JSC VENTSPILS NAFTA

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

Contents

Introducing *Ventspils nafta Group*

Ventspils nafta Group is an integrated energy transportation company. Comprising three core businesses; a pipeline, a terminal and a shipping company, it moves oil products from some of the largest refineries in Russia and Belarus to global markets in Europe and beyond, efficiently and safely.

The Group is listed on the NASDAQ Baltic Main List and has a market capitalisation of €190 million, making it one of the largest company's on the Exchange. It has also been repeatedly recognised for its excellence in investor relations.

Over 1,000 people are employed by the Group in Latvia. Furthermore, it pays 70% of its expenses to third party local suppliers, contributes significant amounts of corporate tax and supports numerous social initiatives throughout the country.

The Company at a glance

VENTSPILS NAFTA

LatRosTrans

A Latvian/ Russian venture with 340km of petroleum products pipeline making it one of the largest oil product transportation companies in the region

- **5.7 mt of transported petroleum product volumes**
- **340 km of pipeline**
- **64 kt of crude oil displaced and sold**

VENTSPILS NAFTA TERMINĀLS

105 tanks and 1.2 million cubic meters of storage make VNT the largest petroleum terminal in the Baltics

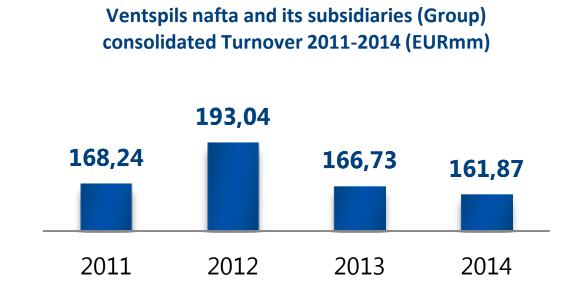
- **10% increase in volumes to 10.6 mt**
- **Gold award winner in Latvian Sustainability Award**

LATVIJAS KUĢNIECĪBA

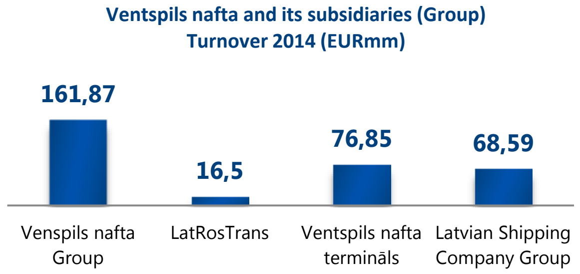
A major player in the handy-size and medium range tanker market with 16 modern vessels, owned, manned and operated by the company

- **16 modern product tankers**
- **Compliance with highest safety and quality standards**
- **Third party technical management services launched**

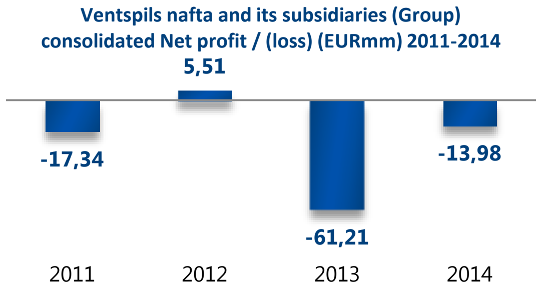
***Ventspils nafta Group* financial highlights**



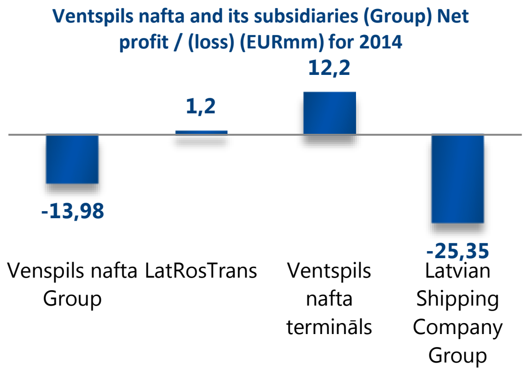
- **99% of revenue are generated from overseas clients**
- **Income fell by 3%**
- **Lower revenue due to decrease in size of fleet**



- **Revenue 2014 fell slightly, due to a reduction in shipping capacity:**
  - **LatRosTrans +7.9%;**
  - **Ventspils nafta termināls+5.4%;**
  - **Latvian Shipping Company Group -12.4%**



- **Net loss resulted from:**
  - impairments of non-financial assets;
  - impairment and write-off of non-current financial assets;
  - the displacement and sales of crude oil and revaluation of crude oil stock balance



- **Key performance of Ventspils nafta terminals on same level as 2013**
- **LatRosTrans back to profit**
- **Latvian Shipping Company Group losses reduced**

Management Report

Dear shareholders,

2014 was a challenging year for the Group. In addition to the longer term issues facing the Group as Russia looks to rebalance the export of its petroleum products to domestic ports, geopolitical tensions added further uncertainty to the near-term outlook.

Ventspils nafta and its subsidiaries (Group)

The financial results of Ventspils nafta and its subsidiaries (the Group) for 2014 were as follows:

- Net loss of 13.98 million EUR (2013: loss of 61.21 million EUR).
- Consolidated income fell by 3% to 161.87 million EUR (2013: 166.73 million EUR)
- Gross profit increased by 2.7% to 42.56 million EUR (2013: 41.45 million EUR).

Results were impacted by the following:

- The previously reported partial settlement of the Antonio Gramsi Corporation court case in the High Court of London which positively impacted financial results by 20.05 million USD.
- Further impairments to the fleet, amounting to 55.25 million USD.
- A downwards re-evaluation of the investment in JSC Latvijas Naftas tranzīts of 8.34 million USD.
- The Group recognized an impairment of the crude oil infrastructure to the amount of 25.21 million EUR, following the displacement of the remaining technological crude oil from idle pipelines. The crude oil infrastructure now is fully impaired.
- The sale of the displaced crude oil generated one off gains in 2014 in the amount of 13.7 million EUR.

Further details on performance of the companies within the Group are described below.

Ventspils Nafta (VN)

VN, the holding company, made a loss of 5.28 million EUR in 2014 (2013: loss of 28.15 million EUR), largely as a result of a 9.67 million EUR impairment (2013: 47.32 million EUR) recognised in respect of VN's investment in LatRosTrans Ltd. Net result for the reporting year was also affected by the 2.38 million EUR impairment of debt following changes in market value of real estate upon which this debt is secured.

Dividend income from VN's investment in Ventspils nafta terminals Ltd amounted to 6.37 million EUR. Net interest income was 1.33 million EUR (2013: 1.19 million EUR). Administrative costs, which fell by approximately 200 thousand EUR to 952 thousand EUR (2013: 1.15 million EUR), are fully covered by management services provided to the Group and interest income from the issued loans and placed deposits.

Ventspils nafta terminals (VNT)

Ventspils nafta termināls' income rose by 3.95 million EUR to 76.85 million EUR (2013: 72.90 million EUR), driven by a 10% growth in volumes to 10.6 million tonnes of petroleum products (2013: 9.6 million tonnes). Net profit was 12.18 million EUR (2013: 12.43 million EUR). Volumes continue flowing through both the pipeline (55%) and rail or sea (45%).

During 2014, the share capital of VNT was reduced by 25 million EUR. As of 31 December 2014, the share capital of VNT is 86.75 million EUR. There were no changes in the shareholding structure.

In 2014, VNT was awarded with 'Gold' in the Latvian Sustainability Index Award and also received an award for being the Second Largest Taxpayer in 2013 in Ventspils. VNT has also ranked third in the good labour protection practice contest "Golden Helmet" organised by the State Labour Inspectorate.

In 2014, by implementing the declared environmental and quality policy goals, VNT carried on with the tasks included in the environment management program, such as maintaining the safety level of technological processes, improving the operating environmental monitoring system, treating and rehabilitating polluted areas in the VNT's territory.

Management Report (cont'd)

LatRosTrans (LRT)

Transhipped volumes in first half of the year of 2014 were significantly affected by both geopolitical tensions and anaemic economic growth in Europe, however, a favourable increase in volumes in second half of the reporting year resulted in a minor increase in total volumes of transported petroleum products to 5.7 million tonnes, up from 5.5 million tonnes in 2013.

Revenues increased commensurately to 16.5 million EUR (2013: 15.3 million EUR) and gross profit rose by 4.66 million EUR to 5.8 million EUR. In part, this improvement in gross profit resulted from the impairment of non-current assets recognised in the previous reporting year. Further impairments of 2.64 million EUR were recognised in 2014 against non-current petroleum transportation assets.

Also in 2014, LRT completed the displacement of technological crude from idle pipelines. As a result more than 64 thousand tonnes of crude oil were displaced and sold throughout the year and in early 2015. No further use of these assets is foreseen and LRT has recognized an additional impairment of 25.21 million EUR.

Profit from foreign exchange movements was 6 million EUR in 2014, compared with a loss of 1.34 million EUR the previous year, contributing to a net profit figure of 1.18 million EUR (2013: 59.47 million EUR loss).

In 2014 LRT carried out reduction of the share capital to the amount of the accumulated losses (59.47 million EUR) as of 31st December 2013. This divestment was undertaken in order to retain the ability to return cash retained within LRT to shareholders in the future. The reduction of the share capital did not change the total equity of LRT. There were no changes in the shareholding structure.

Latvian Shipping Company (LSC)

Income from the fleet fell 12% to 90.71 million USD, due to the reduction in the fleet from 20 vessels in January 2013 to 16 vessels at the end of 2014. Net voyage income of 77.44 million USD (2013: 88.93 million USD) was also down and both impacted operating profit which fell to 46.28 million USD (2013: 54.17 million USD).

A net loss of 31.16 million USD was largely a result of impairments. These included the impairment of vessels, amounting to 55.25 million USD, a loss of 0.34 million USD from the sale of the vessel Riga and a 8.34 million USD re-evaluation of the Company's investment in JSC Latvijas Naftas tranzīts. These were offset, in part, by; the partial settlement of the Antonio Gramsi Corporation court case (20.05 million USD); the sale of property located on Jēkaba Street, Riga, and the revaluation and disposal of the company's investment in the medical clinic Via Una Ltd.

Nonetheless, LSC's cash position has improved as a result of the aforementioned disposals and positive cash flow from shipping activities. As at 31st December 2014 the LSC Group had cash and deposits with maturity up to 12 months in the amount of 45.58 million USD, an increase of 7.04 million USD on January 2014. Two intergroup loans from VN, received in early 2012 and 2013, were repaid.

No further sales are currently planned from the LSC Group's commercial fleet, which currently consists of sixteen medium range and handy size tankers with an average age of 7 years.

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 2014 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.

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 performance of the Group in a sustainable way.

Management Report (cont'd)

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 2015 will be to identify and pursue further efficiencies, whilst seeking opportunities to leverage the expertise and infrastructure of the Group.

Financial risk management

Financial Instruments and Financial risk management related to the operations of VN Group are disclosed in Note 34 to the consolidated financial statement.

The consolidated annual report for 2013 and Corporate Governance Report for 2014 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 consolidated financial statements there have been no other events requiring adjustment of or disclosure in the consolidated financial statements or notes thereto, except those disclosed in Note 36 of this report.

I would like to take this opportunity to thank our employees for their hard work and commitment, as well as the stakeholders across our businesses for their cooperation and support.

On behalf of the Management Board:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 20 March 2015

Management Board

Chairman of the Board	Robert Kirkup
Members of the Board	Boris Bednov Aleksej Tarasov

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

There were no changes in the Management Board during the period from 1 January 2014 to 20 March 2015.

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.
In 1996 he joined Vitol Group and has held a variety of management positions in oil, sugar and metal. 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.

Supervisory Council

Chairman of the Council	Vladimir Egger
Deputy Chairman of the Council	Rubel Yilmaz
Members of the Council	Simon Boddy
	Andrea Schlaepfer
	Yulia Vereschagina
	Varvara Maximova
	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 the Group's business partners, suppliers and clients.

The changes in the Council during the period from 1 January 2014 to 20 March 2015 were as follows:

Elected	**Dismissed/ Resigned**	**Name**	**Position held**
11/06/2014	-	Andrea Schlaepfer	Member of the Council
11/06/2014	-	Yulia Vereschagina	Member of the Council
11/06/2014	-	Varvara Maximova	Member of the Council
20/01/2010	11/06/2014	Mikhail Dvorak	Member of the Council
20/01/2010	11/06/2014	Javed Ahmed	Member of the Council
07/07/2010	11/06/2014	Christophe Theophanis Matsacos	Member of the Council

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. On 28 August 2014, Vladimir Egger was re-elected as the Chairman of the Supervisory Council and Rubel Yilmaz was re-elected as Deputy Chairman of the Supervisory Council respectively.

