VENTSPILS NAFTA

JSC VENTSPILS NAFTA AND ITS SUBSIDIARIES

(UNIFIED REGISTRATION NUMBER 50003003091)

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

INCLUDING THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

TOGETHER WITH
THE INDEPENDENT AUDITORS' REPORT

Ventspils, 2009

Independent Auditors' Report

To the shareholders of JSC Ventspils nafta

Report on the Financial Statements

We have audited 2008 consolidated financial statements of JSC Ventspils nafta and its subsidiaries (the "Group"), which are set out on pages 9 through 60 of the accompanying 2008 Annual Report and which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion
In our opinion the consolidated financial statements give a true and fair view of the financial position of JSC Ventspils nafta Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Compliance of the Management Report and Corporate Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2008 (included on pages 6 through 8 of the accompanying 2008 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

Furthermore, we have assured ourselves that JSC Ventspils nafta Group has prepared the corporate management report for the year 2008 (included on pages 61 through 77 of accompanying 2008 Annual Report) and verified information presented in the report according to the requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and in the section 56.2 second paragraph clause 5 in the Law of the Republic of Latvia On Financial Instruments Market.

SIA Ernst & Young Baltic, License No. 17

Diāna Krišjāne
Latvian Sworn Auditor, Certificate No. 124
Chairperson of the Board

Riga, 15 July 2009

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Council of JSC Ventspils nafta

Chairman of the Council:	Vladimirs Solomatins
Deputy Chairmen of the Council:	Dennis Crema Andris Vilcmeiers Jeffrey Scott Martz
Members of the Council:	Māris Gailis Gints Laiviņš - Laivenieks Mamerts Vaivads Paul Edward Mulholland Ashley John Neale Ansis Sormulis Vladimirs Krastiņš

There have been no changes in the Council during the period from 1 January 2008 to 15 July 2009.

Board of JSC Ventspils nafta

Chairperson of the Board:	Olga Pētersone
Members of the Board:	Normunds Staņēvičs Ilva Purēna Guntis Tīrmanis

The changes in the Board during the period from 1 January 2008 to 15 July 2009 were as follows:

Elected	Dismissed	Name	Position held
26/02/2008	-	Normunds Staņēvičs	Member of the Board
-	26/02/2008	Aldis Āķis	Member of the Board

Statement of management's responsibilities

The Management Board prepares consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the *JSC Ventspils Nafta* and its subsidiaries (hereinafter also – the Group) as of 31 December 2008, the cash flows and the results of the Group for the year 2008 in accordance with International Financial Reporting Standards as adopted by the European Union. In preparing those consolidated financial statements, they:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the *JSC Ventspils Nafta* (hereinafter also – the Parent company) and the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the European Union.

Riga, 15 July 2009

On behalf of the Council:	On behalf of the Board:
Vladimirs Solomatins	Olga Pētersone
Chairman of the Council	Chairperson of the Board

Management report

Dear shareholders, customers and cooperation partners,

Due to global and national economic turmoil, year 2008 presented numerous challenges and complicated issues for the management of public *JSC Ventspils nafta* Group meanwhile forcing for immediate assessment and revaluation of the company's further development scenarios for timely response and maximum efficiency and effectiveness - resulting in sustainable and optimal future growth model. As a result of a comprehensive risk analysis, Supervisory Council for *JSC Ventspils nafta* approved the Group's development strategy in December 2008 focusing specialization on development of transit industry related assets as oppose to functions previously pursued by the holding in wider industry range that *JSC Ventspils nafta Group* implemented for several years as a result of active business industry risk diversification policy. By optimizing and reorganizing core business focus *JSC Ventspils nafta Group* as of beginning of 2009 following the end of previous reporting period, the Group manages investments in the transit area – transportation, storage, transhipment of crude oil and petroleum products and international shipping business.

The decision to refocus all attention to development of the historical core business of *JSC Ventspils nafta* in transit industry was made in accordance with recommendations of local and international experts and advisers with the main intention to ensure adequate return on investments in the interests of all shareholders of *JSC Ventspils nafta* in the conditions of global economic turmoil. The selected strategy enables *JSC Ventspils nafta* to focus on one industry area, focusing on growth and improvement of its assets, especially taking into account several decades of experience and success in this industry, as well as the international know-how, which has been actively acquired particularly in the recent years along with involvement of the international shareholder – oil and gas transport and trade conglomerate Vital Group.

By selling *JSC Ventspils nafta* assets in the areas not related to transit business, the Group's long-term assets were transformed into assets of high liquidity, whereas the shareholders of *JSC Ventspils nafta* have gained significant profit, as *JSC Ventspils nafta*, as a parent company's profit after tax reached 40 million lats.

JSC Ventspils nafta Group's consolidated profit after tax attributable to the Parent company's shareholders for 2008 amounts to 29.7 million lats, which is five times more than was planned in *JSC Ventspils nafta Group's* consolidated budget for 2008, which was 5.3 million lats. The consolidated net turnover of *JSC Ventspils nafta Group* for the reporting year reached 63.1 million lats.

In line with the approved strategy, following the end of the reporting year as of beginning of 2009, *JSC Ventspils nafta* is developing and retaining its investments in the subsidiary of crude oil and petroleum products transhipment company *Ventspils nafta termināls Ltd* (51%), the subsidiary being owner and operator of crude oil and petroleum products pipeline *LatRosTrans Ltd* (66%) and the associated company *JSC Latvian Shipping Company* (49.94%). Whereas it has disposed of its shareholdings in the subsidiaries - real property management companies - *Nekustamie īpašumi VN Ltd* (100%) and *Rīgas līcis VN Ltd* (100%), as well as in the subsidiary - printing company - *JSC Preses nams* (95.4%) and the subsidiary - publisher - *Mediju nams Ltd* (95.63%). The profit from disposal of discontinued operations at the consolidated level amounts to 6.6 million lats.

During 2008 the Group has also disposed its real estate properties in Riga, Briāna Street 3 and Palasta Street 10; Ventspils, Talsu Street 75d, Jūrmala, Dubultu prospect 51 and Lejastiezumi at Renda civil parish, Kuldīga district. The profit from sale of real estate properties amounts to 1.7 million lats.

The year 2008 can be characterized by sharp recession and downturn of financial as well as economic results worldwide, and it has considerably influenced the Baltic stock exchange market, which comprises also the NASDAQ OMX stock exchange in Riga, in whose official list the shares of *JSC Ventspils nafta* are officially quoted. In the reporting period, the price of *JSC Ventspils Nafta* shares in the Riga Stock Exchange ranged from LVL 0.68 to LVL 2.40 (average price – LVL 1.92). In the reporting year, in total 1'440 thousand shares were sold in 2'344 transactions, reaching the annual turnover of 2'767 thousand lats, which is 62,6% less than in 2007. Share market capitalization of *JSC Ventspils nafta* was 76.2 million lats as at 31 December 2008.

Management report (cont'd)

The average price of *JSC Ventspils nafta* shares in 2008 was 69 santims lower than in 2007 when it reached LVL 2.61. The average market capitalization of *JSC Ventspils nafta* shares has decreased from 272.6 million lats in 2007 to 200.8 million lats in 2008, i.e. by 71.8 million lats or by 26.3% corresponding to decline in the average share price. The decline in share price is a result of general trends in the global financial instruments markets, the macroeconomic situation and high inflation level in the reporting period in Latvia. However, it has to be taken into account that the average turnover in transactions with *JSC Ventspils nafta* shares per day in 2008 was only 7.6 thousand lats or 0.004% of the average share market capitalization amount. Therefore the market value calculation by usage of insignificant amount of public share market transactions is not representative, as the liquidity level is too low.

In the reporting period, *JSC Ventspils nafta* proved its ability of working also in conditions of the global economic downturn that has notably affected several *JSC Ventspils nafta* subsidiaries working in international markets. At the same time, the economic processes in 2008 globally and in Latvia have confirmed that the conservative planning of *JSC Ventspils nafta* has been prudent and adequate by regularly assessing and planning potential influence of external factors on the operations and financial results of the Group.

The Group has also paid special attention to the management of financial instruments and financial risk ensuring risk averse and up-to-date platform for managing effect of global financial market turmoil effect on the Group's companies.

The *JSC Ventspils nafta* subsidiary *Ventspils nafta termināls Ltd* ensured stable cargo volume level in the reporting year by transhipping in total more than 11.6 million tons of crude oil and petroleum products. Similar to previous years the major proportion of cargos is formed by diesel representing 8.7 million tons delivered by rail and via petroleum products pipeline, followed by 1.4 million tons of gasoline of various grades delivered by rail and 1.1 million tons of crude oil and petroleum product cargos delivered by sea. Events in the global economy, the unfavorable global oil market situation in the last months of the reporting year and the international competition in the transit area have had and after the end of the reporting year still have a significant impact on operating results of Ventspils nafta termināls Ltd, which were affected several months in the reporting period also by the repair works of the main petroleum products pipeline Polotsk-Ventspils in the territory of Belarus, which resulted in a reduced diesel fuel flow in the direction of Ventspils.

At the same time, *Ventspils nafta termināls Ltd* continued active implementation of modernization in 2008, by optimizing company's operational processes and procedures, increasing workforce efficiency and introducing higher requirements in terms of environment protection, thereby adapting to the new economic conditions and strengthening its positions in international market. The aim of modernization is to strengthen the positions of *Ventspils nafta termināls Ltd* as the major crude oil and petroleum products transhipment complex in the Baltic region, by developing its work by following similar principles as in other companies under the Vitol Group worldwide, such as EuroTank in Rotterdam and Amsterdam. For forming successful social dialogue and forming a good social partnership through collective agreement, *Ventspils nafta termināls Ltd* received the annual award Cooperation Partner 2008 from the Free Trade Union Confederation of Latvia in the nomination Private Enterprises.

The most remarkable contribution that *Ventspils nafta termināls Ltd* made into improvement of environment protection in the reporting year was launching the new, modern wastewater treatment plant that is unique in the Baltic region. The plant is fully compliant for treatment for any type of petroleum products and represents the typical operations of *Ventspils nafta termināls Ltd*, that is characterized by variety of transshipped petroleum products – at the present moment, the terminal receives and transships more than 20 types of petroleum products. The company has invested about one million lats in the treatment plant.

According to the previous forecasts of *JSC Ventspils nafta*, in the reporting year, external circumstances still substantially affected another Group's company *LatRosTrans Ltd*, which is working in the sensitive transit area. Oil transportation in the direction of Lithuania via the pipeline owned by *LatRosTrans Ltd* is still not resumed due to the geopolitical situation, and technical reasons, such as repair works at the pipeline sections in the territory of Belarus and corresponding decrease in its capacity, influenced also transportation volumes of petroleum products in direction of Ventspils, as its total transshipment volume has reached 5 million tons in 2008.

Management report (cont'd)

According to the approved schedule, *LatRosTrans Ltd* continued renovation and repair works of the petroleum products pipeline in the reporting year. As before, *LatRosTrans Ltd* has actively worked on elimination of supernormative loss of petroleum products resulting from illegal activities by hiring a security company, regularly inspecting the pipeline, collaborating with the police, allocating considerable resources in recovery of the environment, as well as informing and trying to involve other state authorities in dealing with this issue.

During these financially and economically difficult times *LatRosTrans Ltd* has been continuously decreasing company's operating expenses for already several years, and decrease of 6.7% was achieved in the particular reporting year.

During 2009 the management will continue to peruse organization optimization and cost reduction for all Group companies with the ultimate goal to further increase profitability and ensure long term development sustainability thereby forming solid ground for growth and development in 2009 and following years.

During 2008 the associated company of *JSC Ventspils nafta – JSC Latvian Shipping Company* has been continuing to pursue its strategic goal – ensuring increase of the Group's value and retaining its position among the top ten medium range tanker owners in the world. According to the audited financial statements 2008, *JSC Latvian Shipping Company Group* worked with net profit of 58.7 million US dollars in the reporting year. In comparison with the result of analogue period in 2007, the last year's profit is 8.3 million US dollars or 12% lower, reflecting general unfavourable shipping market trends in the reporting period, especially in the end of it.

In the circumstances of global financial and economic turmoil, *JSC Ventspils nafta* is taking appropriate actions to reduce risks and ensure profit, by careful, focused and purposeful managing of assets owned by it as well as resourcefully planning to achieve goals set by shareholders.

