JSC VENTSPILS NAFTA

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ventspils nafta JSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ventspils nafta JSC and its subsidiaries ("the Group"), set out on pages 18 to 76 of the accompanying annual report which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the 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.

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Basis for Qualified Opinion

The Group's "Other financial assets" in the consolidated statement of financial position as at 31 December 2013 and 2012 includes the investment in JSC Latvijas Naftas Tranzits of LVL 15 869 thousand and LVL 15 996 thousand, respectively. The Group has no access to the management or any financial information of the investee and, accordingly, is 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 2013 and 2012. 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 give a true and fair view of the financial position of the Group as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report for 2013 set out on pages 16 to 17 of the accompanying annual report for 2013 and the Corporate Governance Report for 2013 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 2013.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
29 April 2014

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

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Information about *Ventspils nafta*

Name of the company	*Ventspils nafta*
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	50003003091 Riga, 9 May 1991 Registered in Commercial Register on 5 August 2004
Legal address	Elizabetes street 1, Riga, Republic of Latvia, LV-1010
Subsidiaries of *JSC Ventspils nafta*	66% *LatRosTrans Ltd.* LRDS "Ilūkste", Šēderes pagasts, Ilūkstes novads, LV-5474 51% *Ventspils nafta termināls Ltd.* Talsu street 75, Ventspils, LV-3602 49.94% *JSC Latvian Shipping Company* Elizabetes street 1, Riga, LV-1010
Financial year	1 January – 31 December 2013
Auditors	*PricewaterhouseCoopers Ltd.* Kr. Valdemāra iela 21 - 21, Riga Latvia, LV - 1010 Licence No. 5 Sworn auditor: Ilandra Lejiņa Latvian Certified Auditor Certificate No. 168

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 fleet 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.

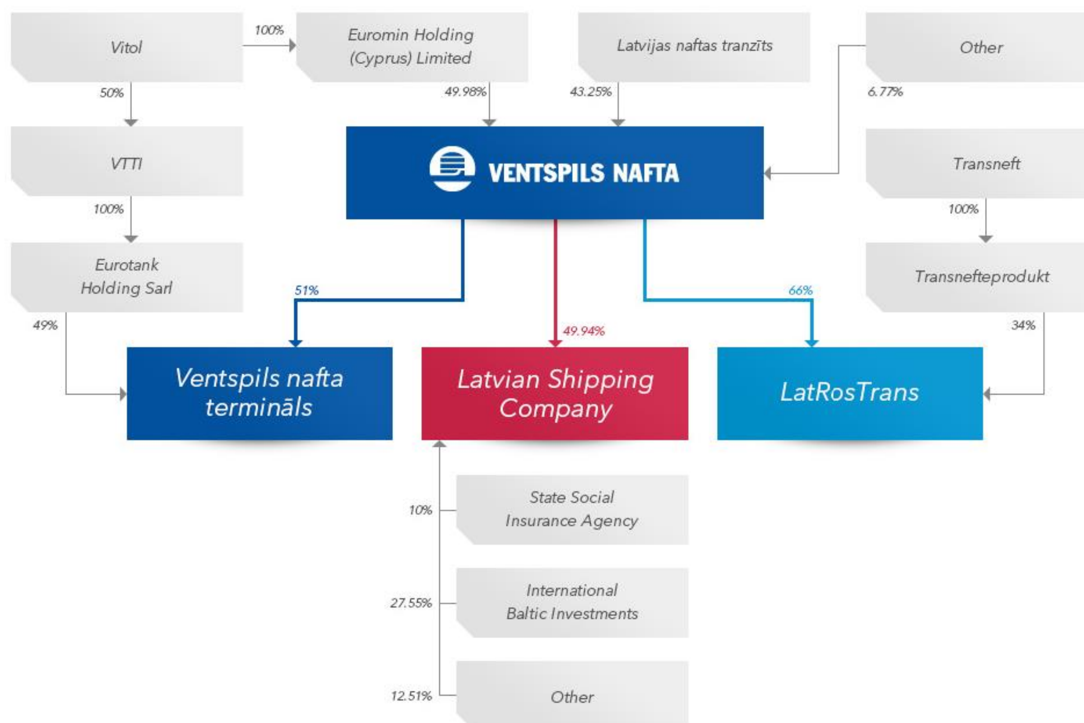
Strategy

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)

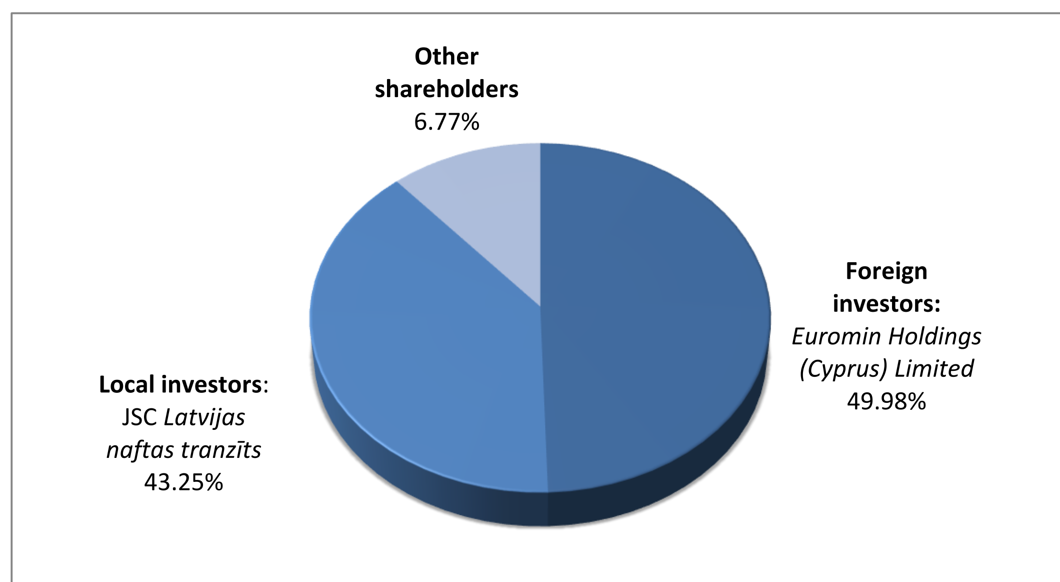
Corporate structure

Corporate structure of *JSC Ventspils nafta* as at 31 December 2013



Shareholders

Main shareholders (over 5%) of *JSC Ventspils nafta* as at 31 December 2013



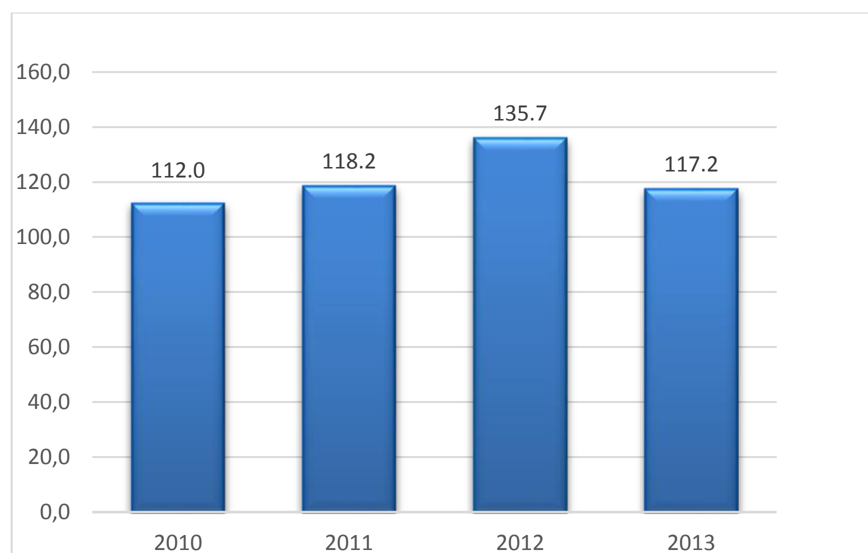
Information about *Ventspils nafta* (cont'd)

Key figures

		2009*	2010*	2010 restated	2011	2012	2013
Turnover (million LVL)		66.68	53.35	112.02	118.24	135.67	117.18
Net profit / (loss) (million LVL)		(17.54)	(25.27)	(65.57)	(12.19)	3.87	(43.02)
Gross profit before depreciation (million LVL)		14.78	21.77	39.55	40.56	50.66	49.13
	% of turnover	22.2%	40.8%	35.3%	34.3%	37.3%	41.9%
EBITDA (million LVL)		11.08	23.84	24.05	23.34	40.32	36.47
	% of turnover	16.6%	44.7%	21.5%	19.7%	29.7%	31.1%
EBIT (million LVL)		1.78	14.70	(0.38)	1.10	16.62	16.48
	% of turnover	2.7%	27.6%	(0.3%)	0.9%	12.3%	14.1%
Return on Assets (%)		(4.8%)	(7.2%)	(10.4%)	(1.9%)	0.6%	(8.6%)
Return on Equity (%)		(4.43%)	(7.19%)	(14.56%)	(2.90%)	0.94%	(11.16%)
EPS (LVL)		(0.18)	(0.28)	(0.29)	(0.07)	0.04	(0.27)
Liquidity ratio		12.69	7.20	2.58	3.43	3.66	3.02
Dividends (LVL per share)		0.48	-	-	-	-	-

*In 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	104 479 519
List	Baltic Main List, NASDAQ OMX Riga
Listing date	20 October 1998
Liquidity providers	None
Indexes	B2000GI, B2000PI, B2700GI, B2700PI, OMXBGI, OMXBPI, OMXRGI

Trading information (1 January 2013 – 31 December 2013)

Open	1.070 LVL
Max	1.170 LVL
Min	0.910 LVL
Last	1.000 LVL
Average price	1.041 LVL
Change	-6.54 %
Deals	1 021
No of shares traded	305 600
Turnover	308 344.16 LVL
Capitalisation on 31.12.2013	104 479 519 LVL

Securities trading history (2009-2013)

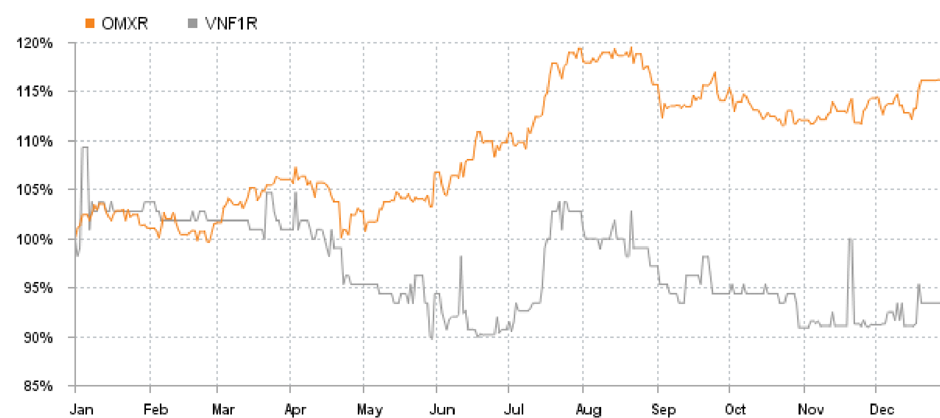
Price	2009	2010	2011	2012	2013
Open, LVL	0.700	0.920	1.449	1.200	1.070
High, LVL	1.500	1.890	1.479	1.259	1.170
Low, LVL	0.590	0.910	1.013	1.000	0.910
Last, LVL	0.940	1.400	1.200	1.070	1.000
Traded volume	900 402	1 492 345	1 632 287	1 222 348	305 600
Turnover, million LVL	0.89	2.22	2.32	1.64	0.31
Capitalisation, million LVL	98.21	146.27	125.38	111.79	104.48

Information on shares (cont'd)

Share price (LVL) (1 January 2013 – 31 December 2013)

Share price (LVL) (1 January 2009- 31 December 2013)

