



VENTSPILS NAFTA

**CORPORATE GOVERNANCE REPORT OF
JOINT STOCK COMPANY "VENTSPILS NAFTA"
FOR 2014**

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Corporate Governance Report

I Introduction

The present corporate governance report (hereafter – the Report) of joint stock company Ventspils nafta (hereafter – Ventspils nafta) is prepared for year 2014 on the basis of requirements of Section 56² of the Financial Instrument Market Law, Article 15.14. of the NASDAQ OMX Riga rules “On Listing and Trading of Financial Instruments on the Markets Regulated by the Exchange” and the “Corporate Governance Principles and Recommendations on their Implementation” issued by NASDAQ OMX Riga, which became effective on June 1, 2010 and are available on the web site www.nasdaqomxbaltic.com in the section “Exchange Information”, subsection “Rules and regulations”. The Report has been drawn up by the Management Board of Ventspils nafta and reviewed by the Supervisory Council of Ventspils nafta.

The Report has been prepared based on the “comply or explain” principle recommended in the “Corporate Governance Principles and Recommendations on their Implementation” issued by NASDAQ OMX Riga.

In 2014 Ventspils nafta has complied with most of the corporate governance principles comprised by the “Corporate Governance Principles and Recommendations on their Implementation” issued by NASDAQ OMX Riga. The principles that Ventspils nafta did not comply with in 2014 are covered by this report, explaining the reasons of actions of Ventspils nafta in not observing or not completely implementing them.

The information mentioned in Section 56² Paragraph 2 Clauses 5 and 7 and Section 56¹ Paragraph 1 Clauses 3, 4, 6, 8 and 9 of the Financial Instrument Market Law is provided in the consolidated annual report of Ventspils nafta for 2014, which is available on the Ventspils nafta Internet website www.vnafta.lv.

The present report has been submitted to JSC “NASDAQ OMX Riga” together with the audited consolidated annual report of Ventspils nafta for 2014, which is published in Latvian and English language on the Ventspils nafta Internet website www.vnafta.lv in the section *For investors*.

Riga, March 20, 2015

Chairman of the Management Board of

Joint stock company “Ventspils nafta

Robert Kirkup

II PRINCIPLES OF GOOD CORPORATE GOVERNANCE

SHAREHOLDERS' MEETING

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

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

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

Principle	Status in 2014	Explanation
1.1. It shall be important to ensure that all the holders of shares of one category also have equal rights, including the right to receive a share of the Issuer's profit as dividends or in another way in proportion to the number of the shares owned by them if such right is stipulated for the shares owned by them.	Complied	<i>Since May 1, 2013, all shares of Ventspils nafta are listed in the Official List regulated by NASDAQ OMX Riga. On June 11, 2014, at regular shareholders' meeting, Ventspils nafta bearer shares were denominated from lats to euro. After denomination, the share capital of Ventspils nafta is EUR 146'271'326.60, which is divided into 104'479'519 bearer shares with each share's nominal value EUR 1.40. Denomination of Ventspils nafta bearer shares was started as from July 1, 2014.</i>
1.2. The Issuer shall prepare a policy for the division of profit. In the preparation of the policy, it is recommended to take into account not only the provision of immediate benefit for the Issuer's shareholders by paying dividends to them but also the expediency of profit reinvesting, which would increase the value of the Issuer in future. It is recommended to discuss the policy of profit division at a shareholders' meeting thus ensuring that as possibly larger a number of shareholders have the possibility to acquaint themselves with it and to express their opinion on it. The Report shall specify where the Issuer's profit distribution policy is made available	Not complied	<i>Profit distribution of Ventspils nafta takes place in accordance with the procedure established by the Commercial Law, from time to time passing a respective resolution of the shareholders' meeting, inter alia, deciding about payment of dividends. Taking into account that the Management Board and Supervisory Council of Ventspils nafta has not received any proposals from its shareholders regarding profit distribution policy, the administrative bodies of Ventspils nafta have not ruled about development of a profit distribution policy. A separate profit distribution policy of Ventspils nafta is not developed at present.</i>

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<p>1.3. In order to protect the Issuer's shareholders' interest to a sufficient extent, not only the Issuers but also any other persons who in compliance with the procedure stipulated in legislative acts convene, announce and organize a shareholders' meeting are asked to comply with all the issues referred to in these Recommendations in relation to convening shareholders' meetings and provision of shareholders with the required information.</p>	<p>Complied</p>	<p><i>In 2014 shareholders' meetings were convened only by the Management Board of Ventspils nafta, which complied with all the matters mentioned in these Recommendations in relation to convening shareholders' meetings and provision of shareholders with the required information.</i></p> <p><i>Only one shareholders' meeting was convened in 2014.</i></p>
<p>1.4. Shareholders of the Issuer shall be provided with the possibility to receive in due time and regularly all the required information on the relevant Issuer, participate at meetings and vote on agenda issues. The Issuers shall carry out all the possible activities to achieve that as many as possible shareholders participate at meetings; therefore, the time and place of a meeting should not restrict the attendance of a meeting by shareholders. Therefore, it should not be admissible to change the time and place of an announced shareholders' meeting shortly before the meeting, which thus would hinder or even make it impossible for shareholders to attend the meeting.</p>	<p>Complied</p>	<p><i>In 2014 Ventspils nafta disclosed information in accordance with requirements of the Financial Instrument Market Law and rules of JSC "NASDAQ OMX Riga". Each shareholders' meeting was announced by Ventspils nafta at least 30 days in advance, at first placing information in Latvian and English language in the Official Centralised Storage System of Obligatory Information and on the internet website of JSC "NASDAQ OMX Riga", and afterwards publishing a notification on convocation of a shareholders' meeting at least in one newspaper, in 2014 the announcement on convocation of regular shareholders' meeting taking place on June 11, 2014 was published in the newspaper "Diena", as well as by sending information to JSC "Latvijas Centrālais depozitārijs", which further sent the information to holders of financial instrument accounts.</i></p> <p><i>Ventspils nafta provided a form of authorisation in electronic form, as well as ensured that the authorisation form is available at the Official Centralised Storage System of Obligatory Information, internet websites of JSC "NASDAQ OMX Riga" and Ventspils nafta also after an announcement about shareholders' meeting has been given.</i></p> <p><i>Draft resolutions of shareholders' meeting were published at least 14 prior to the shareholders' meeting in Latvian and English language in the Official Centralised Storage System of Obligatory Information, internet websites of JSC "NASDAQ OMX Riga" and Ventspils nafta.</i></p>