Supervisory Council (cont'd)

Professional experience of the members of the Supervisory Council

Vladimir Egger has worked as the Chairman of the Supervisory Council of JSC Ventspils nafta since January 20, 2010, and was re-elected for a period of 3 years on June 11, 2014. Vladimir Egger is also 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.

Rubel Yilmaz is the Deputy Chairman of the Supervisory Council of JSC Ventspils nafta. 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 June 11, 2014. Yilmaz 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 Head of Business Development and Strategy 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, and was re-elected for a period of 3 years on June 11, 2014. He 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 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 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.

Andrea Schlaepfer is a member of the JSC Ventspils nafta Supervisory Council since 11 June 2014, elected for a period of 3 years. Schlaepfer is also a member of the Supervisory Council of the Ventspils nafta subsidiary JSC Latvian Shipping Company.
Andrea Schlaepfer is Head of Corporate Affairs at Vitol. She joined Vitol in February 2013. Prior to this she was Executive Director of Communications at LCH.Clearnet. She has over 15 years' experience in communications, primarily in the financial sector and has worked in an advisory capacity in communication firms, including Citigate Dewe Rogerson, and as head of European communications for Schroders Investment Management. She has a degree in Philosophy and Modern Languages from the University of Oxford.
Ms Andrea Schlaepfer does not own any shares of JSC Ventspils nafta.

Varvara Maximova is a member of the JSC Ventspils nafta Supervisory Council since 11 June 2014, elected for a period of 3 years. Maximova is also a member of the Supervisory Council of the Ventspils nafta subsidiary JSC Latvian Shipping Company.
Varvara Maximova is employed by Business Development Finance at Vitol since 2013. Previously she has worked for Natixis Bank and VTB Capital in Moscow. V.Maximova has degree in banking and finance from London School of Economics and Political Science and degree in economics from Russian State University "Higher School of Economics".
Ms Varvara Maximova does not own any shares of JSC Ventspils nafta.

Supervisory Council (cont'd)

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

Yulia Vereschagina is a member of the JSC Ventspils nafta Supervisory Council since 11 June 2014, elected for a period of 3 years. Vereschagina is also a member of the Supervisory Council of the Ventspils nafta subsidiary JSC Latvian Shipping Company.
Yulia Vereschagina is a head of operations in distillates matrix at Vitol Services BV Moscow representative office since 2012, previously she took position of operator in logistic department at VNT SA, Moscow representative. Y.Vereschagina has graduated State University – Higher School of Economics in Moscow.
Ms Yulia Vereschagina 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, and was re-elected for a period of 3 years on June 11, 2014.
Rudolf Meroni was also on the Supervisory Council of the JSC Ventspils nafta in the 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, and was re-elected for a period of 3 years on June 11, 2014.
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, and was re-elected for a period of 3 years on June 11, 2014.
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, and was re-elected for a period of 3 years on June 11, 2014.
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 June 11, 2014.
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.

Statement of Management's responsibilities

The following statement, which should be read in conjunction with the independent auditor's report set out on pages 14 to 15, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor 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 2014, 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, 20 March 2015

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC "Ventspils nafta"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of JSC "Ventspils nafta" and its subsidiaries (the "Group") set out on pages 16 to 76 of the accompanying annual report, which comprise the consolidated statement of financial position as of 31 December 2014 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.

Basis for Qualified Opinion

The Group's "Other financial assets" in the consolidated statement of financial position as at 31 December 2014 and 2013 include the investment in JSC Latvijas Naftas Tranzits with a carrying value of EUR 16 416 thousand and EUR 22 531 thousand, respectively. In 2014, the Group has recognised impairment loss on the investment in the amount of EUR 6 126 thousand. Based on the financial information of the investee made available to us it is, in our opinion, not possible to reliably determine the fair value or recoverable value of the investment as at 31 December 2014 or 2013. As a result, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the investment as at 31 December 2014 and 2013 or the impairment loss recognised in 2014. Consequently, we were unable to determine whether any adjustments to the carrying amounts at these dates, or to the impairment loss recognised in 2014, were necessary. Our audit opinion on the consolidated financial statements of the year ended 31 December 2013 was modified accordingly.

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 2014, 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 2014 set out on pages 6 to 8 of the accompanying annual report for 2014 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2014.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
23 March 2015

* 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.

Consolidated statement of income

for the year ended 31 December 2014

	Notes	**2014** EUR'000	**2013** EUR'000
Revenue	4	161 869	166 729
Cost of sales	5	(119 309)	(125 277)
Gross profit		**42 560**	**41 452**
General and administrative expense	6	(10 974)	(10 960)
Other operating income	7	38 091	1 689
Other operating expense	8	(11 052)	(6 683)
Impairment of other non-financial assets	10	(71 189)	(80 932)
Finance income	11	9 911	1 631
Finance costs	11	(7 524)	(12 437)
Loss before tax		**(10 177)**	**(66 240)**
Corporate income tax	12	(3 801)	5 026
Loss for the year		**(13 978)**	**(61 214)**
Attributable to:			
Parent company's shareholders		(7 611)	(39 874)
Non-controlling interest	25	(6 367)	(21 340)
		(13 978)	**(61 214)**
Loss per share (EUR per share) attributable to the Parent company's shareholders:		(0.07)	(0.38)
Loss per share (EUR per share)		(0.13)	(0.59)

The accompanying notes on pages 22 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on March 20, 2015 and signed on its behalf by:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 20 March 2015

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	2014	2013
	EUR'000	EUR'000
Loss for the year	**(13 978)**	**(61 214)**
Other comprehensive income/ (loss)		
Items that may be subsequently recalssified to profit or loss		
- Exchange differences on translation of foreign operations	14 480	(3 832)
- Net movement on cash flow hedges (Note 27)	323	536
Other comprehensive income/ (loss) for the year	**14 803**	**(3 296)**
Total comprehensive income/ (loss) for the year, net of tax	**825**	**(64 510)**
Attributable to:		
Parent company's shareholders	(219)	(41 520)
Non-controlling interests	1 044	(22 990)
	825	**(64 510)**

The accompanying notes on pages 22 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on March 20, 2015 and signed on its behalf by:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 20 March 2015

Consolidated statement of financial position

as of 31 December 2014

	Notes	**31.12.2014.** EUR'000	**31.12.2013.** EUR'000
Assets			
Non-current assets			
Intangible assets	13	13	21 573
Property, plant and equipment	14	388 959	428 889
Investment properties	15	359	1 589
Investments in associated entities	17	-	10
Loans to affiliated companies	18	67 955	97 454
Other non-current financial assets	19 (a)	48 762	33 694
Total non-current assets		**506 048**	**583 209**
Current assets			
Inventories	20	11 238	3 469
Trade and other receivables	21	10 215	8 982
Loans to affiliated companies	18	33 434	-
Short term deposits	22	65 938	44 443
Other current financial assets	19 (b)	412	24 239
Cash and cash equivalents	23	58 034	51 125
Total current assets		**179 271**	**132 258**
Total assets		**685 319**	**715 467**

The accompanying notes on pages 22 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on March 20, 2015 and signed on its behalf by:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 20 March 2015

Consolidated statement of financial position (cont'd)

as of 31 December 2014

	Notes	31.12.2014. EUR'000	31.12.2013. EUR'000
Equity and liabilities			
Equity			
Share capital	25	146 271	148 661
Share premium		60 248	60 248
Reserve of share capital denomination	25	2 390	-
Foreign currency revaluation reserve	25	(3 853)	(11 084)
Cash flow hedge reserve	25	(284)	(445)
Retained earnings	25	129 089	176 166
Loss for the year		(7 611)	(39 874)
Equity attributable to equity holders of the parent		**326 250**	**333 672**
Non-controlling interest	25	150 119	174 660
Total equity		**476 369**	**508 332**
Non-current liabilities			
Borrowings	26	156 205	157 981
Deferred tax liability	12	1 549	1 581
Deferred income	28	3 827	3 297
Derivative financial instruments	27	119	418
Total non-current liabilities		**161 700**	**163 277**
Current liabilities			
Borrowings	26	21 306	27 170
Trade and other payables	29	17 211	12 735
Taxes payable	30	3 697	421
Derivative financial instruments	27	510	740
Deferred income	28	2 439	1 483
Provisions	31	2 087	1 309
Total current liabilities		**47 250**	**43 858**
Total liabilities		**208 950**	**207 135**
Total equity and liabilities		**685 319**	**715 467**

The accompanying notes on pages 22 to 76 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on March 20, 2015 and signed on its behalf by:

Robert Kirkup
Chairman of the Management Board
of *Joint Stock Company Ventspils nafta*
Riga, 20 March 2015

Consolidated statement of cash flows

for the year ended 31 December 2014

	Notes	2014 EUR'000	2013 EUR'000
Operating activities			
Loss before tax		(10 177)	(66 240)
Adjustments for:			
Depreciation of property, plant and equipment	14	21 240	28 385
Amortisation of intangible assets	13	18	24
Depreciation of investment properties	15	32	40
Change in value of financial instruments		(183)	(303)
Loss on disposal of non-financial assets	7, 8	28	3 265
Currency translation difference		(7 398)	992
Net profit from disposal of Group's subsidiary	7	(391)	(141)
Impairment of loans receivable	8	2 515	-
Finance income	11	(1 984)	(1 631)
Finance costs	11	7 154	10 388
Income from settlement of court case in London		(14 607)	-
Recognized impairment of the fleet and assets clasified as held for sale	10	42 942	17 627
Recognized impairment of the property, plant and equipment	10	6 705	48 944
Recognized impairment of the intangible assets	10	21 542	14 361
Revaluation of crude oil	7	(8 820)	-
Impairment of asset available-for-sale	8	6 126	-
Impairment loss of goodwill at acquisition		-	27
		64 742	**55 738**
Working capital adjustments:			
(Increase)/ decrease in trade and other receivables and prepayments		(1 261)	8 985
Decrease in inventories		1 051	872
Increase/ (decrease) in trade and other payables		3 351	(5 324)
		67 883	**60 271**
Corporate income tax (paid)/ returned		(522)	107
Net cash flows generated from operating activities		**67 361**	**60 378**
Investing activities			
Proceeds from sale of non-current assets		11 229	32 192
Purchase of non-current assets		(5 749)	(6 786)
Acquisition of Group's subsidiary	2.5	-	(9 169)
Income/ (costs) from sale of Group's subsidiary		403	(11)
Grants from ERDF		747	-
(Increase)/ decrease in short term deposits		(21 495)	1 801
Increase in long term deposits		(750)	-
Loans received / (issued)		1 275	(32 060)
Interest received		1 545	1 431
Net cash flows used in investing activities		**(12 795)**	**(12 602)**
Financing activities			
Payment on finance lease liabilities		-	(1 009)
Dividends paid		(6 116)	(15 889)
Paid to non-controlling interest as the result of reduction of share capital of Group's subsidiary		(9 800)	-
Repayment of borrowings		(28 807)	(42 591)
Interest paid		(6 158)	(8 856)
Prepaid financing expenses		(202)	(519)
Net cash flows used in financing activities		**(51 083)**	**(68 864)**
Net increase/ (decrease) in cash and cash equivalents		3 483	(21 088)
Cash and cash equivalents as at 1 January		51 125	72 024
Exchange gain on cash and cash equivalents		3 426	189
Cash and cash equivalents as at 31 December	23	**58 034**	**51 125**

The accompanying notes on pages 22 to 76 form an integral part of these Consolidated Financial Statements.

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Attributable to the equity holders of the parent								
	Share capital	Reserve of share capital denomination	Share premium	Foreign currency translation reserve	Cash flow hedge reserve	Retained earnings	**Total**	**Non-controlling interest**	**Total**
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balances as of 1 January 2013	**148 661**	**-**	**60 248**	**(9 170)**	**(713)**	**176 166**	**375 192**	**213 539**	**588 731**
Loss for the year	-	-	-	-	-	(39 874)	(39 874)	(21 340)	(61 214)
Other comprehensive (loss)/ income	-	-	-	(1 914)	268	-	(1 646)	(1 650)	(3 296)
Total comprehensive (loss)/ income	-	-	-	(1 914)	268	(39 874)	(41 520)	(22 990)	(64 510)
Dividends declared	-	-	-	-	-	-	-	(15 889)	(15 889)
Balances as of 31 December 2013	**148 661**	**-**	**60 248**	**(11 084)**	**(445)**	**136 292**	**333 672**	**174 660**	**508 332**
Other adjustments						92	92	93	185
Loss for the year	-	-	-	-	-	(7 611)	(7 611)	(6 367)	(13 978)
Other comprehensive income	-	-	-	7 231	161	-	7 392	7 411	14 803
Total comprehensive income /(loss)	-	-	-	7 231	161	(7 611)	(219)	1 044	825
Reserve of share capital denomination	(2 390)	2 390	-	-	-	-	-	-	-
Other reserves	-	-	-	-	-	(7 295)	(7 295)	(7 312)	(14 607)
Effect of subsidiaries's share capital reduction	-	-	-	-	-	-	-	(12 250)	(12 250)
Dividends declared	-	-	-	-	-	-	-	(6 116)	(6 116)
Balances as of 31 December 2014	**146 271**	**2 390**	**60 248**	**(3 853)**	**(284)**	**121 478**	**326 250**	**150 119**	**476 369**

The accompanying notes on pages 22 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	31.12.2014.	31.12.2013.	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 2014 and 2013 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 March 20, 2015.