Riga, 15 July 2009

On behalf of the Council:

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Vladimirs Solomatins
Chairman of the Council

On behalf of the Board:

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Olga Pētersone
Chairperson of the Board

Consolidated income statement

	Note	2008 LVL thousand	2007 LVL thousand
Continuing operations			
Net revenues	4	63 121	66 259
Cost of sales	5	(61 907)	(55 906)
Gross profit		**1 214**	**10 353**
General and administrative expense	6	(7 005)	(6 325)
Other operating income	7	4 878	57 774
Other operating expense	8	(3 664)	(5 154)
Share of profit in associate	18	14 146	17 136
Financial income	10	3 312	3 423
Financial expense	10	(7)	(6 500)
Result before taxes		**12 874**	**70 707**
Corporate income tax	11	(5 461)	(1 313)
Net profit for the year from continuing operations		**7 413**	**69 394**
Discontinued operations			
Profit / (loss) after tax for the year from discontinued operations	12	19 880	(5 200)
Profit for the year		**27 293**	**64 194**
Attributable to:			
Minority interest	24	(2 445)	14 593
Parent company's shareholders		29 738	49 601
		27 293	**64 194**

Earnings per share (Lats per share) attributable to the Parent company's shareholders:			
Diluted and basic earnings per share from countinuing operations	24	0.09	0.52
Diluted and basic earnings/ (loss) per share from discountinuing operations	24	0.19	(0.05)

The accompanying notes form an integral part of these consolidated financial statements.

On behalf of the Council:

Vladimirs Solomatins
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated balance sheet

ASSETS

NON CURRENT ASSETS	Note	31/12/2008 LVL thousand	31/12/2007 LVL thousand
Intangible assets	13	**27 598**	**28 481**
Property, plant and equipment			
Land, buildings and pipeline networks	14	87 994	100 856
Machinery and equipment	14	42 983	55 003
Other property, plant and equipment	14	3 764	4 882
Construction in progress	14, 16	1 042	20 740
Prepayments for property, plant and equipment		214	877
TOTAL		**135 997**	**182 358**
Investment properties	17	**-**	**31 731**
Investments			
Investments in associated entities	18	125 619	117 891
Receivables from related companies	33	41 557	-
Loan note	19	44 550	43 560
Other non-current financial assets		312	340
TOTAL		**212 038**	**161 791**
TOTAL NON CURRENT ASSETS		**375 633**	**404 361**
CURRENT ASSETS			
Inventories	20	2 429	4 358
Trade accounts receivable	21	1 443	4 347
Receivables from related companies	33	24 939	-
Loans to related companies	33	547	-
Other receivables	22	1 325	3 277
Available for sale financial assets		-	51
Cash and cash equivalents	23	35 756	19 613
TOTAL CURRENT ASSETS		**66 439**	**31 646**
TOTAL ASSETS		**442 072**	**436 007**

The accompanying notes from an integral part of these consolidated financial statements.

On behalf of the Council:

Vladimirs Solomatins
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated balance sheet

LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY	Note	31/12/2008 LVL thousand	31/12/2007 LVL thousand
Share capital	24	104 479	104 479
Share premium		42 343	42 343
Legal reserve		715	715
Reserves resulting from investment in associates	18	(15 786)	(17 889)
Other reserves		195 153	145 552
Profit for the year		29 738	49 601
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		**356 642**	**324 801**
Minority interest	24	73 148	75 856
TOTAL SHAREHOLDERS' EQUITY		**429 790**	**400 657**
LIABILITIES			
Non-current liabilities			
Deferred corporate income tax liability	11	1 307	7 052
Non-current portion of financial lease liability	26	7	14 067
TOTAL		**1 314**	**21 119**
Current liabilities			
Current loan from credit institution	25	-	3 056
Current portion of financial lease liability	26	7	1 994
Advances from customers		711	644
Trade accounts payable		2 373	3 836
Payables to related companies	33	145	72
Taxes payable	27	5 587	737
Other liabilities	28	540	943
Accrued liabilities	29	1 093	1 691
Provisions	30	512	1 258
TOTAL		**10 968**	**14 231**
TOTAL LIABILITIES		**12 282**	**35 350**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**442 072**	**436 007**

The accompanying notes form an integral part of these consolidated financial statements.

On behalf of the Council:

Vladimirs Solomatins
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated cash flow statement

	Note	2008 LVL thousand	2007 LVL thousand
Cash flows to/ from operating activities			
Profit before tax from continuing operations		12 874	70 677
Profit / (loss) before tax from discontinued operations	12	23 439	(5 151)
Profit before tax		**36 313**	**65 526**
Adjustments for:			
Amortisation and depreciation	13, 14	11 403	9 901
Imparment loss	13, 14	2 127	1 783
Impairment reversed	18	(85)	(30 770)
Long term loan impairment	8	-	715
Change in bad debt allowance		-	(49)
Interest income	10	(2 677)	(3 439)
Interest expense		1 511	1 106
Fair value change on investment properties	12,17	(29 444)	(44)
Share of net profit of associate	18	(14 061)	(17 191)
Decrease in investment in associate entity for unrealised profit	18	8 606	-
Foreign exchange (gain) / loss		(635)	6 450
Loss from sale of investment properties	8	434	-
Gain from sale of subsidiaries	12, 7	(6 557)	(26 694)
(Gain)/ loss on disposal of property, plant and equipment	7	(2 112)	4 245
Operating profit or loss before change in working capital		***4 823***	***11 539***
Decrease in inventories		1 468	1 653
(Increase) / decrease in trade accounts receivable		(5 575)	67
(Decrease) / increase in current liabilities		(1 907)	1 177
Cash generated (to) / from operations		***(1 191)***	***14 436***
Corporate income tax paid		(751)	(1)
Net cash flows to/ from operating activities		**(1 942)**	**14 435**
Cash flows to/ from investing activities			
Purchase of fixed assets		(9 657)	(7 768)
Proceeds from sale of property, plant and equipment and investment properties		4 358	-
Proceeds from sale of subsidiaries	12	17 145	-
Purchase of shares in associate	18	(85)	(55)
Interest received		2 713	3 439
Deposits received upon maturity		-	9 828
Net cash flows to/ from investing activities		**14 474**	**5 444**
Cash flows to/ from financing activities			
Repayment of borrowings and financial lease liabilities		(1 833)	(4 594)
Proceeds from borrowings		6 877	-
Interest payments		(1 433)	(1 106)
Net cash flows to/ from financing activities		**3 611**	**(5 700)**
Change in cash		16 143	14 179
Cash at the beginning of the year		19 613	5 434
Cash at the end of the year		**35 756**	**19 613**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity

	Attributable to the equity holders of the parent							
	Share capital	Share premium	Legal reserve*	Reserves resulting from investment in associates ***	Other reserves**	Current year's unappro-priated result	**Total**	Minority interest
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Balance as of 31 December 2006	**104 479**	**42 343**	**715**	**(6 388)**	**138 705**	**6 847**	**286 701**	**40 077**
Foreign currency translation directly recognised in equity	-	-	-	(11 501)	-	-	**(11 501)**	-
Profit for the period	-	-	-	-	-	49 601	**49 601**	14 593
Total income and expenses for the year	-	-	-	*(11 501)*	-	*49 601*	***38 100***	*14 593*
Transfer of 2006 net result	-	-	-	-	6 847	(6 847)	**-**	-
Effect of sale of 49% shares in SIA Ventspils nafta terminals	-	-	-	-	-	-	**-**	21 186
Balance as of 31 December 2007	**104 479**	**42 343**	**715**	**(17 889)**	**145 552**	**49 601**	**324 801**	**75 856**
Foreign currency translation and other *reserves directly recognised in equity*	-	-	-	2 103	-	-	**2 103**	-
Profit for the period	-	-	-	-	-	29 738	**29 738**	(2 445)
Total income and expenses for the year	-	-	-	*2 103*	-	*29 738*	***31 841***	*(2 445)*
Minority interests for disposed subsidiaries	-	-	-	-	-	-	**-**	(263)
Transfer of 2007 net result	-	-	-	-	49 601	(49 601)	**-**	-
Balance as of 31 December 2008	**104 479**	**42 343**	**715**	**(15 786)**	**195 153**	**29 738**	**356 642**	**73 148**

The accompanying notes form an integral part of these consolidated financial statements.

* Legal reserve represents the Group's share of subsidiary's *LatRosTrans Ltd* legal reserve which was previously provided for in accordance with the law of the Republic of Latvia on Limited Liability Companies in amount of 5% of the prior years' profits. Pursuant to the Commercial Law of the Republic of Latvia, formation of such reserves is no longer required.

** According to the Statutes net result is allocated to Other reserves and used for further development of the Group.

*** For further details see Note 18

Notes to the consolidated financial statements

1. Corporate information

JSC Ventspils nafta (hereinafter also – 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.

Since 22 January 2004 legal address of the Parent company is Ostas street 23, LV-3601, Ventspils, Republic of Latvia.

JSC Ventspils nafta is a holding company dealing mainly with investment management in *JSC Ventspils nafta* Group companies and transactions with own crude oil and oil products. *JSC Ventspils nafta* Group consisting of *JSC Ventspils nafta* and its subsidiaries (hereinafter also – the Group) is a multi-industrial holding.

The following table summarizes ownership of the Group in subsidiaries:

Name of the entity:	31/12/2008	31/12/2007	Legal address
Subsidiaries of *JSC Ventspils nafta*	Ownership, %		
LatRosTrans Ltd	66.00	66.00	Balvu iela 7, LV-5043, Daugavpils, Latvia
Ventspils nafta termināls Ltd	51.00	51.00	Talsu iela 75, LV-3602, Ventspils, Latvia
JSC Preses nams	-	95.39	Balasta dambis 3, LV-1081, Rīga, Latvia
Rīgas līcis Ltd *(until March 2009: Rīgas Līcis VN)*	-	100.00	Dubultu prospekts 51, LV-2015, Jūrmala, Latvia
LASCO nekustamie īpašumi Ltd *(until March 2009: Nekustamie īpašumi VN Ltd)*	-	100.00	Elizabetes iela 1, LV-1807, Rīga, Latvia
Mediju nams Ltd	-	99.73	Cēsu iela 31/2, LV-1012, Rīga, Latvia
Subsidiary of *JSC Preses nams*			
Preses nams OOO (dormant)	-	100.00	Russia
Subsidiaries of *Mediju nams Ltd*			
4. Vara Ltd	-	50.05	Cēsu iela 31/2, LV-1012, Rīga, Latvia
F/64 Photo Agency Ltd *(51.05% acquired by Mediju nams Ltd during 2008)*	-	-	Cēsu iela 31/2, LV-1012, Rīga, Latvia
Subsidiaries of *LASCO nekustamie īpašumi Ltd*			
Darījumu centrs Daugava Ltd	-	100.00	Elizabetes iela 1, LV-1807, Rīga, Latvia
Ventspils biznesa centrs Ltd	-	100.00	Elizabetes iela 1, LV-1807, Rīga, Latvia
LASCO Housing Services Ltd *(until March 2009: Namserviss VN Ltd)*	-	100.00	Elizabetes iela 1, LV-1807, Rīga, Latvia
Lejastiezumi Ltd (dormant)	-	100.00	Elizabetes iela 1, LV-1807, Rīga, Latvia
Pārventas sporta centrs Ltd (dormant)	-	100.00	Elizabetes iela 1, LV-1807, Rīga, Latvia

1. Corporate information (cont'd)

The main activities carried out by the subsidiaries during 2007 and 2008 were as follows:

LatRosTrans Ltd – transporting crude oil and oil products via pipelines;

Ventspils nafta termināls Ltd – reloading and storage of crude oil and oil products and transporting oil products via pipelines;

JSC Preses nams – providing printing services;

Mediju nams Ltd – publishing;

LASCO nekustamie īpašumi Ltd – a real estate holding company;

Darījumu centrs Daugava Ltd– a real estate development company;

LASCO Housing Services Ltd – a real estate management company;

Ventspils biznesa centrs Ltd – a real estate development company;

Lejastiezumi Ltd – a real estate development company;

Pārventas sporta centrs Ltd – a real estate development company;

Rīgas līcis Ltd – a real estate development company.

On 17 December 2008, the Parent company signed a share sale agreement with *LASCO Investment Ltd*, the subsidiary of the Group's associate *JSC Latvian Shipping Company (JSC Latvijas kuģniecība)* on the sale of the shares in the following subsidiaries: *JSC Preses nams, Rīgas Līcis Ltd, LASCO nekustamie īpašumi Ltd* and *Mediju nams Ltd.* On 30 December 2008 the Parent company lost control over these subsidiaries and the indirect subsidiaries of these entities. The sold subsidiaries represent the former segments 'Publishing and Printing' and 'Real Estate Management' and are presented in the consolidated financial statements as of 31 December 2008 as discontinued operations. For further information reference is made to Note 12. Therefore, since 30 December 2008, the subsidiaries of *JSC Ventspils nafta* continue operating in the area of oil and oil product transportation via pipelines, as well as in the areas of oil and oil product storage and reloading.

In addition, the Parent company holds a 49.94% stake in the associated public company *JSC Latvian Shipping Company (JSC Latvijas kuģniecība),* the main activity of which is marine shipping business.

The consolidated financial statements of the Group were authorized for issue in accordance with resolution of the Board of Directors on 7 July 2009.

The Group's shareholders in accordance with the statutes' have the right to amend the consolidated financial statements after issue.

2. Significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of Group's financial statements.

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 issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

Basis of preparation

The consolidated financial statements are prepared on a historical cost basis, except for investment properties that have been measured at fair value.

Reporting currency and units of measurement

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

2. Significant accounting policies (cont'd)

Basis of consolidation

The consolidated financial statements include subsidiaries that are controlled by the Parent company. Control is presumed to exist where more than a half of the subsidiary's voting rights are controlled by the Parent company or it otherwise has the power to exercise control over the operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The consolidated balance sheet comprises the balance sheets of *JSC Ventspils nafta* and its subsidiaries *Ventspils nafta termināls Ltd* and *LatRosTrans Ltd.*

On 30 December 2008 *JSC Ventspils nafta* fully disposed off its subsidiaries *JSC Preses nams, Rīgas līcis Ltd, Mediju nams Ltd (*and its subsidiaries *4. Vara Ltd* and *F/64 Photo Agency Ltd*) and *LASCO nekustamie īpašumi Ltd*, the later of which includes *LASCO Housing Services Ltd, Ventspils biznesa centrs Ltd, Lejastiezumi Ltd, Pārventas sporta centrs Ltd* and *Darījumu centrs Daugava Ltd*. The consolidated financial statements include the expenses, income, gains and losses and cash flows of the disposed entities for the whole period until 30 December 2008.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies. For the purposes of consolidation, unrealized internal profit, inter-group balances, internal shareholdings, internal dividends and other internal transactions are eliminated in full in the Group's financial statements.

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest. Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill. Sales of shares in subsidiaries which do not result in a loss of control are accounted for using the same conceptual approach, whereby, the difference between the consideration received and the partial goodwill disposed-off plus the carrying amount of minority interest to be recognized as a result of the transaction is recognized as other income in the consolidated income statement.

Changes in accounting policies

Adoption of new and/or changed IFRSs and IFRIC interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- **Amendments to IAS 39** Financial Instruments: Recognition and Measurement and **IFRS 7** Financial Instruments: Disclosures – Reclassification of Financial Assets;
- **IFRIC 11 IFRS 2** – Group and Treasury Share Transactions.

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets
Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group did not have financial instruments affected by these amendments.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group has not issued instruments affected by this interpretation.

2. Significant accounting policies (cont'd)

Discontinued operations

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Investments in associated entities

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The Group's investment in its associate is stated in accordance with the equity method, so that the Group includes its proportionate post-acquisition share of the results of operations of such entities in its statements of income. Further, the investment in associates is adjusted for Group's proportionate share of post-acquisition movements recognized directly in the associated company's equity by a direct charge to the Group's equity. As a result, the recorded value of the investment corresponds to the Group's proportionate share of the equity of the associated companies. Profits and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

Any changes in the associates' equity that have not been recognised in the associate's income statement is recognised directly in equity of the investor.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in the associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value and the carrying amount and recognises the amount in the income statement. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised.

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.

At the end of 2008 the Parent company had significant downstream transaction with its associate *JSC Latvijas kuģniecība* and associate's subsidiary *LASCO Investment Ltd*. Profit from downstream transaction is recognised in the Group's consolidated financial statements only to extent of the unrelated Group's interest in the associate. The investment in associated entity *JSC Latvijas Kuģniecība* has been decreased by the excess of the proportional part of unrealised profit over the carrying value of assets. The decrease in investment will be reversed by the respective amount upon the disposal of the related assets to external parties or gradual depreciation of respective assets.

Significant accounting judgments, estimates and assumptions

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 reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

<u>Judgments</u>

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Operating Lease Commitments – Group as Lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

<u>Estimates and assumptions</u>

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

2. Significant accounting policies (cont'd)

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

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including a sensitivity analysis of key assumptions, are given in Note 15.

With the change in shareholder structure of *Ventspils nafta termināls Ltd* in 2007 the management of the subsidiary reviewed previous business plans. New business plans were mainly influenced on a new sales contract. New business plans resulted in reversal of impairment in 2007. See Note 15.

Useful life of property, plant and equipment

Useful life of property, plant and equipment is determined based on the evaluation of the technical condition of the equipment and estimates by the management as to future plans regarding the utilization of the equipment and the development of technologies used in the production process. The remaining useful life as used in the accounting is reviewed for change at every balance sheet date.

The assessment of useful lives for some of the assets of *Ventspils nafta termināls Ltd* and *LatRosTrans Ltd* requires a detailed study of assets' technical condition including comprehensive technological methods as well as management judgment. The last change of useful lives occurred in 2004 when there was a change of the useful lives of the tanks and technological equipment based on the evaluation performed by independent valuators from *JSC Izstrādājumu bīstamības novērtēšanas aģentūra* involving analysis of technical condition of the respective assets. As a result, the useful lives of the assets were extended. In 2006, the subsidiary *LatRosTrans Ltd* has obtained a technical report from independent valuator *Inspecta Latvia Ltd* for the crude oil pipeline Polotsk – Mažeikiai (operation terminated) and the oil product pipeline Polotsk – Ventspils, which was based on the technical evaluation of pipelines and maintenance and repair works completed by *LatRosTrans Ltd*. This report re-affirmed that the previously recognized extension of the useful life of major pipelines was still appropriate. Further, according to evaluation performed by independent valuator *JSC Izstrādājumu bīstamības novērtēšanas aģentūra*, dated 2 May 2005, the technological equipment of subsidiary *LatRosTrans Ltd* was considered to be separate units not integrated with the main pipeline. Taking into account constant repairs of the main pipelines resulting in extension of their useful lives, *LatRosTrans Ltd* management believes that there is no need for adjusting depreciating charge should the remaining useful life of particular technological equipment exceed the remaining useful life of the main pipeline it is attached to.

Residual value of property, plant and equipment

The Group has determined residual value at the end of their useful life for some property, plant and equipment items. The residual value is used in the calculation of depreciation and is based on the analysis performed by the management on the potential sales value of the respective asset.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised deferred tax asset at 31 December 2008 is LVL 9 438 thousand (31/12/2007: LVL 9 868 thousand) and the unrecognised deferred tax assets at 31 December 2008 is LVL 2 207 thousand (31/12/2007: LVL 988 thousand). Further details are contained in Note 11.

Provision for restructuring

The Group has recognised a provision for restructuring associated with subsidiary *Ventspils nafta termināls Ltd*. In determining the amount of the provision, assumptions and estimates are required in relation to the expected cost of reorganisation. The carrying amount of the provision as at 31 December 2008 is LVL 339 thousand (31/12/2007: LVL 1 050 thousand). Further details are contained in Note 30.

Changes in estimates

In 2008 the subsidiaries *LatRosTrans Ltd* and *Ventspils nafta termināls Ltd* have changed estimate of inflation and growth rate percentage that are used for estimation of future cash flows when assessing impairment of non-current assets. The inflation rate for 2009 and 2010 is determined at 0%, and from 2011 onwards – at 2.5% (in 2007 calculation: 4.5% till 2010, and 2.5% afterwards). The growth rate has been determined at the same level as inflation both in the projections made in 2008 and 2007. No impairment would have been identified also in the event the previous inflation and growth rates had been applied. Further details are contained in Note 15.

2. Significant accounting policies (cont'd)

Foreign currency transactions

The functional and presentation currency of the Group companies is Latvian lats (LVL), except for the associate entity *JSC Latvijas kuģniecība*, the functional currency of which is United States Dollar (USD).

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. 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 differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts.

The translation of the investment in *JSC Latvijas kuģniecība* from the applicable functional currency into the Group's reporting currency is performed for balance sheet accounts using exchange rate in effect at the balance sheet date, and for income statement accounts using average rate of exchange prevailing during the year. The resulting translation adjustments are excluded from the determination of net gain on investments and are accumulated as foreign currency translation reserve until the entity is sold or substantially liquidated.

		31/12/2008	31/12/2007
As at balance sheet date	USD/LVL	0.495000	0.484000
	EUR/LVL	0.702804	0.702804
Average rate per period	USD/LVL	0.479750	0.514100
	EUR/LVL	0.702804	0.702804

Intangible assets

Intangible non-current assets are stated at cost less accumulated amortization and amortized over their estimated useful lives on a straight-line basis. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The indicators are reviewed at least once a year. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount.

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

Land use rights are stated at contributed value as agreed by the subsidiary's *LatRosTrans Ltd* founders less accumulated amortization and impairment. The estimated period of useful life is 47 years, except for the non-operating Biržai – Ventspils section of the crude oil pipeline Polotsk – Ventspils, the useful life of which is estimated at 25 years.

Amortization rates for other intangible fixed assets vary between 10% and 35% per annum.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	over 5 to 100 years
Machinery and equipment	over 2 to 20 years
Other property, plant and equipment	over 2 to 33.33 years

Depreciation is calculated starting when property, plant and equipment is available for use. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Group depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

Expenses related to leasehold improvements are capitalized as tangible non-current assets when the recognition criteria are met and depreciated over the lease period or the shorter useful life of the respective leasehold improvement on a straight-line basis.

2. Significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

Construction in progress represents tangible non-current assets under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

The useful lives and residual values of an asset are reviewed at least at each financial year end.

Borrowing costs

Borrowing costs are recognized as an expense when incurred.

Investment properties

Investment properties consist of investments in land and buildings that are held to earn rentals or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition investment property is measured at fair value at the balance sheet date, with gains and losses arising from changes in the fair value recognized in the income statement, as part of operating profit. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms' length transaction. Fair value of the investment properties of the Group is determined by independent valuator certified by the Latvian Association of Independent appraisers. Methods applied in determining the fair value of investment properties by the valuator are comparable transaction method and expected revenue (discounted cash flow) method. The value is then determined by combining the results of the two methods and applying an estimated weight coefficient for each method.

Investment properties are derecognized when either they have been disposed of or when an investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

No property interest held under operating lease has been classified as investment properties.

Impairment of non-financial assets

The Group assesses whether there is an indication that an asset may be impaired at each reporting date. If any such indication exists or when annual impairment testing for an asset is required (i.e. goodwill and intangible assets with indefinite useful life), the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For non-financial assets, except goodwills, 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 makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 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 income statement.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as loans and receivables and available for sale financial assets, as appropriate. There are no held to maturity financial assets and financial assets at fair value through profit or loss within the Group. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through income statement, directly attributable transaction costs.

2. Significant accounting policies (cont'd)

Investments and other financial assets (cont'd)

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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 loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other financial asset category. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss. Unquoted equity instruments for which fair values cannot be reliably measured are subsequently measured at cost less any impairment.

Fair value

Fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost

Loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in income statement.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial investments

For available-for-sale financial investments when the fair value or cost declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss. At 31 December 2008 no impairment losses have been recognised for available-for-sale assets (31/12/2007: Nil).

Financial liabilities

Interest bearing loans and borrowings

The Group has only financial liabilities classified in accordance with IAS 39 as loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs.

2. Significant accounting policies (cont'd)

Derecognition of financial assets and liabilities

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in income statement when the liabilities are derecognised as well as through the amortisation process.

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 income statement.

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.

Crude oil and oil products

Crude oil and oil products held for technological needs are stated at purchase cost on a weighed average cost basis.

Crude oil and oil products surpluses arising from operations are recognized at market value and are debited to inventory and credited to oil surplus, a component of net other operating income, in the income statement.

Materials

The cost of materials and supplies are determined using the weighed average cost method. These materials are recorded as inventory when purchased and then expensed or capitalized to long-term assets, as appropriate, when installed. The Group writes off unrealizable inventory and records allowance for obsolete inventory as such items are identified.

Finished and unfinished inventory

The cost of finished and unfinished goods includes direct cost with addition of indirect costs related to production. Indirect production costs consist of labour, energy, depreciation and other production costs.

Finished and unfinished goods are stated at the lower of cost or net realizable value. Provisions for slow moving items are established on the basis of individual evaluation of each inventory item. Net realisable 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.

2. Significant accounting policies (cont'd)

Cash and cash equivalents

Cash and cash equivalents 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 cash equivalents as defined above.

Provisions

Provisions are recognized 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 provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance expenses.

Restructuring

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

Leases

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, by respective charge to current and non-current liabilities. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance expenses. Contingent lease payments are recognised as an expense in the income statement in the period in which they occur. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term on a straight-line basis.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Revenue

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

Rendering of services

The services rendered by the Group comprise pipeline transportation of crude oil and oil products, printing, media revenue and revenue from management services provided. 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. Revenue from reloading of crude oil and 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.

2. Significant accounting policies (cont'd)

Interest income

Revenue is recognized as the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Dividends

Revenue is recognized when the shareholders' right to receive the payment is established.

Taxes

Current corporate 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 balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in income statement.

In accordance with Latvian tax legislation current corporate income tax is applied at the rate of 15% (2007: 15%) on taxable income generated by the Parent company and its subsidiaries during the taxation period ending 31 December 2008.