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		<i>Venue of shareholders' meeting in 2014 were conference rooms in a hotel in Riga centre, and the time did not limit arrival of shareholders to the meeting because the time and venue of the shareholders meeting were chosen, considering the expected number of shareholders that might attend the shareholders' meeting. Ventspils nafta did not change the time and venue of the announced shareholders' meeting in 2014.</i>
1.5. The Issuers shall inform their shareholders on convening a shareholders' meeting by publishing a notice in compliance with the procedure and the time limits set forth in legislative acts. The Issuers are asked to announce the shareholders' meeting as soon as the decision on calling the shareholders' meeting has been taken; in particular, this condition applies to extraordinary shareholders' meetings. The information on calling a shareholders' meeting shall be published also on the Issuer's website on the Internet, where it should be published also at least in one foreign language. It is recommended to use the English language as the said other language so that the website could be used also by foreign investors. When publishing information on calling a shareholders' meeting, also the initiator of calling the meeting shall be specified.	Complied	<i>See the explanation at item 1.4. Additionally, when publishing information on convocation of a shareholders' meeting, the initiator for convening the meeting was also specified.</i>
1.6. The Issuer shall ensure that complete information on the course and time of the meeting, the voting on decisions to be adopted, as well as the agenda and draft decisions on which it is planned to vote at the meeting is available in due time to the shareholders. The Issuer shall also inform the shareholders about whom they can address to receive answers to any questions on the arrangements for the shareholders' meeting and the agenda issues and ensure that the required additional information is provided to the shareholders.	Complied	<i>See the explanation at item 1.4. Additionally, when publishing information about convocation of a shareholders' meeting, Ventspils nafta specifies telephone number and address for shareholders to turn to in order to receive answers to any questions about the course of the shareholders' meeting and issues on the agenda, as well as ensures that the required additional information is provided to shareholders.</i>
1.7. The Issuer shall ensure that at least 14 (fourteen) days prior to the meeting the shareholders have the possibility to	Complied	<i>See the explanation at item 1.4.</i>

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<p>acquaint themselves with the draft decisions on the issues to be dealt with at the meeting, including those that have been submitted additionally already after the announcement on calling the meeting. The Issuer shall ensure the possibility to read a complete text of draft decisions, especially if they apply to voting on amendments to the Issuer's Articles of Association, election of the Issuer's officials, determination of their remuneration, division of the Issuer's profit and other relevant issues.</p>		
<p>1.8. In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for council elections. The candidates to the council and candidates to other offices shall be nominated in due time so that the information on the said persons would be available to the shareholders to the extent as stipulated in Clause 1.9 of this Section as minimum 14 (fourteen) days prior to the shareholders' meeting.</p>	<p>Partially complied</p>	<p><i>In 2014, in relation to election of a new Supervisory Council, Ventspils nafta did not publish information about the candidates of Supervisory Council members. According to the Commercial Law of the Republic of Latvia, a shareholder or group of shareholders are entitled to nominate for election to the Supervisory Council their candidates on the basis of a calculation such that by dividing the capital with voting rights represented by the shareholder or group of shareholders by the number of candidates to be nominated, each of the candidates shall have not less than five per cent of the capital with voting rights represented at the meeting of shareholders. Therefore, nomination of Supervisory Council member candidates is an exclusive competence of shareholders. The Management Board of Ventspils nafta asks shareholders to timely nominate candidates of Supervisory Council members so that it would be possible for shareholders to familiarise with the information about candidates of Supervisory Council members at least 14 (fourteen) days before the meeting.</i></p>
<p>1.9. Special attention should be paid that the shareholders at least 14 (fourteen) days prior to the shareholders' meeting have the possibility to acquaint themselves with information on council member candidates and audit committee member candidates whose approval is planned at the meeting. When disclosing the said information, also a short personal biography of the</p>	<p>Partially complied</p>	<p><i>See the explanation at item 1.8. Election of an Audit Committee did not take place in 2014.</i></p>

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<p>candidates shall be published.</p>		
<p>1.10. The Issuer may not restrict the right of shareholders to consult among them during a shareholders' meeting if it is required in order to adopt a decision or to make clear some issue.</p>	<p>Complied</p>	<p><i>Ventspils nafta does not restrict the rights of shareholders to consult among each other during a meeting if it is necessary to take a decision or clear some issue.</i></p>
<p>1.11. In order to provide shareholders with complete information on the course of the shareholders' meeting, the Issuer shall prepare the regulations on the course of shareholders' meeting, establishing the procedure of shareholders' meeting and the procedure for solving any organizational issues connected with the shareholders' meeting (e.g., registration of shareholders for the meeting, the procedure for the adoption of decisions on the issues to be dealt with at the meeting, the Issuer's actions in case any of the issues on the agenda are not dealt with, if it is impossible to adopt a decision etc.). The procedures adopted by the Issuer in relation to participation in voting shall be easy to implement.</p>	<p>Complied</p>	<p><i>In order to ensure quick registration of shareholders for the meeting and to deal with the possible problem situations in good time, upon announcing a shareholders' meeting, Ventspils nafta states that Ventspils nafta shareholders must inform the Management Board of Ventspils nafta about representatives and authorised persons of the shareholders who will participate in the shareholders' meeting, by submitting copies of powers of attorneys or documents certifying authorisation at least 5 (five) days prior to the day of the shareholders' meeting.</i></p> <p><i>Also, with a view to preserve nature, Ventspils nafta shareholders must inform Ventspils nafta at least 5 (five) days prior to the shareholders' meeting about necessity to receive a separate copy of draft resolution in paper form upon registration for the meeting.</i></p> <p><i>In 2014, in shareholders' meetings of Ventspils nafta, the chairman of the meeting who was elected in accordance with the Commercial Law proposed to establish a procedure (regulations) of discussing issues and adopting resolutions at the shareholders' meeting, which was in force only if the shareholders' meeting approved it with majority of votes.</i></p>
<p>1.12. The Issuer shall ensure that during the shareholders' meeting the shareholders have the possibility to ask questions to the candidates to be elected at the shareholders' meeting and other attending representatives of the Issuer. The Issuer shall have the right to set reasonable restrictions on questions, for example, excluding the possibility that one shareholder uses up the total time provided for asking of questions and setting a time limit of</p>	<p>Complied</p>	<p><i>See the explanation at item 1.11</i></p>

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

2. Participation of members and member candidates of the Issuer's administrative bodies at shareholders' meetings

Shareholders' meetings shall be attended by the Issuer's board members, auditor, and as possibly many council members.