Share price in comparison with *NASDAQ OMX Riga* index (1 January 2013 – 31 December 2013)



Index/Equity	01.01.2013	31.12.2013	+/-%
– OMX Riga	395.91	460.13	16.22 ↑
– VNF1R	1.07 LVL	1.00 LVL	-6.54 ↓

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

Supervisory Council

Chairman of the Council	Vladimir Egger
Deputy Chairman of the Council	Rubel Yilmaz
Members of the Council	Javed Ahmed
	Mikhail Dvorak
	Simon Boddy
	Christophe Theophanis Matsacos
	Rudolf Meroni
	David Guy Anstis
	Jānis Berķis
	Nauris Berķis
	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 2013 to 10 April 2014 were as follows:

Elected	**Dismissed/ Resigned**	**Name**	**Position held**
25/07/2012	26/06/2013	Olafs Berķis	Member of the Council
25/07/2012	17/10/2013	Oļegs Stepanovs	Member of the Council
25/07/2012	17/10/2013	Igors Skoks	Member of the Council
25/07/2012	17/10/2013	Genādijs Ševcovs	Member of the Council
20/01/2010	17/10/2013	Mark Morrell Ware	Member of the Council
17/10/2013	-	Simon Boddy	Member of the Council
17/10/2013	-	Rudolf Meroni	Member of the Council
17/10/2013	-	David Guy Anstis	Member of the Council
17/10/2013	-	Jānis Berķis	Member of the Council
17/10/2013	-	Nauris Berķis	Member of the Council

According to the Supervisory Council's resolutions of 30 August 2012 and of 25 November 2013 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. According to the Supervisory Council's resolution of 11 March, 2014 Mikhail Dvorak was recalled from the position of the deputy chairman of the Supervisory Council and Rubel Yilmaz was elected as the deputy chairman of the Supervisory Council.

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, and was re-elected for a period of 3 years on October 17, 2013. Egger is also a member and chairman of the Supervisory Council of the Ventspils nafta subsidiary JSC Latvian Shipping Company.
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, and was re-elected for a period of 3 years on October 17, 2013. On March 11, 2014 he ceased to serve as the Deputy Chairman of the Supervisory Council. Dvorak also held positions in Ventspils nafta subsidiaries – he is the Deputy Chairman of the Supervisory Council of JSC Latvian Shipping Company until March 26, 2014, and has been a member or the Supervisory Council of LatRosTrans Ltd until March 12, 2014.
Mikhail Dvorak was the Financial Controller of Vitol Group and Finance Director at Vitol Group's companies in the CIS countries, Georgia and the Baltic States. 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 is the Deputy Chairman of the Supervisory Council. He is a member of the Supervisory Council of JSC Ventspils Nafta since January 20, 2010, and was re-elected for a period of 3 years on October 17, 2013. Yilmaz is also holds positions in Ventspils nafta subsidiaries – he is the Deputy Chairman of the Supervisory Council of JSC Latvian Shipping Company, and has been a member of the Supervisory Council of Ventspils nafta termināls Ltd since March 1, 2010.
Rubel Yilmaz is the Chief Financial Director of VTTI (Vitol Tank Terminals International). 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.

Simon Boddy is a member of the JSC Ventspils nafta Supervisory Council since 17 October 2013, elected for a period of 3 years. Boddy is also a member of the Supervisory Council of JSC Latvian Shipping Company, a Ventspils nafta subsidiary.
Simon Boddy 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. He was the Chairman of the Management Board of JSC Ventspils Nafta in the time period from January 20, 2010 until September 1, 2013. 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.

Javed Ahmed has worked as a member of the Supervisory Council of Ventspils Nafta since January 20, 2010, and was re-elected for a period of 3 years on October 17, 2013. Ahmed was also a member of the Supervisory Council of JSC Latvian Shipping Company, a Ventspils nafta subsidiary.
Javed Ahmed 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.

Supervisory Council (cont'd)

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

Christophe Theophanis Matsacos has worked as a member of the Supervisory Council of JSC Ventspils Nafta since July 17, 2010, and was re-elected for a period of 3 years on October 17, 2013. Matsakos was also a member of the Supervisory Council of JSC Latvian Shipping Company, a Ventspils nafta subsidiary.
Christophe Matsacos 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.

Rudolf Meroni is a member of the JSC Ventspils nafta Supervisory Council since 17 October 2013, elected for a period of 3 years.
Rudolf Meroni was also on the Supervisory Council of the JSC Ventspils nafta in the time period from July 7, 2010 until July 25, 2012.

David Guy Anstis is a member of the JSC Ventspils nafta Supervisory Council since 17 October 2013, elected for a period of 3 years.
David Guy Anstis has worked on the Management Board of several stevedoring companies in Ventspils. Previously he worked for Moore Stephens LLP, Chartered Accountants, in London, where he was a partner in the International Business Group, focusing on clients in the maritime industry.
Mr. David Guy Anstis does not own any shares of JSC Ventspils nafta.

Jānis Berķis is a member of the JSC Ventspils nafta Supervisory Council since 17 October 2013, elected for a period of 3 years.
Jānis Berķis is Deputy Chairman of the Supervisory Council of Noord Natie Ventspils Terminals Ltd since February 2012 and Deputy Chairman of the Supervisory Council of JSC Ventbunkers since February 2013. In June 2010 Janis Berķis became the member of the Supervisory Council of JSC L.V.K., and in March 2011 became the board member of N&J ratio Ltd. Professional education: bachelor's degree in management at the Ventspils University College, MBA at the "Turība" University.
Mr Jānis Berķis does not own any shares of JSC Ventspils nafta.

Nauris Berķis is a member of the JSC Ventspils nafta Supervisory Council since 17 October 2013, elected for a period of 3 years.
Nauris Berķis is the Chairman of the Supervisory Council of JSC Baltijas Ekspresis since March 2012 and the Chairman of the Supervisory Council of JSC Latvijas Naftas Tranzīts since May 2013. In June 2011 he became the board member of Privātfonds Ltd, whereas from March 2012 he became the board member of N&J Ltd. Professional education: bachelor's degree in management at the Ventspils University College.
Mr. Nauris Berķis does not own any shares of JSC Ventspils nafta.

Ivars Bērziņš has worked as a member of the Supervisory Council of Ventspils Nafta since July 25, 2012, and was re-elected for a period of 3 years on October 17, 2013.
He is a 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	Robert Kirkup
Members of the Board	Boris Bednov Aleksej Tarasov

The changes in the Board during the period from 1 January 2013 to 10 April 2014 were as follows:

Elected	Dismissed/ Resigned	Name	Position held
16/10/2009	01/09/2013	Simon Boddy	Member of the Board
01/09/2013	-	Robert Kirkup	Member of the Board

Starting with September 1, 2013 the Chairman of the Management Board of JSC Ventspils Nafta Simon Boddy who held the position since January 20, 2010 was replaced by Robert Kirkup.

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

Professional experience of the members of the Management Board

Robert Kirkup is the Chairman of the JSC Ventspils nafta Management Board since 1 September 2013, elected for a period of 3 years. Kirkup also holds positions in Ventspils nafta subsidiaries – he is the Chairman of the Supervisory Council of LatRosTrans Ltd and the Chairman of the Management Board of JSC Latvian Shipping Company as well as a member of the Supervisory Council of Ventspils nafta termināls Ltd.
He has worked in the oil and sugar business for more than 17 years. In 1996 he joined the Vitol Goup and has held several positions in trading. Since July 2006 he has been appointed as the Global Head of Sugar at Vitol S.A. In addition he was a member of the World Sugar Committee for the ICE No11 Raw Sugar Futures Contract and still is a member of the Council of the Sugar Association of London, where he is an Arbitrator. Professional education: BA Honours Degree in Business.
Mr. Robert Kirkup 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, and was re-elected for a period of 3 years starting from April 28, 2013.
He is an oil and transit industry professional. He began his career in the oil and transit business in 1982 as a Refinery Engineer. Since 1993 he has been working as Oil Trader. He has been the Head of the Lithuanian office of Vitol, based in Mazeikai, since 1996. Professional education: he has graduated the D. Mendeleyev University of Chemical Technology in Russia.
Mr Boris Bednov does not own any shares of JSC Ventspils nafta.

Aleksej Tarasov has worked as a member of the Management Board of JSC Ventspils Nafta since January 6, 2011, and was re-elected for a period of 3 years on June 26, 2013.
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 to 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 2013, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with 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:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 10 April 2014

Management Report

Dear shareholders,

2013 was a year of change and consolidation. The focus within the *JSC Ventspils nafta* and its subsidiaries (hereafter – Group) has been on restructuring and streamlining the business in the face of adverse market developments, most notably increased competition from Russian Federation ports which are increasing their share of the country's export flows with the intention of implementing the Russian Governments strategic goals of having the domestic port infrastructure capacity to handle all the country's oil exports by 2030.

These changes resulted in a fall in revenues of 13.6% to 117.2 million LVL (2012: 135.7 million LVL) and a one-off impairment of 44.5 million LVL, which generated a net loss of 43.02 million LVL for 2013 (2012: a net profit in the amount of 3.87 million LVL).

On the other hand, gross profit increased 7.8% to 29.1 million LVL and a focus on costs caused administrative expenses to fall 13.5% to 7.7 million LVL (2012: 8.9 million LVL). The Group continues to look for efficiencies, for example through the consolidation of office space.

Further detail on the performance of the companies which comprise the Group can be found below.

Ventspils Nafta (VN)

VN made a loss of 19.78 million LVL in 2013, largely as a result of a 33.26 million LVL impairment recognised in respect of VN's investment in LatRosTrans Ltd and the reassessment of the recoverable amount from LatRosTrans, following a write down.

VN's dividend income from its investments in Ventspils nafta terminals Ltd and LatRosTrans Ltd totalled 13.33 million LVL in 2013, a positive result compared with the previous year when no dividend was paid. Other income, from consultancy services provided to other companies within the Group, halved to 127 thousand LVL, whilst interest income fell to 834 thousand LVL (2012: 978 thousand LVL), due to lower interest rates.

Ventspils nafta termināls

Ventspils nafta termināls' income fell 9.2 million LVL to 51.23 million LVL (2012: 60.43 million LVL), driven by a 20% fall in volumes to 9.6 million tonnes of petroleum products. Net profit was 8.7 million LVL (2012: 10.4 million LVL). Volumes continue to flow through both the pipeline (56.2%) and rail or sea (43.8%).

LatRosTrans

The volume of petroleum products transported fell 13.3% to 5.47 million tonnes (2012: 6.31 million tonnes), 2013 revenues were 10.75 million LVL, down 11.6% on 2012 (2012: 12.16 million LVL), and gross profits fell 1.2 million LVL to 0.8 million LVL (2012: 2.0 million LVL).

The fall in revenues reflects both the end of a long term petroleum product transportation agreement and a strategic shift by Russia to reduce the export of product through the Baltic states. Consequently, in 2013 LatRosTrans recognised an impairment of 44.5 million LVL against non-current assets, in line with IFRS reporting standards.

The impairment impacted net result which was a net loss of 41.79 million LVL, compared with a net profit of 11.82 million LVL in 2012.

Latvian Shipping Company (LSC)

2013 revenues fell by 11.44 million USD to 104.21 million USD, but gross profit rose 33.7% to 31.74 million USD, driven by combination of better fright rates and decrease in operating costs. Finance costs fell 17.1% to 15.53 million USD (2012: 18.74 million USD).

An impairment on the fleet of 22.92 million USD resulted in a net loss of 18.1 million USD, a significant improvement on the previous year's loss of 34.6 million USD. The sale of three tankers (out of 20) during 2013 has improved the cash position of LSC and reduced debt. This, combined with the restructuring of the M/t Riga sale and leaseback agreement negotiated by previous management, has improved LSC's financial performance.