Pursuant to the decision of the Latvian Cabinet of Ministers, *LatRosTrans Ltd* was granted a large investment tax rebate, and current corporate income tax is applied at the rate of 25% on taxable income generated by *LatRosTrans Ltd* during the taxation period. The 25% corporate income tax rate (instead of the nominal rate of 15%) will be applicable during *LatRosTrans Ltd* eligibility period for the tax rebate.

On 19 December 1996, the Parliament *(Saeima)* adopted the Law on Ventspils Free Port, effective from 1 January 1997. This Law provides for exemption from direct and indirect taxes for the companies operating within the territory of Ventspils Free Port. The subsidiary *Ventspils nafta termināls Ltd* is operating in the territory of Ventspils Free Port, having obtained all the required permits.

According to the Law on the Application of Taxes in Free Ports and Special Economic Zones, effective from 1 January 2002, subsidiary *Ventspils nafta termināls Ltd* has the right to receive 80% tax rebate on real estate tax and corporate income tax. The total amount of tax rebates can not exceed 50% from the amount of investments made in the Ventspils Freeport, made according to the special agreement between the subsidiary and Ventspils Freeport Authority.

Deferred corporate income tax

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

Deferred income 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.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to 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 balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in income statement.

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

Value added tax (VAT) proportion

A part of revenues of the disposed subsidiary *JSC Preses nams* are exempted from VAT (newspaper sales). As a result, the subsidiary's purchase VAT is only recoverable proportionally to the sales subject to VAT.

2. Significant accounting policies (cont'd)

Contingencies

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

Related parties

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

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 2007 nor in 2008 outstanding instruments 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 balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Future changes in accounting policies

Standards issued but not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 January 2009 once adopted by the EU)
The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the Parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2009)
The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009 once adopted by the EU)
Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27A requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

2. Significant accounting policies (cont'd)

Future changes in accounting policies *(cont'd)*

Standards issued but not yet effective (cont'd)

Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).
The amendments improve disclosure requirements about fair value measurement and enhance existing principles for disclosures about liquidity risk associated with financial instruments. The amendments will have no impact on the financial position or performance of the Group. The Group is still evaluating whether additional disclosures will be needed.

IFRS 8 Operating Segments (effective for financial years beginning on or after 1 January 2009)
The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 Segment Reporting. The Group expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

Amendment to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009)
This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Amendment to IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)
The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009 once adopted by the EU)
The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009)
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs

The Group has not yet adopted the following amendments and most of the changes are effective for financial years beginning on or after 1 January 2009. The Group anticipates that these amendments to standards will have no material effect on the financial statements.

- IFRS 7 Financial Instruments: Disclosures. Removal of the reference to 'total interest income' as a component of finance costs.
- IAS 1 Presentation of Financial Statements. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors. Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period. Clarifications that dividends declared after the end of the reporting period are not obligations.

2. Significant accounting policies (cont'd)

Future changes in accounting policies (cont'd)

Improvements to IFRSs (cont'd)

- IAS 16 Property, Plant and Equipment. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".
- IAS 18 Revenue. Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 Employee Benefits. Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- Grants and Disclosures of Government Assistance. Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- IAS 23 Borrowing Costs. The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- IAS 27 Consolidated and Separate Financial Statements. When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 28 Investment in Associates. If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- IAS 29 Financial Reporting in Hyperinflationary Economies. Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- IAS 34 Interim Financial Reporting. Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.
- IAS 36 Impairment of Assets. When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38 Intangible Assets. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- IAS 39 Financial Instruments: Recognition and Measurement. Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 Investment Property. Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

2. Significant accounting policies (cont'd)

Future changes in accounting policies (cont'd)

Improvements to IFRSs (cont'd)

- IAS 41 Agriculture. Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded derivatives (effective for financial years ending on or after 30 June 2009 once adopted by the EU).
The amendments clarify the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment to IAS 39 and IFRS 7 issued in October 2008. The Group did not have financial instruments caught by these amendments.

IFRIC 12 Service Concession Arrangements (effective in the EU for financial years beginning on or after 1 January 2010)
This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

IFRIC 13 Customer Loyalty Programmes (effective for financial years beginning on or after 1 July 2008)
This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Group does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2008)
This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Group.

IFRIC 15 Agreement for the Construction of Real Estate (effective for financial years beginning on or after 1 January 2009 once adopted by the EU)
The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group does not conduct such activity, therefore, this interpretation will not have an impact on the consolidated financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group is currently assessing which accounting policy to adopt for the recycling on disposal of the net investment.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 1 July 2009 once adopted by the EU)
The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group does not distribute non-cash assets to owners.

IFRIC 18 Transfers of Assets from Customers (effective for transfers of assets received on or after 1 July 2009 once adopted by the EU).
The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the consolidated financial statements because the Group does not have such agreements

3. Segment information

The Group has presented the information by each separate business segment. The below table presents the breakdown of income statement item, as well as assets and liabilities by business segments:

	Crude oil and oil products		Shipping		Holding and other activities		**Consolidated (continuing operations)**		Discountinued operations	
	2008	2007	2008	2007	2008	2007	**2008**	**2007**	2008	2007
Third party revenue	62 951	66 259	-	-	170	-	**63 121**	**66 259**	13 513	15 744
Intersegment revenue	225	330	-	-	225	3 089	**450**	**3 419**	1 621	2 759
Cost of sales	(61 907)	(55 906)	-	-	-	-	**(61 907)**	**(55 906)**	(15 300)	(16 279)
Intersegment cost of sales	(503)	(330)	-	-	-	(2 909)	**(503)**	**(3 239)**	(2 332)	(2 567)
Of which amortisation and depreciation	(8 918)	(7 206)	-	-	-	-	**(8 918)**	**(7 206)**	(1 905)	(2 129)
Sales and distribution expense	-	-	-	-	-	-	**-**	**-**	(2 123)	(1 595)
General and administrative expense	(3 164)	(3 794)	-	-	(3 841)	(2 531)	**(7 005)**	**(6 325)**	(2 321)	(1 657)
Of which amortisation and depreciation	(168)	(189)	-	-	(217)	(218)	**(385)**	**(407)**	(67)	(86)
Other operating income/ (expense), net	(1 619)	26 770	-	-	2 918	25 850	**1 299**	**52 620**	31 175	(1 394)
Of which (impairment) / impairment reversal	-	30 770	-	-	-	-	**-**	**30 770**	(2 085)	-
Of which amortisation and depreciation	(52)	(61)	-	-	-	-	**(52)**	**(61)**	-	-
Of which sales of fixed assets and investment propery	-	-	-	-	1 678	-	**1 678**	**-**	-	-
Of which gain on revaluation of investment properties	-	-	-	-	1 987	14	-	-	27 457	30
Of which gain on selling capital shares	-	-	-	-	-	26 694	-	**26 694**	6 575	**-**
Segment result	**(3 739)**	**33 329**	**-**	**-**	**(753)**	**23 319**	**(4 492)**	**56 648**	**24 944**	**(5 181)**
Gain in associates	-	-	14 061	17 191	-	(55)	**14 061**	**17 136**	**-**	-
Financial expense, net	1 476	(1 018)	-	-	1 829	(2 059)	**3 305**	**(3 077)**	(1 505)	-
Corporate income tax	(391)	(1 204)	-	-	(5 070)	(109)	**(5 461)**	**(1 313)**	(3 559)	(19)
Net result	**(2 654)**	**31 107**	**14 061**	**17 191**	**(3 994)**	**21 096**	**7 413**	**69 394**	**19 880**	**(5 200)**
Minority interest	(2 092)	14 819	-	-	(353)	(226)	**(2 445)**	**14 593**	-	-
Net result attributable to parent	**(562)**	**16 288**	**14 061**	**17 191**	**(3 641)**	**21 322**	**9 858**	**54 801**	**19 880**	**(5 200)**
Segment assets	187 338	195 464	125 401	117 843	129 333	73 429	**442 072**	**386 736**	**-**	49 271
Total consolidated assets							**442 072**	**386 736**	-	**49 271**
Segment liabilities	6 475	7 357	-	-	5 807	3 055	**12 282**	**10 412**	**-**	24 938
Total consolidated liabilities							**12 282**	**10 412**	-	**24 938**
Capital expenditure	3 471	3 405	-	-	12	11	**3 483**	**3 416**	7 567	20 656

3. Segment information (cont'd)

The management considers that the preparation of business segment cash flow is not practical.

Since all the operations as well as all the material assets of the group are located in Latvia the management considers irrelevant to prepare the secondary segment reporting format according to geographical locations.

The descriptions of the segments:

Crude oil and oil products:

The revenues in crude oil and oil product business segment mainly come from the transporting, storage and reloading of crude oil and oil products in Latvia.

Shipping:

The business represents marine cargo shipping business.

In the published consolidated financial statements of the Group as of 31 December 2007 the following two segments were presented which form part of the discontinued operations in the consolidated financial statements of the Group as of 31 December 2008; for further information see to Note 12.

Publishing and printing:

The revenues in this business segment are generated from printing service to Latvian residents and non-residents, as well as, income from newspaper publishing and advertising services related to it. The situation in this business segment has deteriorated in 2007 and 2008 mainly due to negative results in the subsidiary *JSC Preses nams*.

JSC Preses nams has closed the year 2008 with a loss after taxes in the amount of LVL 7.5 million. The main factors affecting *JSC Preses nams* results in 2008 included the failure to meet the timetable for commissioning of the new book production facility, which prevented the immediate full-scale use of production capacities, and impairment of property, plant and equipment (LVL 2 085 thousand), increased activities by competitors on the Baltic printing market, including also Latvia, as well as the high inflation rate which resulted in a significant growth of production costs. Given the above factors, in 2008 income from printing products has decreased by 17.6% from the prior year (in 2007 the year-on-year reduction of income from printing products was larger, reaching 26%).

Compared to the prior year, administrative expense has grown, which is due to the fact that *JSC Preses nams* was forced to establish provisions for doubtful receivables in the total amount of LVL 586 thousand. Interest payable to credit institutions has risen considerably from the year 2007, which is due to the fact that *JSC Preses nams* has fully used the credit facilities issued by AS NORVIK BANKA in the amount of EUR 9.7 million for the construction of the new book production plant Jāņsili.

Real estate management:

Collected rent charges and other income related to real estate management make the revenues in this business segment.

Investment properties held by real estate management segment are valued at fair value with changes recognised through income statement. Fair value of investment properties is determined by independent valuator certified by the Latvian Association of Independent appraisers. Fair value change until 30 December 2008 has been recognised in the income statement of the Group in full. At the end of 2008 the investment properties held by the Group have been sold to *LASCO Investment Ltd*. See also Note 7, 12 and 17.

4. Net revenues

		2008	2007
Railway services		28 799	22 964
Reloading of crude oil and oil products		22 393	27 558
Transportation of oil products		7 223	9 850
Income from sale of crude oil and oil products		4 411	5 493
Oil and oil product storage services		125	394
Other income		170	-
	TOTAL:	**63 121**	**66 259**

Group's net revenue from continuing operations has been generated by two major customers. Based on changed co-operation agreement of *LatRosTrans Ltd*, since February 2009 the Group's oil and oils products transportation, storage and reloading services will be provided to a single customer, Ventspils Tank Services S.A.

