholders decided to 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.

Earnings per share and dividends

Basic and diluted earnings per share attributable to the Parent company shareholders are calculated by dividing the net profit attributable to parent company's shareholders for the reporting year of LVL 4 081 thousand (for 2011: net loss attributable to parent company's shareholders of LVL 6 994 thousand) by weighted average number of shares during the year of 104 479 thousand (2011: 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; therefore, upon the decision of the Board of *LatRosTrans Ltd*, such reserves during 2012 were reclassified.

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 2012 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)

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

Non-controlling interests (cont'd)

The Income statement non-controlling interest represents net result attributable to non-controlling shareholders.

	2012	2011
	LVL thousand	LVL thousand
Attributable to <i>Ventspils nafta termināls Ltd</i> non-controlling interest holders	5 117	4 150
Attributable to <i>LatRosTrans Ltd</i> non-controlling interest holders	4 018	2 728
Attributable to <i>Latvian JSC Shipping Company</i> non-controlling interest holders	(9 347)	(12 070)
TOTAL:	(212)	(5 192)

26. Borrowings

	31.12.2012.	31.12.2011.
	LVL thousand	LVL thousand
Repayments due within next 12 months	17 220	17 643
Unamortised prepaid financing expenses*	(650)	(681)
Net current portion	16 570	16 962
Non-current portion	143 085	164 231
Unamortised prepaid financing expenses*	(1 858)	(2 553)
Net non-current portion	141 227	161 678
Total loans outstanding	160 305	181 874
Total unamortised prepaid financing expenses	(2 508)	(3 234)
Total loans, net of unamortised financing expenses	157 797	178 640

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

In 2004 the Group signed a long term loan agreement with a loan facility of USD 360 million (LVL 186.44 million) and another long term loan agreement with a loan facility of USD 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 USD 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 2012 and 2011.

Loans are denominated in USD and are advanced to the Group's single vessel companies. *JSC Latvian Shipping Company* has issued a corporate guarantee to secure the loans (USD 360 million, USD 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 a margin linked to USD LIBOR.

Notes to the consolidated financial statements (cont'd)

26. Borrowings (cont'd)

The loans are scheduled to be repaid as follows:

Year	LVL million
2013	17,2
2014	27,2
2015	14,4
2016	31,4
2017	70,1
TOTAL	160,3

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:

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Borrowings bearing fixed interest rate (considering effect of SWAP agreements)	23 558	65 234
Borrowings bearing variable interest rate repriced every 3 months	136 747	116 640
TOTAL:	160 305	181 874

27. Derivative financial instruments

In 2008 *LSC Holdings Ltd* has entered into 2 interest rate swap agreements and in 2011 *Arctic Holding Corporation* 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 USD LIBOR rates.

As at 31 December 2012 the negative fair value of the swaps amounting to LVL 1.04 million (31.12.2011.: negative fair value of LVL 1.46 million) was recognized in equity within Cash flow hedge reserve.

Gains and losses recognised in hedging reserve in equity and interest rate swap contract as of 31 December 2012 will be continuously released to comprehensive income statement within net movement of cash flow hedges until the date of swap agreements maturity

Notes to the consolidated financial statements (cont'd)

28. Finance lease

In August 2009 one of the Group's companies entered into an agreement for the sale and leaseback of m.t. Riga in the amount of USD 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 13.7 million (31.12.2011.: LVL 14.71 million).

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	
	31.12.2012. LVL thousand	31.12.2011. LVL thousand	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Within one year	2 430	2 727	853	751
Unamortised prepaid financing expenses*	(85)	(64)	(85)	(64)
Net current portion	2 345	2 663	768	687
After one year but not more than five years	13 889	17 070	12 986	14 137
Unamortised prepaid financing expenses*	(51)	(116)	(51)	(116)
Net non-current portion	13 838	16 954	12 935	14 021
Minimum lease payments	16 183	19 617	13 703	14 708
Less amounts representing finance charges*	(2 480)	(4 909)	-	-
Present value of minimum lease payments	13 703	14 708	13 703	14 708

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

29. Deferred income

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Non-current portion of deferred income	2 471	2 623
Current portion of deferred income	1 441	5 735
Total	3 912	8 358

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 1 376 thousand (2011: LVL 1 446 thousand), and compensation for the Group's technological base improvements and new equipment installations, which are related to providing a new service to the client amounting to LVL 1 247 thousand (2011: LVL 1 330 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.

Notes to the consolidated financial statements (cont'd)

30. Trade and other payables

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Due to related parties	-	223
Accrued expenses	3 768	4 140
Trade payables	3 982	5 080
Other payables	3 319	2 055
TOTAL:	11 069	11 498

Terms and conditions on the above financial liabilities:

- For terms and conditions relating to related parties, refer to Note 34;
- For explanations on the Group's liquidity risk management processes, refer to Note 35;
- Trade and other payables are non-interest bearing and have an average term of six months.