Management Report (cont'd)

Environmental protection and employee engagement

VN Group has embedded its sustainability principles within its business strategy. It operates in a responsible manner providing safe and efficient services. VN Group's aim is to decrease its impact on the environment in an economically responsible way. In 2013 VN Group continued to develop environmental protection and quality policies with aim to successfully ensure preservation and restoration of the quality of the environment, sustainable use of natural resources and minimisation of accident risks at the VN Group's environmentally sensitive facilities.

Ventspils nafta termināls has received ISO Certification meeting the requirements set by the environmental management standard ISO 14001:2004 and the quality management standard ISO 9001:2008 (valid until 19.12.2015.). It also managed to obtain OHSAS 18001 Occupational Health and Safety Certification in 2012 which was successfully supervised in 2013 by Bureau Veritas Certification (valid until 21.10.2015.). LSC has developed an effective safety and quality management system which is maintained in accordance with the requirements of International Safety Management (ISM) Code.

Experience and professionalism of employees plays integral part VN Group business. The Group continuously improves employee individual skills and promotes development through various educational initiatives, educating about health, safety and environmental issues in order to build personal responsibility and personal involvement improving companies performance in sustainable way.

Continued commitment to improving investor relations

The VN Group remains committed to the continuous improvement of its investor relations and we are pleased and proud to receive further recognition from Nasdaq OMX. We shall continue to provide our investors and stakeholders with access to Group Management through meetings and webinars and we welcome their engagement.

The challenges for 2014 will be to identify and pursue further efficiencies, whilst seeking opportunities to leverage the expertise and infrastructure of the Group. We would like to thank our employees and our stakeholders for the hard work and commitment and we move forward to the next phase in the Company's development.

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

The consolidated annual report for 2013 and Corporate Governance Report for 2013 have been submitted to the NASADQ OMX Riga as well as published on JSC Ventspils nafta website www.vnafta.lv.

As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto, except those disclosed in Note 37 of this report.

On behalf of the Management Board:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 10 April 2014

Consolidated statement of income

for the year ended 31 December 2013

	Notes	**2013** LVL thousand	**2012** LVL thousand
Revenue	4	117 178	135 673
Cost of sales	5	(88 045)	(108 702)
Gross profit		**29 133**	**26 971**
General and administrative expense	6	(7 703)	(8 905)
Other operating income	7	1 187	16 495
Other operating expense	8	(4 697)	(1 722)
Impairment of other non-financial assets	10	(56 879)	(15 279)
Finance income	11	1 146	1 360
Finance costs	11	(8 741)	(10 628)
(Loss)/ Profit before tax		**(46 554)**	**8 292**
Corporate income tax	12	3 532	(4 423)
(Loss)/ Profit for the year		**(43 022)**	**3 869**
Attributable to:			
Parent company's shareholders		(28 024)	4 081
Non-controlling interest	25	(14 998)	(212)
		(43 022)	**3 869**
(Loss)/ Earnings per share (Lats per share) attributable to the Parent company's shareholders:		(0.27)	0.04
(Loss)/ Earnings per share (Lats per share)		(0.41)	0.04

The accompanying notes on pages 24 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on April 10, 2014 and signed on its behalf by:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 10 April 2014

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	2013	2012
	LVL thousand	LVL thousand
(Loss)/ Profit for the year	**(43 022)**	**3 869**
Other comprehensive income/ (loss)		
Items that may be subsequently recalssified to profit or loss		
- Foreign currency translation reserve	(2 693)	(2 784)
- Cash flow hedge reserve	377	459
Other comprehensive loss for the year	**(2 316)**	**(2 325)**
Total comprehensive (loss)/ income for the year	**(45 338)**	**1 544**
Attributable to:		
Parent company's shareholders	(29 181)	2 920
Non-controlling interests	(16 157)	(1 376)
	(45 338)	**1 544**

The accompanying notes on pages 24 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on April 10, 2014 and signed on its behalf by:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 10 April 2014

Consolidated statement of financial position

as of 31 December 2013

	Notes	**31.12.2013.** LVL thousand	**31.12.2012.** LVL thousand
Assets			
Non-current assets			
Intangible assets	13	15 161	25 252
Property, plant and equipment	14	301 425	394 150
Investment properties	15	1 117	1 145
Investments in associated entities	17	7	7
Loans to affiliated companies	18	68 491	47 759
Other non-current financial assets	19 (a)	23 680	23 780
Total non-current assets		**409 881**	**492 093**
Current assets			
Inventories	20	2 438	3 051
Trade and other receivables	21	6 313	13 099
Short term deposits	22	31 235	32 512
Other current financial assets	19 (b)	17 035	16 278
Cash and cash equivalents	23	35 931	50 619
Total current assets		**92 952**	**115 559**
Total assets		**502 833**	**607 652**

The accompanying notes on pages 24 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on April 10, 2014 and signed on its behalf by:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 10 April 2014

Consolidated statement of financial position (cont'd)

as of 31 December 2013

	Notes	**31.12.2013.** LVL thousand	**31.12.2012.** LVL thousand
Equity and liabilities			
Equity			
Share capital	25	104 479	104 479
Share premium		42 343	42 343
Foreign currency revaluation reserve	25	(7 790)	(6 445)
Cash flow hedge reserve	25	(313)	(501)
Retained earnings	25	123 810	119 729
(Loss)/ Profit for the year		(28 024)	4 081
Equity attributable to equity holders of the parent		**234 505**	**263 686**
Non-controlling interest	25	122 752	150 076
Total equity		**357 257**	**413 762**
Non-current liabilities			
Borrowings	26	111 030	141 227
Finance lease	28	-	12 935
Deferred tax liability	12	1 111	5 028
Deferred income	29	2 317	2 471
Derivative financial instruments	27	294	643
Total non-current liabilities		**114 752**	**162 304**
Current liabilities			
Borrowings	26	19 095	16 570
Finance lease	28	-	768
Trade and other payables	30	8 951	11 069
Taxes payable	31	296	413
Derivative financial instruments	27	520	401
Deferred income	29	1 042	1 441
Provisions	32	920	924
Total current liabilities		**30 824**	**31 586**
Total liabilities		**145 576**	**193 890**
Total equity and liabilities		**502 833**	**607 652**

The accompanying notes on pages 24 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on April 10, 2014 and signed on its behalf by:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 10 April 2014

Consolidated statement of cash flows

for the year ended 31 December 2013

	Notes	2013 LVL thousand	2012 LVL thousand
Operating activities			
(Loss)/ Profit before tax		(46 554)	8 292
Non-cash adjustments to reconcile (loss)/ profit before tax to net cash flows:			
Depreciation of property, plant and equipment	14	19 949	23 547
Amortisation of intangible assets	13	17	130
Depreciation of investment properties	15	28	14
Decrease in financial instruments		(213)	-
Loss on disposal of non-financial assets	8	2 295	292
Currency translation difference		697	637
Net profit from disposal of Group's subsidiary		(99)	-
Finance income	11	(1 146)	(1 360)
Finance costs	11	7 301	9 473
Recognized impairment of the fleet and assets clasified as held for sale	10	12 388	15 279
Recognized impairment of the property, plant and equipment	10	34 398	-
Recognized impairment of the intangible assets	10	10 093	-
Impairment loss of goodwill at acquisition		19	-
		39 173	**56 304**
Working capital adjustments:			
Decrease in trade and other receivables and prepayments		6 314	13 808
Decrease/ (Increase) in inventories		613	(102)
Decrease in trade and other payables		(3 742)	(6 050)
		42 358	**63 960**
Corporate income tax received/ (paid)		75	(846)
Net cash flows from operating activities		**42 433**	**63 114**
Investing activities			
Proceeds from sale of non-current assets		22 625	766
Purchase of non-current assets		(4 769)	(6 727)
Acquisition of Group's subsidiary	2.4	(6 444)	-
Loss from disposal of Group's subsidary		(8)	-
Decrease/ (increase) in short term deposits		1 266	(14 466)
Loans issued		(22 532)	(281)
Interest received		1 006	1 408
Net cash flows used in investing activities		**(8 856)**	**(19 300)**
Financing activities			
Payment of finance lease liabilities		(709)	(791)
Dividends paid		(11 167)	-
Proceeds from borrowings		-	1 401
Repayment of borrowings		(29 933)	(17 738)
Interest paid		(6 224)	(8 750)
Prepaid financing expenses		(365)	(221)
Net cash flows used in financing activities		**(48 398)**	**(26 099)**
Net (decrease) / increase in cash and cash equivalents		(14 821)	17 715
Cash and cash equivalents at 1 January		50 619	33 304
Exchange losses on cash and cash equivalents		133	(400)
Cash and cash equivalents at 31 December	**23**	**35 931**	**50 619**

The accompanying notes on pages 24 to 76 form an integral part of these Consolidated Financial Statements.

Consolidated statement of changes in equity

for the year ended 31 December 2013

	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	Retained earnings	**Total**		
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Balances as of 1 January 2012	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 income/ (loss)	-	-	-	(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 reseves	-	-	(715)	-	-	715	-	-	-
Balances as of 31 December 2012	**104 479**	**42 343**	**-**	**(6 445)**	**(501)**	**123 810**	**263 686**	**150 076**	**413 762**
Loss for the year	-	-	-	-	-	(28 024)	**(28 024)**	(14 998)	**(43 022)**
Other comprehensive (loss)/ income	-	-	-	(1 345)	188	-	**(1 157)**	(1 159)	**(2 316)**
Total comprehensive income/ (loss)	-	-	-	(1 345)	188	(28 024)	**(29 181)**	(16 157)	**(45 338)**
Dividends declared	-	-	-	-	-	-	-	(11 167)	**(11 167)**
Balances as of 31 December 2013	**104 479**	**42 343**	**-**	**(7 790)**	**(313)**	**95 786**	**234 505**	**122 752**	**357 257**

In 2013 the position “Other reserves” was re-named to “Retained earnings“.

The accompanying notes on pages 24 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 Elizabetes street 1, LV-1010, 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	31.12.2013.	31.12.2012.	Legal address
Subsidiaries of *JSC Ventspils nafta*			
LatRosTrans Ltd	66%	66%	LRDS “Ilukste” Sederes pagasts, Ilukstes novads, Latvia, LV - 5474
Ventspils nafta termināls Ltd	51%	51%	Talsu iela 75, Ventspils, Latvia, LV - 3062
JSC Latvian Shipping Company	49.94%	49.94%	Elizabetes iela 1, Riga, Latvia, LV - 1010

The main activities carried out by subsidiaries during 2013 and 2012 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 10, 2014.

The Shareholders of the Group have the right to dispute the accuracy of the consolidated financial statement line items and to postpone the approval of the consolidated financial statements in the shareholder’s meeting.

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.

In 2013 the Group made a reclassification between different positions of the consolidated statement of financial position. The comparatives have been restated to conform to the new presentation. The reclassifications had no effect on the statement of financial position as of 1 January 2013.

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. Till 31 December 2013 Lat (LVL) was 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 IFRS and interpretations became effective in 2013, but did not have significant impact on these consolidated financial statements, except additional disclosures:

IFRS 13 "Fair value measurement" (effective for annual periods beginning on or after 1 January 2013);

Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013);

Amendment to IFRS 1, "First time adoption'', on government loans (effective for annual periods beginning on or after 1 January 2013);

Amendment to IFRS 7, "Financial instruments: Disclosures", on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013);

Amendment to IAS 12, "Income taxes" on deferred tax (effective for annual periods beginning on or after 1 January 2012, endorsed by EU for annual periods beginning on or after 1 January 2013);

Amendment to IAS 19, "Employee benefits" (effective for annual periods beginning on or after 1 January 2013);

Amendment to IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 July 2013);

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

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 2014.

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).

Amendments to IFRS 11, "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014).

IFRS 10 "Consolidated financial statements" (effective for annual periods beginning 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 2014).

Amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities (effective for annual periods beginning on or after 1 January 2014).

Amendments to IFRS 12 "Disclosures of interests in other entities" and IAS 27 "Separate financial statements" (effective for annual periods beginning on or after 1 January 2014).