5. Cost of sales

		2008	2007
Railway charges		28 821	23 007
Amortization and depreciation		8 918	7 206
Remuneration for work		5 429	6 381
Guarantee (business insurance) services		1 851	161
Utilization of piers		1 840	1 785
Treatment of technological waste water		1 744	1 516
Environment protection expense		1 660	1 309
Insurance expenses		1 392	2 075
Social security contributions		1 286	1 552
Cost of sold oil and oil products		1 228	2 573
Security		1 077	1 066
Electricity		955	989
Utilities		901	809
Raw materials		860	916
Materials and spare parts		765	603
Land rent		757	744
Other		2 423	3 214
	TOTAL:	**61 907**	**55 906**

6. General and administrative expense

	2008	2007
Remuneration for work	3 305	2 353
Professional charges and legal costs	800	1 053
Advertising and marketing expense	659	740
Social security contributions	404	366
Amortization and depreciation	385	407
Vehicle maintenance expense	154	170
Social infrastructure expense	145	116
Insurance fees	85	101
Bank charges	70	92
Rent of premises	69	96
Communication expense	47	91
Other administrative expense	882	740
TOTAL:	**7 005**	**6 325**

7. Other operating income

	2008	2007
Profit from sale of property, plant and equipment (See Note 14)	2 112	-
Gain from revaluation of investment properties at fair value (See Note 17)	1 987	14
Income from oil extracted from groundwater and waste waters	453	94
Penalties received	6	3
Reversal of impairment loss on property, plant and equipment (See Note 15)	-	30 770
Gain on disposal of 49% shares in *Ventspils nafta termināls Ltd* (See Note 19)	-	26 694
Other income	320	199
TOTAL:	**4 878**	**57 774**

8. Other operating expense

	2008	2007
Sponsorship	928	180
Payments to local municipality a)	880	865
Construction in progress object written off	381	441
Loss from sales of investment property	434	-
Personnel expenses	343	425
Non-current assets written off	192	507
Provision for expenses arising from oil product theft b)	160	44
Amortization and depreciation	52	61
Impairment for Construction in progress object c)	-	1 728
Impairment of non-current financial assets	-	678
Other expenses	294	225
TOTAL:	**3 664**	**5 154**

a) According to the agreement concluded between subsidiary *Ventspils nafta termināls Ltd* and Ventspils City Council, *Ventspils nafta termināls Ltd* pays Ventspils City Council a fixed amount of LVL 700 thousand annually for transportation of crude oil and oil products through the Ventspils City territory plus a variable amount, which does not exceed 1% of the subsidiary's net turnover, for development of Ventspils social infrastructure. Starting with 2007 and in the coming years the fixed portion of the payment will be adjusted for the Harmonised Consumer Price Index (HICP) published by the EU statistics office. In 2008 HICP is 3.3% (2007: 2.1%).

b) Based on the court ruling precedents (see Note 31), the subsidiary' *LatRosTrans Ltd* management estimated the potential taxes payable on physical losses due to thefts of oil products for 2008 amounting to 0.141 thousand tons (for 2007: 0.112 thousand tons) and established provisions for excise tax and value added tax in the amount of LVL 32 thousand and LVL 21 thousand, respectively (for 2007: LVL 26 thousand and LVL 18 thousand, respectively).

c) Impairment for Construction in progress object for the year 2007 relates to subsidiary *Ventspils nafta termināls Ltd* technical documentation which has been prepared for a construction project. As the management of *Ventspils nafta termināls Ltd* is not aware when and if the construction project will be continued, impairment was recognised.

9. Personnel expenses

	2008	2007
Average number of employees during the reporting year for continuing operations	**791**	**958**
Average number of employees during the reporting year for discontinued operations	748	725

Remuneration for work and social security expense

	2008	2007
Remuneration for work	12 185	12 555
Social security contributions	2 781	2 898
Other personnel expense	182	80
Management and the Board of Directors		
Remuneration for work	1 201	786
Social security contributions	81	95
Other personnel expense	3	9

9. Personnel expenses (cont'd)

Remuneration for work and social security expense (cont'd)

	2008	2007
Members of the Council		
Remuneration for work	1 344	705
Social security contributions	136	104
Other personnel expense	3	12
TOTAL:	**17 916**	**17 244**

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

	2008	2007
Cost of sales	6 715	7 933
General and administrative expense	3 709	2 719
Other operating expense	343	425
TOTAL personnel expenses from continuing operations:	**10 767**	**11 077**
Total personnel expenses from discontinued operations	7 149	6 167
TOTAL personnel expenses for the reporting year:	**17 916**	**17 244**

10. Financial income and (expense)

	2008	2007
Interest income from the loan note (see Note 19)	1 816	2 495
Interest income from bank account balances and deposits	861	928
Foreign currency exchange profit, net	635	-
TOTAL financial income:	**3 312**	**3 423**
Of which from financial instruments relating to financial instrument categories:		
Loans and receivables and cash	3 312	3 423
Financial assets measured at amortised cost	-	-

	2008	2007
Interest expense	(7)	(88)
Foreign currency exchange loss, net	-	(6 412)
TOTAL financial expense:	**(7)**	**(6 500)**
Of which from financial instruments relating to financial instrument categories:		
Loans and receivables	-	(6 412)
Financial liabilities measured at amortised cost	(7)	(88)

11. Corporate income tax

	2008	2007
Current corporate income tax	5 966	97
Relating to origination and reversal of temporary differences	(505)	1 216
Income tax for continuing operations reported in the income statement:	**5 461**	**1 313**
Change in deferred income tax from discontinued operations	3 559	19
Total corporate income tax for the reporting year:	**9 020**	**1 332**

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

	2008	2007
Income before corporate income tax from continuing operations	12 874	70 737
Income before corporate income tax from discontinued operations	23 439	(5 211)
Total income for the reporting year	**36 313**	**65 526**
Corporate income tax at 15%	*5 447*	*9 829*
The effect of different tax rates and tax rebates within the Group	(210)	(4 095)
Permanent differences including the non-taxable income from revaluation of associate	1 439	994
Corporate income tax from unrecognised profit from downstream sales to associated company	1 291	-
Reversal of impairment	-	(5 517)
Change in valuation allowance for deferred tax asset	2 110	1 127
Tax asset recognized in the reporting year which had not been recognized in the previous years	(253)	(1 339)
Sponsorship	(765)	(14)
Other	(39)	347
Total corporate income tax for the reporting year:	**9 020**	**1 332**

Corporate income tax expense reported in the income statement	5 461	1 313
Corporate income tax attributable to discontinued operations	3 559	19
Total corporate income tax for the reporting year:	**9 020**	**1 332**

11. Corporate income tax (cont'd)

Deferred corporate income tax:

Deferred tax liability	31/12/2008	31/12/2007	2008	2007
Accelerated depreciation for tax purposes	(10 745)	(16 920)	(3 431)	(3 032)
Gross deferred corporate income tax liability	*(10 745)*	*(16 920)*	*(3 431)*	*(3 032)*
Deferred tax asset				
Tax losses carried forward	7 361	6 485	2 699	439
Deferred tax assets related to other temporary differences	118	205	306	52
Tax rebate on investment projects above LVL 10 000 thousand [a)]	4 166	4 166	-	-
Less valuation allowance for tax asset	(2 207)	(988)	(2 628)	1 306
Gross deferred corporate income tax asset	*9 438*	*9 868*	*377*	*1 797*
TOTAL net deferred corporate income tax liability	**(1 307)**	**(7 052)**	**(3 054)**	**(1 235)**
Net deferred corporate income tax liability from continuing operations			505	(1 216)
Net deferred corporate income tax liability from discontinued operations			(3 559)	(19)

a) According to Decision No. 613 of the Latvian Cabinet of Ministers, dated 30 October 2002, *LatRosTrans Ltd* was eligible for the large investment tax rebate amounting to 40% of the planned investment value, or LVL 4 166 thousand. The rebate would be granted to support *LatRosTrans Ltd* investment projects in the amount of LVL 10 415 thousand if *LatRosTrans Ltd* fulfils the investment plan. *LatRosTrans Ltd* fulfilled the investment plan and became eligible for the tax rebate at the end of 2003. The rebate expires in 2013 and it can be used to reduce future corporate income tax payable. Considering that corporate income tax payable only arises when all the tax losses for the previous taxation periods have been utilised, the application of the tax rebate granted to *LatRosTrans Ltd* can only be commenced when the subsidiary has utilised all accumulated tax losses. During the period of the subsidiary's eligibility for tax rebate, corporate income tax is applied at the rate 25%.

As disclosed in Note 15, *LatRosTrans Ltd* management resolved in 2009 to sell a certain part of LatRosTrans Ltd assets related to pipeline, i.e., technological reserves. According to *LatRosTrans Ltd* estimates, transaction will result in a taxable income, therefore *LatRosTrans Ltd* will be able fully utilise the tax losses carried forward, as well as part of the above mentioned tax rebate. Moreover, *LatRosTrans Ltd* management believes that part of the remaining tax rebate asset could be used for covering the deferred corporate tax liability arising from accelerated depreciation for tax purposes. As the management estimates that *LatRosTrans Ltd* will not be able to fully use the said tax rebate until its expiration (April 2013), a respective valuation allowance for the net deferred corporate income tax asset is established in total amount of LVL 3 616 thousand (31/12/2007: LVL 988 thousand).

In 2008 and 2007, *Ventspils nafta termināls Ltd* applied 5% corporate income tax rate for calculation of the deferred income tax liability based on the management's assumption that *Ventspils nafta termināls Ltd* will benefit from 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 2008, *Ventspils nafta termināls Ltd* had accrued the utmost applicable discounts for direct taxes (applicable mainly to corporate income tax and real estate tax) in the amount of LVL 39 412 thousand (31/12/2007: LVL 39 529 thousand).

Group's tax losses carried forward expire as follows:

	Tax loss	Expiry term
Tax loss for 2003	8 567	2011
Tax loss for 2004	4 627	2012
Tax loss for 2005	3 534	2013
Tax loss for 2006	4 857	2014
Tax loss for 2007	5 018	2015
Tax loss for 2008	6 210	2016
TOTAL:	**32 813**	

12. Discontinued operations

At the end of December 2008 the *JSC Ventspils nafta* has announced the decision of its Supervisory Council to dispose investment in a number of subsidiaries and on 17 December 2008 a sales agreement has been signed between the Parent company and the subsidiary of its associated company *JSC Latvijas kuģniecība – LASCO Investment Ltd* for the sale of capital shares of the following subsidiaries:

- *JSC Preses nams and its subsidiary;*
- *Mediju nams Ltd and its subsidiaries;*
- *Nekustamie īpašumi VN Ltd (in March 2009 renamed to LASCO nekustamie īpašumi Ltd and its subsidiaries);*
- *Rīgas līcis VN Ltd (in March 2009 renamed to Rīgas līcis Ltd).*

The total sales amount for capital share sales is LVL 72 447 thousands. The profit from sale at consolidated level from sales of capital shares amounted to 13 133 thousand lats of which LVL 6 575 thousand were recognised as gain from discontinued operations in the reporting year. As the subsidiaries were sold to the Group's associate company the proportional part of not yet realised profit was eliminated. See also Note 18.

Until end of 2008 the first payment amounting to LVL 17 145 thousands has been received as a partial settlement of the deal. Second payment amounting to LVL 18 200 thousands has been fully received during February 2009, as stipulated by the sales agreement. The third, remaining payment is deferred till 2010 and carries interest of 3m EUR LIBOR plus 2.75% per annum. See also Note 32.

12. Discontinued operations (cont'd)

As per agreement the disposed companies were controlled by *JSC Ventspils nafta* until 30 December 2008 thus all operating results until that date in 2008 are attributable to consolidated results of the Group. Formally the change of shareholders has been registered with the Enterprise Register of the Republic of Latvia during early 2009.

The results of the discontinued operations for the year are presented below:

	2008	2007
Revenue	13 513	15 744
Increase in fair value of investment property	27 457	30
Gain from sale of discontinued operations	6 575	-
Net expenses	(24 106)	(20 955)
Gain/ (loss) before tax from discontinued operations	23 439	(5 181)
Corporate income tax charge	(3 559)	(19)
Profit/ (loss) for the year from discontinued operations:	**19 880**	**(5 200)**

The net cash flows incurred by discontinued operations are as follows:

	2008	2007
Operating activities	(748)	(69)
Investment activities	(6 287)	(2 609)
Financing activities	3 647	(532)
Net cash outflow:	**(3 388)**	**(3 210)**

The major classes of assets and liabilities for disposed subsidiaries as at 30 December 2008 are as follows:

	30/12/2008
Intangibles	95
Property, plant, equipment	36 603
Investment property	58 378
Trade receivables	2 267
Inventories	462
Cash and cash equivalents	324
Total assets:	**98 129**
Loan and leasing liabilities	(24 114)
Trade Payables	(2 846)
Other liabilities	(2 794)
Deferred income tax liability	(8 799)
Total liabilities:	**(38 552)**
Net assets	59 577
Minority interest of disposed subsidiaries	(263)
Total net assets	**59 313**

13. Intangible assets

	Land use rights [a]	Other intangible assets	**Total**
Cost value as at 31/12/2006	49 659	128	49 787
2007 Additions	-	46	46
Cost value as at 31/12/2007	49 659	174	49 833
Accumulated amortisation and impairment 31/12/2006	20 484	61	20 545
2007 Amortisation for the year	788	19	807
Balance as at 31/12/2007	21 272	80	21 352
Net book value 31/12/2006	**29 175**	**67**	**29 242**
Net book value 31/12/2007	**28 387**	**94**	**28 481**

		Land use rights [a]	Other intangible assets	**Total**
Cost value as at 31/12/2007		49 659	174	49 833
2008	Additions	-	60	60
	Disposals	-	(25)	(25)
	Discontinued operation	-	(209)	(209)
Cost value as at 31/12/2008		49 659	-	49 659
Accumulated amortisation and impairment 31/12/2007		21 272	80	21 352
2008	Amortisation for the year	789	24	813
	Impairment	-	26	26
	Disposals	-	(16)	(16)
	Discontinued operation	-	(114)	(114)
Balance as at 31/12/2008		22 061	-	22 061
Net book value 31/12/2007		**28 387**	**94**	**28 481**
Net book value 31/12/2008		**27 598**	**-**	**27 598**

a) Upon the foundation of subsidiary *LatRosTrans Ltd*, the Republic of Latvia, represented by *JSC LaSam*, contributed use rights to the land, where the subsidiary's transmission pipelines were located at the value of LVL 49 659 thousand. The contribution value was agreed on by the founders of the subsidiary *LatRosTrans Ltd* according to the agreement dated 29 September 1995.