Principle	Status in 2014	Explanation
2.1. The attendance of members of the Issuer's management institutions and auditor at shareholders' meetings shall be necessary to ensure information exchange between the Issuer's shareholders and members of management institutions as well as to fulfil the right of shareholders to receive answers from competent persons to the questions submitted. The attendance of the auditor shall not be mandatory at shareholders' meetings at which issues connected with the finances of the Issuer are not dealt with. By using the right to ask questions, shareholders have the possibility to obtain information on the circumstances that might affect the evaluation of the financial report and the financial situation of the Issuer.	Partially complied	<i>The Chairman of the Management Board, as well as the auditor's representatives participated in the shareholders' meetings in 2014. Members of the Supervisory Council and Management Board did not participate in the shareholders' meeting due to important reasons.</i>
2.2. Shareholders' meeting shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall in particular apply to council members. If a council member candidate or auditor candidate is unable to attend the shareholders' meeting due to an important reason, then it shall be admissible that this person does not attend the shareholders' meeting. In this case, all the substantial information on the candidate shall be	Partially complied	<i>In 2014 shareholders' meeting was attended by individual candidates of Supervisory Council members. A part of the candidates for the position of Supervisory Council member did not participate because they had an important reason. Election of the Audit Committee did not take place in 2014.</i> <i>See the explanation also at the item 1.8.</i>

disclosed before the shareholders' meeting.		
2.3. During shareholders' meetings, the participants must have the possibility to obtain information on officials or official candidates who do not attend the meeting and reasons thereof. The reason of non-attendance should be entered in the minutes of shareholders' meeting.	Partially complied	<i>During shareholders' meeting it was possible for participants of the meeting to obtain information about officials or candidates of officials who did not attend the meeting and about the reasons for their non-attendance. It is recorded in the minutes of the shareholders' meeting which officials have arrived to the shareholders' meeting.</i>

BOARD

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

3. Obligations and responsibilities of the Board

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

Principle	Status in 2014	Explanation
3.1. The board shall have the obligation to manage the business of the Issuer, which includes also the responsibility for the realization of the objectives and strategies determined by the Issuer and the responsibility for the results achieved. The board shall be responsible for the said to the council and the shareholders' meeting. In fulfilment of its obligations, the board shall adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests.	Complied	<i>In accordance with the Articles of Association, the Management Board of Ventspils nafta consists of four members. In 2014 the Management Board worked in composition of three members. The Management Board of Ventspils nafta adopts resolutions in meetings of the Management Board, with at least three Management Board members voting "for". In compliance with the Commercial Law, members of the Management Board of Ventspils nafta fulfil their duties as a decent and careful manager, avoiding conflicts of interests. With consent of the Supervisory Council, the Management Board approves the annual budget, the Management Board quarterly gives a report on its activity to the Supervisory Council, and in the end of the year – to the shareholders' meeting. The Management Board informs the Supervisory Council about all the relevant aspects of operation of Ventspils nafta.</i>
3.2. The powers of the board shall be stipulated in the Board Regulations or a	Complied	<i>The powers of the Management Board of Ventspils nafta are stipulated by the</i>

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<p>similar document, which is to be published on the website of the Issuer on the Internet. This document must be also available at the registered office of the Issuer.</p>		<p><i>Regulations of the Management Board, which has been developed on the basis of the Articles of Association of Ventspils nafta and provisions of the Commercial Law. The Regulations of the Management Board of Ventspils nafta are available also at the office of Ventspils nafta, as well as on the internet website.</i></p>
<p>3.3. The board shall be responsible also for the compliance with all the binding regulatory acts, risk management, as well as the financial activity of the Issuer.</p>	<p>Complied</p>	
<p>3.4. The board shall perform certain tasks, including:</p> <ol style="list-style-type: none"> 1) assessment of implementation and advancement of corporate strategies, the set work plans, risk control procedures, annual budget and business plans, ensuring control on the fulfilment of plans and the achievement of planned results; 2) selection of senior managers of the Issuer, determination of their remuneration, control of their work and their replacement, if necessary, in compliance with internal procedures (e.g. pursuant to the personnel policy adopted by the Issuer, remuneration policy etc.); 3) timely and qualitative submission of reports, ensuring also that the internal audits are carried out, as well as control of disclosure of information. 	<p>Complied</p>	
<p>3.5. In annual reports, the board shall confirm that the internal risk procedures are efficient and that the risk management and internal control have been carried out in compliance with the said control procedures throughout the year.</p>	<p>Complied</p>	
<p>3.6. It shall be preferable that the board submits decisions that determine the objectives and strategies for achievement thereof (participation in other companies, acquisition or alienation of property, expansion of business by opening representation offices or branches, or by expanding the area of activity, etc.) to the Issuer's council for approval.</p>	<p>Complied</p>	<p><i>According to the Articles of Association of Ventspils nafta, the Regulations of the Management Board and Supervisory Council, the Management Board shall receive consent of the Supervisory Council for important decisions. This requirement was fully complied with in 2014.</i></p>

4. Board composition and requirements for board members

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

Principle	Status in 2014	Explanation
4.1. In composing the board, it shall be observed that every board member has appropriate education and work experience. The Issuer shall prepare a summary of the requirements to be set for every board member, which specifies the skills, education, previous work experience and other selection criteria for every board member.	Complied	<i>All members of the Management Board of Ventspils nafta have appropriate education and work experience each in their own area.</i>
4.2. On the Issuer's website on the Internet, the following information on every Issuer's board member shall be published: name, surname, year of birth, education, office term, position, description of the last three year's professional experience, number of the Issuer's or its parent companies/subsidiaries shares owned by the member, information on positions in other capital companies.	Complied	
4.3. In order to fulfil their obligations successfully, board members must have access in due time to accurate information on the activity of the Issuer. The board must be capable of providing an objective evaluation on the activity of the Issuer. Board members must have enough time for the performance of their duties.	Complied	
4.4. It is not recommended to elect one and the same board member for more than four successive terms. The Issuer has to evaluate whether its development will be facilitated in the result of that and whether it will be possible to avoid a situation where greater power is concentrated in hands of one or a number of separate persons due to their long-term work at the Issuer. If, however, such election is admitted, it shall be recommended to consider to change the field of work of the relevant Board member at the Issuer.	Complied	<i>None of the Management Board members have been elected to the Management Board more than four successive terms.</i>

5. Identification of interest conflicts in the work of board members

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

Principle	Status in 2014	Explanation
5.1. It shall be the obligation of every board member to avoid any, even only supposed, interest conflicts in his/her work. In taking decisions, board members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit..	Complied	
<p>5.2. In case of occurrence of any interest conflict or even only on its possibility, a board member shall notify other board members about that without delay. Board members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the board member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements.</p> <p>For the purposes of these Recommendations the following shall be regarded as persons who have close relationship with a board member: spouses, a relative, or brother-in-law, counting kinship of second degree and affinity of first degree, or persons with whom the board member has had a common household for at least one year. For the purposes of these recommendations the following shall be regarded as persons who are connected with a board member: legal persons where the board member or a closely related to him/her person is a board or council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.</p>	Complied	<i>A member of the Management Board of Ventspils nafta immediately notifies other Management Board members about occurrence of any interest conflict or even only its possibility. A Management Board member notifies about any deal or agreement that Ventspils nafta is planning to conclude with a person who has close relationship with the Management Board member or who is connected with the Management Board member, as well as informs about any interest conflicts that have occurred during the validity period of the concluded agreements.</i>
5.3. Board members should not participate in taking decisions that could cause an interest conflict.	Complied	<i>A Management Board member does not participate in taking of such decisions that might cause a conflict of interests.</i>

COUNCIL

In compliance with legal acts a council is the institution that supervises the Issuer and represents interests of shareholders between meetings in cases stipulated in the law and in the articles of association of the Issuer, supervises the work of the board.