IFRS 9 "Financial Instruments Classification and Measurement" (effective date to be determined).

Amendments to IAS 28 "Associates and joint ventures" (effective for annual periods beginning on or after 1 January 2014).

Amendments to IAS 36 "Impairment of assets" (effective for annual periods beginning on or after 1 January 2014).

Amendments to IAS 39 "Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting (effective for annual periods beginning on or after 1 January 2014).

Notes to the consolidated financial statements (cont'd)

2.1 Basis of preparation (cont'd)

Standards issued but not yet effective (cont'd)

Improvements to IFRS (issued in 2012; most of the amendments are effective for annual periods beginning on or after 1 July 2014, not yet endorsed by the EU):

- IFRS 2 ”Share-based payment”;
- IFRS 3 ‘’Business Combinations’’;
- IFRS 8 ‘’Operating segments’’;
- IFRS 13 ‘’Fair value measurement’’;
- IAS 16 ‘Property, plant and equipment’’ and IAS 38 ‘’Intangible assets’’;
- Consequential amendments to IFRS 9 ‘’Financial instruments’’, IAS 37 ‘’Provisions, contingent liabilities and contingent assets’’;
- IAS 39 ‘’Financial instruments – Recognition and measurement’’.

Improvements to IFRS (issued in 2013; most of the amendments are effective for annual periods beginning on or after 1 July 2014, not yet endorsed by the EU):

- IFRS 1 ‘’First time adoption’’;
- IFRS 3 ‘’Business combinations’’;
- IFRS 13 ‘’Fair value measurement’’;
- IAS 40 ‘’Investment property’’.

IFRIC 21 ‘’Levies’’ (effective for annual periods beginning on or after 1 January 2014).

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

2.2 Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries: *Ventspils nafta termināls Ltd, LatRosTrans Ltd* and *Latvian Shipping Company JSC* as at 31 December 2013.

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., *Going concern*).

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Basis of consolidation (cont'd)

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 consolidated income statement
- Reclassifies the Parent's share of components previously recognised in consolidated statement of comprehensive income.

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 consolidated income statement or as change to consolidated statement of 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 consolidated 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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

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

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Foreign currency translation (cont'd)

Transactions and balances (cont'd)

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:

		31.12.2013.	31.12.2012.
As at the reporting year-end	USD/LVL	0.515000	0.531000
	EUR/LVL	0.702804	0.702804
Average rate per period	USD/LVL	0.529434	0.546937
	EUR/LVL	0.702804	0.702804

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. Based on previous experience of recoverability of demurrage claims, 80% of the estimated revenue from demurrage is recognized in the consolidated income statement.

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

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 consolidated 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 consolidated income statement on a straight-line basis over the expected lives of the related assets.

Taxes

Corporate income tax

Current income tax

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

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

Deferred tax

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

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

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

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

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

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Taxes (cont'd)

Deferred tax (cont'd)

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

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

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

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

Value added tax

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

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

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

Financial assets

Initial recognition and measurement

Financial assets of the Group have been classified as financial assets at fair value through profit or loss, financial assets available for sale, and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

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

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments.

Subsequent measurement

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

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Financial assets (cont'd)

Subsequent measurement *(cont'd)*

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 consolidated income statement in other operating expense and for operating receivables related to shipping activity in Costs of sales.

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 consolidated income statement when the Group's right to receive payments is established, and impairment losses, which are recognised in the consolidated income statement. Unquoted equity instruments which fair value cannot be measured reliably are carried at cost, less any impairment losses.

Derecognition

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Financial assets *(cont'd)*

Financial assets carried at amortised cost *(cont'd)*

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated 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.

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 plus, in case of financial liabilities not all fair value through profit or loss, 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 consolidated income statement when the liabilities are derecognised as well as through the 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 consolidated income statement.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Financial liabilities (cont'd)

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 consolidated 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.

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 35.

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 consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in the consolidated statement of 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 Group 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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Derivative financial instruments and hedge accounting (cont'd)

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 consolidated income statement.

Amounts recognised as other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects consolidated 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 consolidated 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.

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 consolidated 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

<u>*Fleet*</u>

Fleet depreciation has been provided on the basis that the carrying value of the vessels, less an estimated scrap value of LVL 232 per lightweight ton (2012: LVL 239), is written off on a straight line basis over the remainder of their anticipated useful lives – 25 years from the date of construction.

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Property, plant and equipment *(cont'd)*

<u>Fleet</u> (cont'd)

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 consolidated income statement when the asset is derecognised.

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

Intangible assets

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

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are 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 consolidated 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 consolidated income statement when the asset is derecognised.

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

<u>Land use rights</u>

Land use rights are stated at contributed value as agreed by the subsidiary's *LatRosTrans Ltd* founders and were 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 of disposal and value in use.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Intangible assets (cont'd)

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 consolidated income statement.

Leased assets are depreciated over the useful life of the asset on a straight line basis. 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 consolidated income statement on a straight line basis over the lease term.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight line basis over the useful life of the asset 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 consolidated 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 75.80% (2012: 76.20%) 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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

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.

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 of disposal 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 of disposal, 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 consolidated 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 CGU'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 consolidated 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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

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 consolidated income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Restructuring

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

Contingencies

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

Related parties

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 2013 nor in 2012 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.

Notes to the consolidated financial statements (cont'd)

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 70 529 thousand (31.12.2012.: LVL 72 706 thousand) are considered as two separate CGUs, 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., *LatRosTrans Ltd.*

Recognition of technological crude oil reserve

The crude oil that is kept in the subsidiary's *LatRosTrans Ltd's* crude oil pipelines is treated as contingent asset until all relevant asset recognition criteria have been met. In order to classify the crude oil as an asset there should not be any legal restrictions to alienate the crude oil and the amount of the crude oil must be measurable with sufficient reliability.

The 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 of fleet value 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 cash generating units, including a sensitivity analysis, are further explained in *Note 16*., *Latvian Shipping Company JSC.*

Recoverable value of investment property

To determine the recoverable value of investment properties the Group engages independent certified valuation specialists. The valuator 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 2013 and 2012 is provided in *Note 15*.

Notes to the consolidated financial statements (cont'd)

2.3 Significant accounting judgments, estimates and assumptions

Estimates and assumptions *(cont'd)*

Anticipated useful economic life of the fleet

Depreciation of vessels is charged so as to allocate the depreciable amount of these assets over their respective estimated useful lives. Management is required to assess the useful economic lives and residual value of the assets so that depreciation is charged on a systematic basis up to the estimated residual value. Estimates of useful economic life of vessels are based on management's experience by comparison to similar vessels in the industry. However, the actual life of a vessel may be different. Residual values are 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 2.1 million (2012: LVL 2.7 million) or increase depreciation expenses by LVL 3.6 million (2012: LVL 4.5 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 for the correspondent revenue and expenses on a gross basis in the consolidated income statement.

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.

As at 31 December 2013, the specific financial covenants set under one of the loan agreements – USD 360 million loan agreement - were not met: particularly, the *LSC Group* did not comply with EBITDA/Debt Service ratio and minimum cash covenant. A formal agreement on temporary waiver of EBITDA/ Debt service covenant and the reduction of minimum cash covenant down to USD 17 million for the entire year 2013 was reached with the lenders at the end of 2012. Therefore, as at 31 December 2013, there are no breaches that might lead to an event of default under the loan agreement. The financial covenants under the USD 360 million loan agreement have been revised with effect from 2014 throughout the remainder of the facility period by an agreement signed with the lenders in December 2013.

The Group considers that *LSC Group* will be able to comply with the revised covenants set under the USD 360 million loan agreement, as well as with all terms and conditions stipulated in other loan agreements, to which the *LSC Group* is a party.

As a result the Group has no concerns about its' 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)

2.4 Acquisition of assets

On 18 December 2013 the Group acquired 100% of *Riga Maritime LLC* shares for USD 13.0 million (LVL 6.63 million) cash consideration.

In August 2009 one of the Group's subsidiary entered into a Purchase Agreement with the terms and conditions based on sales and leaseback transaction (LVL 14.64 million) in respect of *Riga Maritime LLC,* which owns m.t. Riga with final payment date in August 2014. As a result of the acquisition of *Riga Maritime LLC* in 2013 the Purchase Agreement in respect of the sale and leaseback transaction of m.t. Riga was terminated.

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

	Fair value recognised on acquisition 2013 LVL thousand
Other assets acquired on acquisition	210
Group's subsidiary receivable acquired on acquisition	12 460
	12 670
Interest bearing bank loan	(5 718)
Trade and other payables	(341)
	(6 059)
Net assets acquired, 100%	**6 611**
Impairment loss of goodwill arising on acquisition and written off to the income statement	19
Total consideration	**6 630**
Cash outflow on acquisition	
Net cash acquired with the Group's company subsidiary	186
Cash paid in 2013	(6 630)
Net cash outflow	**(6 444)**

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 15 517 thousand and LVL 5 194 thousand, (2012: LVL 15 864 thousand and LVL 4 843 thousand, respectively) are derived from two external customers in the shipping segment. Revenues of LVL 61 974 thousand (2012: LVL 71 547 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 consolidated 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**	
	2013 LVL th	2012 LVL th	2013 LVL th	2012 LVL th	2013 LVL th	2012 LVL th	**2013 LVL th**	**2012 LVL th**	2013 LVL th	2012 LVL th	**2013 LVL th**	**2012 LVL th**
Revenue from external customers	**61 983**	**72 589**	**54 842**	**62 561**	**-**	**1**	**116 825**	**135 151**	-	-	**116 825**	**135 151**
Intersegment revenue	-	-	-	-	127	254	**127**	**254**	(127)	(254)	**-**	**-**
Voyage costs	-	-	(7 711)	(14 301)	-	-	**(7 711)**	**(14 301)**	-	-	**(7 711)**	**(14 301)**
Vessel operating costs	-	-	(18 381)	(20 139)	-	-	**(18 381)**	**(20 139)**	-	-	**(18 381)**	**(20 139)**
Cost of sales (vessel operating costs excluding)	(41 975)	(50 646)	(273)	(380)	-	-	**(42 248)**	**(51 026)**	3	1	**(42 245)**	**(51 025)**
Administrative expenses*	(2 315)	(2 158)	(4 384)	(5 580)	(774)	(888)	**(7 473)**	**(8 626)**	151	276	**(7 322)**	**(8 350)**
Result from disposal of non-financial assets*	(72)	(271)	(2 223)	(1)	-	(20)	**(2 295)**	**(292)**	-	-	**(2 295)**	**(292)**
Other revenue	-	-	353	522	-	-	**353**	**522**	-	-	**353**	**522**
Depreciation and amortisation	(7 809)	(8 147)	(12 176)	(15 525)	(9)	(19)	**(19 994)**	**(23 691)**	-	-	**(19 994)**	**(23 691)**
Impairment of non-financial assets	(44 491)	-	(12 388)	(15 279)	-	-	**(56 879)**	**(15 279)**	-	-	**(56 879)**	**(15 279)**
Interest income	752	699	46	15	1 155	1 191	**1 953**	**1 905**	(812)	(545)	**1 141**	**1 360**
Interest expense	-	-	(7 771)	(9 805)	(321)	(213)	**(8 092)**	**(10 018)**	812	545	**(7 280)**	**(9 473)**
Net result before taxes	**(33 927)**	**12 066**	**(10 066)**	**(17 912)**	**178**	**306**	**(43 815)**	**(5 540)**	**27**	**23**	**(43 788)**	**(5 517)**
Segment assets	**160 264**	**222 430**	**247 586**	**301 348**	**102 778**	**89 317**	**510 628**	**613 095**	**(27 952)**	**(25 907)**	**482 676**	**587 188**
Unallocated:												
Assets of subsidiaries not included in segment											3 171	3 323
Investment properties											1 117	1 145
Available-for-sale financial assets											15 869	15 996
Total consolidated assets											**502 833**	**607 652**
Including additions to non-current assets	4 040	4 014	661	2 578	5	2	**4 706**	**6 594**	-	-	**4 706**	**6 594**

*In 2013, the major part of Administrative expenses as well as the Result from disposal of non-financial assets were included in the table of segment result as separate positions. The breakdown of consolidated income statement items for 2012 was adjusted in order to represent comparable positions.