The subsidiary's LatRosTrans Ltd right to the contributed land use rights is based on the Law on Restriction Zones dated 5 February 1997 and Latvian Civil Law, according to which LatRosTrans Ltd has use rights to the land where the subsidiary's LatRosTrans Ltd existing pipelines are located. In case of repairs or similar activities on the pipelines, any damage to the land must be compensated to the owners. Further, use of land for new pipelines must be compensated to the owners, new pipelines being defined as pipelines established after the law came into force.

The land owners and boundaries of the respective land plots have been identified, and cadastral register statements have been received. *LatRosTrans Ltd* has obtained all respective documents. The work on registration of title to the land and encumbrances has been performed by the land owners. As at the year end, the registration of easements has been accomplished by 40%.

In 2006, impairment loss for land use rights was booked in the amount of LVL 153 thousand (see also Note 15). In 2007 and 2008, no additional impairment loss was recognised.

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

	2008	2007
Cost of sales	801	802
General and administrative expense	7	3
Other operating expenses	5	2
Total amortisation expenses from continuing operations:	**813**	**807**

14. Property, plant and equipment

		Land, buildings and pipeline networks	Machinery and equipment	Other property, plant and equipment	Construction in progress	**Total, excluding prepayments for property, plant and equipment**
Cost value as at 31/12/2006		228 736	99 634	27 118	12 318	367 806
2007	Additions	285	4 064	691	18 972	24 012
	Disposals	(41)	(353)	(228)	(4 126)	(4 748)
	Transfers	1 619	3 233	(172)	(4 680)	-
Cost value as at 31/12/2007		230 599	106 578	27 409	22 484	387 070
Accumulated depreciation as at 31/12/2006		151 520	51 961	22 543	16	226 040
2007	Depreciation for the year	3 050	4 804	1 240	-	9 094
	Disposals	(35)	(259)	(209)	-	(503)
	Impairment	-	-	-	1 728	1 728
	Impairment reversal	(24 792)	(4 931)	(1 047)	-	(30 770)
Accumulated depreciation and impairment as at 31/12/2007		129 743	51 575	22 527	1 744	205 589
Net book value as at 31/12/2006		**77 216**	**47 673**	**4 575**	**12 302**	**141 766**
Net book value as at 31/12/2007		**100 856**	**55 003**	**4 882**	**20 740**	**181 481**

Cost value as at 31/12/2007		230 599	106 578	27 409	22 484	387 070
2008	Additions	5	107	761	10 117	10 990
	Disposals	(5 896)	(1 577)	(1 510)	(384)	(9 365)
	Transfers	9 870	1 249	314	(11 433)	-
	Reclassification to investment property	(9)	-	-	(1 609)	(1 618)
	Discontinued operations (see Note 12)	(17 419)	(20 318)	(2 529)	(16 389)	(56 655)
Cost value as at 31/12/2008		217 150	86 039	24 445	2 786	330 422
Accumulated depreciation as at 31/12/2007		129 743	51 575	22 527	1 744	205 589
2008	Depreciation for the year*	3 966	5 087	1 436	-	10 488
	Disposals	(1 301)	(852)	(1 335)	-	(3 487)
	Impairment (see Note 15)	-	16	-	2 085	2 101
	Discontinued operations (see Note 12)	(3 251)	(12 769)	(1 947)	(2 085)	(20 052)
Accumulated depreciation and impairment as at 31/12/2008		129 156	43 057	20 681	1 744	194 639
Net book value as at 31/12/2007		**100 856**	**55 003**	**4 882**	**20 740**	**181 481**
Net book value as at 31/12/2008		**87 994**	**42 983**	**3 764**	**1 042**	**135 783**
Depreciation rate (straight-line)		1,25% -20%	5%-50%	10%-50%		

* Depreciation of the year includes the total amount for continued and discontinued operations, see further for detailed split.

See Note 15 for impairment assessment and Note 31 for commitments for capital expenditure.

The total original cost value of fully depreciated property, plant and equipment still in use as at 31 December 2008 was LVL 75 040 thousand (31/12/2007: LVL 74 534 thousand).

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

	2008	2007
Cost of sales	8 117	6 404
General and administrative expense	378	404
Other operating expense	47	59
Total depreciation expenses from continuing operations:	**8 542**	**6 867**
Total depreciation expenses from discontinued operations	1 946	2 227
TOTAL depreciation expenses for the reporting year:	**10 488**	**9 094**

15. Impairment of non-current assets

The Group's non-current assets which are tested for impairment annually consist of intangible assets (mainly land use rights) and property, plant and equipment. Total net carrying value of non-current assets tested for impairment as at 31/12/2008 is LVL 163 595 thousand (31/12/2007: LVL 210 839 thousand, including operations discontinued in 2008).

Based on discounted cash flow projections, no impairment loss for non-current assets was recognized in 2008. In 2007, based on discounted cash flow projections, an impairment reversal for non-current assets was recognized. Please see section on *Ventspils nafta termināls Ltd* below and Note 7.

As at 31 December 2008 non-current assets of the Group were tested for impairment at subsidiaries level – for *Ventspils nafta termināls Ltd* and *LatRosTrans Ltd. LatRosTrans Ltd* non-current assets are further divided as two separate cash generating units (CGU), for which cash inflows are largely independent. <u>Cash generating unit A</u> represents land use rights and property, plant and equipment related to oil product pipeline Polotsk – Ventspils. <u>Cash generating unit B</u> represents land use rights and property, plant and equipment related to oil pipeline Polotsk – Ventspils and oil pipeline Polotsk - Mažeikiai.

<u>*Ventspils nafta termināls Ltd*</u>

In 2005 the management of *Ventspils nafta termināls Ltd* made a decision to account for impairment loss related to technological assets due to the ceased oil transportation via the pipeline to Ventspils.

Ventspils nafta termināls Ltd non-current assets are considered as one cash generating unit. The recoverable amount has been determined based on the value in use calculation using cash flow projections approved by the management covering a twenty-year period. The aggregate value of technological assets and related goodwill accounted for by *Ventspils nafta termināls Ltd* as impaired in 2005 was LVL 35 645 thousand. The respective impairment has been accounted for as a change in estimates and charged to the income statement as other operating expense in 2005. The testing carried out in 2006 did not reveal any additional impairment.

In 2007, the situation with deliveries of oil products by rail and through the pipeline improved considerably, resulting in changes in the cash flow projections by the management. *Ventspils nafta termināls Ltd* tested the assets for impairment in 2007. Based on the test results, it was determined that there was no longer a reason for impairment of assets, therefore impairment was reversed. As at 31 December 2007, gain from reversal of impairment of non-current assets has been included in the income statement for 2007 as other operating income. Please see Note 7.

In 2008 the subsidiary's *Ventspils nafta termināls Ltd* gross profit decreased three times compared to 2007, thus non-current asset impairment test was carried out by the management of the subsidiary. Total net carrying value of non-current assets of *Ventspils nafta termināls Ltd* tested for impairment is LVL 72 867 thousands (31/12/2007: LVL 73 367 thousands).

As indicated above, in 2008 and 2007, based on discounted cash flow projections, no additional impairment loss for non-current assets was recognized. Total value in use defined for *Ventspils nafta termināls Ltd* non-current assets amounts to approx. LVL 127 441 thousands.

Ventspils nafta termināls Ltd prepared future cash flow projections based on the following assumptions:

- The weighted average cost of capital rate applied to the cash flow projections is 15.5% in 2009 to 2011, and 11% from 2012 onwards (2007: 12%).
- The growth rate used to extrapolate cash flows is 0% for period of 2009 – 2010 and a rate of 2.5 % for the years onwards. (2007: the projected revenue from the long-term agreement signed on reloading of crude oil and oil products has been taken in consideration).
- The inflation rate used - 0% for period of 2009 – 2010 and a rate of 2.5 % for the following years starting from 2011 (2007: 4.5% until 2010 inclusive and 2.5% onwards).

<u>*LatRosTrans Ltd*</u>

LatRosTrans Ltd maintains a network consisting of three pipelines on the territory of the Republic of Latvia: crude oil pipeline Polotsk – Ventspils (operations ceased in 2003), crude oil pipeline Polotsk – Mažeikiai (operations ceased in July 2006), and oil product pipeline Polotsk – Ventspils.

As indicated above, transportation of crude oil through *LatRosTrans Ltd* pipeline in Ventspils direction was ceased in 2003. In 2005 and 2006 *LatRosTrans Ltd* recognized impairment loss for the idle property, plant and equipment and land use rights related to crude oil transportation in total amounting to LVL 12 359 thousand. The impairment loss has been presented under other operating expense in each respective year.

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

LatRosTrans Ltd (cont'd)

Total net carrying value of the non-current assets of *LatRosTrans Ltd* tested for impairment as at 31/12/2008 is LVL 91 012 thousand (31/12/2007: LVL 96 328 thousand). In 2008 and 2007, based on discounted cash flow projections, no additional impairment loss for non-current assets was recognized.

As at 31 December 2008 *LatRosTrans Ltd* non-current assets are considered as two separate cash generating units (CGU), for which cash inflows are largely independent. Cash generating unit A represents land use rights and property, plant and equipment related to oil product pipeline Polotsk – Ventspils. Cash generating unit B represents land use rights and property, plant and equipment related to oil pipeline Polotsk – Ventspils and oil pipeline Polotsk - Mažeikiai.

Cash generating unit A

The total net carrying value of the non-current assets considered as CGU A is LVL 57 552 thousands.

The recoverable amount of CGU A is determined based on the value in use calculation using discounted cash flow projections approved by the management and covering a twenty-year period. Two cash inflow streams are considered - from the main operations (resulting in discounted cash flow of approx. LVL 59 277 thousand) and supplementary cash inflow stream from the additional use (resulting in discounted cash flow of approx. LVL 3 269 thousand. Total value in use defined for CGU A amounts to approx. LVL 62 546 thousand.

Key assumptions on main operation cash flows:

The following describes major key assumption on which the management has based its cash flow projections in relation to cash inflow stream from the main operations:

- Oil product flow in 2009 to 2011 is planned in the amount of 6 000 thousand tons, further increasing to 6 500 thousand tons in 2012 and 2013, and to 7 000 thousand tons from 2014 onwards (2007: 6 000 tons in 2009, increasing to 14 000 tons in 2012).
- Operations are reorganized in a more efficient way resulting in considerable cost saving in 2009 (28% saving compared to 2008) and in 2010 and 2011 (approx. 7% saving compared to 2009 and 2010, respectively).
- The weighted average cost of capital rate applied to the cash flow projections is 16% in 2009 to 2011, and 11% from 2012 onwards (2007: 12%).
- The growth rate used to extrapolate future revenue due to the increased reloading tariffs equals inflation rate (2007: 4.5%).
- The inflation rate used is 0% for 2009 and 2010, and 2.5% from 2011 onwards (2007: 0.5% until 2010 inclusive and 2.5% onwards).

Key assumptions on additional use cash flows:

Cash flow projections in relation to cash inflow stream from the additional use of specific non-current assets are based on the assumptions and calculations defined by the strategic committee of *LatRosTrans Ltd*. The specific cash flows are dependent upon future actions of *LatRosTrans Ltd* and external unrelated parties.

The following describes major key assumption on which the management has based its cash flow projections in relation to additional use cash flow streams:

- Cash flow projections cover nineteen-year period starting from 2010.
- Volume of additional use services considered at 10% from full capacity.
- The weighted average cost of capital rate applied to the cash flow projections is 16% in 2010 to 2011, and 11% from 2012 onwards.
- The growth rate used to extrapolate future revenue due to the increased tariffs equals inflation rate.
- The inflation rate used is 0% for 2010, and 2.5% from 2011 onwards.

Cash generating unit B

The total net carrying value of the non-current assets considered as CGU B is LVL 33 460 thousands.

LatRosTrans Ltd has decided to sell part of CGU B assets - technological oil - and therefore the recoverable amount of CGU B is determined based on the fair value less cost to sell calculation. Total fair value less cost to sell defined for CGU B amounts to approx. LVL 34 318 thousands.

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

LatRosTrans Ltd (cont'd)

Cash generating unit B (cont'd)

For determining the net carrying value of the non-current asset considered as CGU B the management used assumptions based on arrangements and conclusions reached with the potential cooperation partners that were reached during 2008 and 2009 based on recommendations provided by the strategic committee of *LatRosTrans Ltd*. The technological oil as at 31 December 2008 is recognized as a contingent asset (see also Note 31) and thereby will be recognized as asset for sale upon transaction.

Considering *LatRosTrans Ltd* management decision on the disposal of the off-balance sheet oil asset in 2009, an agreement with a related company has been reached on disposal of the respective *LatRosTrans Ltd* asset. The planned revenue from the disposal of the said asset is approximately USD 71.7 million.