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 that have been measured at fair value.

The consolidated financial statements are presented in EUR which is the functional and presentation currency of the Group. Values are rounded to the nearest thousand (EUR'000) except when otherwise indicated.

In accordance with the requirements of the ''Law on the Procedure for "Introduction of EUR"", the financial information in these consolidated financial statements is represented in national currency of Latvia – euro (EUR). The comparative data as at 31 December 2013 has been translated from LVL to EUR using rate as defined by the European Union Council - 1 EUR = 0.702804 LVL and rounded to the nearest euro cent.

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the periods present, except the initial recognition of crude oil (see Note 2.4).

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)

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 2014.

Subsidiaries are all entities over which the group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 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 change of control, is accounted for as an equity transaction.

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

If the Group loses control over a subsidiary, it:

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

Changes in accounting policy and disclosures

The following new and amended IFRS and interpretations became effective in 2014, but did not have significant impact on these consolidated financial statements, except additional disclosures:

- **IFRS 10 "Consolidated financial statements"** (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 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 12 "Disclosures of interests in other entities"** (effective for annual periods beginning on or after 1 January 2013, endorsed by EU 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 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);
- **IAS 27 (revised in 2011) "Separate financial statements"** (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);
- **IAS 28 (revised in 2011) "Associates and joint ventures"** (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);
- **Amendments to IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities** (effective for annual 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 IAS 36 "Impairment of assets" on recoverable amount disclosures** (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);
- **IFRIC 21 "Levies"** (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)

Changes in accounting policy and disclosures *(cont'd)*

Standards issued but not yet effective

Certain new standards and interpretations have been published and come into force on financial periods beginning on or after 1 January 2015, and are not endorsed by the European Union:

Amendments to IAS 19 "Employee benefits plans" regarding defined benefit plans (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU)**.**

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in 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", and
- IAS 39 "Financial instruments – Recognition and measurement".

Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU):

- IFRS 1 "First time adoption";
- IFRS 3 "Business combinations";
- IFRS 13 "Fair value measurement", and
- IAS 40 "Investment property".

Amendment to IFRS 11 "Joint arrangements" on acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

Amendment to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" on depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).
Amendments to IAS 16 "Property, plant and **equipment" and IAS 41 "Agriculture" regarding bearer plants** (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

Amendments to IAS 27 "Separate financial statements" on the equity method (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

Annual improvements 2014 (effective for annual periods beginning on or after 1 July 2016, not yet endorsed in the EU):

- IFRS 5 "Non-current assets held for sale and discontinued operations";
- IFRS 7 "Financial instruments: Disclosures" with consequential amendments to IFRS 1;
- IAS 19 "Employee benefits";
- IAS 34 "Interim financial reporting".

IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU).

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies

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 in consolidated income statement. 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.

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

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 euro (EUR), 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 currency of *Ventspils Nafta Termināls Ltd, LatRosTrans Ltd and Ventspils Nafta JSC* is euro (EUR); 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 at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the rate of exchange prevailing at the end of the financial year.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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.

Differences on exchange rates arising from retranslating the opening net investment in subsidiary undertakings, and from the translation of the results of those undertakings at the average rate of exchange, are taken to the Foreign currency translation reserve in other comprehensive income. On disposal of the foreign entity, such translation differences are recognised in the consolidated income statement as part of the gain or loss on disposal.

Presentation of financial statements in EUR is done using exchange rate set by the European Central Bank (ECB) in 2014 and the Bank of Latvia (LB) in 2013 according to the following rates:

		31.12.2014.	31.12.2013.
As at the reporting year-end	EUR/USD	1.214100	1.364700
	USD/LVL	-	0.515
Average rate per period	EUR/USD	1.329065	1.327463
	USD/LVL	-	0.529434

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Revenue recognition

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

Rendering of services

The services rendered by the Group comprise pipeline transportation of oil products. Revenue is recognized in the period when the services are provided. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Reloading of crude oil and oil products

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

Sale of goods

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

Voyages revenue

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

Interest income

Interest income is recognized using the effective interest method. Interest income on term deposits and interest on cash balances is classified as Finance income.

Dividends

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

European Union 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 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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Taxes

Corporate income tax

Current income tax

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

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income, respectively and not in the 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)

<u>*Deferred tax (cont'd)*</u>

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

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

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

Subsequent measurement

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

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

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

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.

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.
- If the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset. This policy by analogy is applied to equity instruments.
- In case of entering into put and call option agreements over equity instruments; and if the terms and conditions of put/call options are identical, the options are treated as a forward contract. The equity instruments are carried in that party's financial statements who has the risks and rewards with regard to the underlying equity instruments.

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.

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

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 19.

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, borrowings, and derivative financial instruments.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Financial liabilities (cont'd)

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.

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.

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.

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)

Initial recognition and subsequent measurement *(cont'd)*

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.

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

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

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

Fleet

The Group's fleet is recorded at historical cost less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the asset when that cost is incurred, if the recognition criteria are met.

Depreciation has been provided on the basis that the carrying value of the vessels, less an estimated scrap value of USD 450 per ton (2013: USD 450), 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.

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.

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.

Notes to the consolidated financial statements (cont'd)

2.2 Summary of significant accounting policies (cont'd)

Intangible assets (cont'd)

Land use rights

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. 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.

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

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 sales 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 73.80% (2013: 75.80%) 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.

Crude oil

The crude oil is recognized as an asset if there is no any legal restrictions to alienate the crude oil and the amount of the crude oil can be measured with sufficient reliability. The reliable measurement of the quantity of crude oil in the management's view is possible only upon pumping the oil out of the pipelines.

When crude oil is pumped out of the pipeline it is initially recognised at fair value (deemed cost) and subsequently measured at the lower of cost and net realisable value.

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 cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above.

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.

Provision for reorganisation

A provision for reorganisation costs is recognised only when the general recognition criteria for provisions are met:

a) the Group has a detailed formal plan for the restructuring identifying the business part or part of the business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented;

b) the Group 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 consolidated 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 consolidated 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 2014 nor in 2013 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 consolidated 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 before the impairment recognized amounting to EUR 38 244 thousand (31.12.2013.: EUR 100 354 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 considered to be nil as at 31 December 2014 (31 December 2013: EUR 25 548 thousand) as the technological crude oil displacement project was completed and no further active use of these assets is foreseen in the nearest future. As a result impairment charge in amount of the EUR 25 209 thousand was recognised.
For further information and sensitivity analysis of impairment of non-current assets of crude oil and oil product segment see Note 16., *LatRosTrans Ltd.*

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 flows. The key assumptions used to determine the recoverable amount for the vessels, including a sensitivity analysis, are further explained in *Note 16*., *Latvian Shipping Company JSC.*

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 EUR 2.6 million (2013: EUR 2.9 million) or increase depreciation expenses by EUR 4.5 million (2013: EUR 5.1 million).

Recoverable value of available for sale financial assets

The value of available for sale financial assets was assessed by the management of the Group based on all available information as at the date of preparation of these financial statements.

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.

Notes to the consolidated financial statements (cont'd)

2.4 Change in accounting policy

In 2014 the Group's management decided to change the accounting policy with respect to initial recognition of crude oil pumped out of the pipelines. Until 2014 the crude oil pumped out of the pipelines was recognised at zero cost. The management believes that fair value provides the most useful information to the users of the financial statements therefore in 2014 the crude oil pumped out of the pipelines was initially recognised at fair value (market price at the time of pumping) which is deemed cost for the crude oil. Subsequently the crude oil is measured at the lower of cost and net realisable value.
The change in the accounting policy regarding initial recognition of the crude oil has been applied retrospectively in accordance with IAS 8 "Accounting policies, Changes in Accounting estimates and Errors". There was no impact on the comparative financial information as all crude oil pumped out of the pipelines in the previous years was sold in the same year when pumped out. Therefore, opening balance sheet as at 31 December 2012 is not presented.

2.5 Business combination

On 18 December 2013 the Group acquired 100% of *Riga Maritime LLC* shares for USD 13.0 million (EUR 9.43 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 (EUR 20.9 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
	EUR'000
Other assets acquired on acquisition	299
Group's subsidiary receivable acquired on acquisition	17 729
	18 028
Interest bearing bank loan	(8 136)
Derivative financial instruments	(481)
Trade and other payables	(4)
	(8 621)
Net assets acquired, 100%	**9 407**
Impairment loss of goodwill arising on acquisition and written off to the income statement	27
Total consideration	**9 434**
Cash outflow on acquisition	
Net cash acquired with the Group's company subsidiary	265
Cash paid in 2013	(9 434)
Net cash outflow	**(9 169)**

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 four reportable operating segments – Storage and reloading of oil products, Transportation of oil products via pipeline, Shipping and Holding activities.

- Storage and reloading of oil products segment mainly derives its revenues from the crude oil and oil product terminal in Ventspils. The main activity of the Segment is reloading of crude oil and oil products to/from rail tank cars, pipelines and ships. This Segment also provides railway logistics services.
- Transportation of oil products via pipeline reportable segment mainly derives its revenues from the transporting a crude oil and oil products in Latvia. The segment includes the activities of Group's subsidiary which maintains a network consisting of three pipelines in the territory of the Republic of Latvia: crude oil pipeline Polotsk – Mazeikiai (operations ceased in July 2006), crude oil pipeline Polotsk – Ventspils (operations ceased in December 2002), and operating oil product pipeline Polotsk – Ventspils.
- 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 EUR 19 431 thousand and EUR 7 182 thousand, (2013: EUR 22 079 thousand and EUR 3 648 thousand, respectively) are derived from two customers in the shipping segment. Revenues of EUR 92 299 thousand (2013: EUR 88 181 thousand) are derived from one related party of a shareholder with significant influence in the following segments: Storage and reloading of oil products and Transportation of oil products via pipeline.

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)

	Storage and reloading of oil products		Transportation of oil products via pipeline		Shipping		Holding activities		**Total segments**		Adjustments and eliminations		**Consolidated**	
	2014 EUR'000	2013 EUR'000	2014 EUR'000	2013 EUR'000	2014 EUR'000	2013 EUR'000	2014 EUR'000	2013 EUR'000	**2014 EUR'000**	**2013 EUR'000**	2014 EUR'000	2013 EUR'000	**2014 EUR'000**	**2013 EUR'000**
Revenue from external customers	**76 845**	**72 897**	**16 502**	**15 297**	**68 147**	**78 033**	-	-	**161 494**	**166 227**	-	-	**161 494**	**166 227**
Intersegment revenue	-	-	-	-	81	-	55	181	**136**	**181**	(136)	(181)	**-**	**-**
Voyage costs	-	-	-	-	(9 990)	(10 972)	-	-	**(9 990)**	**(10 972)**	-	-	**(9 990)**	**(10 972)**
Vessel operating costs	-	-	-	-	(23 591)	(26 154)	-	-	**(23 591)**	**(26 154)**	-	-	**(23 591)**	**(26 154)**
Cost of sales (vessel operating costs excluding)	(54 979)	(50 559)	(9 502)	(9 166)	(259)	(388)	-	-	**(64 740)**	**(60 113)**	1	4	**(64 739)**	**(60 109)**
Administrative expenses	(2 016)	(1 976)	(1 747)	(1 318)	(5 993)	(6 238)	(941)	(1 101)	**(10 697)**	**(10 633)**	142	215	**(10 555)**	**(10 418)**
Result from disposal of non-financial assets	(157)	(462)	(20)	360	162	(3 163)	(13)	-	**(28)**	**(3 265)**	-	-	**(28)**	**(3 265)**
Other revenue	-	-	-	-	362	502	13	-	**375**	**502**	-	-	**375**	**502**
Depreciation and amortisation	(5 892)	(6 080)	(1 223)	(5 031)	(14 162)	(17 325)	(11)	(13)	**(21 288)**	**(28 449)**	-	-	**(21 288)**	**(28 449)**
Impairment of non-financial assets*	(361)	-	(27 886)	(63 305)	(42 942)	(17 627)	-	-	**(71 189)**	**(80 932)**	-	-	**(71 189)**	**(80 932)**
Interest income	153	211	942	859	348	65	1 802	1 643	**3 245**	**2 778**	(1 266)	(1 155)	**1 979**	**1 623**
Interest expense	-	-	-	-	(7 911)	(11 057)	(470)	(457)	**(8 381)**	**(11 514)**	1 269	1 155	**(7 112)**	**(10 359)**
Net result before tax	**13 593**	**14 031**	**(22 934)**	**(62 304)**	**(35 748)**	**(14 324)**	**435**	**253**	**(44 654)**	**(62 344)**	**10**	**38**	**(44 644)**	**(62 306)**
Segment assets	**116 400**	**133 228**	**98 847**	**94 807**	**327 184**	**352 283**	**165 747**	**146 240**	**708 178**	**726 558**	**(44 461)**	**(39 772)**	**663 717**	**686 786**
Unallocated:														
Assets of subsidiaries not included in segment													3 778	4 512
Investment properties													359	1 589
Available-for-sale financial assets													16 465	22 580
Total consolidated assets													**684 319**	**715 467**
Including additions to non-current assets	3 030	3 405	2 451	2 343	279	941	5	7	**5 765**	**6 696**	-	-	**5 765**	**6 696**