For description of impairment losses recognised to each segment see Note 16.

Notes to the consolidated financial statements (cont'd)

3. Segment information (cont'd)

Reconciliation of segment results to consolidated income statement:

	2013 LVL thousand	2012 LVL thousand
Net result before taxes for reportable segment	(43 788)	(5 517)
Reconciliation to loss before taxes:		
Administrative expenses	(95)	(102)
Other operating (expenses)/ income, net	(1 188)	15 087
Other financial (expenses)/ income, net	(1 456)	(1 153)
Adjustments and eliminations	(27)	(23)
(LOSS)/ PROFIT BEFORE TAXES:	**(46 554)**	**8 292**

4. Revenue

	2013 LVL thousand	2012 LVL thousand
Voyage income	54 842	62 561
Reloading of crude oil and oil products	51 232	60 428
Transportation of oil products by pipeline	10 751	12 161
Other income	353	523
TOTAL:	**117 178**	**135 673**

5. Cost of sales

	2013 LVL thousand	2012 LVL thousand
Railway services	24 070	32 842
Depreciation and amortisation (Note 13, 14, 15)	19 709	23 238
Crew expenses (expenses related to wages included in Note 9)	11 085	11 790
Maintenance and repairs	6 816	6 833
Personnel expenses (Note 9)	5 573	5 553
Fuel expenses (bunkering)	4 928	10 066
Utilities	2 470	2 822
Port expenses	1 863	3 080
Utilization of piers	1 645	1 994
Insurance	1 608	1 760
Statutory social insurance contributions (Note 9)	1 293	1 281
Health, safety and environment protection expenses	1 230	1 226
Luboil	939	1 047
Commissions	920	1 155
Other	3 896	4 015
TOTAL:	**88 045**	**108 702**

Notes to the consolidated financial statements (cont'd)

6. General and administrative expense

	2013 LVL thousand	2012 LVL thousand
Personnel expenses (Note 9)	3 216	2 815
Professional fees	2 028	3 196
Statutory social insurance contributions (Note 9)	763	667
Occupation and repairs	407	525
IT and communication expenses	297	365
Depreciation and amortization (Note 14)	285	453
Other administrative expenses	707	884
TOTAL:	**7 703**	**8 905**

7. Other operating income

	2013 LVL thousand	2012 LVL thousand
Income from financial instruments at fair value through profit or loss	213	-
Amortisation of deferred income	153	153
Result from sale of a Group company	99	-
Sale of inventory	59	-
Oil extracted from wastewater	21	191
Net result from sale of the tehnological crude oil (Note 2.3)	-	15 060
Income from sale of oil, net	-	585
Other income	642	506
TOTAL:	**1 187**	**16 495**

8. Other operating expense

	2013 LVL thousand	2012 LVL thousand
Result from disposal of fleet	2 222	-
Rehabillitation and conservation of the main crude oil pipeline	1 028	-
Payments to local municipality	949	928
Result from disposal of property, plant and equipment	73	292
Sponsorship	51	42
Other operating expenses	374	460
TOTAL:	**4 697**	**1 722**

Notes to the consolidated financial statements (cont'd)

9. Personnel expenses

	2013	2012
Average number of employees during the reporting year	**893**	**955**

Remuneration for work and insurance contributions

	2013 LVL thousand	2012 LVL thousand
Employees		
Remuneration	17 737	18 047
Statutory social insurance contributions	1 941	1 862
Other personnel expense	236	246
Management, Board and Members of the Council		
Remuneration	458	335
Statutory social insurance contributions	115	86
Other personnel expense	18	20
TOTAL:	**20 505**	**20 596**

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

	2013 LVL thousand	2012 LVL thousand
Cost of sales	16 526	17 114
General and administrative expense	3 979	3 482
TOTAL:	**20 505**	**20 596**

10. Impairment of other non-financial assets

	2013 LVL thousand	2012 LVL thousand
Impairment of fleet (Note 14)	9 321	15 279
Impairment of assets clasified as held for sale (Note 24)	3 067	-
Impairment of intangible assets (Note 13)	10 093	-
Impairment of property, plant and equipment (Note 14)	34 398	-
TOTAL:	**56 879**	**15 279**

Notes to the consolidated financial statements (cont'd)

11. Finance income and costs

	2013	2012
	LVL thousand	LVL thousand
Interest income from loans	817	798
Other interest income	329	562
TOTAL finance income:	**1 146**	**1 360**
Interest expense	7 301	9 473
Foreign currency exchange losses, net	1 289	1 019
Bank charges	151	136
TOTAL finance costs:	**8 741**	**10 628**

12. Corporate income tax

In accordance with Latvian tax legislation current corporate income tax is applied at the rate of 15% (2012: 15%) on taxable income generated by the Parent company and its subsidiaries during the taxation period ending 31 December 2013.

	2013	2012
	LVL thousand	LVL thousand
Current corporate income tax	385	465
Deferred tax	(3 917)	3 958
Total corporate income tax for the reporting year:	**(3 532)**	**4 423**

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

	2013	2012
	LVL thousand	LVL thousand
Total (loss)/ profit before tax for the reporting year	**(46 554)**	**8 292**
Corporate income tax at 15%	*(6 983)*	*1 244*
The effect of different tax rates and rebates	3 674	34
Loss from foreign subsidiaries at 0%	1 413	2 835
Adjustment of 2011	-	(28)
Permanent differences	(1 514)	-
Non-taxable income / non - deductible expense	558	280
(Increase)/ decrease in unrecognized deferred tax asset	(680)	58
Total corporate income tax for the reporting year:	**(3 532)**	**4 423**

Notes to the consolidated financial statements (cont'd)

12. Corporate income tax (cont'd)

Deferred corporate income tax:

	Statement of financial position		Income statement	
	2013.12.31	**2012.12.31**	**2013**	**2012**
Deferred tax liability	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Accelerated depreciation for tax purposes	(1 170)	(8 804)	7 634	676
Adjustments of accelerated depreciation for tax purposes 2011	-	(74)	74	(74)
Gross deferred corporate income tax liability	*(1 170)*	*(8 878)*	*7 708*	*602*
Deferred tax asset				
Accelerated depreciation for tax purposes	609	-	609	-
Tax losses carried forward	240	331	(91)	(4 054)
Adjustments of 2011	-	(46)	46	(46)
Deferred tax assets related to other temporary differences	146	201	(55)	(3)
Tax rebate on investment projects above LVL 10 000 thousand*	-	3 651	(3 651)	(515)
Unrecognized deferred tax asset**	(936)	(287)	(649)	58
Gross deferred corporate income tax asset	*59*	*3 850*	*(3 791)*	*(4 560)*
TOTAL	**(1 111)**	**(5 028)**	**3 917**	**(3 958)**

*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 amounting to LVL 25 thousand in 2013 (2012: LVL 515 thousand), and tax relief amounting to LVL 3 626 thousand expires in 2013. During the period of *LatRosTrans Ltd* eligibility for this tax relief, corporate income tax is applied at the rate of 25%.

** Unrecognised deferred tax asset in 2012 includes unrecognised deferred tax asset in amount of LVL 51 thousand of the Group's company disposed during 2013.

As at 31 December 2013, *Ventspils nafta terminā ls 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 32 775 thousand (2012: LVL 34 171 thousand).

Ventspils nafta terminā ls Ltd applied a 3% corporate income tax rate to estimate deferred corporate income tax liabilities as at 31 December 2013 and as at 31 December 2012. All the calculations have been based on management's assumption that *Ventspils nafta terminā ls 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	Land use rights*	Total
	LVL thousand	LVL thousand	LVL thousand
Cost:			
At 1 January 2012	**832**	**49 658**	**50 490**
Additions	21	-	21
Disposals/ write off	(74)	-	(74)
At 31 December 2012	**779**	**49 658**	**50 437**
Additions	19	-	19
Disposals/ write off	(92)	-	(92)
At 31 December 2013	**706**	**49 658**	**50 364**
Amortisation and impairment:			
At 1 January 2012	**703**	**24 426**	**25 129**
Amortisation	130	-	130
Disposals/ write off	(74)	-	(74)
At 31 December 2012	**759**	**24 426**	**25 185**
Amortisation	17	-	17
Disposals/ write off	(92)	-	(92)
Impairment	-	10 093	10 093
At 31 December 2013	**684**	**34 519**	**35 203**
Net book value:			
At 31 December 2012	20	25 232	25 252
At 31 December 2013	22	15 139	15 161

* Upon the foundation of subsidiary *LatRosTrans Ltd* (the "Subsidiary"), the Republic of Latvia, represented by *JSC LaSam*, contributed land use 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.

In 2013 based on the discounted cash flow projections, impairment loss for intangible assets in the amount of LVL 10 093 thousand was recognized (2012: LVL nil). For more information see Note 16.

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

	2013	2012
	LVL thousand	LVL thousand
Cost of sales	17	130
Total amortization for the reporting year:	**17**	**130**

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 2012	**210 116**	**353 666**	**71 668**	**11 617**	**1 113**	**648 180**
Additions	20	2 481	359	117	4 417	**7 394**
Disposals/ write off	(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**
Additions	86	517	1 098	51	3 118	**4 870**
Disposals/ write off	(1 215)	(35 997)	(1 520)	(1 077)	(260)	**(40 069)**
Reclassification	1 180	(17 549)	731	932	(3 017)	**(17 723)**
Exchange differences	-	(10 597)	-	-	(1)	**(10 598)**
At 31 December 2013	**210 193**	**335 935**	**73 739**	**11 478**	**1 373**	**632 718**
Depreciation and impairment:						
At 1 January 2012	**126 720**	**76 349**	**35 075**	**8 639**	**-**	**246 783**
Depreciation	3 496	15 186	3 884	981	-	**23 547**
Disposals/ write off	(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**
Depreciation	3 273	11 996	3 738	942	-	**19 949**
Disposals/ write off	(890)	(19 337)	(1 420)	(1 009)	-	**(22 656)**
Reclassification	-	(7 967)	-	-	-	**(7 967)**
Impairment (Note 16)	18 653	9 321	15 388	357	-	**43 719**
Exchange differences	-	(3 840)	-	-	-	**(3 840)**
At 31 December 2013	**150 882**	**114 839**	**56 405**	**9 167**	**-**	**331 293**
Net book value:						
At 31 December 2012	80 296	274 895	34 731	2 695	1 533	394 150
At 31 December 2013	59 311	221 096	17 334	2 311	1 373	301 425

* Construction in progress as at 31 December 2013 mainly represents unfinished construction related to upgrade of the fire-fighting system in the tank pit and construction of operational pipelines (31.12.2012: new pipeline corridor and construction of pump station).

The total original cost value of fully depreciated property, plant and equipment still in use as at 31 December 2013 was LVL 16 596 thousand (31.12.2012: LVL 77 738 thousand).

Reclassification in 2013 and 2012 represents transfer of the vessels back to/from fleet from/to assets held for sale. See Note 24.

For more information on impairment recognised, see Note 16.

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 consolidated income statement:

	2013 LVL thousand	2012 LVL thousand
Cost of sales	19 664	23 094
General and administrative expense	285	453
Total depreciation for the reporting year:	**19 949**	**23 547**

15. Investment properties

	Land, buildings and other assets LVL thousand	**Total** LVL thousand
Cost:		
At 1 January 2012	**2 785**	**2 785**
Reclassification	574	**574**
At 31 December 2012	**3 359**	**3 359**
At 31 December 2013	**3 359**	**3 359**
Depreciation and impairment:		
At 1 January 2012	**1 902**	**1 902**
Depreciation	14	**14**
Impairment	298	**298**
At 31 December 2012	**2 214**	**2 214**
Depreciation	28	**28**
Reclassification	-	**-**
At 31 December 2013	**2 242**	**2 242**
Net book value:		
At 31 December 2012	1 145	1 145
At 31 December 2013	1 117	1 117

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

	2013 LVL thousand	2012 LVL thousand
Cost of sales	28	14
Total depreciation for the reporting year:	**28**	**14**

Notes to the consolidated financial statements (cont'd)

15. Investment properties (cont'd)

At the end of 2013 and 2012 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.