Since asset to be sold is accounted as contingent asset, there is a remote possibility that the fact of sale might trigger future legal claims from external parties.

If alternative cash inflows are not identified in respect of CGU B after the sale mentioned above, then major part of CGU B might be impaired after the sale. Currently *LatRosTrans Ltd* is working on identification and evaluation of such alternative cash inflows.

Sensitivity to changes in key assumptions

Ventspils nafta termināls Ltd

With regard to the assessment of value in use of the property, plant and equipment in *Ventspils nafta termināls Ltd*, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

LatRosTrans Ltd

For *LatRosTrans Ltd* there are reasonably possible changes in key assumptions, which could cause the carrying value of the unit to exceed its recoverable amount, as discussed below.

Cash generating unit A

Discounted cash flows for cash generating unit A are the most sensitive to volume of oil product flow, expected cost savings and weighted average cost of capital rate applied.

Should oil product flow volumes and / or cost savings be less as expected or average weighted cost of capital be higher as expected, significant impairment loss on CGU A will result. The following individual change in key assumptions would make recoverable amount of CGU A approximate its carrying amount as at 31/12/2008:

- Decrease of oil product flow volumes by 350 thousand tons per annum;
- Cost savings in 2009 compared to 2008 at 20% instead of 28% assessed;
- Increase of weighted average cost of capital rate to 17.3% in 2010 to 2011, and 12.3% from 2012 onwards.

Cash generating unit B

As indicated above, estimated recoverable amount, defined as fair value less cost to sell, approximates to net carrying value of non-current assets considered as CGU B. Should cost to sell be 44% higher as used in the impairment assessment, recoverable amount of CGU B will approximate its carrying amount as at 31/12/2008. Besides, as indicated before, if alternative cash inflows are not identified in respect of CGU B after the sale considered above, then major part of CGU B might be impaired after the sale.

16. Construction in progress

	31/12/2008	31/12/2007
Projection and construction of looping (pipeline)	649	899
Construction of new pipeline corridor	172	172
Printing equipment not installed	-	12 211
Construction of new printing facilities for the subsidiary *JSC Preses nams*	-	5 609
Reconstruction of real estate property *Rīgas līcis VN Ltd (Rīgas līcis Ltd)* in Jurmala	-	1 616
Construction of railway tank filling/reloading platform Nr. 4	-	59
Other objects	221	174
TOTAL:	**1 042**	**20 740**

Please see Note 31 Commitments and Contingencies for Commitments for capital expenditure.

17. Investment properties

		Total investment properties
Balance as at 31 December 2006		**31 687**
2007	Fair value adjustment	44
Balance as at 31 December 2007		**31 731**
	Reclassification from property, plant and equipment (see Note 14)	1 618
	Fair value adjustment for discontinued operations (See Note 12)	27 457
2008	Fair value adjustment for continuing operations (See Note 7)	1 987
	Disposal of investment property	(4 415)
	Discontinued operations (See Note 12)	(58 378)
Balance as at 31 December 2008		**-**

Fair value of the investment properties of the Group is determined by independent valuator certified by the Latvian Association of Independent appraisers on annual basis. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards.

At the end of 2008 the investment properties held by the Group have been sold to *LASCO Investment Ltd*. See also Note 8.

18. Investments in associated entities

The following table summarizes ownership of the Group in associated entities:

Associated entities:	Ownership (%) 31/12/2008	Ownership (%) 31/12/2007	Legal address
JSC Latvijas kuģniecība	49.94	49.94	Elizabetes iela 1, LV-1807, Riga, Latvia
Mediji un poligrāfija Ltd	32.70	32.70	Balasta dambis 3, LV-1081, Riga, Latvia
Futbola klubs Ventspils Ltd	-	42.50	Dzintaru iela 20a, LV-3602, Ventspils, Latvia

18. Investments in associated entities (cont' d)

The following table presents carrying values of investments in associated entities:	31/12/2008	31/12/2007
JSC Latvijas kuģniecība	134 007	117 843
Proportional part of unrealised profit of disposal of discontinued operations	(6 575)	-
Proportional part of unrealised profit of disposal of real estate properties	(2 031)	-
Mediji un poligrāfija Ltd (under liquidation process)	48	48
Futbola klubs Ventspils Ltd	170	85
Impairment for investment in *Futbola klubs Ventspils Ltd*	-	(85)
TOTAL:	**125 619**	**117 891**

	2008	2007
Balance at the beginning of the year:	**117 891**	**112 206**
Foreign currency translation		
JSC Latvijas kuģniecība	3 284	(11 506)
Total foreign currency translation:	***3 284***	**(11 506)**
Cash flow hedge reserve		
JSC Latvijas kuģniecība	(1 181)	-
Total cash flow hedge reserve:	***(1 181)***	**-**
Recognised (impairment) / reversal of previously recognized impairment		
Futbola klubs Ventspils Ltd	*85*	*(55)*
Investments		
Increased share capital in *Futbola klubs Ventspils Ltd*	*85*	*55*
Proportional share of profit		
JSC Latvijas kuģniecība	14 061	17 191
Proportional part of unrealised profit of disposal of discontinued operations	*(6 575)*	-
Proportional part of unrealised profit of sales of real estate properties	*(2 031)*	-
Balance at the end of year:	**125 619**	**117 891**

Total proportional share of profit	14 061	17 191
Impairment recognised in *Futbola klubs Ventspils Ltd*	*85*	*(55)*
Total share of profit of associate recognised in the income statement :	**14 146**	**17 136**

The changes in other reserves resulting from investment in associates is disclosed the following:

	31/12/2008	**Changes**	**31/12/2007**
Changes in foreign currency translation resulting from investment in associate	(14 615)	3 284	(17 889)
Changes Cash flow hedge reserve from investment in associate	(1 181)	(1 181)	-
Total reserves resulting from investment in associate:	**(15 786)**	**2 103**	**(17 899)**

18. Investments in associated entities (cont' d)

The functional currency of *JSC Latvijas kuģniecība* is US dollar.

JSC Latvijas kuģniecība financial performance indicators (representing 100%) are as follows:

- net profit for 2008 was USD 58 690 thousand, equivalent to LVL 28 158 thousand (2007: USD 67 009 thousand, equivalent to LVL 34 419 thousand);
- total revenues for 2008 were USD 252 031 thousand, equivalent to LVL 120 915 thousand (2007: USD 239 864 thousand, equivalent to LVL 123 207 thousand);
- total equity as at 31 December 2008 was USD 541 333 thousand, equivalent to LVL 267 959 thousand (31/12/2007: USD 487 590 thousand, equivalent to LVL 235 994 thousand);
- total assets as at 31 December 2008 were USD 1 150 155 thousand , equivalent to LVL 569 326 thousand (31/12/2007: USD 857 027 thousand, equivalent to LVL 414 801 thousand) and total liabilities were USD 608 069 thousand, equivalent to LVL 300 994 thousand (31/12/2007: USD 369 437 thousand, equivalent to LVL 178 807 thousand).

The share price in Riga Stock Exchange at the end of the year was LVL 0.66 per share (31/12/2007: 1.31 per share).

Market value of *JSC Latvijas kuģniecība* shares owned by *JSC Ventspils nafta* as at 31 December 2008 is LVL 65 921 thousand (31/12/2007: LVL 130 843 thousand).

19. Loan note

Pursuant to the decision of the *JSC Ventspils nafta* Council dated 26 October 2006, an Option agreement on sale of 49% of shares in the subsidiary *Ventspils nafta termināls Ltd* has been concluded with *Euromin Holdings (Cyprus) Limited* (a subsidiary of *Vitol SA*). The other party had the right to call the shares over one year period at the exercise price which is based on fair value of shares. 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 in the amount of USD 90 million (LVL 47 880 thousand) bearing interest rate of LIBOR + 1% or 9.99% (whichever is lower). The loan note is repayable at the earliest of 15 October 2016 or the date when *Euromin Holdings (Cyprus) Limited* receives payment for its *Ventspils nafta termināls Ltd* shares should it decide to dispose its shareholding in *Ventspils nafta termināls Ltd*. The loan note at the end of the reporting year was USD 90 million (LVL 44 550 thousand), 31/12/2007: USD 90 million (LVL 43 560 thousand). As at 31 December 2008 and 31 December 2007 the loan note balance was neither due nor impaired.

20. Inventories

	31/12/2008	31/12/2007
Materials:		
Materials, spare parts and low value items	733	1 811
Allowance for obsolete materials	(138)	(230)
TOTAL materials, net:	*595*	*1 581*
Crude oil and oil products	1 826	2 577
Unfinished inventory	-	67
Finished inventory and goods for sale	-	51
Prepayments for materials	8	82
TOTAL:	**2 429**	**4 358**

The value of crude oil and oil products included in the inventory caption includes the oil and oil products held in the technological facilities and pipeline of the Parent company and its subsidiaries *Ventspils nafta termināls Ltd* and *LatRosTrans Ltd*, used to ensure oil and oil product transportation process.

There are no inventories carried at net realizable value as at 31 December 2008 and 2007. The amount of inventories recognized as an expense is disclosed in Note 5.

21. Trade accounts receivable

	31/12/2008	31/12/2007
For reloading services	1 196	1 290
For transporting of oil and oil products	247	171
For printing services	-	2 376
For newspapers	-	496
For other services	-	14
Doubtful debts	26	1 544
Allowance for doubtful debts	(26)	(1 544)
TOTAL:	**1 443**	**4 347**

Movements in the provision for impairment of receivables were as follows:

	Individually impaired
As at 1 January 2007	**1 592**
Charge for the year	(47)
Unused amounts reversed	(1)
As at 31 December 2007	**1 544**
Charge for the year	-
Allowance for doubtful debts of sold subsidiaries	(1 518)
As at 31 December 2008	**26**

All provisions are individually assessed. No collective assessment has been done.

As at 31 December 2008 and 2007, the ageing analysis of trade receivables is as follows:

			Past due				
	Total	Neither past due nor impaired	up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days
31/12/2007	**4 347**	3 410	568	112	141	448	257
31/12/2008	**1 443**	1 443	-	-	-	-	-

22. Other current assets

	31/12/2008	31/12/2007
Value added tax receivable	510	1 268
Prepaid insurance expense	426	1 178
Accrued income	280	252
Other prepaid expense	109	201
Other current assets	-	378
TOTAL:	**1 325**	**3 277**

Other current receivables are non-interest bearing and are generally receivable on 30 days' terms.

23. Cash and cash equivalents

		31/12/2008	31/12/2007
Current bank accounts [a)]		21 681	10 229
Term deposits [b)]		14 049	9 329
Accumulated interest on term deposits		24	51
Cash on hand		2	4
	TOTAL:	**35 756**	**19 613**

a) The Group has signed an agreement with AS Swedbank on an automated overnight deposit whereby the Group authorises the bank to transfer the cash balance in the Group' s companies LVL, USD and EUR accounts at the end of the day to the overnight deposit which earns interest. Interest rate is determined by the Bank for each cash placement individually. The agreement has been signed for an indefinite period of time.

b) Short-term deposits are made in USD and EUR for varying periods of between one day and three months and earn average interest at 5% per annum.

24. Share capital, earnings per share, reserves and minority interests

Share capital

The following table represents the distribution between shareholders shares, being in public offering and name shares:

	Name shares	Holders shares	**Total**
31 December 2007	43 881 398	60 598 121	**104 479 519**
31 December 2008	43 881 398	60 598 121	**104 479 519**

Information on shareholders' equity participation is summarized shortly before shareholders' general meeting. As on 30 April 2008, when the last shareholders' general meeting of *JSC Ventspils nafta* took place, *Euromin Holdings (Cyprus) Limited*, was registered as the largest shareholder by owning 47.89% of Parent company's share capital.

All shares issued are authorized and fully paid. The nominal value of each share is LVL 1.

Earnings per share

Basic and diluted earnings per share attributable to the Parent company shareholders are calculated by dividing the net result for the year of LVL 9 505 thousand from continuing operations and LVL 20 233 thousand from discontinued operations (for 2007: profit of LVL 54 801 thousand from continuing and loss of 5 200 LVL from discontinued operations) by weighted average number of shares during the year of 104 479 thousand (2007: 104 479 thousand).

Reserves

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of associates for which functional currency is other than lats. Please see also Note 18.

Legal reserves represent the Group's share of subsidiary's *LatRosTrans Ltd* legal reserve which was previously provided for in accordance with the Law of the Republic of Latvia on Limited Liability Companies in amount of 5% of the prior years' profits. Pursuant to the Commercial Law of the Republic of Latvia, formation of such reserves is no longer required.

According to the Statutes net result after restricted reserves and dividends is allocated to Other reserves.

***24.* Share capital, earnings per share, reserves and minority interests** (cont' d)

Minority interest

As at 31 December 2008 minority is represented by:

- 34% minority holding on *LatRosTrans Ltd* capital shares, and
- 49% minority holding on *Ventspils nafta termināls Ltd* capital shares.