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:

	2014	2013
	EUR'000	EUR'000
Net result before taxes for reportable segment	(44 644)	(62 306)
Reconciliation to loss before taxes:		
Administrative expenses	(120)	(135)
Other operating income/ (expenses), net	27 074	(1 690)
Other financial income/ (expenses), net	7 523	(2 072)
Adjustments and eliminations	(10)	(38)
LOSS BEFORE TAXES:	**(10 177)**	**(66 241)**

4. Revenue

	2014	2013
	EUR'000	EUR'000
Reloading of crude oil and oil products	76 845	72 897
Voyage income	68 147	78 033
Transportation of oil products by pipeline	16 421	15 297
Other income	456	502
TOTAL:	**161 869**	**166 729**

5. Cost of sales

	2014	2013
	EUR'000	EUR'000
Railway services	38 039	34 249
Depreciation and amortisation (Note 13, 14, 15)	20 990	28 043
Crew expenses (expenses related to wages included in Note 9)	14 351	15 773
Maintenance and repairs	8 592	9 698
Personnel expenses (Note 9)	8 306	7 930
Fuel expenses (bunkering)	6 289	7 012
Utilities	3 470	3 514
Utilization of piers	2 813	2 341
Port expenses	2 632	2 651
Insurance	2 116	2 288
Statutory social insurance contributions (Note 9)	1 844	1 840
Health, safety and environment protection expenses	1 787	1 750
Luboil	1 147	1 336
Commissions	1 057	1 309
Other	5 876	5 543
TOTAL:	**119 309**	**125 277**

Notes to the consolidated financial statements (cont'd)

6. General and administrative expense

	2014	2013
	EUR'000	EUR'000
Personnel expenses (Note 9)	4 643	4 576
Professional fees	2 963	2 886
Statutory social insurance contributions (Note 9)	825	1 086
Occupation and repairs	542	579
IT and communication expenses	412	423
Depreciation and amortization (Note 14)	300	406
Other administrative expenses	1 289	1 004
TOTAL:	**10 974**	**10 960**

7. Other operating income

	2014	2013
	EUR'000	EUR'000
Income from settlement of court case in London	14 607	-
Recognition of crude oil at fair value, sold during the financial year, less storage costs until disposal	11 971	-
Recognition of crude oil at fair value, unsold at year-end	8 820	-
Result from sale of investment property	416	-
Result from sale of a Group company	391	141
Amortisation of deferred income	218	218
Insurance compensation received	185	-
Income from financial instruments at fair value through profit or loss	183	303
Oil extracted from wastewater	35	30
Sale of inventory	-	84
Other income	1 265	913
TOTAL:	**38 091**	**1 689**

8. Other operating expense

	2014	2013
	EUR'000	EUR'000
Impairment of available-for sale financial asset (Note 19)	6 126	-
Impairment of loans receivable	2 515	-
Payments to local municipality	1 366	1 350
Sponsorship	424	73
Result from disposal of fleet	251	3 162
Result from disposal of property, plant and equipment	193	103
Rehabilitation and conservation of the main crude oil pipeline	13	1 463
Other operating expenses	164	532
TOTAL:	**11 052**	**6 683**

Notes to the consolidated financial statements (cont'd)

9. Personnel expenses

	2014	2013
Average number of employees during the reporting year	**859**	**893**

Remuneration and social insurance contributions

	2014	2013
	EUR'000	EUR'000
Employees		
Remuneration	24 441	25 237
Statutory social insurance contributions	2 579	2 762
Other personnel expense	362	335
Management, Board and Members of the Council		
Remuneration	575	652
Statutory social insurance contributions	90	164
Other personnel expense	49	26
TOTAL:	**28 096**	**29 176**

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

	2014	2013
	EUR'000	EUR'000
Cost of sales	22 628	23 514
General and administrative expense	5 468	5 662
TOTAL:	**28 096**	**29 176**

10. Impairment of other non-financial assets

	2014	2013
	EUR'000	EUR'000
Impairment of fleet (Note 14)	42 879	13 263
Impairment of intangible assets (Note 13)	21 542	14 361
Impairment of property, plant and equipment (Note 14)	6 344	48 944
Provision for construction in progress (Note 14)	361	-
Impairment of assets classified as held for sale (Note 24)	63	4 364
TOTAL:	**71 189**	**80 932**

Notes to the consolidated financial statements (cont'd)

11. Finance income and costs

	2014	2013
	EUR'000	EUR'000
Interest income from loans	1 385	1 162
Other interest income	599	469
Foreign currency exchange profit, net	7 927	-
TOTAL finance income:	**9 911**	**1 631**
Of which: from financial instruments relating to financial instrument categories (according to IAS 39):		
Loans and receivables	1 984	1 631
TOTAL	**1 984**	**1 631**
Interest expense	7 154	10 388
Bank charges	370	215
Foreign currency exchange losses, net	-	1 834
TOTAL finance costs:	**7 524**	**12 437**
Of which: from financial instruments relating to financial instrument categories:		
Financial liabilities measured at amortised cost	7 154	10 388
TOTAL	**7 154**	**10 388**

12. Corporate income tax

In accordance with Latvian tax legislation current corporate income tax is applied at the rate of 15% (2013: 15%) on taxable income generated by the Parent company and its subsidiaries during the taxation period ending 31 December 2014.

	2014	2013
	EUR'000	EUR'000
Current corporate income tax	3 833	548
Deferred tax	(32)	(5 574)
Total corporate income tax charge/ (credit) for the year:	**3 801**	**(5 026)**

Notes to the consolidated financial statements (cont'd)

12. Corporate income tax (cont'd)

Reconciliation between tax expense and accounting loss multiplied by the statutory income tax rate for the years ended 31 December 2014 and 2013 is as follows:

	2014	2013
	EUR'000	EUR'000
Total loss before tax for the reporting year	**(10 177)**	**(66 240)**
Corporate income tax at 15%	*(1 527)*	*(9 936)*
The effect of different tax rates and rebates	(1 961)	(1 005)
Loss from foreign subsidiaries at 0%	3 675	2 011
Permanent differences, including impairment	4 612	2 981
(Increase)/ decrease in unrecognized deferred tax asset	(998)	923
Total corporate income tax charge/ (credit) for the year:	**3 801**	**(5 026)**

Deferred corporate income tax:

	Consoidated statement of financial position		Consolidated income statement	
	2014.12.31	**2013.12.31**	**2014**	**2013**
Deferred tax liability	EUR'000	EUR'000	EUR'000	EUR'000
Accelerated depreciation for tax purposes	(1 674)	(1 665)	(9)	10 862
Revaluation of crude oil	(1 323)	-	(1 323)	
Adjustments of accelerated depreciation for tax purposes 2011	-	-	-	105
Gross deferred corporate income tax liability	*(2 997)*	*(1 665)*	*(1 332)*	*10 967*
Deferred tax asset				
Accelerated depreciation for tax purposes	1 378	867	511	867
Tax losses carried forward	135	341	(206)	(129)
Adjustments of 2011	-	-	-	64
Deferred tax assets related to other temporary differences	269	208	61	(78)
Tax rebate on investment projects	-	-	-	(5 195)
Unrecognized deferred tax asset	(334)	(1 332)	998	(923)
Gross deferred corporate income tax asset	*1 448*	*84*	*1 364*	*(5 394)*
TOTAL	**(1 549)**	**(1 581)**	**32**	**5 573**

Ventspils nafta termināls Ltd applied a 3% corporate income tax rate to estimate deferred corporate income tax liabilities as at 31 December 2014 and as at 31 December 2013. All the calculations have been based on management's assumption that *Ventspils nafta termināls Ltd* will benefit from an 80% corporate income tax discount applied to companies operating in accordance with the Law of the Republic of Latvia on Tax Application in Free Ports and Special Economic Zones.

As at 31 December 2014, *Ventspils nafta termināls Ltd* was eligible for the maximum applicable discounts for direct taxes (applicable mainly to corporate income tax and real estate tax) in the amount of EUR 44 848 thousand (2013: EUR 47 208 thousand).

Notes to the consolidated financial statements (cont'd)

13. Intangible assets

	Licenses and other intangibles EUR'000	Land use rights* EUR'000	Total EUR'000
Cost:			
At 1 January 2013	**1 108**	**70 658**	**71 766**
Additions	27	-	27
Disposals/ write off	(131)	-	(131)
At 31 December 2013	**1 004**	**70 658**	**71 662**
Additions	-	-	-
Disposals/ write off	(42)	-	(42)
At 31 December 2014	**962**	**70 658**	**71 620**
Amortisation and impairment:			
At 1 January 2013	**1 080**	**34 755**	**35 835**
Amortisation	24	-	24
Disposals/ write off	(131)	-	(131)
Impairment (Note 16)	-	14 361	14 361
At 31 December 2013	**973**	**49 116**	**50 089**
Amortisation	18	-	18
Disposals/ write off	(42)	-	(42)
Impairment (Note 16)	-	21 542	21 542
At 31 December 2014	**949**	**70 658**	**71 607**
Net book value:			
At 31 December 2013	31	21 542	21 573
At 31 December 2014	13	-	13

* 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 EUR 70 658 thousand. The contribution value was agreed on by the founders of the subsidiary *LatRosTrans Ltd* according to an agreement dated 29 September 1995.

In 2014 impairment loss for intangible assets in the amount of EUR 21 542 thousand was recognized (2013: EUR 14 361 thousand). For more information see Note 16.

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

	2014 EUR'000	2013 EUR'000
Cost of sales	18	24
Total amortization for the reporting year:	**18**	**24**

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*	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost:						
At 1 January 2013	**299 005**	**568 524**	**104 481**	**16 465**	**2 181**	**990 656**
Additions	122	736	1 563	73	4 437	**6 931**
Disposals/ write off	(1 728)	(51 219)	(2 163)	(1 534)	(369)	**(57 013)**
Reclassification	1 679	(24 970)	1 040	1 328	(4 294)	**(25 217)**
Exchange differences	-	(15 079)	-	-	-	**(15 079)**
At 31 December 2013	**299 078**	**477 992**	**104 921**	**16 332**	**1 955**	**900 278**
Additions	69	194	751	436	4 314	**5 764**
Disposals/ write off	(273)	-	(1 532)	(1 604)	-	**(3 409)**
Reclassification	2 312	(32 574)	1 244	1 081	(4 637)	**(32 574)**
Exchange differences	-	56 213	-	-	-	**56 213**
At 31 December 2014	**301 186**	**501 825**	**105 384**	**16 245**	**1 632**	**926 272**
Depreciation and impairment:						
At 1 January 2013	**184 754**	**177 384**	**55 064**	**12 631**	**-**	**429 833**
Depreciation	4 656	17 069	5 319	1 341	-	**28 385**
Disposals/ write off	(1 264)	(27 514)	(2 020)	(1 437)	-	**(32 235)**
Reclassification	-	(11 336)	-	-	-	**(11 336)**
Impairment (Note 16)	26 540	13 263	21 896	508	-	**62 207**
Exchange differences	-	(5 465)	-	-	-	**(5 465)**
At 31 December 2013	**214 686**	**163 401**	**80 259**	**13 043**	**-**	**471 389**
Depreciation	3 370	14 000	2 850	1 020	-	**21 240**
Disposals/ write off	(85)	-	(1 456)	(1 569)	-	**(3 110)**
Reclassification	-	(23 624)	-	-	-	**(23 624)**
Impairment (Note 16)	1 761	42 879	4 453	130	361	**49 584**
Exchange differences	-	21 834	-	-	-	**21 834**
At 31 December 2014	**219 732**	**218 490**	**86 106**	**12 624**	**361**	**537 313**
Net book value:						
At 31 December 2013	84 392	314 591	24 662	3 289	1 955	428 889
At 31 December 2014	81 454	283 335	19 278	3 621	1 271	388 959

* Construction in progress as at 31 December 2014 mainly represents unfinished construction related to expansion of treatment plants capacity and construction of operational pipelines (31.12.2013.: upgrade of the fire-fighting system in the tank pit and construction of operational pipelines).