There is no income recognised from investment properties in 2013 and 2012. Expenses related to investment properties represent real estate tax, depreciation and minor maintenance expenses.

The fair value of Investment Property as of 31 December 2013 and 31 December 2012 is disclosed in Note 35.

In 2013 and 2012, no impairment was recognised on investment properties. Valuation of the respective investment properties where discounted cash flow method was used, has been carried out based on following assumptions:

- Rent rates: LVL 1.03 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 291 625 thousand (31.12.2012: LVL 346 335 thousand) and consist of intangible assets (land usage rights) and property, plant and equipment.

As at 31 December 2013 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 2012 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 2012.

Latvian Shipping Company JSC

At the end of the financial year, the market value of the majority of vessels was below the carrying amounts. Accordingly, an impairment test was conducted for the CGUs by determining the value in use, where the long-term values are assessed.

As at 31 December 2013 the recoverable value of the fleet was assessed against the higher of fair value less costs of disposal and value in use.
Fair value is determined based on valuation carried out by independent broker. Valuation was performed on "willing seller and willing buyer" basis and was given to the best of their knowledge and based on the sale and purchase market condition prevailing at the time mentioned subject to the vessel being in sound condition and made available for delivery.

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 age of the vessel is 20 years. Value in use is determined based on discounted cash flow projections. The key assumptions used as of 31 December 2013 are 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 5 years considering necessary dry-docking; discount rate applied is 7.48% (2012: 8.29%); and the scrap value applied is LVL 232 (31.12.2012: LVL 239) per light weight ton.

With regard to the assessment of recoverable value of the vessel, in 2013 management recognised impairment of 4 vessels (2012: 9 vessels) as the carrying value of vessels in use exceeded their recoverable value by USD 17.2 million (LVL 8.86 million) (2012: LVL 14.97 million).

Notes to the consolidated financial statements (cont'd)

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

Latvian Shipping Company JSC (cont'd)

Sensitivity to changes in assumptions

With regard to the assessment of recoverable value of the vessels, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of total fleet in use to materially exceed its recoverable value.

The following individual change in each of the key assumptions would make vessels recoverable amount approximate its carrying amount as of 31 December 2013:

- Decrease in time charter rates by 6.8% in average per day.
- Average increase in operating costs by 16.9%.
- Increase of discount rate by 1.86pp.

LatRosTrans Ltd

Non-current assets that include property, plant and equipment and intangible assets are split into two separate 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 use rights; the carrying value as of 31 December 2013 of tangible assets attributable to this CGU amounts to LVL 2 815 thousand; the carrying value as of 31 December 2013 of intangible assets attributable to this CGU amounts to LVL 15 139 thousand;
- oil product pipeline Polotsk – Ventspils and related land use rights (operating CGU); the carrying value as of 31 December 2013 of tangible assets before the impairment recognised attributable to this CGU amounts to LVL 42 482 thousand; the carrying value of intangible assets before the impairment recognised attributable of this CGU amounts to LVL 10 093 thousand.

The recoverable amount of operating CGU (LVL 8 084 thousand) was 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.

To determine the recoverable amount as the value in use, the discount rate of 6.80% was used in the current estimate and was based on external sources of information. Other key assumptions on which the Management based its cash flow projections for the period were transportation volumes of oil products and the rate of inflation.

Transportation volumes of oil products for 2014 were based on the most recent budget and amounted to 5 300 thousand tons; whereas, for 2015 onwards transportation volumes of oil products were estimated based on the scenario analysis and amounted to 4 400 thousand tons. The rate of inflation was estimated 1.5% and it was consistent with external sources of information.

As a result of annual impairment test of operating CGU, the amount of the impairment loss recognised was LVL 44 491 thousand, which was attributed to Intangible assets in amount of LVL 10 093 thousand and to Property, plant and equipment in amount of LVL 34 398 thousand. See also Note 13 and Note 14.

Sensitivity to changes in assumptions in respect of operating CGU

If the transportation volumes for the years 2015 and onwards would be by 5% lower than currently forecasted, the impairment loss for the CGU would be by LVL 7 347 thousand larger.

The recoverable amount of the non-operating CGU (LVL 22 712 thousand) was determined based on the fair value less costs of disposal calculation. To determine the recoverable amount as the fair value less costs of disposal, the discount rate of 6.80% was used in the current estimate and was based on external sources of information.
Fair value less costs of disposal of the non-operating CGU was based on the current prices of crude oil observable in the market and the management calculations in respect of the crude oil left in the non-operating pipelines (approximately 66 thousand tons). It was assumed that *LatRosTrans Ltd* is able to sell the crude oil in non-operating pipelines as such operations have already occurred in 2011 and 2012. *LatRosTrans Ltd* has planned to pump out the crude oil in 2014.

Notes to the consolidated financial statements (cont'd)

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

LatRosTrans Ltd (cont'd)

Sensitivity to changes in assumptions in respect of non-operating CGU

The following individual change in each of the key assumptions would make the non-operating recoverable amount approximate its carrying value as of 31 December 2013:

- crude oil left in the pipelines is only 52.8 thousand tons instead of 66 thousand;
- sale of crude oil transaction occurs only in 2019 instead of 2014;
- discount rate is not sensitive for the impairment calculation.

17. Investments in associated entities

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

	Ownership (%)		
Associated entities:	31.12.2013	31.12.2012	Country of registration
Futbola klubs Ventspils Ltd	44.31	44.31	Latvia
Via Una SIA	45.45	45.45	Latvia

The Group does not reflect the assets, liabilities, revenues, profit or losses of the associated companies because investment of the Group in these associated companies is immaterial.

18. Loans to affiliated companies

	2013.12.31	**2012.12.31**
	LVL thousand	LVL thousand
Euromin Loan note	47 759	47 759
Loan to Transnefteprodukt AK	10 432	-
Loan to Vitol S.A.	10 300	-
TOTAL:	**68 491**	**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 S.A.). 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 S.A.* 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 2013 and 2012 was Euro 67 955 thousand (LVL 47 759 thousand).

In 2013 the Group issued two loans to related parties. On 4 April 2013 the loan to the related party *Vitol S.A.* was issued in the amount of USD 20 000 thousand (LVL 10 860 thousand). The loan is repayable until March 31, 2015 or earlier upon the request of the lender, the interest rate of the loan is fixed at 1M USD LIBOR +1.05%. The balance of the loan at 31 December 2013 was USD 20 000 thousand (LVL 10 300 thousand).

Notes to the consolidated financial statements (cont'd)

18. Loans to affiliated companies (cont'd)

On 11 April 2013 the loan to the related party *Transnefteprodukt AK* was issued in the amount of USD 20 000 thousand (LVL 10 740 thousand). The loan is repayable until April 12, 2015 or earlier upon the request of the lender, the interest rate of the loan is fixed at 12M USD LIBOR +1.05%. The balance of the loan at 31 December 2013 was USD 20 257 thousand (LVL 10 432 thousand). Both loans are not secured.

As at 31 December 2013 and 31 December 2012 the loan note and loans to related parties balance was neither due nor impaired. The Group's management believes that these debts are fully recoverable.

19. Other financial assets

19 (a) Other non-current financial assets

	31.12.2013. LVL thousand	31.12.2012. LVL thousand
Debt due from *LASCO Investment Group*	72 750	73 346
Allowance for doubtful debt	(49 352)	(49 882)
Other*	282	316
TOTAL:	**23 680**	**23 780**

As at 31 December 2013 the amount due from *LASCO Investment Group* was LVL 72 993 thousand (31.12.2012.: LVL 73 595 thousand). A part of the of *LASCO Investment Group* debt in the gross amount of LVL 243 thousand (2012: LVL 249 thousand) is represented as other current financial assets (Note 19 (b)).

The net value of the loans issued has been decreased to the fair value of real estate assets pledged, as of 31 December 2013 representing LVL 23 398 thousand (2012: LVL 23 464 thousand).

On 3 January 2011, the insolvency of *LASCO Investment Ltd* was announced by the Vidzeme Suburb Court. The carrying value of loans issued to *LASCO Investment Ltd Group* approximates their fair value. For more information see Note 35.

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

19 (b) Other current financial assets

	31.12.2013. LVL thousand	31.12.2012. LVL thousand
Debt due from *LASCO Investment Group*	243	249
Allowance for doubtful debt *LASCO Investment Group*	(243)	(249)
Loans issued to other companies	962	81
Allowance for other companies doubtful debt	(81)	(81)
Due from related parties**	285	282
Available-for-sale financial assets (Shares in *Latvijas Naftas tranzīts JSC*)	15 869	15 996
TOTAL:	**17 035**	**16 278**

Loans issued to other companies in amount of LVL 962 thousand as at 31 December represents short term loan issued with an interest at a margin linked to USD LIBOR.

* Fair value of the other financial assets is disclosed in Note 35.

**The position includes loan issued to related party with no maturity term, therefore it would be ineffective and impracticable to determine its fair value and as a result the loan is not included in Note 35.

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 2013 and 2012.

Notes to the consolidated financial statements (cont'd)

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

Available for sale financial assets

	31.12.2013. LVL thousand	31.12.2012. LVL thousand
Shares in "Latvijas Naftas Tranzīts" JSC	15 869	15 996
TOTAL:	**15 869**	**15 996**

Due to lack of information the Management was not able to assess the fair value of shares in *JSC Latvijas Naftas Tranzīts*. As of 31 December 2013 and 2012 the investment was accounted at cost less any impairment charge recognised.
The maximum exposure to credit risk at the reporting date is the carrying value of the Other financial assets. The Group does not hold any collateral as security.

20. Inventories

	31.12.2013. LVL thousand	31.12.2012. LVL thousand
Fuel (bunkers)	710	1 321
Luboil, victualling and slopchest	958	1 180
Other raw materials and supplies	770	550
TOTAL:	**2 438**	**3 051**

21. Trade and other receivables

	31.12.2013. LVL thousand	31.12.2012. LVL thousand
Financial assets		
Trade receivables	225	1 272
Doubtful debts	54	118
Allowance for doubtful debts	(54)	(118)
Other debtors	761	1 718
Accounts receivable from related parties (Note 34)	1 376	1 492
Accrued income	1 143	3 971
Accrued income from related parties (Note 34)	168	230
Other accounts receivable	41	60
Non-financial assets		
Advance payments	801	1 524
Corporate income tax receivable	114	258
Deferred expenses	1 348	1 470
Tax receivable	336	1 104
TOTAL:	**6 313**	**13 099**

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	
31.12.2012.	**8 861**	8 481	4	3	252	3	118
31.12.2013.	**3 768**	3 707	-	2	1	4	54

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to historical information about counterparty default rates.

The 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

	31.12.2013. LVL thousand	31.12.2012. LVL thousand
Short-term deposits	31 235	32 512
TOTAL:	**31 235**	**32 512**

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

	31.12.2013. LVL thousand	31.12.2012. LVL thousand
A+	28 955	31 458
B	2 280	1 054
TOTAL:	**31 235**	**32 512**

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

	31.12.2013. LVL thousand	**31.12.2012.** LVL thousand
Term deposits	14 265	33 787
Current bank accounts	21 623	16 777
Cash on hand	43	55
TOTAL:	**35 931**	**50 619**

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

	31.12.2013. LVL thousand	**31.12.2012.** LVL thousand
AAA	13 588	7 423
AA-	1 406	6 902
A+	20 170	30 497
A	-	355
A-	516	5 387
B	208	-
Cash on hand	43	55
TOTAL:	**35 931**	**50 619**

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 2012 the Parent company of the Group issued several loans to the Group's subsidiary which resulted in compliance with the 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. All three vessels are pledged as collateral under the syndicated loan facility.