6. Obligations and responsibilities of the council

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

Principle	Status in 2014	Explanation
6.1. The functions of the council shall be set forth in the council regulation or a document equated thereto that regulates the work of the council, and it shall be published on the Issuer's website on the Internet. This document shall be also available at the Issuer's office.	Complied	<i>Functions of the Supervisory Council of Ventspils nafta are prescribed by the Regulations of the Supervisory Council, which has been developed on the basis of the Articles of Association of Ventspils nafta and provisions of the Commercial Law. The Regulations of the Supervisory Council of Ventspils nafta are available at the office, as well as are published on the internet website.</i>
6.2. The supervision carried out by the council over the work of the board shall include supervision over the achievement of the objectives set by the Issuer, the corporate strategy and risk management, the process of financial accounting, board's proposals on the use of the profit of the Issuer, and the business performance of the Issuer in compliance with the requirements of regulatory acts. The council should discuss every of the said matters and express its opinion at least annually, complying with such frequency of convening council meetings as laid down in regulatory acts, and the results of discussions shall be reflected in the minutes of the council's meetings.	Complied	<i>In 2014 the Supervisory Council carried out sufficient supervision of the Management Board, including achievement of the goals of Ventspils nafta, corporate strategy and risk management, the process of financial accounting, business performance of Ventspils nafta in compliance with requirements of regulatory acts, as well as other issues, reviewing of which is in competence of the Supervisory Council. The course of meetings of the Supervisory Council and the adopted resolutions are reflected by minutes of the Supervisory Council meetings.</i>
6.3. The council and every its member shall be responsible that they have all the information required for them to fulfil their duties, obtaining it from board members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the council chairperson shall	Complied	<i>In 2014 all the information necessary for fulfilment of duties was at disposal of the Supervisory Council of Ventspils nafta. Regular information exchange takes place between the Chairman of the Management Board and the Chairman of the Supervisory Council of Ventspils nafta.</i>

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<p>contact the Issuer's board, inter alia the board chairperson, on a regular basis and discuss all the most important issues connected with the Issuer's business and development strategy, business activities, and risk management.</p>		
<p>6.4. When determining the functions of the council, it should be stipulated that every council member has the obligation to provide explanations in case the council member is unable to participate in council meetings. It shall be recommended to disclose information on the council members who have not attended more than a half of the council meetings within a year of reporting, providing also the reasons for non-attendance.</p>	<p>Complied</p>	<p><i>Normally Supervisory Council members inform the Chairman of the Supervisory Council in due time if they cannot participate in the Supervisory Council meeting.</i></p> <p><i>In 2014 the Supervisory Council worked in two different compositions. In total 11 meetings of the Supervisory Council were held in 2014, out of which 8 were held in the composition of the Supervisory Council, the term of office of which discontinued on June 11, 2014, in turn 3 Supervisory Council meetings – in the composition that was elected on June 11, 2014.</i></p> <p><i>The Supervisory Council members Vladimir Egger, Rubil Yilmaz, Simon Boddy, Rudolf Meroni, David Guy Anstis, Nauris Berķis, Jānis Berķis and Ivars Bērziņš worked in both compositions of the Supervisory Council.</i></p> <p><i>In 2014, Mikhail Dvorak, Javed Ahmed and Christophe T.Matsacos worked additionally in the composition of the Supervisory Council with the term of office from October 17 2013 until June 11, 2014. As mentioned before, eight Supervisory Council meetings were held in this composition in 2014.</i></p> <p><i>In 2014, Andrea Clare Schlaepfer, Varvara Maximova and Yulia Vereshchagina worked additionally in the composition of the Supervisory Council with the term of office starting on June 11, 2014. As mentioned before, three Supervisory Council meetings were held in this composition in 2014.</i></p> <p><i>In 2014, the Supervisory Council members Vladimir Egger and Ivars Bērziņš, Javed Ahmed, Christophe T. Matsacos, Varvara Maximova and Yulia Vereshchagina have participated in all Supervisory Council meetings, in which the mentioned Supervisory Council members had the obligation to participate. The Supervisory</i></p>

		<p><i>Council member Rubil Yimaz has participated in ten Supervisory Council meetings and has not participated in one meeting. The Supervisory Council member Andrea Clare Schlaepfer has participated in two Supervisory Council meetings out of three. In turn the Supervisory Council member Nauris Berķis has participated in one Supervisory Council meeting out of eleven in 2014. Mkhaid Dvorak, Rudolf Meroni, David Guy Anstis and Jānis Berķis have not participated in any of the Supervisory Council meetings in 2014.</i></p>
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7. Council composition and requirements for council members

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

Principle	Status in 2014	Explanation
7.1. The Issuer shall require every council member as well as council member candidate who is planned to be elected by a shareholders' meeting that they submit to the Issuer the following information: name, surname, year of birth, education, office term as a council member, description of the last three year's professional experience, number of shares of the Issuer or its parent companies/subsidiaries owned by the member, information on positions in other enterprises. The said information shall be published also on the Issuer's website on the Internet, providing, in addition to the said information, also the term of office for which the council member is elected, its position, including also additional positions and obligations, if any.	Complied	<i>Ventspils nafta requires the mentioned information from Supervisory Council members and has published it on its internet website.</i>
7.2. When determining the requirements for council members as regards the number of additional positions, attention shall be paid that a council member has enough time to perform his or her duties in order to fulfil their duties successfully and act in the interests of the Issuer to a full extent.	Complied	<i>Ventspils nafta pays attention that Supervisory Council members have enough time to perform their duties in order to fulfil their duties successfully and to act in the interests of Ventspils nafta to a full extent.</i>
7.3. In establishing the Issuer's council, the qualification of council members should be taken into account and assessed on a	Complied	<i>Ventspils nafta takes into account and evaluates qualification of Supervisory</i>