Reclassification of the fleet in 2014 and 2013 represents transfer of the vessels from fleet 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:

	2014	2013
	EUR'000	EUR'000
Cost of sales	20 940	27 979
General and administrative expense	300	406
Total depreciation for the reporting year:	**21 240**	**28 385**

15. Investment properties

	Land, buildings and other assets	Total
	EUR'000	EUR'000
Cost:		
At 1 January 2013	**4 779**	**4 779**
Reclassification	-	-
At 31 December 2013	**4 779**	**4 779**
Disposals	(1 590)	(1 590)
At 31 December 2014	**3 189**	**3 189**
Depreciation and impairment:		
At 1 January 2013	**3 150**	**3 150**
Depreciation	40	**40**
At 31 December 2013	**3 190**	**3 190**
Depreciation	32	**32**
Other adjustments	(185)	**(185)**
Disposals	(207)	**(207)**
At 31 December 2014	**2 830**	**2 830**
Net book value:		
At 31 December 2013	1 589	1 589
At 31 December 2014	359	359

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

	2014	2013
	EUR'000	EUR'000
Cost of sales	32	40
Total depreciation for the reporting year:	**32**	**40**

Notes to the consolidated financial statements (cont'd)

15. Investment properties (cont'd)

There is no income recognised from investment properties in 2014 and 2013. Expenses related to investment properties represent real estate tax, depreciation and minor maintenance expenses.

The fair value of Investment Property as of 31 December 2014 and 31 December 2013 is disclosed in Note 34.

At the end of 2014 and 2013 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 investment property on individual basis.

In 2014, no impairment was recognised on investment properties. The following assumptions were used:

- Rent rates: EUR 1.5 per square meter (2013: EUR 1.5 per square meter);
- Occupancy: May – September (2013: May – September);
- Capitalisation rate: 11% (2013: 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 EUR 364 458 thousand (31.12.2013: EUR 428 209 thousand) and consist of intangible assets (land usage rights) and property, plant and equipment.

As at 31 December 2014 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 2013 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 2013.

Latvian Shipping Company JSC

As at 31 December 2014 the market value of the majority of vessels was below the carrying amounts. Accordingly, an impairment test was conducted for the vessels by determining the value in use, where the long-term values are assessed.

Fleet with the net book value of EUR 283.34 million (31.12.2013: EUR 323 million) has been used as security for long term bank loans. See Note 26.

Total number of vessels as of 31 December 2014 was 16 (31.12.2013: 17).

In 2014 the Group sold tanker m.t. Riga with deadweight of 68.467 thousand tons resulting in a loss from sale in the amount of EUR 251 thousand. In 2013 the three product tankers with a total deadweight of 111.71 thousand tons were sold (m.t. Kolka, m.t. Kaltene, m.t. Kuldiga built 2003) were sold resulting in a loss from sale in amount of EUR 3.16 million (see Note 8).

As at 31st December 2014 and 2013 the recoverable amount of the fleet was assessed against the higher of the fair value less costs of disposal and value in use. Each single vessel is considered a separate cash generating unit (CGU) as each vessel generates cash inflows that are largely independent of those from other assets.

The recoverable amount of several CGUs has been determined based on fair value less costs of disposal where value in use calculations resulted in lower amount than the fair value, while the recoverable amount of the remaining CGUs was determined based on value in use where value in use calculations resulted in higher amounts than the fair value.

Fair value was determined by an independent shipbroker acceptable to the Group's lending bank syndicate. Each vessel valuation was assessed on a "willing seller willing buyer" basis at the prevailing market levels at the time the valuation was requested; subject to the vessel being in sound condition and being available for delivery.

The value in use was calculated by determining the total expected cash flow of each vessel in the fleet until the vessel reached the age of fifteen (2013: twenty). Value in use was determined based on discounted cash flow projections using a combination of the latest forecasted time charter rates for the next three years (determined by using the average time charter assessments of two independent shipbrokers from EUR 11 500 – 12 100 daily TC-rate); thereafter for the period until the vessels reached the age of fifteen years the historical time charter equivalent rates were used (daily TC-rate from EUR 11 300 – 12 400). In 2013 only the average historical time charter equivalent rates were used (from EUR 11 100 – 13 700)

Notes to the consolidated financial statements (cont'd)

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

Latvian Shipping Company JSC (cont'd)

Historical annual operating costs from EUR 1.8 – 2.0 million (2013: EUR 1.8 – 2.0 million) from the date of delivery were used and increased every 5th year in order to provide for necessary dry-docking costs. The discount rate applied was 7.05% (2013: 7.48%); and the scrap value applied was EUR 371 per ton (2013: EUR 330 per ton).

With regard to assessment of recoverable amount of the vessels, the carrying value of the vessels exceeded their recoverable amount as at 31st December 2014 and impairment charge of EUR 42.88 million was recognised (2013: EUR 13.26 million).

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:

Operating CGU

- oil product pipeline Polotsk – Ventspils and related land use rights (operating CGU); the carrying value as of 31 December 2014 of property, plant and equipment attributable to this CGU amounted to EUR 11 642 thousand (31.12.2013: EUR 9 826 thousand after recognising impairment charge).

Non-operating CGU

- 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 (non-operating CGU); the carrying value as of 31 December 2014 of tangible assets before the impairment recognised attributable to this CGU amounts to EUR 3 667 thousand; the carrying value as of 31 December 2014 of intangible assets before the impairment recognised attributable to this CGU amounts to EUR 21 542 thousand;

The recoverable amount of operating CGU (EUR 8 965 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 4% (31.12.2013: 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 2015 and onwards were estimated based on the scenario analysis and amounted to 4 400 thousand tons per year (2013: 5 500 thousand tons per year). The rate of inflation was estimated 0.7% for 2015 and 1.3% onwards 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 EUR 2 677 thousand (2013: EUR 63 305 thousand). See also Note 13 and Note 14.

For non-operating CGU the events and circumstances that led to the recognition of the impairment loss for full amount of the carrying value of intangible assets and property, plant and equipment in amount of EUR 21 542 thousand and EUR 3 667 thousand respectively (31.12.2013: EUR nil) were based on the fact that the technological crude oil displacement project was completed and no further active use of these assets is foreseen in the nearest future. Therefore the recoverable amount of this CGU is considered to be EUR nil as at 31 December 2014. 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 2% lower than currently forecasted, the impairment loss for the CGU would be recognized to the full extent of the carrying amount of the assets belonging to the oil product pipeline and related infrastructure.

Notes to the consolidated financial statements (cont'd)

17. Investments in associated entities

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

	Ownership (%)		
Associated entities:	31.12.2014.	31.12.2013.	Country of registration
Futbola klubs Ventspils Ltd	44.31	44.31	Latvia
Via Una SIA	-	45.45	Latvia

The investment in the shares of *Futbola klubs Ventspils Ltd* has been impaired down to zero as at 31 December 2014 and as at 31 December 2013.

In September 2014 previously held shares of *Via Una SIA* where invested in the 100% subsidiary of Latvian Shipping Company JSC *Medical Invest SIA* with following sale of subsidiary in 2014.

The Group does not disclose 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

	31.12.2014.	**31.12.2013.**
	EUR'000	EUR'000
Non-current loans to affiliated companies	**67 955**	**97 454**
Euromin Loan note	67 955	67 955
Loan to Transnefteprodukt AK	-	14 843
Loan to Vitol S.A.	-	14 656
Current loans to affiliated companies	**33 434**	**-**
Loan to Transnefteprodukt AK	16 961	-
Loan to Vitol S.A.	16 473	-
TOTAL:	**101 389**	**97 454**

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 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, EUR 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 2014 and 2013 was EUR 67 955 thousand.

Notes to the consolidated financial statements (cont'd)

18. Loans to affiliated companies (cont'd)

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. 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 2014 was USD 20 000 thousand (EUR 16 473 thousand).

On 11 April 2013 the loan to the related party *Transnefteprodukt AK* was issued in the amount of USD 20 000 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, including accrued interest, of the loan at 31 December 2014 was USD 20 592 thousand (EUR 16 961 thousand). Both loans are not secured.

As at 31 December 2014 and 31 December 2013 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

	31.12.2014.	**31.12.2013.**
	EUR'000	EUR'000
Debt due from *LASCO Investment Ltd Group*	106 905	103 514
Allowance for doubtful debt *LASCO Investment Ltd Group*	(75 752)	(70 222)
Available-for-sale financial assets		
(Shares in Latvijas Naftas tranzīts JSC)	16 465	-
Loans issued to other companies	187	218
Other*	957	184
TOTAL:	**48 762**	**33 694**

In 2010 the Group lost control over the *LASCO Investment Ltd Group*. As at 31 December 2014 the amount due from *LASCO Investment Ltd Group* was EUR 107 293 thousand (31.12.2013: EUR 103 860 thousand). A part of the of *LASCO Investment Ltd Group* debt in the gross amount of EUR 388 thousand (31.12.2013: EUR 346 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 2014 representing EUR 31 153 thousand (31.12.2013: EUR 33 292 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 34.

* Other financial assets include long term deposits with maturity over 12 months (including a pledge deposit of EUR 85 thousand for bank guarantee for the *Agency of investments and development of Latvia* as contract performance guarantee, which has been 100% accrued for, and pledge deposit of EUR 750 thousand for bank guarantee for the *Agency of investments and development of Latvia* as advance payment guarantee).

19 (b) Other current financial assets

	31.12.2014.	31.12.2013.
	EUR'000	EUR'000
Debt due from *LASCO Investment Ltd Group*	388	346
Allowance for doubtful debt *LASCO Investment Ltd Group*	(388)	(346)
Loans issued to other companies*	115	1 368
Allowance for other companies doubtful debt	(115)	(115)
Due from related parties**	410	406
Available-for-sale financial assets		
(Shares in *Latvijas Naftas tranzīts JSC*)	-	22 580
Other	2	-
TOTAL:	**412**	**24 239**

*The balance in amount of EUR 1 253 thousand as at 31 December 2013 represents short term loan issued with an interest at a margin linked to USD LIBOR which has been repaid during 2014, see Note 34.

**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 34.

Fair value of the other financial assets is disclosed in Note 34.

Available for sale financial assets

	31.12.2014.	31.12.2013.
	EUR'000	EUR'000
Shares in *Latvijas Naftas Tranzīts JSC*	23 254	22 531
Impairment of shares in *Latvijas Naftas Tranzīts JSC*	(6 838)	-
Shares in *Ventspils ekspedīcija Ltd*	49	49
TOTAL:	**16 465**	**22 580**

Accordance to available information on financial data of *Latvijas Naftas Tranzits JSC* the Management of the Group made an assessment of the recoverable amount of the investment and recognised impairment in amount of EUR 6.126 million. As of 31 December 2014 the investment is accounted at cost less any impairment charge recognised.

Changes in allowances for impairment of available-for-sale financial assets:

	2014
	EUR'000
At 1 January	-
Recognised impairment	6 126
Currency translation difference	712
At 31 December	**6 838**

The maximum exposure to credit risk at the reporting date is the carrying value of the Other financial assets.

Notes to the consolidated financial statements (cont'd)

20. Inventories

	31.12.2014. EUR'000	31.12.2013. EUR'000
Crude oil and oil products	8 924	-
Luboil, victualling and slopchest	1 275	1 363
Fuel (bunkers)	-	1 010
Other raw materials and supplies	1 039	1 096
TOTAL:	**11 238**	**3 469**

Bunker balances represent bunker on board of vessels employed on SPOT market as at 31 December 2013.