In 2013 the Group's subsidiary sold all three vessels. One of the vessels had been classified as assets held for sale during 2013 with completed sales transaction in November 2013. The net result from sale of all three vessels resulted in a net loss in the amount of LVL 2 222 thousand (see Note 8).

	LVL thousand
Cost	
At 1 January 2012	**39 149**
Reclassification	(39 360)
Exchange differences	211
At 31 December 2012	-
Reclassification	9 756
Disposals	(9 756)
At 31 December 2013	-
Depreciation and Impairment	
At 1 January 2012	**6 835**
Reclassification	(6 872)
Exchange rate differences	37
At 31 December 2012	-
Impairment	3 067
Disposals	(3 006)
Exchange rate differences	(61)
At 31 December 2013	-
Carrying amount:	
At 31 December 2012	-
At 31 December 2013	-

Notes to the consolidated financial statements (cont'd)

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

Share capital

The authorised, issued and fully paid share capital of the Parent company consists of 104 479 519 ordinary fully paid shares with nominal value of 1 LVL each, which are publicly traded on *NASDAQ OMX Riga* Exchange. There have been no changes in the share capital and the nominal value of shares in comparison with 2012.

Information on shareholders' equity participation is summarized shortly before shareholders' general meeting. As at 17 October 2013, 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.

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 of *JSC Ventspils nafta* into 43 881 398 dematerialised bearer shares and to include the converted shares in the Baltic Official List of *JSC NASDAQ OMX Riga.* All the bearer shares are listed on *NASDAQ OMX Riga* since May 2, 2013.

Earnings per share and dividends

Basic and diluted earnings per share attributable to the Parent company's shareholders are calculated by dividing the net loss attributable to parent company's shareholders for the reporting year in the amount of LVL 28 024 thousand (for 2012: net profit attributable to parent company's shareholders in the amount of LVL 4 081 thousand) by weighted average number of shares during the year in the amount of 104 479 thousand (2012: 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 the 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 the Group's companies for which functional currency is other than the Group's presentation currency.

According to the Articles of Association, the net result after restricted reserves and dividends is allocated to Other Reserves/ (Retained Earnings). Other Reserves/ (Retained Earnings) 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 statement of consolidated comprehensive income stands for the effective portion of changes in the fair value of interest rate swaps.

Non-controlling interests

As at 31 December 2013 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 consolidated income statement non-controlling interest represents net result attributable to non-controlling shareholders.

	2013	2012
	LVL thousand	LVL thousand
Attributable to *Ventspils nafta termināls Ltd* non-controlling interest holders	4 281	5 117
Attributable to *LatRosTrans Ltd* non-controlling interest holders	(14 209)	4 018
Attributable to *Latvian JSC Shipping Company* non-controlling interest holders	(5 070)	(9 347)
TOTAL:	**(14 998)**	**(212)**

26. Borrowings

	31.12.2013.	31.12.2012.
	LVL thousand	LVL thousand
Repayments due within next 12 months	19 718	17 220
Unamortised prepaid financing expenses*	(623)	(650)
Net current portion	**19 095**	**16 570**
Non-current portion	112 416	143 085
Unamortised prepaid financing expenses*	(1 386)	(1 858)
Net non-current portion	**111 030**	**141 227**
Total loans outstanding	132 134	160 305
Total unamortised prepaid financing expenses	(2 009)	(2 508)
Total loans, net of unamortised financing expenses	**130 125**	**157 797**

* 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. The USD 75 million loan facility was fully repaid in 2013 as a result of the sale of the vessels financed through the facility – m.t. Kolka, m.t. Kaltene and m.t. Kuldiga.

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.

In 2013, as a result of the acquisition of *Riga Maritime LLC* on 18 December 2013, the Group acquired a loan agreement with DVB Bank SE with an outstanding balance of USD 11.2 million (LVL 5.77 million). The agreement is dated 5 August 2009.

There are no undrawn loan balances as at the end of 2013 and 2012.

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. 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.

The loans are repayable in equal quarterly instalments and a balloon payment due together with the last instalment. See also section Capital management in Note 35.

Notes to the consolidated financial statements (cont'd)

26. Borrowings (cont'd)

The loans are scheduled to be repaid as follows:

Year	LVL million
2014	19,7
2015	14,0
2016	30,4
2017	68,0
TOTAL	**132,1**

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:

	31.12.2013. LVL thousand	**31.12.2012.** LVL thousand
Borrowings bearing fixed interest rate (considering effect of SWAP agreements)	21 262	23 558
Borrowings bearing variable interest rate repriced in 3 months	110 872	136 747
TOTAL:	**132 134**	**160 305**

27. Derivative financial instruments

	Start date	Maturity date	Notional amount, USD `000	Rate receivable
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%
Interest rate swap	05.01.2010.	11.08.2014.	19 255	2.8500%

These interest rate swaps are used to hedge the Group's cash flow risk from fluctuation of the USD LIBOR rates and bareboat charter rate fluctuation in case of interest rate swap agreement acquired in 2013.

As at 31 December 2013 the negative fair value of the swaps was LVL 0.813 million (31.12.2012.: LVL 1.04 million) including LVL 128 thousand recognised as derivative financial instruments within current liabilities together with accrued interest in the amount of LVL 58 thousand and LVL 0.627 million (2012: LVL 41 thousand and LVL 1.0 million) recognised in equity within Cash flow hedge reserve attributable to equity holders of the parent company and to Non-controlling interest (change during the period is LVL 0.4 million (2012: LVL 0.5 million)).

In 2013 the Group acquired interest rate swap agreement with maturity date on 11 August 2014 as a result of purchase of *Riga Maritime LLC* (see Note 2.4)

Changes in the fair value of the interest rate swap agreement acquired in 2013 are recognised in the consolidated income statement line "Other operating income" LVL 213 thousand as the hedge has been assessed as ineffective.

Notes to the consolidated financial statements (cont'd)

28. Finance lease

In August 2009 one of the Group's companies entered into an agreement *with Riga Martime LLC* 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.

On 18 December 2013 the Group's company acquired 100% of *Riga Maritime LLC* (see Note 2.4). As result of acquisition of Riga Maritime LLC in 2013 the Purchase Agreement with the terms and conditions based on a sale and leaseback transaction in of m.t. Riga was terminated.

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	
	31.12.2013. LVL thousand	**31.12.2012.** LVL thousand	**31.12.2013.** LVL thousand	**31.12.2012.** LVL thousand
Within one year	-	2 430	-	853
Unamortised prepaid financing expenses	-	(85)	-	(85)
Net current protion	**-**	**2 345**	**-**	**768**
After one year but not more than five years	-	13 889	-	12 986
Unamortised prepaid financing expenses	-	(51)	-	(51)
Net non-current protion	**-**	**13 838**	**-**	**12 935**
Minimum lease payments	-	16 183	-	13 703
Less amounts representing finance charges	-	(2 480)	-	-
Present value of minimum lease payments	**-**	**13 703**	**-**	**13 703**

29. Deferred income

	31.12.2013. LVL thousand	**31.12.2012.** LVL thousand
Non-current portion of deferred income	2 317	2 471
Current portion of deferred income	1 042	1 441
Total	**3 359**	**3 912**

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 amounts to LVL 1 306 thousand (2012: LVL 1 376 thousand), and compensation for the Group's technological base improvements and new equipment installations, which are related to provision of a new service to the client amounts to LVL 1 164 thousand (2012: LVL 1 247 thousand). Deferred income is amortised to the consolidated statement of 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

	31.12.2013. LVL thousand	31.12.2012. LVL thousand
Due to related parties*	1 431	1 410
Accrued expenses	2 756	3 768
Trade payables	2 970	3 982
Other payables	1 794	1 909
TOTAL:	**8 951**	**11 069**

*As at 31 December 2012 the following positions "Due to related parties" were reclassified from the position "Other payables". Position "Due to related parties" represents the loan with interest linked to margin. The loan was from the Group's shareholder with significant influence, see also Note 34.

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

	31.12.2013. LVL thousand	31.12.2012. LVL thousand
Social security contributions	177	242
Personal income tax	97	144
Value added tax	10	18
Natural resources tax	12	9
TOTAL:	**296**	**413**

32. Provisions

	31.12.2013. LVL thousand	31.12.2012. LVL thousand
Provisions for restructuring expenses*	157	247
Provisions for sub-lease of piers**	714	594
Other	49	83
TOTAL:	**920**	**924**

** 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*.

Notes to the consolidated financial statements (cont'd)

32. Provisions (cont'd)

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

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. The judgment included also 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. As at the signing date of these consolidated financial statements, there is no agreement of settlement on the matter.

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

Movements in the provisions were as follows:

	Total
	LVL thousand
As at 1 January 2012	**1 091**
Utilized	(287)
Charged	120
As at 31 December 2012	**924**
Utilised	(173)
Charged	169
As at 31 December 2013	**920**

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.

As Company can avoid the future expenditure by its future actions as demonstrated by current operations and future expenses related to the complete environmental recovery cannot be estimated precisely, it has no present obligation for that future expenditure and no provision is recognised.

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 2013.

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 various operating lease agreements of vehicles.

Payment schedule as per agreements:

	31.12.2013.	**31.12.2012.**
	LVL thousand	LVL thousand
Non-cancelable payments within one year	95	123
Non-cancelable payments after one year	149	162
TOTAL:	**244**	**285**

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.

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**
Euromin Holdings (Cyprus) Ltd *Latvijas Naftas Tranzits JSC*	Shareholder with significant influence
Vitol S.A.	Parent of shareholder with significant influence
Ventspils Tank Services S.A. *Vitol Tank Terminals International B.V.* *Mansel Oil Ltd.* *Eurotank Holding SARL* *Vitol Bahrain E.C.* *Vitol Inc* *Vitol Asia Pte.*	Related parties of a shareholder with significant influence
Minority shareholders of Skonto nafta Ltd. *Transnefteprodukt AK*	Other Related parties

Notes to the consolidated financial statements (cont'd)

34. Related party transactions (cont'd)

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

2013 Related party	Nature of services	Income LVL thousand	Expense LVL thousand	Amounts due from related parties LVL thousand	Amounts due to related parties LVL thousand
Euromin Holdings (Cyprus) Ltd	Interest income/ Outstanding balances	543	-	47 759	-
Transnefteprodukt AK	Interest income/ Outstanding balances	135	-	10 432	-
Ventspils Tank Services SA	Reloading services and transportation of oil products/ Outstanding balances	61 974	-	1 336	(1 164)
Eurotank Holding SARL	Consulting services	-	(215)	-	-
Vitol Tank Terminals International B.V.	Consulting and IT services, supply of goods	-	(150)	-	-
Vitol Tank Terminals International B.V.	Compensation of expenses	-	-	16	-
Latvijas Naftas Tranzits JSC	Interest expense/ Outstanding balances	5	-	8	-
Latvijas Naftas Tranzits JSC	Interest expense/ Outstanding balances	-	(21)	-	(1 431)
Minority shareholders of Skonto nafta Ltd.	Interest income/ Outstanding balances	3	-	285	-
Mansel Oil Ltd.	Tech.management fee and IT services/ Outstanding balances	233	-	6	-
Mansel Oil Ltd.	Voyage income/ Outstanding balances	15 517	-	-	(667)
Vitol S.A.	Voyage income/ Outstanding balances	3 480	-	21	-
Vitol S.A.	Interest income/ Outstanding balances	98	-	10 310	-
Vitol Inc	Voyage income/ Outstanding balances	158	-	-	-
Vitol Asia Pte.	Voyage income/ Outstanding balances	16	-	147	-
Vitol S.A.	Selling of oil products	540	-	-	-
	TOTAL:	**82 702**	**(386)**	**70 320**	**(3 262)**