31. Taxes payable

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Social security contributions	242	265
Personal income tax	144	156
Value added tax	18	8
Natural resources tax	9	7
TOTAL:	413	436

32. Provisions

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Provisions for restructuring expenses*	247	450
Provisions for sub-lease of piers**	594	474
Other	83	167
TOTAL:	924	1 091

* 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.

** Provisions for sub-lease of piers

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.

Notes to the consolidated financial statements (cont'd)

32. Provisions (cont'd)

** Provisions for sub-lease of piers (cont'd)

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. On the 6th of November, 2012, the parties were given 6 month period to find a mutual settlement on the matter.

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

Movements in the provisions were as follows:

	Total
	LVL thousand
As at 1 January 2011	1 034
Utilized	(230)
Charged	287
As at 31 December 2011	1 091
Utilised	(287)
Charged	120
As at 31 December 2012	924

33. Commitments and Contingent liabilities/ Contingent assets

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.

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 Euro Area Harmonised Consumer Price Index (HICP) published by the EU statistics office (Eurostat). In 2012, HICP was 2.5% (2011: 2.7%).

Assuming that the variable amount will remain on the 2012 level and the Euro Area HICP determined by the EU statistics office will be 2.5% annually, the subsidiary has estimated the total amount of contingency payable to the *Ventspils City Council* over the period from 2013 to 2032 to be around LVL 23 million.

Notes to the consolidated financial statements (cont'd)

33. Commitments and Contingent liabilities/ Contingent assets (cont'd)

Commitments

Capital commitments

No capital commitments entered into as at 31 December 2012.

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 shipowners for five years, which was terminated in the middle of 2011. The Group has entered into real estate rent agreement (agreed to terminate in 2012) and there are various operating lease agreements of vehicles.

Payment schedule as per agreements:

	31.12.2012.	31.12.2011.
	LVL thousand	LVL thousand
Non-cancelable payments within one year	123	86
Non-cancelable payments after one year	162	222
TOTAL:	285	308

Technological crude oil reserve

Based on the measurements taken by the *LatRosTrans Ltd* approximately 66 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 as management of the *LatRosTrans Ltd* cannot determine the amount of crude oil left precisely.

Notes to the consolidated financial statements (cont'd)

34. 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
<i>Euromin Holdings (Cyprus) Ltd</i>	Shareholder with significant influence
<i>Vitol S.A.</i>	Parent of shareholder with significant influence
<i>Ventspils Tank Services S.A.</i>	
<i>Vitol Tank Terminals International B.V.</i>	
<i>Mansel Oil Ltd.</i>	
<i>Eurotank Holding SARL</i>	Related parties of a shareholder with significant influence
<i>Vitol Bahrain E.C.</i>	
<i>Vitol Asia PTE LTD</i>	
<i>Skonto nafta Ltd.</i>	

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

Related party	2012 Nature of services	Income LVL thousand	Expense LVL thousand	Amounts due	Amounts due
				from related parties LVL thousand	to related parties LVL thousand
Euromin Holdings (Cyprus) Ltd	Interest income	797	-	47 759	-
	Reloading services/ transportation of oil	71 547	-	1 488	(1 247)
Ventspils Tank Services SA	Consulting services	-	(177)	-	-
Eurotank Holding SARL	Consulting and IT services,	-	(142)	-	-
Vitol Tank Terminals International B.V.	supply of goods	-	-	-	-
Ventspils Tank Services SA	Storage of oil	-	(2 532)	-	-
Skonto nafta Ltd.	Interest income	1	-	282	-
	Tech.management fee/IT services	216	-	4	-
Mansel Oil Ltd.	Voyage income	15 722	-	-	(748)
Mansel Oil Ltd.	Voyage income	4 095	-	67	-
Vitol S.A.	Voyage income	569	-	163	-
Vitol Asia Pte	Voyage income	114	-	-	-
Vitol Bahrain E.C.	Voyage income	114	-	-	-
Vitol S.A	Selling of crude oil	18 829	(36)	-	-
TOTAL:		111 890	(2 887)	49 763	(1 995)

Including:	Note		
Non-current	18		47 759
Current	21		2 004
Deferred income	28		-
		TOTAL:	49 763
			(1 995)

Notes to the consolidated financial statements (cont'd)

34. Related party transactions (cont'd)

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

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

	Note		
Including:			
Non-current	18	47 759	-
Current	21	17 613	(223)
Deferred income	28	-	(5 964)
		TOTAL:	65 372 (6 187)

35. 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.

Notes to the consolidated financial statements (cont'd)

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

31.12.2012.