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<p>periodical basis. The council should be composed of individuals whose knowledge, opinions and experience is varied, which is required for the council to fulfil their tasks successfully.</p>		<p><i>Council members.</i></p>
<p>7.4. Every council member in his or her work shall be as possibly independent from any external circumstances and have the will to assume responsibility for the decisions taken and comply with the general ethical principles when taking any decisions in relation to the business of the Issuer.</p>	<p>Complied</p>	<p><i>Ventspils nafta asks Supervisory Council members to be utmost independent from any external circumstances in their work and to observe general ethical principles when taking any decisions related to the business of Ventspils nafta.</i></p>
<p>7.5. It is impossible to compile a list of all the circumstances that might threaten the independence of council members or that could be used in assessing the conformity of a certain person to the status of an independent council member. Therefore, the Issuer, when assessing the independence of council members, shall be guided by the independence criteria of council members specified in the Annex hereto.</p>	<p>Not complied</p>	<p><i>Members of the Supervisory Council of Ventspils nafta are nominated for election into composition of the Supervisory Council and are working in accordance with provisions of the Commercial Law, according to which Supervisory Council members are independent and unaffected in decision-making process. However, considering that Supervisory Council members represent the interests of shareholders, as well as they have been nominated for election to the Supervisory Council by particular shareholders, in terms of the independence criteria of council members mentioned in Appendix to the "Corporate Governance Principles and Recommendations on their Implementation" issued by NASDAQ OMX Riga they cannot be regarded as independent.</i></p>
<p>7.6. It shall be recommended that at least a half of council members are independent according to the independence criteria specified in the Annex hereto. If the number of council members is an odd number, the number of independent council members may be one person less than the number of the council members who do not conform to the independence criteria specified in the Annex hereto.</p>	<p>Not complied</p>	<p><i>See comment at the item 7.5.</i></p>
<p>7.7. A person who conforms to the independence criteria specified in the Annex hereto shall be considered as independent. If a council member does not conform to any of to the independence criteria specified in the Annex hereto but the Issuer does consider the council member in question to be independent, then it shall provide an explanation of its opinion in detail on the</p>	<p>Not complied</p>	<p><i>See comment at the item 7.5.</i></p>

tolerances permitted.		
7.8. The conformity of a person to the independence criteria specified in the Annex hereto shall be evaluated already when the council member candidate in question has been nominated for election to the council. The Issuer shall specify every year in the Report which of the council members are to be considered as independent.	Not complied	<i>See comment at the item 7.5.</i>

8. Identification of interest conflicts in the work of council members

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

Principle	Status in 2014	Explanation
8.1. It shall be the obligation of every council member to avoid any, even only supposed, interest conflicts in his/her work. When taking decisions, board members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit.	Complied	
8.2. In case of occurrence of any interest conflict or even only on its possibility, a council member shall notify other council members about that without delay. Council members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the council member in question, as well as inform on any interest conflicts that have occurred during the validity period of concluded agreements. For the purposes of these Recommendations the following shall be regarded as persons who have close relationship with a council member: spouses, a relative, or brother-in-law, counting kinship of second degree and affinity of first degree, or persons with whom the council member has had a common household for at least one year. For the purposes of these recommendations the following shall be regarded as persons who are connected with a council member: legal persons where the council member or	Complied	<i>Members of the Supervisory Council of Ventspils nafta immediately notify the other Supervisory Council members about occurrence of any interest conflict or even only its possibility.</i>

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a closely related to him/her person is a board or council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.		
8.3. A council member who is in a possible situation of interest conflict should not participate in taking decisions that might be a cause of this interest conflict.	Complied	<i>Members of the Supervisory Council member of Ventspils nafta who are in a possible situation of interest conflict does not participate in taking such decisions that might be a cause of this interest conflict.</i>

DISCLOSURE OF INFORMATION

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

9. Transparency of the Issuer’s business

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

Principle	Status in 2014	Explanation
9.1. The structure of corporate governance shall be established in a manner that ensures provision of timely and comprehensive information on all the substantial matters that concern the Issuer, including its financial situation, business results, and the structure of owners.	Complied	<i>The corporate governance structure of Ventspils nafta is established so as to ensure provision of timely and comprehensive information on all the substantial matters concerning Ventspils nafta, including its financial situation, business results and structure of owners.</i>
9.2. The information to be disclosed shall be checked, precise, unambiguous and prepared in compliance with high-quality standards.	Complied	<i>Information disclosed by Ventspils nafta is checked, precise, unambiguous and prepared in compliance with high-quality standards.</i>
9.3. The Issuers should appoint a person who would be entitled to contact the press and other mass media on behalf of the Issuer, thus ensuring unified distribution of information and avoiding publication of contradictory and untruthful information, and this person could be contacted, if necessary, by the Stock Exchange and investors.	Complied	<i>Ventspils nafta has appointed a person who is entitled to contact the press and other mass media on behalf of Ventspils nafta, thus ensuring unified distribution of information and avoiding publication of contradictory and untruthful information, and this person can be contacted by both the Stock Exchange and investors, if necessary.</i>

<p>9.4. The Issuer should ensure preparation and disclosure of financial statements and annual reports of the Issuer in due time and in compliance with the established requirements. The procedure for the preparation of reports should be stipulated in the internal procedures of the Issuer.</p>	<p>Complied</p>	<p><i>In 2014 Ventspils nafta ensured preparation and disclosure of the financial statements and annual reports of Ventspils nafta in due time and in compliance with the established requirements. The procedure for preparation of reports is stipulated in the internal procedures of Ventspils nafta.</i></p>
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10. Investor relations

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

Principle	Status in 2014	Explanation
<p>10.1 The main objectives of the IR are the provision of accurate and truthful information on the business of the Issuer to participants of finance market, as well as ensuring a feedback, i.e. receiving references from the existing and potential investors and other persons. In the realization of the IR process, it shall be born in mind that the target group consists not only of institutional investors and finance market analysts. A greater emphasis should be put on individual investors, and more importance should be attached to informing other interested parties: employees, creditors and business partners.</p>	<p>Complied</p>	<p><i>Ventspils nafta provides precise and truthful information related to the business of Ventspils nafta to participants of the finance market, as well as ensures feedback, i.e., receiving references from the existing and potential investors and other persons.</i></p>
<p>10.2. The Issuer shall provide all investors with equal and easily accessible important information related to the Issuer's business, including financial position, ownership structure and management. The Issuer shall present the information in a clear and understandable manner, disclosing both positive and negative facts, thus providing the investors with a complete and comprehensive information on the Issuer, allowing the investor to assess all information available before the decision making.</p>	<p>Complied</p>	<p><i>Ventspils nafta provides all investors with equal and easily accessible important information related to Ventspils nafta, including financial position, ownership structure and management. Ventspils nafta presents the information in a clear and understandable manner, disclosing both positive and negative facts in relation to Ventspils nafta, thus providing the investors with a complete and comprehensive information about Ventspils nafta, allowing the investors to assess all information available before the decision making.</i></p>
<p>10.3 A number of channels shall be used for the information flow in the IR. The IR strategy of the Issuer shall be created using both the possibilities provided by</p>	<p>Complied</p>	<p><i>For information flow in the IR Ventspils nafta uses the possibilities provided by technologies, relations with the mass media, as well as connections with</i></p>