21. Trade and other receivables

	31.12.2014. EUR'000	31.12.2013. EUR'000
Financial assets		
Trade receivables	1 471	320
Doubtful debts	16	77
Allowance for doubtful debts	(16)	(77)
Other debtors	154	1 083
Accounts receivable from related parties (Note 33)	2 592	1 958
Accrued income	722	1 626
Accrued income from related parties (Note 33)	47	239
Other accounts receivable	-	58
Non-financial assets		
Advance payments	1 158	1 140
Corporate income tax receivable	-	162
Deferred expenses	3 660	1 918
Tax receivable	411	478
TOTAL:	**10 215**	**8 982**

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 credit quality of financial assets is presented below:

	Total EUR'000	Neither past due nor impaired	Past due: up to 90 days	Past due: 91 to 180 days	Past due: 181 to 365 days	Past due: More than 365 days	Impaired
31.12.2013.	**5 361**	5 274	-	3	1	6	77
31.12.2014.	**5 002**	4 986	-	-	-	-	16

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

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 (see Note 34). The maximum exposure to credit risk at the reporting date is the carrying value of receivables. As at 31 December 2014 The Group holds first commercial pledge as a security of trade receivables in amount of EUR 156 thousand (31.12.2013: EUR 205 thousand).

22. Short term deposits

	31.12.2014. EUR'000	**31.12.2013.** EUR'000
Short-term deposits	65 938	44 443
TOTAL:	**65 938**	**44 443**

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

	31.12.2014. EUR'000	**31.12.2013.** EUR'000
F1+	38 800	-
F1	26 603	41 199
B	535	3 244
TOTAL:	**65 938**	**44 443**

Under Fitch's classification F1+ and F1 indicates the strongest intrinsic capacity for timely payment of financial commitments.

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.

Fair value of the short-term deposits is disclosed in Note 34.

Notes to the consolidated financial statements (cont'd)

23. Cash and cash equivalents

	31.12.2014. EUR'000	31.12.2013. EUR'000
Term deposits	37 638	20 297
Current bank accounts	20 325	30 767
Cash on hand	71	61
TOTAL:	**58 034**	**51 125**

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

	31.12.2014. EUR'000	31.12.2013. EUR'000
F1+/F1	57 854	50 034
F2	-	734
B	109	296
Cash on hand	71	61
TOTAL:	**58 034**	**51 125**

Under Fitch's classification F1+ and F1 indicates the strongest intrinsic capacity for timely payment of financial commitments.

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. The maximum exposure to credit risk at the reporting date is the carrying value of the Cash and short term deposits. The Group does not hold any collateral as security, see Note 34.

Notes to the consolidated financial statements (cont'd)

24. Assets classified as held for sale

In 2014 the Group's subsidiary sold one vessel. The vessel had been classified as asset held for sale during 2014 with completed sales transaction in June 2014.

In 2013 the Group's subsidiary sold three vessels. One of the vessels had been classified as asset held for sale during 2013 with completed sales transaction in November 2013. See Note 16.

	EUR'000
Cost	
At 1 January 2013	-
Reclassification	13 881
Disposals	(13 881)
At 31 December 2013	-
Reclassification	8 950
Disposals	(8 951)
Exchange rate differences	1
At 31 December 2014	-
Depreciation and Impairment	
At 1 January 2013	-
Impairment	4 364
Disposals	(4 277)
Exchange rate differences	(87)
At 31 December 2013	-
Impairment	63
Disposals	(65)
Exchange rate differences	2
At 31 December 2014	-
Carrying amount:	
At 31 December 2013	-
At 31 December 2014	-

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 as at 31 December 2013 was 104 479 519 Latvian lats and consisted of 104 479 519 ordinary fully paid shares with nominal value of LVL 1 each, which are publicly traded on *NASDAQ OMX Riga* Exchange.

On June 30, 2014 the Parent company re-denominated the nominal value of the share capital from LVL to EUR. The Parent company's share capital after denomination in EUR amounted to EUR 146 271 327, with the nominal value of each capital share EUR 1.40. The positive difference of EUR 2 389 635 that appeared as a result of the Parent company share capital denomination was transferred to the Parent company's "Reserve of share capital denomination".

Information on shareholders' equity participation is summarized shortly before shareholders' general meeting. As at 11 June 2014, when the last shareholders' general meeting of *JSC Ventspils nafta* took place, *Euromin Holdings (Cyprus) Limited*, was registered as the largest shareholder, owning 49.98% of the Parent company's share capital.

Earnings per share and dividends

Basic earnings or loss per share are calculated by dividing the net loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Diluted number of shares is equal to number of ordinary shares.

	2014	**2013**
Net loss for the year attributable to shareholders, EUR'000	(7 611)	(39 874)
Weighted average number of ordinary shares in issue	104 479 519	104 479 519
Basic loss per share (EUR)	**(0.07)**	**(0.38)**

Reserves

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 subsidiaries 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 Retained Earnings. 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 movement 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.

Reserve of share capital denomination

On 1 January 2014 Latvia entered into Euro Zone. Therefore the denomination of the Parent Company's bearer shares was made from LVL to EUR with the nominal value of EUR 1.40. As a result reserve of share capital denomination in amount of EUR 2 390 thousand was recognised. The reserve can be distributed based on the shareholders decision.

Other reserves

This reserve was established to reflect the substance over legal form of the option agreements in respect of own equity instruments received as a settlement in the court case in London in 2014.

Non-controlling interests

As at 31 December 2014 and 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.

The non-controlling interest as at 31 December 2014 and 2013 has been calculated based on the legal ownership.

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.

	2014	2013
	EUR'000	EUR'000
Attributable to *Ventspils nafta termināls Ltd* non-controlling interest holders	5 970	6 091
Attributable to *LatRosTrans Ltd* non-controlling interest holders	400	(20 217)
Attributable to *Latvian JSC Shipping Company* non-controlling interest holders	(12 737)	(7 214)
TOTAL:	**(6 367)**	**(21 340)**

Set out below is summarised financial information for each subsidiary that has non-controlling interest (NCI) that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

	Ventsils nafta termināls Ltd.		*LatrosTrans Ltd.*		*Latvian Shipping Company JSC Group*	
	31.12.2014.	**31.12.2013.**	**31.12.2014.**	**31.12.2013.**	**31.12.2014.**	**31.12.2013.**
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Summarised statement of financial position						
Current assets	22 538	36 640	72 087	13 201	41 807	59 113
Current liabilties	12 176	4 203	5 561	1 685	31 953	39 061
Current net assets	***10 362***	***32 437***	***66 526***	***11 516***	***9 854***	***20 052***
Non-current assets	93 862	96 587	28 147	81 981	305 624	321 662
Non-current liabilities	5 285	4 788	-	-	180 845	181 923
Non-current net assets	***88 577***	***91 799***	***28 147***	***81 981***	***124 779***	***139 739***
Net assets	***98 939***	***124 236***	***94 673***	***93 497***	***134 633***	***159 791***
Summarised statement of comprehensive income						
Revenue	76 845	72 897	16 502	15 297	68 590	78 537
Profit/ (Loss) for the period	***12 184***	***12 430***	***1 176***	**(59 465)**	**(25 354)**	**(14 384)**
Other comprehensive income	-	-	-	-	14 803	(3 296)
Total comprehensive income	***12 184***	***12 430***	***1 176***	**(59 465)**	**(10 551)**	**(17 680)**
Profit/ (Loss) attributable to NCI	5 970	6 091	400	(20 217)	(12 737)	(7 214)
Dividends paid to NCI	6 116	13 186	-	2 703	-	-
Summarised cash flows						
Cash flows from operating activites	20 926	18 528	15 980	4 462	30 097	38 305
Cash flows from investing activities	(2 964)	(3 393)	(2 214)	(32 248)	895	19 579
Cash flows from financing activties	(22 340)	(8 470)	-	(7 951)	(38 084)	(50 306)
Exchange gains/ (losses) on cash and cash equivalents	-	-	130	714	3 296	(525)
Net increase/ (decrease) in cash and cash equivalents	**(4 378)**	**6 665**	**13 896**	**(35 023)**	**(3 796)**	**7 053**

Notes to the consolidated financial statements (cont'd)

26. Borrowings

	31.12.2014. EUR'000	31.12.2013. EUR'000
Repayments due within next 12 months	22 300	28 056
Unamortised prepaid financing expenses*	(994)	(886)
Net current portion	**21 306**	**27 170**
Non-current portion	157 491	159 954
Unamortised prepaid financing expenses*	(1 286)	(1 973)
Net non-current portion	**156 205**	**157 981**
Total loans outstanding	179 791	188 010
Total unamortised prepaid financing expenses	(2 280)	(2 859)
Total loans, net of unamortised financing expenses	**177 511**	**185 151**

* 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 (EUR 265.28 million) and another long term loan agreement with a loan facility of USD 75 million (EUR 55.26 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 (EUR 33.85 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 (EUR 8.2 million). The loan was fully repaid in 2014 as a result of the sale of the vessel (m.t. Riga) securing the loan.

There are no undrawn loan balances as at the end of 2014 and 2013.

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 carry interest at a margin linked to USD LIBOR and are repayable in quarterly instalments and a balloon payment due together with the last instalment as follows:

Year	EUR million
2015	22,3
2016	48,7
2017	108,8
TOTAL	**179,8**

The USD 48.6 million facility is hedged through interest rate swaps. See Note 27.

Notes to the consolidated financial statements (cont'd)

26. Borrowings (cont'd)

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:

	31.12.2014. EUR'000	**31.12.2013.** EUR'000
Borrowings bearing fixed interest rate (considering effect of SWAP agreements)	31 468	30 253
Borrowings bearing variable interest rate repriced in 3 months	148 323	157 757
TOTAL:	**179 791**	**188 010**

The weighted average effective interest rate in 2014 was 3.65% (2013: 3.66%). See also section Capital management in Note 34.

Interest is calculated based on USD LIBOR plus margin.

As at 31 December 2014 the Group was in compliance with all financial covenants stipulated by the corporate guarantees issued under USD 360 million loan agreement.

27. Derivative financial instruments

	Start date	**Maturity date**	**Notional amount, USD`000**	**Rate receivable**
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	18.03.2013.	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 a result of purchase of Riga Maritime LLC.

As at 31 December 2014 the negative fair value of the swaps was EUR 629 thousand (31.12.2013.: EUR 1.16 million including EUR 182 thousand acquired in 2013) recognised as derivative financial instruments within current liabilities including accrued interest in the amount of EUR 55 thousand (2013: EUR 83 thousand).

Fair valuation result of EUR 520 thousand (2013: EUR 892 thousand) was 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 EUR 397 thousand (2013: EUR 570 thousand)).

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" EUR 183 thousand (2013: EUR 303 thousand) and the hedge agreement term ended in August 2014.

Income and loss recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2014 will be continuously released to comprehensive income statement within net movement of cash flow hedges until the forecast transaction affects income statement.

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 2.5).

The weighted average interest rate for the fixed legs of the swap agreements in 2014 was 2.28% (2013: 1.94%).

Notes to the consolidated financial statements (cont'd)

28. Deferred income

	31.12.2014. EUR'000	31.12.2013. EUR'000
Non-current portion of deferred income	3 827	3 297
Current portion of deferred income	2 439	1 483
Total	**6 266**	**4 780**

Non-current part of deferred income represents an advance payment of EUR 747 thousand from the *Agency of investments and development of Latvia* for a project of *Implementation of significantly improved service, European Regional Development Fund (ERDF)* share of financing of butanization complex implementation of EUR 1 760 thousand (2013: EUR 1 859 thousand), as well as the financing received for the Group's technological base improvements and new equipment installations, which are related to providing a new service to the client of EUR 1 538 thousand (2013: EUR 1 656 thousand). Deferred income is amortised to the consolidated income statement 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.

Current portion of deferred income includes revenue from time charters and ERDF financing.

29. Trade and other payables

	31.12.2014. EUR'000	31.12.2013. EUR'000
Trade payables	4 656	4 226
Accrued expenses	4 562	3 921
Due to related parties	3 178	-
Loan from related party*	2 079	2 036
Other payables	2 736	2 552
TOTAL:	**17 211**	**12 735**

*Position "Loan from related party" represents the loan with interest linked to margin, including accrued interest. The loan was received from the Group's shareholder with significant influence, see Note 33.

Terms and conditions on the above financial liabilities:

- Trade and other payables due to related parties are non-interest bearing and have an average terms of repayment within one month, except for the loan advanced from the Group's major shareholder, see Note 33;
- For explanations on the Group's liquidity risk management processes, refer to Note 34;
- Trade and other payables are non-interest bearing and have an average term of six months.

Notes to the consolidated financial statements (cont'd)

30. Taxes payable

	31.12.2014. EUR'000	31.12.2013. EUR'000
Corporate income tax	3 151	-
Social security contributions	303	252
Personal income tax	220	138
Value added tax	-	14
Natural resources tax	23	17
TOTAL:	**3 697**	**421**

31. Provisions

	31.12.2014. EUR'000	31.12.2013. EUR'000
Provisions for restructuring expenses*	400	223
Provisions for sub-lease of piers**	1 187	1 016
Other	500	70
TOTAL:	**2 087**	**1 309**

** 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. In 2014 the restructuring plan was revised and changes announced to the employees of the subsidiary, and additional provision recognised.