Assets as per statement of the financial position as at 31 December 2012	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	23 780	-	23 780
Trade accounts receivables	7 255	-	7 255
Current proportion of receivables from related parties	1 770	-	1 770
Other current financial assets	-	15 996	15 996
Short term deposits	32 512	-	32 512
Cash and cash equivalents	50 619	-	50 619
TOTAL	163 695	15 996	179 691

31.12.2012.

Liabilities as per statement of the financial position as at 31 December 2012	Derivatives used for hedging LVL thousand	Other financial liabilities at amortized cost LVL thousand	Total LVL thousand
Interest bearing loans	-	157 797	157 797
Finance lease	-	13 703	13 703
Derivative financial instruments	1 044	-	1 044
Trade and other payables	-	8 745	8 745
TOTAL	1 044	180 245	181 289

Notes to the consolidated financial statements (cont'd)

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

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	3 832	-	3 832
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	33 304	-	33 304
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)

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

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 2012 the Group had a credit risk concentration to related parties amounting to 58% of total trade receivables (31/12/2011: 95%).

Maximum exposure to credit risk from financial assets as at 31 December 2012 for the Group amounted to LVL 163 929 thousand (31/12/2011: LVL 146 306 thousand), out of which LVL 73 512 thousand (31/12/2011: LVL 73 512 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 *JSC Latvian Shipping Company* 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.

Since the functional currency of *JSC Latvian Shipping Company* is US dollars, then mostly the Group's currency risk in relation to USD affects other companies of the Group, except *JSC Latvian Shipping Company*. The Group's currency risk in USD and Euros as at 31 December 2012 and 2011 may be specified as follows:

	31.12.2012.	31.12.2011.
Financial assets denominated in EUR'000	168 517	152 999
Financial liabilities denominated in EUR'000	(2 922)	(487)
Net balance sheet position in EUR'000	165 595	152 512
Net balance sheet position in LVL'000	116 381	107 186
Financial assets denominated in USD'000	608 265	642 954
Financial liabilities denominated in USD'000	(336 840)	378 589
Net balance sheet position in USD'000	271 425	264 365
Net balance sheet position in LVL'000	144 127	143 815

Notes to the consolidated financial statements (cont'd)

35. Financial instruments and 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 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 USD 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)
31.12.2012.	+5%	1 163
	-5%	(1 163)
31.12.2011.	+5%	822
	-5%	(822)

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.

USD LIBOR

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.

These swaps are designated to hedge underlying debt obligations. At 31 December 2012, after taking into account the effect of interest rate swaps LVL 23 million (2011: LVL 65 million), approximately 15% (2011: 35%) of the Group's borrowings are at a fixed rate of interest.

At 31 December 2012 LVL 48 million (31.12.2011.: 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 239 thousand. A general decrease in the interest rate by 0.1 percentage point would have negative effect on equity with approximately LVL 48 thousand.

Notes to the consolidated financial statements (cont'd)

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

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.

	31.12.2012.		31.12.2011.	
	Increase/decrease in basic points	Effect on profit before tax (LVL thousand)	Increase/decrease in basic points	Effect on profit before tax (LVL thousand)
USD - LIBOR	0,5%	(501)	0,5%	(423)
	-0,1%	100	-0,1%	85
EUR - LIBOR	0,5%	239	0,5%	239
	-0,1%	(48)	-0,1%	(48)

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 2012 and 2011 based on contractual undiscounted payments.

Fair value

Year ended 31 December 2012

LVL thousand	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans	-	5 516	16 905	157 679	-	180 100
Finance lease	-	578	1 861	13 680	-	16 119
Derivative financial instruments	-	93	213	363	-	669
Trade and other accounts payable	14 566	6 951	-	-	-	21 517
TOTAL:	14 566	13 138	18 979	171 722	-	218 405

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)

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

Liquidity risk (cont'd)

Year ended 31 December 2011

LVL thousand	On demand	< 3 months	3 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

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

As of 31 December 2012 and 31 December 2011, the Group held the following financial instruments measured at fair value.

	Total 31.12.2012. LVL thousand	Level 2 31.12.2012. LVL thousand
Derivative financial instruments measured at fair value	1 044	1 044
Non-current SWAP transactions	643	643
Current SWAP transactions	401	401

	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)

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

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 2012 and 2011.

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 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 reach the gearing ratio in the level not exceeding 35%.

	31.12.2012. LVL thousand	31.12.2011. LVL thousand
Loans from credit institutions and finance lease	171 500	193 348
Less cash and cash equivalents	(50 619)	(33 304)
Net debt	120 881	160 044
Total capital	292 881	252 174
GEARING RATIO:	41%	63%

36. Subsequent events

On 16 April 2013 m.t. "Kaltene" (37 261 DWT; built 2003) was sold. This transaction was initiated in 2013 and the loss from sale recognised amounted to USD 5.3 million.

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