<p>technologies (website) and relations with mass media and the connections with the participants of finance market. Considering the development stage of modern technologies and the accessibility thereof, the Internet is used in the IR of every modern company. This type of media has become one of the most important means of communications for the majority of investors.</p>		<p><i>participants of the finance market.</i></p>
<p>10.4. The basic principles that should be observed by the Issuers in preparing the IR section of their websites:</p> <ol style="list-style-type: none"> 1) The IR section of website shall be perceived not only as a store of information or facts but also as one of the primary means of communication by means of which it is possible to inform the existing and potential shareholders; 2) all the visitors of the IR section of website shall have the possibility to obtain conveniently all the information published there. Information on websites shall be published in all the foreign languages in which the Issuer normally distributes information so that in no way would foreign investors be discriminated, however, it shall be taken into account that information must be disclosed at least in Latvian and English; 3) It shall be recommended to consider a solution that would allow the existing and potential investors to maintain a connection with the Issuer by using the IR section of website – to submit questions and receive answers thereto, to sign up for the latest information, express their opinions etc.; 4) the information published on websites shall be updated on a regular basis, and the news in relation to the Issuer and its business shall be published in due time. It shall not be admissible that outdated information that could mislead investors is found on websites; 5) after the website is created, the creators themselves should assess the IR section of the website from the point of view of users – whether the information 	<p>Complied</p>	<p><i>The IR section of the website of Ventspils nafta is created, taking into account these recommendations.</i></p>

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<p>of interest can be found easily, whether the information published provides answers to the most important questions etc.</p>		
<p>10.5. The Issuer shall ensure that at least the following information is contained in the IR section of website:</p> <ol style="list-style-type: none"> 1) general information on the Issuer - history of its establishment and business, registration data, description of industry, main types of business; 2) Issuer's Report ("comply or explain") on the compliance with the principles of corporate governance; 3) Number of issued and paid financial instruments, specifying how many of them are included in regulated market; 4) information about organising shareholders' meetings, draft resolutions to be examined, resolutions adopted – at least for the last reporting year; 5) Issuer's Articles of Association; 6) Issuer's board or council regulation or a document equated thereto that regulates their work, as well as the Issuer's remuneration policy (or a reference where it is made available) and the shareholders' meeting procedure regulation, if such has been adopted; 7) Information on the performance of the Issuer's Audit Committee; 8) information about the Issuer's present council and board members (about each individually): professional work experience, education, number of the Issuer's shares owned by the member (as at the beginning of year; the information shall be updated as necessary but at least annually), information on positions in other enterprises, and the term of office of board and council members; 9) Issuer's shareholders owning at least 5% of the Issuer's shares; and information on changes of shareholders; 10) Financial statements and annual reports of the Issuer prepared in compliance with the procedure specified in legal acts and the Stock Exchange regulations; 	<p>Complied</p>	<p><i>The IR section of the website of Ventspils nafta contains the recommended information.</i></p>

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

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

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

To ensure successful work of the Issuer, it is necessary to plan its regular control and to establish the procedure of internal and external control (audit).

Principle	Status in 2014	Explanation
11.1. To ensure successful operation, the Issuer shall control its work on a regular basis and define the procedure of internal control.	Complied	<i>Ventspils nafta has defined procedure of internal control.</i>
11.2. The goal of risk management is to ensure that the risks connected with the commercial activity of the Issuer are identified and supervised. To ensure an efficient risk management, it shall be necessary to define the basic principles of risk management. It is recommended to characterize the most essential potential and existing risks in relation to the business of the Issuer.	Complied	<i>Ventspils nafta has characterised the most essential potential and existing risks in relation to the business of Ventspils nafta.</i>
11.3 Auditor shall be granted access to the information required for the fulfilment of the auditor's tasks and the possibility to attend council and board meetings, in which financial and other matters are dealt with.	Complied	<i>The auditor has access to all the information necessary to carry out its duties.</i>
11.4 Auditors shall be independent in their work and their task shall be to provide the Issuer with independent and objective auditing and consultation services in order to facilitate the efficiency of the Issuer's business and to provide support in achieving the objectives set for the Issuer's management by offering a systematic approach for the assessment and improvement of risk management and	Complied	<i>Each year after finishing audit, the auditor gives an assessment and proposals for improvement of the risk management and control processes of Ventspils nafta.</i>

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control processes.		
11.5. It shall be recommended to carry out an independent internal control at least annually in order to assess the work of the Issuer, including its conformity to the procedures approved by the Issuer.	Complied	<i>The Internal Audit Department of Ventspils nafta regularly carries out independent internal audits to evaluate the work of Ventspils nafta.</i>
11.6 When approving an auditor, it is recommended that the term of office of one auditor is not the same as the term of office of the board.	Complied	<i>Each year the shareholders' meeting of Ventspils nafta elects an auditor for the next reporting year.</i>

12. The Issuer's Audit Committee

The Audit Committee shall be established by a resolution of the Issuer's shareholders' meeting, and its operations and scope of responsibilities shall be set as guided by the legislation.

Principle	Status in 2014	Explanation
12.1 The functions and responsibility of the Audit Committee should be specified in the regulation of the committee or a comparable document.	Complied	<i>The functions and responsibility of the Audit Committee of Ventspils nafta are specified in the Regulations of the Audit Committee.</i>
12.2 To assure an efficient functioning of the Audit Committee, it is recommended that at least three of its members have adequate knowledge in accounting and financial reporting, because issues related to the Issuer's financial statements and control are in the focus of the Audit Committee's operations.	Complied	<i>The Audit Committee of Ventspils nafta consists of three members. In 2014 the Audit Committee worked in the following composition: Lahsen Idiken, Nafiset Negouch, Jozef Hubertus Johannes Baardemans. The Audit Committee in its current composition was elected on November 6, 2012 and its term of powers expires on November 5, 2015. All of the elected members of the Audit Committee have sufficient knowledge in accounting and preparation of financial statements.</i>
12.3 All Audit Committee members shall have access to the information about the accounting methods practiced by the Issuer. Board shall advise the audit Committee as to the approaches to significant and unusual transactions, where alternative evaluations are possible, and shall ensure that the Audit Committee has access to all information that has been specified in the legislation.	Complied	<i>Information about the accounting methods used by Ventspils nafta is available to members of the Audit Committee. In 2014 the Audit Committee organised several joint meetings with the Management Board to talk through the current events of Ventspils nafta and to obtain relevant information.</i>
12.4 The Issuer shall ensure that its officials, board members and staff release the information to the Audit Committee that is necessary for its operations. The Audit Committee should also be entitled to carry out an independent investigation in order to	Complied	<i>The Audit Committee has unlimited access to the information of Ventspils nafta. The Audit Committee monitors and uses resources of the Internal Audit Department of Ventspils nafta to carry out independent audits.</i>

identify, within its scope, any violations in the Issuer' activities.		
12.5 Within its scope, the Audit Committee shall adopt resolutions, and is accountable to the shareholders' meeting for its operations.	Complied	<p><i>In 2014 the Audit Committee passed resolutions within its competence and reported about its work to the shareholders' meeting. In 2014 the Audit Committee passed resolutions and carried out following functions:</i></p> <ol style="list-style-type: none"> <i>1) supervised the preparation of the Annual Report and the Consolidated Annual Report of Ventspils nafta and its subsidiaries;</i> <i>2) analysed and supervised the internal control and risk management systems of Ventspils nafta and its subsidiaries;</i> <i>3) supervised the external audit of the Annual Report and the Consolidated Annual Report of Ventspils nafta and its subsidiaries and elimination of the drawbacks established during the external audit;</i> <i>4) verified and supervised the independence of external auditor – audit company „PricewaterhouseCoopers” Ltd. (commercial company license No. 5) as defined in the Law “On Sworn Auditors”.</i>