Notes to the consolidated financial statements (cont'd)

31. Provisions (cont'd)

*** 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 - EUR 401 thousand), cancel the sub-lease agreement and declare it void (the claim amount - EUR 229 thousand) and to collect damages in the amount of EUR 42 thousand. On 27 March 2008, the Judicial for Civil Cases of the Kurzeme Regional Court rejected the claim filed by *JSC Ventbunkers*.

On October 22, 2009, the Chamber of Civil Cases of the Supreme Court of the Republic of Latvia passed a judgment to partially satisfy the claim of *JSC Ventbunkers* against *Ventspils nafta termināls Ltd* and to declare the jetty sub-lease agreement, concluded on May 15, 2006 between *JSC Ventbunkers* and *Ventspils nafta termināls Ltd*, void from the moment of signing thereof. 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 a 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
	EUR'000
As at 1 January 2013	**1 315**
Utilized	(246)
Charged	240
As at 31 December 2013	**1 309**
Utilised	(293)
Charged	1 071
As at 31 December 2014	**2 087**

32. Commitments and Contingent liabilities/ Contingent assets

In the normal course of business the Group receives claims for underperformances, however Management is of the opinion that all liabilities have been provided for at the statement of financial position date.

The tax authorities have the right to inspect the tax computations for the last three taxation years. Potentially the tax computations of unaudited taxes may be reassessed by the tax authorities. The Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Notes to the consolidated financial statements (cont'd)

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

Environmental commitments

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

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

Commitments

Technological reserve of oil products

9 thousand tons of oil products were at disposal of the *LatRosTrans Ltd* as at 31 December 2014 (31.12.2013.: 9 thousand tons). Therefore, products owned by the Group's subsidiary customers are currently used for the needs of technological reserves of oil products.

The approximate cost of restoring the minimum reserve of oil products used as the technological reserve for the oil product transportation network entirely on the own resources as at 31 December 2014 is estimated in the amount of EUR 30 to EUR 35 million based on the average market price.

Capital commitments

No capital commitments entered into as at 31 December 2014.

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:

	31.12.2014.	**31.12.2013.**
	EUR'000	EUR'000
Cancelable payments within one year	120	135
Cancelable payments after one year	115	212
TOTAL:	**235**	**347**

Notes to the consolidated financial statements (cont'd)

33. 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* *ITANK B.V.* *Vitol Inc* *Vitol Baltics Ltd* *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)

33. Related party transactions (cont'd)

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

		2014		31.12.2014	
Related party	**Nature of services**	**Income** EUR'000	**Expense** EUR'000	**Amounts due from related parties** EUR'000	**Amounts due to related parties** EUR'000
Euromin Holdings (Cyprus) Ltd	Interest income/ Outstanding balances	816	-	68 002	-
Vitol Baltics Ltd	Rental costs/Management and accounting services/ Outstanding balances	71	-	69	-
Transnefteprodukt AK	Interest income/ Outstanding balances	254	-	16 961	-
Ventspils Tank Services SA	Reloading services and transportation of oil products/ Outstanding balances	92 299	-	2 480	(1 537)
Eurotank Holding SARL	Consulting services	-	(300)	-	-
Eurotank Holding SARL	Accounts payable resulting from decrease of share capital	-	-	-	(2 450)
Vitol Tank Terminals International B.V.	Consulting and IT services, supply of goods/ Outstanding balances	-	(20)	-	(20)
ITANK B.V.	IT services/ Outstanding balances	-	(208)	-	(208)
Ventspils Tank Services SA	Storage of oil/ Outstanding balances	-	(1 156)	-	(500)
Latvijas Naftas Tranzits JSC	Other services/ Outstanding balances	-	-	13	-
Latvijas Naftas Tranzits JSC	Interest expense/ Outstanding balances	-	(42)	-	(2 079)
Minority shareholders of Skonto nafta Ltd.	Interest income/ Outstanding balances	5	-	410	-
Mansel Oil Ltd.	Tech.management fee and IT services/ Outstanding balances	285		5	-
Mansel Oil Ltd.	Voyage income/ Outstanding balances	19 408	-	9	(50)
Vitol S.A.	Voyage income/ Outstanding balances	1 969	-	-	-
Vitol S.A.	Selling of crude oil	13 747	-	-	-
Vitol S.A.	Interest income/ Outstanding balances	185	-	16 490	-
Vitol Inc	Voyage income/ Outstanding balances	1 261	-	-	-
	TOTAL:	**130 300**	**(1 726)**	**104 439**	**(6 844)**

	Notes				
Including:					
Non-current	18			67 955	-
Current	18, 21, 19 (b), 29			36 484	(5 257)
Deferred income	28			-	(1 587)
			TOTAL:	**104 439**	**(6 844)**

Notes to the consolidated financial statements (cont'd)

33. Related party transactions (cont'd)

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

Related party	Nature of services	2013 Income EUR'000	2013 Expense EUR'000	31.12.2013 Amounts due from related parties EUR'000	31.12.2013 Amounts due to related parties EUR'000
Euromin Holdings (Cyprus) Ltd	Interest income/ Outstanding balances	773	-	67 955	-
Transnefteprodukt AK	Interest income/ Outstanding balances	192	-	14 843	-
Ventspils Tank Services SA	Reloading services and transportation of oil products/ Outstanding balances	88 181	-	1 901	(1 656)
Eurotank Holding SARL	Consulting services	-	(306)	-	-
Vitol Tank Terminals International B.V.	Consulting and IT services, supply of goods	-	(213)	-	-
Vitol Tank Terminals International B.V.	Compensation of expenses	-	-	23	-
ITANK B.V.	IT services	-	(3)	-	-
Latvijas Naftas Tranzits JSC	Other income/ Outstanding balances	7	-	11	-
Latvijas Naftas Tranzits JSC	Interest expense/ Outstanding balances	-	(30)	-	(2 036)
Minority shareholders of Skonto nafta Ltd.	Interest income/ Outstanding balances	4	-	406	-
Mansel Oil Ltd.	Tech.management fee and IT services/ Outstanding balances	332	-	9	-
Mansel Oil Ltd.	Voyage income/ Outstanding balances	22 079	-	-	(949)
Vitol S.A.	Voyage income/ Outstanding balances	4 952	-	30	-
Vitol S.A.	Interest income/ Outstanding balances	139	-	14 670	-
Vitol Inc	Voyage income/ Outstanding balances	225			
Vitol S.A.	Selling of oil products	768	-	-	-
Vitol Asia Pte.	Voyage income/ Outstanding balances	23	-	208	-
	TOTAL:	**117 675**	**(552)**	**100 056**	**(4 641)**

	Notes		
Including:			
Non-current	18	97 454	-
Current	21, 19 (b), 29	2 602	(2 036)
Deferred income	28	-	(2 605)
	TOTAL:	**100 056**	**(4 641)**

Notes to the consolidated financial statements (cont'd)

34. Financial instruments and financial risk management

The Group's principal financial instruments comprise cash, trade and other accounts receivable, equity instruments, interest bearing loans, 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:

	31.12.2014		31.12.2013	
Assets at amortised cost/ cost less accumulated depreciation and impairment	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**
Investment properties	359	359	1 589	2 342
Trade and other receivables	4 986	4 986	5 284	5 284
Loans to related parties	101 389	101 389	97 454	97 454
Other financial assets	32 297	32 297	34 947	35 283
Short term deposits	65 938	65 938	44 443	44 443
Cash and cash equivalents	58 034	58 034	51 125	51 125
Total financial assets:	**263 003**	**263 003**	**234 842**	**235 931**
Liabilities at fair value				
Derivative financial instruments	629	629	1 158	1 158
Liabilities at amortised cost				
Interest bearing loans	177 511	177 511	185 151	185 151
Trade and other payables	13 498	13 498	9 596	9 596
Total financial liabilities:	**191 638**	**191 638**	**195 905**	**195 905**

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 and short time deposits. Cash and cash equivalents are assets with short term remaining maturity (less than 3 months). Short term deposits are assets with short term remaining maturity (less than 1 year). As a result the Group assumes that the fair value of those assets approximates to their carrying amount.

Level 2 contains derivative financial instruments.

Level 3 contains investment properties, trade and other receivables, other financial assets, interest bearing 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 and long term loan received from related party 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 *LASCO Investment Ltd Group* debt is assessed based on the fair values of properties pledged as security for the loans issued.

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

Notes to the consolidated financial statements (cont'd)

34. 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):

	31.12.2014.			
	Level 1	Level 2	Level 3	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Assets at amortised cost/ cost less accumulated depreciation and impairment				
Investment properties	-	-	359	359
Trade and other receivables	-	-	4 986	4 986
Loans to related parties	-	-	101 389	101 389
Other financial assets	-	-	32 297	32 297
Short term deposits	65 938		-	65 938
Cash and cash equivalents	58 034	-	-	58 034
Total assets	**123 972**	**-**	**139 031**	**263 003**
Liabilities at fair value				
Derivative financial instruments	-	629	-	629
Liabilities at amortized cost				
Interest bearing loans	-	-	177 511	177 511
Trade and other payables	-	-	13 498	13 498
Total liabilities	**-**	**629**	**191 009**	**191 638**

	31.12.2013.			
	Level 1	Level 2	Level 3	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Assets at amortised cost/ cost less accumulated depreciation and impairment				
Investment properties	-	-	1 589	1 589
Trade and other receivables	-	-	5 284	5 284
Loans to related parties	-	-	97 454	97 454
Other financial assets	-	-	34 947	34 947
Short term deposits	44 443	-	-	44 443
Cash and cash equivalents	51 125	-	-	51 125
Total assets	**95 568**	**-**	**139 274**	**234 842**
Liabilities at fair value				
Derivative financial instruments	-	1 158	-	1 158
Liabilities at amortized cost				
Interest bearing loans	-	-	185 151	185 151
Trade and other payables	-	-	9 596	9 596
Total liabilities	**-**	**1 158**	**194 747**	**195 905**

Notes to the consolidated financial statements (cont'd)

34. 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 accounts 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 2014 the Group had a credit risk concentration to related parties amounting to 64% of total trade receivables (31.12.2013.: 86%).

Maximum exposure to credit risk from financial assets as at 31 December 2014 for the Group amounted to EUR 262 646 thousand (31.12.2013.: EUR 233 253 thousand), out of which EUR 100 252 thousand (31.12.2013: EUR 131 148 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

Crude oil and oil products

Latvia has joined the Euro Zone and its national currency is Euro since January 1, 2014. A significant part of the revenues and expenses of the crude oil and oil products segment are derived in Euro, therefore fluctuations of currency exchange rates in respect of EUR will no longer influence the operational activities of the Group's crude oil and oil products segment.

The crude oil and oil products segment major financial assets exposed to foreign currency risk comprise USD denominated loans to related parties as well as, to a lesser extent, the USD denominated cash and cash equivalents. The Group's oil and oil products segment does not use any currency hedge tools.

Shipping

The Group's shipping segment operates both in Europe and the Americas and is thus exposed to foreign exchange risk. However, the majority of the Group's shipping segment income and expenses are denominated in USD as this is the universally accepted trading currency in the shipping business.

The Group's shipping segment financial instruments are not significantly exposed to foreign currency risk.

Since the functional currency of *JSC Latvian Shipping Company Group* is USD, then mostly the Group's currency risk in relation to USD affects other companies of the Group, except *JSC Latvian Shipping Company Group*. The Group's currency risk in USD as at 31 December 2014 and 2013 may be specified as follows:

	31.12.2014.	31.12.2013.
Financial assets denominated in USD'000	82 027	86 648
Financial liabilities denominated in USD'000	(181 115)	(258 948)
Net financial position in USD'000	**(99 088)**	**(172 300)**
Net financial position in EUR'000	**(81 614)**	**(126 259)**

Notes to the consolidated financial statements (cont'd)

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

Foreign currency risk (cont'd)

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 (EUR'000)
31.12.2014.	+9%	3 321
	-5%	(1 845)
31.12.2013.	+5%	1 652
	-5%	(1 652)

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

During year 2008 Group started to manage its interest rate risk by having a balanced portfolio of fixed and variable rate loans. The Group is monitoring market trends and fix the interest rates for loans for the subsequent period based on the market expectations, when it is considered to be reasonable. 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 2014, after taking into account the effect of interest rate swaps EUR 31 million (2013: EUR 30 million), approximately 18% (2013: 16%) of the Group's borrowings are at a fixed rate of interest.