	Notes	Amounts due from related parties	Amounts due to related parties
Including:			
Non-current	18	68 491	-
Current	21, 19 (b), 30	1 829	(1 431)
Deferred income	29	-	(1 831)
TOTAL:		**70 320**	**(3 262)**

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:

2012 Related party	Nature of services	Income LVL thousand	Expense LVL thousand	Amounts due from related parties LVL thousand	Amounts due to related parties LVL thousand
Euromin Holdings (Cyprus) Ltd	Interest income/ Outstanding balances	797	-	47 759	-
Ventspils Tank Services SA	Reloading services and transportation of oil products/ Outstanding balances	71 547	-	1 488	(1 247)
Eurotank Holding SARL	Consulting services	-	(177)	-	-
Vitol Tank Terminals International B.V.	Consulting and IT services, supply of goods	-	(142)	-	-
Ventspils Tank Services SA	Storage of oil	-	(2 532)	-	-
Latvijas Naftas Tranzits JSC	Interest expense/ Outstanding balances	-	(5)	-	(1 410)
Minority shareholders of Skonto nafta Ltd.	Interest income/ Outstanding balances	1	-	282	-
Mansel Oil Ltd.	Tech.management fee and IT services/ Outstanding balances	216	-	4	-
Mansel Oil Ltd.	Voyage income/ Outstanding balances	15 722	-	-	(748)
Vitol S.A.	Voyage income/ Outstanding balances	4 095	-	67	-
Vitol Asia Pte.	Voyage income/ Outstanding balances	569	-	163	-
Vitol Bahrain E.C.	Voyage income	114	-	-	-
Vitol S.A.	Selling of crude oil	18 829	(36)	-	-
	TOTAL:	**111 890**	**(2 892)**	**49 763**	**(3 405)**

	Note	Amounts due from related parties	Amounts due to related parties
Including:			
Non-current	18	47 759	-
Current	21, 19 (b), 30	2 004	(1 410)
Deferred income	29	-	(1 995)
	TOTAL:	**49 763**	**(3 405)**

Notes to the consolidated financial statements (cont'd)

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.

Fair value of financial assets and liabilities

The carrying amounts and fair values of the Group's assets and liabilities by categories are as follows:

	31.12.2013		31.12.2012	
Assets at amortised cost/ cost less accumulated depreciation and impairment	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	LVL thousand	**LVL thousand**	**LVL thousand**	**LVL thousand**
Investment properties	1 117	1 646	1 145	1 662
Trade and other receivables	3 714	3 714	8 743	8 743
Loans to related parties	68 491	68 491	47 759	47 759
Other financial assets	24 561	24 797	23 780	23 707
Short term deposits	31 235	31 235	32 512	32 512
Cash and cash equivalents	35 931	35 931	50 619	50 619
Total financial assets:	**165 049**	**165 814**	**164 558**	**165 002**
Liabilities at fair value				
Derivative financial instruments	**813**	**813**	**1 044**	**1 044**
Liabilities at amortised cost				
Interest bearing loans	130 125	130 125	157 797	157 797
Finance lease	-	-	13 703	13 703
Trade and other payables	6 744	6 744	8 746	8 746
Total financial liabilities:	**137 682**	**137 682**	**181 290**	**181 290**

Hierarchy of input data for determining the fair value of assets and liabilities

The Group use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities.

Level 1: Quoted prices in active markets;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable;

Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Level 1 contains cash and cash equivalents. Cash and cash equivalents are assets with short term remaining maturity (less than 1 year). As a result the Group assumes that the fair value of those assets and liabilities approximates to their carrying amount.

Level 2 contain derivative financial instruments.

Level 3 contains investment properties, trade and other receivables, other financial assets, loans, trade and other payables and other liabilities. Trade and other receivables, other financial assets trade and other payables and other liabilities are assets and liabilities with short term remaining maturity (less than 1 year). As a result the Group assumes that the fair value of those assets and liabilities approximates to their carrying amount.

Loans received from credit institutions are at arm's length and carry margin plus USD LIBOR rate; therefore the Group assumes that the carrying value of the loans approximates their fair value.

The fair value of investment properties are assessed according to independent certified real estate valuations of the properties.

Notes to the consolidated financial statements (cont'd)

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

Fair value of financial assets and liabilities (cont'd)
The Group's assets and liabilities according to the hierarchy of input data for determining fair value are as follows (disclosed in amortised cost and where mentioned in fair value):

	31.12.2013.			
	Level 1	Level 2	Level 3	Total
	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Assets at amortised cost/ cost less accumulated depreciation and impairment				
Investment properties	-	-	1 117	1 117
Trade and other receivables	-	-	3 714	3 714
Loans to related parties	-	-	68 491	68 491
Other financial assets	-	-	24 561	24 561
Short term deposits	31 235		-	31 235
Cash and cash equivalents	35 931	-	-	35 931
Total assets	**67 166**	**-**	**97 883**	**165 049**
Liabilities at fair value				
Derivative financial instruments	-	813	-	813
Liabilities at amortized cost				
Interest bearing loans	-	-	130 125	130 125
Trade and other payables	-	-	6 744	6 744
Total liabilities	**-**	**813**	**136 869**	**137 682**

	31.12.2012.			
	Level 1	Level 2	Level 3	Total
	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Assets at amortised cost/ cost less accumulated depreciation and impairment				
Investment properties	-	-	1 145	1 145
Trade and other receivables	-	-	8 743	8 743
Loans to related parties	-	-	47 759	47 759
Other financial assets	-	-	23 780	23 780
Short term deposits	32 512	-	-	32 512
Cash and cash equivalents	50 619	-	-	50 619
Total assets	**83 131**	**-**	**81 427**	**164 558**
Liabilities at fair value				
Derivative financial instruments	-	1 044	-	1 044
Liabilities at amortized cost				
Interest bearing loans	-	-	157 797	157 797
Finance lease	-	-	13 703	13 703
Trade and other payables	-	-	8 746	8 746
Total liabilities	**-**	**1 044**	**180 246**	**181 290**

Notes to the consolidated financial statements (cont'd)

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

The Group has a policy of regularly reviewing its approach to risk management. The main financial risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency 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. The Group's policy is to trade only with well recognised, creditworthy third parties.

As at 31 December 2013 the Group had a credit risk concentration to related parties amounting to 86% of total trade receivables (31.12.2012: 54%).

Maximum exposure to credit risk from financial assets as at 31 December 2013 for the Group amounted to LVL 163 932 thousand (31.12.2012: LVL 163 413 thousand), out of which LVL 90 032 thousand (31.12.2012: LVL 71 539 thousand) are due in more than after one year.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. See Notes 18, 19, 21, 22 and 23 for further disclosure on credit risk.

The Group's maximum exposure for financial guarantees and financial derivative instruments are noted in the Liquidity and cash management risk, see section further in this Note.

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 2013 and 2012 may be specified as follows:

	31.12.2013.	31.12.2012.
Financial assets denominated in EUR'000	167 069	167 775
Financial liabilities denominated in EUR'000	(3 659)	(2 922)
Net financial position in EUR'000	**163 410**	**164 853**
Net financial position in LVL'000	**114 845**	**115 859**
Financial assets denominated in USD'000	86 648	82 896
Financial liabilities denominated in USD'000	(258 948)	(330 893)
Net financial position in USD'000	**(172 300)**	**(247 997)**
Net financial position in LVL'000	**(88 735)**	**(131 686)**

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. Till 31 December 2013 Lat (LVL) was the monetary unit of the Republic of Latvia.

Latvia has joined the Euro Zone and its national currency is Euro since January 1, 2014. Fluctuations of Euro currency exchange rates will no longer influence the operational activities of the Group.

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)
31.12.2013.	+5%	1 161
	-5%	(1 161)
31.12.2012.	+5%	1 290
	-5%	(1 290)

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 received from/ issued by 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 2013, after taking into account the effect of interest rate swaps LVL 21 million (2012: LVL 23 million), approximately 16% (2012: 15%) of the Group's borrowings are at a fixed rate of interest.

At 31 December 2013 LVL 68.5 million (31.12.2012.: 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 343 thousand. A general decrease in the interest rate by 0.1 percentage point would have negative effect on equity with approximately LVL 69 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.

	31.12.2013.		31.12.2012.	
	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	0.25%	(264)	0.50%	(548)
	-0.10%	105	-0.10%	110
EUR - LIBOR	0.10%	48	0.50%	239
	-0.10%	(48)	-0.10%	(48)

Liquidity and cash management risk

Based on the Group's cash management principle, the Group's cash is accumulated in dedicated bank accounts and managed on a Group level. To ensure daily liquidity requirements, the Group's management determines minimum cash balances to be maintained on Group's bank accounts.

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

The Group's liquidity risk policy is based on a conservative approach whose main objective is to secure the safeguarding of the cash flows generated from the operations to ensure sufficient liquidity enabling timely settlement of the liabilities undertaken.

Reviewing the current situation on a money market which is characterised by an increase in a price and a limited availability of credit resources on a banking market the Group's management policy is to accumulate cash to meet obligations to the banking syndicates.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows payments:

LVL thousand

As at 31 December 2013	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Bank loans	-	4 696	18 777	120 000	143 473
Trade and other payables	4 435	4 516	-	-	8 951
Total	**4 435**	**9 212**	**18 777**	**120 000**	**152 424**

As at 31 December 2012	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Bank loans	-	5 516	16 905	157 679	180 100
Finance lease	-	578	1 861	13 680	16 119
Trade and other payables	4 742	6 327	-	-	11 069
Total	**4 742**	**12 421**	**18 766**	**171 359**	**207 288**

Notes to the consolidated financial statements (cont'd)

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

Liquidity and cash management risk (cont'd)

The table below summarises the maturity profile of the Group's derivatives at 31 December 2013 and 2012 based on contractual undiscounted payments settled on net basis:

LVL thousand

As at 31 December 2013	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Outgoing undiscounted payments	-	(161)	(396)	(583)	(1 140)
Incoming undiscounted payments	-	17	58	257	332
Net undiscounted cash flow	**-**	**(144)**	**(338)**	**(326)**	**(808)**

As at 31 December 2012	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Outgoing undiscounted payments	-	(64)	(330)	(1 013)	(1 407)
Incoming undiscounted payments	-	11	58	326	395
Net undiscounted cash flow	**-**	**(53)**	**(272)**	**(687)**	**(1 012)**

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 2013 and 2012.

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 25%.

	31.12.2013. LVL thousand	**31.12.2012.** LVL thousand
Loans from credit institutions and finance lease	130 125	171 500
Less cash and cash equivalents	(35 931)	(50 619)
Net debt	***94 194***	***120 881***
Total capital	263 063	292 881
GEARING RATIO:	**36%**	**41%**

36. Legal cases

The Group's subsidiary is involved in several court cases as defendant, mainly in Latvia and United Kingdom. According to the Management's assessment it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Notes to the consolidated financial statements (cont'd)

37. Subsequent events

Latvia has joined the Euro Zone and its national currency is Euro since 1st of January 2014 as a result the presentation currency of the Group from that date will be changed from Latvian lats to Euros.

In February 2014 *JSC Latvian Shipping Company* announced a partial settlement in respect of the *Antonio Gramsi Corporation* court case in the High Court in London. The value of the structured settlement is receivable of Euro 14 million. The terms of the settlement are subject to a confidentiality agreement.

On 14 March 2014 *Ventspils nafta termināls Ltd* paid out dividends in the amount of EUR 12.5 million to its shareholders. The dividends were paid out for the year 2013.

On 24 March 2014 m.t. “Riga” (68 467 DWT; built 2001) memorandum of agreement on sale of vessel was signed with expected delivery in Q2 2014.

In March 2014 *JSC Latvian Shipping Company* received a notification from *OÜ Fondo H Estonia* regarding acquisition of significant shareholding, and also a notification from *JSC International Baltic Investments ltd* regarding disposing of 13.04% interest in the share capital of *JSC Latvian Shipping Company*.

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