REMUNERATION POLICY

13. General principles, types and criteria for setting remuneration

The policy of remuneration of board and council members – type, structure and amount of remuneration – is one of the areas where persons involved have a potentially higher risk to find themselves in an interest conflict situation. To prevent that, the Issuer shall develop a remuneration policy, specifying general principles, types and criteria for the remuneration to be awarded to the board or council members.

Principle	Status in 2014	Explanation
13.1 The Issuer shall develop a remuneration policy in which the main principles for setting the remuneration, possible remuneration schemes and other essential related issues are determined. In preparing the remuneration policy Issuer should ensure that the remuneration of the	Complied	<i>Considering that Ventspils nafta is a holding company and does not have substantial income from its basic activities – investment management, the remuneration currently set for the Supervisory Council is zero lats. The motivation policy of the Supervisory Council</i>

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<p>board and council members is proportionate to the remuneration of the Issuer's other officials and employees.</p>		<p><i>may be revised in the future.</i></p> <p><i>Only the Chairman of the Management Board of Ventspils nafta receives a fixed remuneration, which is proportionate with the remuneration of other employees of Ventspils nafta. Remuneration of the Chairman of the Management Board of Ventspils nafta (Management Board remuneration fund) is specified in the separate annual report of Ventspils nafta for 2014, in the note "Staff Costs". The other Management Board members do not receive remuneration at Ventspils nafta. The motivation policy of the Management Board may be revised in the future.</i></p> <p><i>The above mentioned remuneration policy has been developed and discussed by the Management Board together with the Supervisory Council and it has been supported by the shareholders' meeting.</i></p>
<p>13.2 Without limiting the role and operations of the Issuer's management bodies responsible for setting remuneration to the board and council members, the drafting of the remuneration policy should be made a responsibility of the Issuer's board, which during the preparation of a draft policy should consult with the Issuer's council. In order to avoid conflicts of interest and to monitor activity of the board in relation to remuneration policy, the Issuer should appoint a responsible employee having sufficient experience and knowledge in the field of setting remuneration for development of the remuneration policy.</p>	<p>Complied</p>	<p><i>See the comment at the item 13.1.</i></p>
<p>13.3 Should the remuneration policy contain a remuneration structure with a variable part in the form of the Issuer's shares or share options or any other payments, including bonuses, it should be linked to previously defined short-term and long-term goals and performance criteria. If remuneration depends on fulfilment of short-term goals only, it is not likely to encourage an interest in the company's growth and improved performance in the long-term. The scope and structure of the remuneration should depend on the</p>	<p>n/a</p>	<p><i>Ventspils nafta does not provide for remuneration in form of shares or share options.</i></p>

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business performance of the company, share price and other events related to the Issuer.		
13.4 In setting the variable part of remuneration, the highest admissible scope of this variable component should be set, furthermore, by observing the condition about this variable part's commensurability with the constant part of remuneration, so that it would be possible to withhold the previously paid variable part of remuneration if necessary.	n/a	<i>See the comment at the item 13.1.</i>
13.5 Where a variable part of remuneration provides Issuer's shares, share options or any other acquisition rights thereof, it should be desirable to prescribe a minimum non-used period of time.	n/a	<i>Ventspils nafta does not provide for remuneration in form of shares or share options.</i>
13.6 Remuneration policy should include provisions that permit the Issuer to reclaim variable part of remuneration that were awarded on the basis of criteria, in the calculation of which the used data subsequently proved to be evidently misstated. Such provision should be included also in employment agreements concluded between the respective officials and the Issuer.	n/a	<i>The current remuneration policy of Ventspils nafta does not provide for a variable part.</i>
13.7 Remuneration schemes that include Issuer's shares as remuneration may theoretically cause loss to the Issuer's existing shareholders because the share price might drop due to a new issue of shares. Therefore, prior to the preparation and approval of this type of remuneration, it shall be required to assess the possible benefits or losses.	n/a	<i>Ventspils nafta does not provide for remuneration in form of shares or share options.</i>
13.8 When preparing the remuneration policy where a variable part is in the form of the Issuer's shares or share options, it shall be specified how it is planned to ensure the amount of the Issuer's shares to be granted in compliance with the approved remuneration schemes – whether it is planned to obtain them by buying in a regulated market or by issuing new shares.	n/a	<i>Ventspils nafta does not provide for remuneration in form of shares or share options.</i>
13.9 In developing the remuneration policy and providing for awarding options entitling to the Issuer's shares, the Stock Exchange rules regarding distribution of share options should be taken into account.	n/a	<i>Ventspils nafta does not provide for remuneration in form of shares or share options.</i>

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<p>13.10 While setting remuneration principles with regard to board and council members, they should include general principles as to compensations, if any, in cases when contracts with the said officials are terminated (termination payments). Termination payments should not be paid if the termination is due to inadequate performance.</p>	<p>Complied</p>	
<p>13.11 It is recommended to set an adequate maximum amount of the termination payments. For the payment to be regarded as commensurable, it should not be higher than the non-variable part of remuneration for a period of two calendar years.</p>	<p>Complied</p>	

14. Report on remuneration policy

A clear and complete report on the remuneration policy with regard to the members of administrative bodies of the Issuer should be made available to the shareholders. Public disclosure of the said information would allow the existing and potential shareholders to carry out a comprehensive evaluation of the Issuer's approach the remuneration matters; consequently, the Issuer's responsible body shall prepare and made public the Remuneration Report once a year.