At 31 December 2014 EUR 101.39 million (31.12.2013.: EUR 97.45 million) of financial assets are having variable interest rate. A general rise in the interest rate by 0.1 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 EUR 101 thousand. A general decrease in the interest rate by 0.1 percentage point would have negative effect on equity with approximately EUR 101 thousand.

Notes to the consolidated financial statements (cont'd)

34. 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.

	31.12.2014.		31.12.2013.	
	Increase/decrease in basic points	Effect on profit before tax (EUR'000)	Increase/decrease in basic points	Effect on profit before tax (EUR'000)
USD - LIBOR	0,10%	(111)	0,25%	(376)
	-0,10%	111	-0,10%	149
EUR - LIBOR	0,10%	64	0,10%	68
	-0,10%	(64)	-0,10%	(68)

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:

EUR'000

As at 31 December 2014	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Bank loans	-	7 046	20 968	164 018	192 032
Trade and other payables	6 610	5 612	4 989	-	17 211
Total	**6 610**	**12 658**	**25 957**	**164 018**	**209 243**

As at 31 December 2013	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Bank loans	-	6 682	26 717	170 745	204 144
Trade and other payables	6 310	6 425	-	-	12 735
Total	**6 310**	**13 107**	**26 717**	**170 745**	**216 879**

Notes to the consolidated financial statements (cont'd)

34. 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 2014 and 2013 based on contractual undiscounted payments settled on net basis:

EUR'000

As at 31 December 2014	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Outgoing undiscounted payments	-	(152)	(437)	(343)	(932)
Incoming undiscounted payments	-	19	96	187	302
Net undiscounted cash flow	**-**	**(133)**	**(341)**	**(156)**	**(630)**

As at 31 December 2013	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Outgoing undiscounted payments	-	(229)	(563)	(830)	(1 622)
Incoming undiscounted payments	-	24	82	367	473
Net undiscounted cash flow	**-**	**(205)**	**(481)**	**(463)**	**(1 149)**

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 appropriate provisions for asset impairment have been made and the recoverable (market) value of the assets approximates their carrying 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 2014 and 2013.

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%.

	31.12.2014. EUR'000	**31.12.2013.** EUR'000
Loans from credit institutions	177 511	185 151
Less cash and cash equivalents	(58 034)	(51 125)
Net debt	***119 477***	***134 026***
Total capital	356 892	374 306
GEARING RATIO:	**33%**	**36%**

35. Legal cases

The Group's subsidiary is involved in several court cases as defendant, mainly in Latvia and England. 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)

36. Subsequent events

Crude oil inventories were sold in January 2015.

The shares in *Futbola klubs Ventspils Ltd* disposed in January 2015.

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.

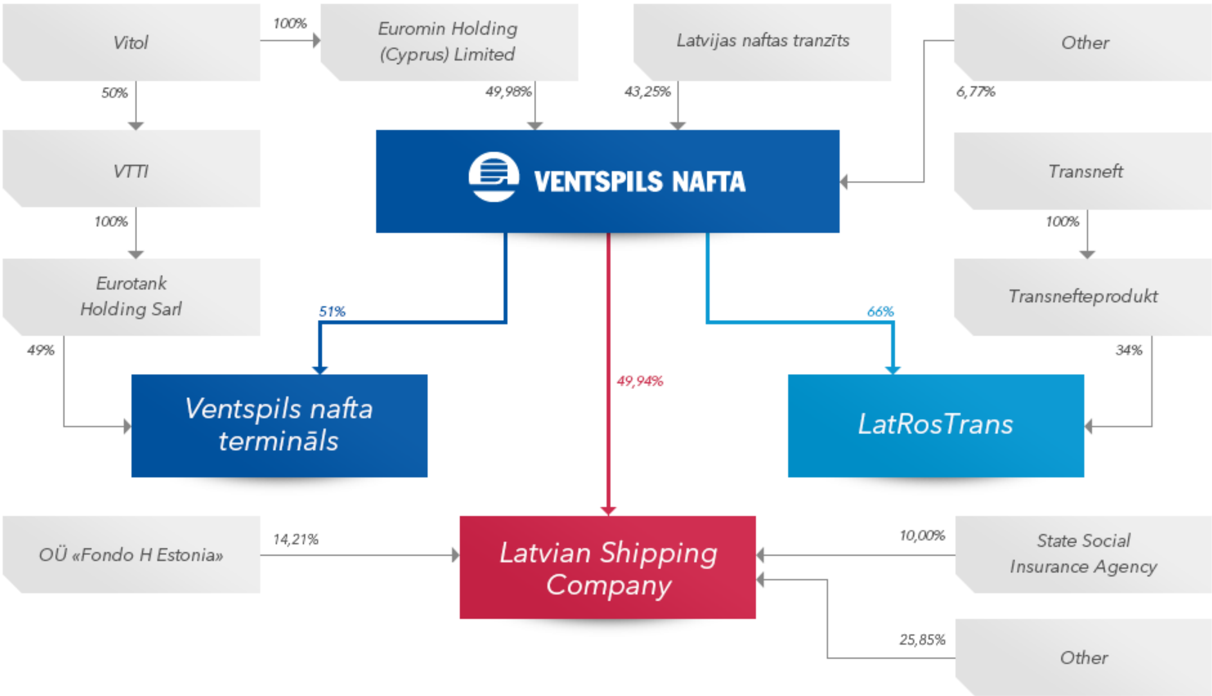
Shareholder information

Name of the company	*Ventspils nafta*
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	50003003091 Riga, 9 May 1991 Registered in Commercial Register on 5 August 2004
Legal address	Elizabetes street 1, Riga, Republic of Latvia, LV-1010
Subsidiaries of *JSC Ventspils nafta*	*LatRosTrans Ltd.* (66%) LRDS "Ilūkste", Šēderes pagasts, Ilūkstes novads, LV-5474 *Ventspils nafta termināls Ltd.* (51%) Talsu street 75, Ventspils, LV-3602 *JSC Latvian Shipping Company* (49.94%) Elizabetes street 1, Riga, LV-1010
Financial year	1 January – 31 December 2014
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

Shareholder information (cont'd)

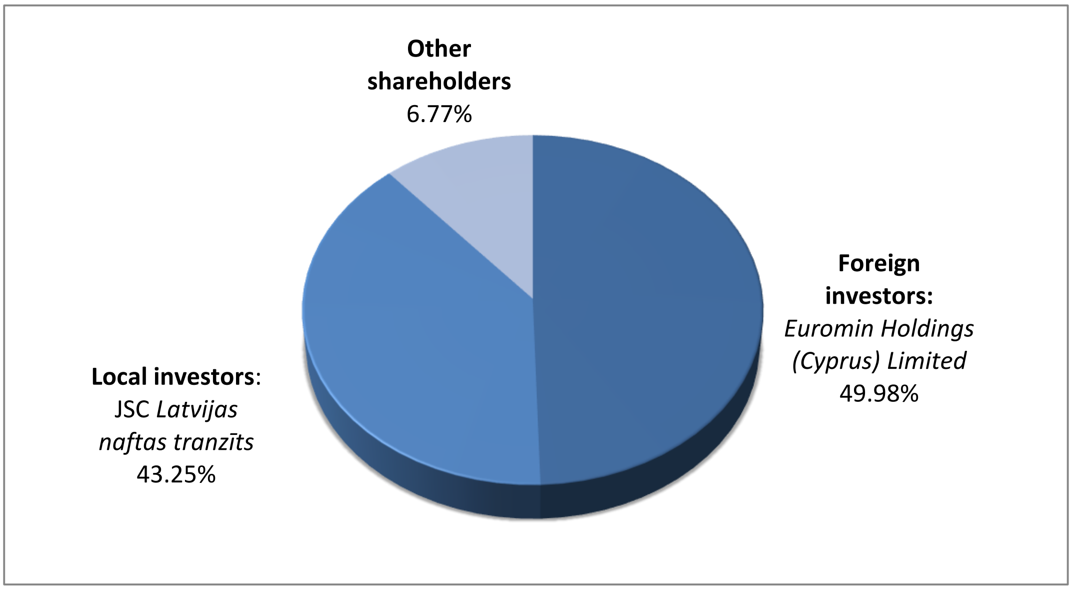
Corporate structure

Corporate structure of *JSC Ventspils nafta* at the date of signing this Annual report



Shareholders

Main shareholders (over 5%) of *JSC Ventspils nafta* as at 31 December 2014



Information about *Ventspils nafta*

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 a 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)

Key figures

	2010	2011	2012	2013	2014
Turnover (million EUR)	159.39	168.24	193.04	166.73	161.87
Net profit / (loss) (million EUR)	(93.3)	(17.34)	5.51	(61.21)	(13.98)
Gross profit before depreciation (million EUR)	56.27	57.71	72.08	69.91	63.85
% of turnover	35.3%	34.3%	37.3%	41.9%	39.4%
EBITDA (million EUR)	34.22	33.21	57.37	51.89	59.41
% of turnover	21.5%	19.7%	29.7%	31.1%	37.0%
EBIT (million EUR)	(0.54)	1.57	23.65	23.45	38.62
% of turnover	(0.3%)	0.9%	12.3%	14.1%	23.9%
Return on Assets (%)	(10.4%)	(1.9%)	0.6%	(8.6%)	(2.0%)
Return on Equity (%)	(14.56%)	(2.90%)	0.94%	(11.16%)	(2.84%)
EPS (EUR)	(0.41)	(0.10)	0.06	(0.38)	(0.07)
Liquidity ratio	2.58	3.43	3.66	3.02	3.79
Dividends (EUR per share)	-	-	-	-	-

Information on shares

ISIN	LV0000100816
Ticker	VNF1R
Nominal value	1.40 EUR
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 2014 – 31 December 2014)

Open	1.423 EUR
Max	1.500 EUR
Min	0.954 EUR
Last	1.130 EUR
Average price	1.184 EUR
Change	-20.58 %
Deals	522
No of shares traded	95 771
Turnover	114 907.69 EUR
Capitalisation on 31.12.2014	118 061 856.47 EUR

Securities trading history (2010-2014)

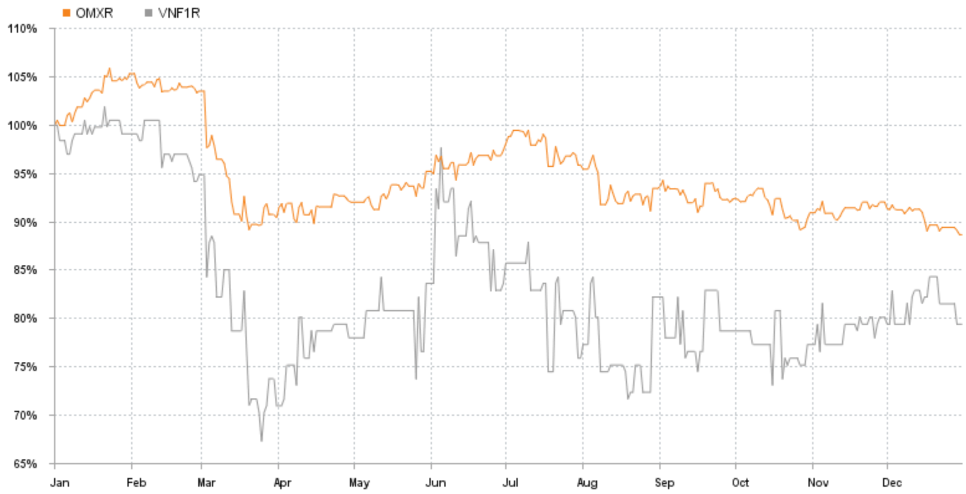
Price	2010	2011	2012	2013	2014
Open, EUR	1.309	2.062	1.707	1.522	1.423
High, EUR	2.689	2.104	1.791	1.665	1.500
Low, EUR	1.295	1.441	1.423	1.295	0.954
Last, EUR	1.992	1.707	1.522	1.423	1.130
Traded volume	1 492 345	1 632 287	1 222 348	305 600	95 771
Turnover, million EUR	3.16	3.30	2.33	0.44	0.11
Capitalisation, million EUR	208.13	178.39	159.07	148.66	118.06

Information on shares (cont'd)

Share price (EUR) (1 January 2014 – 31 December 2014)

Share price (EUR) (1 January 2010- 31 December 2014)

Share price in comparison with *NASDAQ OMX Riga* index (1 January 2014 – 31 December 2014)



Index/Equity	01.01.2014	31.12.2014	+/-%
OMX Riga	460.13	408.03	-11.32
VNF1R	1.423 EUR	1.130 EUR	-20.58

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