Principle	Status in 2014	Explanation
<p>14.1 The Issuer is obliged to make public the Remuneration Report – a complete report on the remuneration policy applied to the members of the Issuer's administrative bodies. Remuneration Report may be a separate document, or may be integrated in a special chapter of the Report prepared by the Issuer as recommended by Item 9 of the Introduction of the present Recommendations. The prepared Remuneration Report should be posted on the Issuers website as well.</p>	<p>Complied</p>	<p><i>As mentioned above, only the Chairman of the Management Board of Ventspils nafta receives a fixed remuneration, the amount of which is specified in the separate annual report for 2014.</i></p> <p><i>Since this information is made public in the annual report, Ventspils nafta has not prepared a separate Remuneration Report.</i></p>
<p>14.2. Remuneration Report should contain at least the following information:</p> <p>1) Information as to the application of the remuneration policy to board and council members in the previous financial year, especially specifying the material changes to the Issuer's remuneration policy compared to the previous reporting period;</p> <p>2) The proportion between the fixed and</p>	<p>Complied</p>	<p><i>No substantial changes have taken place in the Issuer's remuneration policy in 2014 in comparison with 2013. Information about the remuneration fund of the Management Board is published in the separate annual report of Ventspils nafta for 2014. Considering that Ventspils nafta is a holding company, a fixed, invariable remuneration is set for the Chairman of the Management Board of Ventspils nafta. The agreement concluded between Ventspils nafta and the Chairman of the</i></p>

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<p>variable part of the remuneration for the respective category of officials, including information about period of time when a person may not fully use the share options granted to them, or other type of variable part of remuneration;</p> <p>3) Sufficient information as to linking the remuneration with performance results. To consider the information sufficient, the report should contain:</p> <ul style="list-style-type: none"> • An explanation how chosen performance criteria, based on which the variable part of remuneration is granted, contributes to the long term interests of the Issuer; • An explanation of the methods applied in order to determine whether performance criteria have been fulfilled; <p>4) Information about the Issuer's policy with regard to conditions of the contracts concluded with the members of the Issuer's administrative bodies, (duration, notice deadlines about termination, including payments due in case of termination);</p> <p>5) Information about the schemes of bonuses to be applied and the main specifications and reasons for awarding any other material benefits;</p> <p>6) A description of any pension or early retirement schemes;</p> <p>7) An overview of the remuneration paid to or any benefits received by each individual that has been a board or council member in the reporting period – disclosing at least the information required in Items 14.5, 14.5 and 14.7 below.</p>		<p><i>Management Board does not provide for a variable part of remuneration, any bonuses, payments into pension funds, or early retirement schemes.</i></p> <p><i>In line with the practice of Ventspils nafta, agreements with Management Board members are concluded for their term of powers. The Agreements with Management Board members do not provide for any payments in relation to early termination of the agreement.</i></p> <p><i>See also explanation at the item 14.1.</i></p>
<p>14.3 To avoid overlapping of information, the Issuer, in preparing its Remuneration Report, may omit the information required in Items 14.2 1) to 7) above, provided that it is already mentioned in the Issuer's Remuneration Policy. In such case, Remuneration Report should have a reference to the Remuneration Policy,</p>	<p>Complied</p>	<p><i>See also explanation at the item 14.2.</i></p>

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together with an indication where it is made available.		
14.4 If the Issuer believes that, as a result of publishing the information mentioned in the provisions of Item 14.2 of these Recommendations, sensitive business information might become public to the detriment of the Issuer's strategic position, the Issuer may not disclose such information and give the reasons.	Complied	<i>See also explanation at the item 14.2.</i>
<p>14.5 The following remuneration and other benefits related information about each board and council member should be disclosed:</p> <ol style="list-style-type: none"> 1) Total amount paid or outstanding (salary) during the reporting year for performance of duties; 2) Remuneration and other benefits received from any company associated with the Issuer. For the understanding of this Item, "associated undertaking" is a company according to the definition in Paragraph 1 of the Financial Instrument Market Law; 3) Remuneration paid as profit distribution or bonus, and the reasons for awarding such remuneration; 4) Compensation for fulfilment of duties in addition to the regular job responsibilities; 5) Compensations and any other payments received by or to be received by board or council member who has left the position during the respective reporting year; 6) Total value of any other benefits apart from those listed under Items 1) to 5) received as remuneration. 	Complied	<p><i>See explanation at the item 14.2., as well as at the item 13.1.</i></p> <p><i>Since March 1, 2014, the Chairman of the Management Board of Ventspils nafta simultaneously also fulfils duties as the Chairman of the Management Board of JSC "Latvijas kuģniecība", for which he only receives fixed remuneration from JSC "Latvijas kuģniecība"; according to the remuneration policy of the Management Board of JSC "Latvijas kuģniecība", no other remuneration and/or bonus types are applied. The amount of remuneration of the Chairman of the Management Board of Ventspils nafta while fulfilling duties of the Chairman of the Management Board of JSC "Latvijas kuģniecība" is specified in the separate annual report of JSC "Latvijas kuģniecība" for 2014. The Chairman of the Management Board of Ventspils nafta also holds positions of Supervisory Council member in "Ventspils nafta" termināls Ltd and "LatRosTrans" Ltd, and the Chairman of the Management Board of Ventspils nafta does not receive remuneration for fulfilment of duties of the mentioned positions.</i></p> <p><i>Other Members of the Management Board, as well as members of the Supervisory Council of Ventspils nafta do not receive remuneration in Ventspils nafta, as well as in other companies of the Ventspils nafta Group – JSC "Latvijas kuģniecība" and its subsidiaries, "LatRosTrans" Ltd and "Ventspils nafta" termināls Ltd.</i></p>
14.6. The following information should be disclosed with regard to the shares and/or share options or any other incentive schemes resulting in	n/a	<i>Ventspils nafta does not provide for remuneration in form of shares or share options.</i>

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<p>ownership of the Issuer's shares:</p> <ol style="list-style-type: none"> 1) the number and holding conditions of shares or share options entitling to the Issuer's shares granted over the reporting year to the members of the Issuer's administrative bodies; 2) The number of options exercised during the reporting period, entitling to the Issuer's shares, specifying the price and the number of shares obtained, or the unit value held by the member of the Issuer's administrative body in a share-related incentive scheme as at the end of the reporting year; 3) The number of non-exercised options entitling to the Issuer's shares as at the end of the reporting year, the share price in the contract, expiry date and the key rules for exercising the option; 4) Information about changes, if any, introduced during the reporting period to the provisions of the contracts on options entitling to the Issuer's shares (such as changes in the option exercising rules, change of expiry date etc.). 		
<p>14.7. The following information should be disclosed with regard to savings or contributions to pension schemes of private pension funds:</p> <p>the amount of contributions made by the Issuer, to the benefit of individuals, to a pension scheme or schemes, and the rules for disbursement of the pension capital;</p> <p>the rules of participation, including termination of participation, to the respective pension scheme, applicable the particular individual.</p>	n/a	<i>Ventspils nafta does not provide for remuneration in form of savings or contributions to pension schemes of private pension funds.</i>
<p>14.8. Remuneration schemes, under which remuneration is fixed by awarding the Issuer's shares, share options or by entitling in any other way to acquire the Issuer's shares, shall be approved by the annual general meeting of shareholders. Shareholders' meeting, in resolving on approval of the remuneration scheme, need not resolve on its application to particular individuals.</p>	n/a	<i>Ventspils nafta does not provide for remuneration in form of shares or share options.</i>