Income statement minority interest of LVL 2 445 thousand (loss) represents net result attributable to minority shareholders on year 2008 net result.

	2008	2007
Attributable to *Ventspils nafta termināls Ltd* minority holders	551	17 072
Attributable to *LatRosTrans Ltd* minority holders	(2 643)	(2 253)
Attributable to disposed *Preses Nams Ltd* minority holders	(349)	(226)
Attributable to disposed *Mediju Nams Ltd* minority holders	(4)	-
TOTAL:	**(2 445)**	**14 593**

Balance sheet represent attributable equity share to the minority holders as at the end of the reporting year.

	2008	2007
At the beginning of the reporting period	75 856	40 077
Minority interests for the disposed entities	(263)	21 186
Profit or loss charge for the reporting year	(2 445)	14 593
At the end of the reporting period, TOTAL:	**73 148**	**75 856**

25. Loans from credit institutions

Current portion:	Loan amount (thousand)	Effective interest rate (%)	Maturity	31/12/2008	31/12/2007
JSC Preses nams					
Loan from *Nordea Bank Finland Plc*	LVL 2 950	12 month Rigibor + 0.95%	27/05/2007	-	2 833
Loan from *Nordea Bank Finland Plc*	LVL 2 746	3 month Rigibor + 1.2%	28/09/2012	-	223
			TOTAL:	**-**	**3 056**

All loans from credit institutions recognized as of 31 December 2007 have been disposed as part of discontinued operations, no cash outflow for settling these parts have occurred. See also Note 12.

26. Finance lease liabilities

	31/12/2008	31/12/2007
Finance lease liabilities (non-current part)	7	14 067
Finance lease liabilities (current part)	7	1 994
TOTAL:	**14**	**16 061**

Major part of financial lease liabilities as at 31 December 2007 related to acquisition of production equipment and machinery for the subsidiary *JSC Preses nams*. These financial lease liabilities are included in discontinued operations. See also Note 12. At the end of 2008 financial lease liabilities relate to operations of *LatRosTrans Ltd*.

As at 31 December 2007 the Group's leasing liabilities were in Euro with a variable interest charge of from 3m Unibor + 1,95% to 6 m Euribor + 4,75%. The net book value of leased items as of 31 December 2007 was LVL 18 570 thousands.

26. Finance lease liabilities (cont' d)

Future minimum lease payments for the above finance leases can be specified as follows:

	31/12/2008		31/12/2007	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	7	7	2 316	1 994
Between one and five years	7	7	11 668	11 630
More than five years	-	-	2 515	2 437
Total minimum lease payments	14	14	16 499	16 061
Less amounts representing finance charges	-	-	(438)	-
Present value of minimum lease payments	**14**	**14**	**16 061**	**16 061**

27. Taxes payable

	31/12/2008	31/12/2007
Corporate income tax	5 312	81
Personal income tax	131	259
Social security contributions	100	382
Value added tax	37	-
Natural resources tax	7	3
Other	-	12
TOTAL:	**5 587**	**737**

28. Other liabilities

	31/12/2008	31/12/2007
Remuneration for work	519	514
Other	21	429
TOTAL:	**540**	**943**

29. Accrued liabilities

	31/12/2008	31/12/2007
Accrued personnel expenses	471	501
Accrued vacation pay reserve	248	532
Accrued expenses for transit development	51	73
Other	323	585
TOTAL:	**1 093**	**1 691**

30. Provisions

		31/12/2008	31/12/2007
Restructuring expense		339	1 051
Environmental pollution elimination		173	207
	TOTAL:	**512**	**1 258**

Restructuring expense

The provision on restructuring expense 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. The restructuring is expected to be fully completed in 2010. Restructuring provision has been recorded relating to optimizing activities of the terminal.

Environmental pollution elimination

Environmental pollution elimination relates to cleaning works for past leakages of oil products from *LatRosTrans Ltd* pipeline.

Movements in the provisions were as follows:

	Restructuring expenses	Environmental pollution elimination	Total
As at 1 January 2007	**-**	**199**	**199**
Charge for the year	1 051	207	1 258
Utilised	-	(199)	(199)
As at 31 December 2007	**1 051**	**207**	**1 258**
Charge for the year	-	-	-
Utilised	(712)	(34)	(746)
As at 31 December 2008	**339**	**173**	**512**

31. Commitments and Contingent liabilities

Excise tax and value added tax

LatRosTrans Ltd

On 21 August 2003, the previous Cabinet Regulations regarding the allowable rate for wastages of transported oil products were amended to further define the rate at 0.16%, starting from 1 February 2004 – 0.1%, and starting from 1 September 2005 – 0.2%. The actual wastages of *LatRosTrans Ltd* in the respective periods substantially exceeded the rates defined by the Cabinet, and namely, for the period 21 August 2003 through 31 January 2004 the wastages reached 0.75%, for the period 1 February 2004 through 31 December 2004 – 0.43%, and for the period 1 January 2005 through 31 December 2005 – 0.21%. Since 2006, the actual wastages have been smaller than the allowable rate of 0.2%. In 2008, the actual wastages of transported oil products accounted for 0.18%.

Based on the positive court rulings (2002 through 2004) in relation to additional tax charges calculated by the State Revenue Service, *LatRosTrans Ltd* did not calculate tax liabilities for wastages in 2003, 2004 and 2005 above the rates stipulated by the Cabinet Regulations. Instead, *LatRosTrans Ltd* calculates physical losses of oil products due to thefts. The management believes that the risk related to potential tax liabilities is low due to the previous favourable court rulings, and it is possible to prevent potential tax consequences related to this tax risk.

The tax liabilities are calculated based on the specific amount of oil products lost due to thefts. *LatRosTrans Ltd* has estimated the taxes payable on physical losses due to thefts for 2008 amounting to 0.141 thousand tons (2007: 0.112 thousand tons) and established provisions for excise tax and VAT in the amount of LVL 32 thousand and LVL 21 thousand respectively (2007: LVL 26 thousand and LVL 18 thousand respectively). The provisions for excise tax and VAT payable on physical losses due to thefts for 2006 and 2007 are disclosed in these financial statements under accrued liabilities.

31. Commitments and Contingent liabilities (cont'd)

Environmental commitments

LatRosTrans Ltd

LatRosTrans Ltd is mainly engaged in transportation of crude oil and oil products which is exposed to a major ecological risk – unexpected leakage of crude oil and oil products both as a result of technical damages of pipelines and unauthorised connections. Since 1997 *VentEko Ltd.* has been performing liquidation of the consequences of unexpected leakages from crude oil and oil product pipelines *Polotsk – Ventspils* and *Polotsk – Mažeikiai* in the territory of the Republic of Latvia on behalf of *LatRosTrans Ltd*. To ensure quality services compliant with environment protection requirements and to minimise ecological risk related not only to the pollution of environment but also to considerable financial losses in form of penalties, *VentEko Ltd.* has developed an investment plan envisaging an implementation of such environmental strategy which would ensure that *LatRosTrans Ltd* operations comply with all the standards stated in the Latvian environmental legislation and the adverse impact on environment caused by oil product leakages is limited to the extent possible. As at 31 December 2008, *LatRosTrans Ltd* has established accruals for expense on environmental pollution elimination in the amount of LVL 173 thousand (31/12/2007: LVL 207 thousand). See also Note 30.

Ventspils nafta termināls Ltd

Ventspils nafta termināls Ltd (previously JSC Ventspils Nafta) has been reloading crude oil and oil products for more than 40 years. During this time, a certain amount of leaked oil products has accumulated in the soil. During the last few years, *Ventspils nafta termināls Ltd* 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.

In 2007, *Ventspils nafta termināls Ltd* developed the action plan for 2007 – 2011 for soil and groundwater monitoring and further reduction of the historical pollution. The plan was approved by the Ventspils Regional Environmental Board of the State Environment Service of the Republic of Latvia. Based on *Ventspils nafta termināls Ltd* estimates, the implementation of this plan will require LVL 2 million. Over two years, *Ventspils nafta termināls Ltd* had spent LVL 435 thousand for soil and groundwater monitoring and for reduction of the historical pollution under the above mentioned plan. Future expenses related to the complete environmental recovery cannot be estimated, as these are dependent on the intensity of *Ventspils nafta termināls Ltd* operations, effectiveness of the environmental recovery measures taken, as well as potential changes in laws.

Commitments for capital expenditure

As at 31 December 2008 the Group has no significant capital commitments. The Group's commitments for the capital expenditure as at 31 December 2007 amounted to LVL 5 271 thousand and were related to construction of *JSC Preses nams* production facility located in Jansili, Ropazu region, Riga district. Construction of named production facility was fully completed in 2008.

The Group companies constantly reviews its long-term investment plans to meet its financial liabilities which might arise due to excess physical losses of oil products and other circumstances.

Payments to local authorities

Ventspils nafta termināls Ltd

Under the agreement signed between *Ventspils nafta termināls Ltd* and the Ventspils City Council, every year *Ventspils nafta termināls Ltd* has to pay to the Ventspils City Council for transportation of crude oil and oil products through the Ventspils city territory a fixed amount of LVL 700 thousand plus a variable amount not exceeding 1% of *Ventspils nafta termināls Ltd* net turnover for development of the social infrastructure in Ventspils. In 2007, the agreement with the Ventspils City Council was renewed for the period till 2032. Starting with 2007 and in the coming years the fixed portion of the payment will be adjusted for the Harmonised Consumer Price Index (HICP) published by the EU statistics office. In 2008, HICP was 3.3% (2007: 2.1%).

Assuming that the variable amount will remain on the 2008 level and the HICP determined by the EU statistics office will be 3.3% each year, *Ventspils nafta termināls Ltd* has estimated the total amount of contingency payable to the Ventspils City Council which as at 31 December 2008 was LVL 32 million (31/12/2007: LVL 27 million).

31. Commitments and Contingent liabilities (cont'd)

Minimum technological reserve

LatRosTrans Ltd

LatRosTrans Ltd has calculated that the minimum technological reserve of oil products needed for the oil product transportation network amounts to 87 400 tons. Taking into the account the surplus oil products for the years (see also Note 32), *LatRosTrans Ltd* had in its possession 15 096 tons of oil products as at 31 December 2008 (31/12/2007: 19 235 tons). Thus, currently products owned by *LatRosTrans Ltd* clients are used as the remaining part of the minimum technological reserve of oil products needed for the transportation network in the amount of 72 304 tons (31/12/2007: 68 165 tons). 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 2008 is estimated in the amount of LVL 15 524 thousand (31/12/2007: LVL 30 417 thousand), based on the average market price of LVL 214.71 per ton (USD 433.75 per ton) (31/12/2007: LVL 446.22 per ton)

As at the date of preparing these consolidated financial statements, due to the changes in the diesel fuel prices and USD exchange rate, the above costs have increased to LVL 16 320 thousand based on the average market price as at 30 April 2009 of LVL 225.72 per ton (USD 424.28 per ton; the currency exchange rate stated by the Bank of Latvia – USD 0.532 / 1 LVL).

Ventspils nafta termināls Ltd

According to *Ventspils nafta termināls Ltd* estimates, the minimum technological reserve of crude oil and oil products which should be maintained in the reloading system for the current volume of operations is disclosed in the following table.

	31/12/2008			31/12/2007		
Amounts in tons	Oil	Gas oil	Gasoline	Oil	Gas oil	Gasoline
Minimum technological reserve to be maintained in the reloading system	25 300	90 121	27 230	25 286	84 330	30 200
Owned by *Ventspils nafta termināls Ltd*	(6)	(536)	(2 147)	(221)	(536)	(2 147)
Minimum technological reserve owned by other persons	**25 294**	**89 585**	**25 083**	**25 065**	**83 794**	**28 053**

Therefore, under the existing circumstances, to ensure the minimum technological reserve required for the reloading system, oil products belonging to *Ventspils nafta termināls Ltd* customers are partly used. The approximate cost of establishing the minimum technological reserve of oil products to ensure proper maintenance of the reloading system using only own resources is estimated in the amount of LVL 26 349 thousand (31/12/2007: LVL 52 536 thousand). As at 30 April 2009 due to the changes in the oil product prices and USD exchange rate, the above costs have increased to LVL 33 513 thousand.

Land use rights

LatRosTrans Ltd uses land plots for the pumping stations in Ilūkste, Džūkste, and Skrudaliena. These land plots are owned by third parties and no formal agreements have been signed defining the terms and conditions for such land usage. The management of *LatRosTrans Ltd* believes that in cases where no rent is paid for the used land owned by third parties *LatRosTrans Ltd* will not be liable to compensate the land owners for the use of their assets and, therefore, no expense for the use of land has been recognised in these consolidated financial statements.

Legal claims

JSC Ventbukers had brought a claim against *Ventspils nafta termināls Ltd*, seeking restoration of possession of oil reloading piers No. 2 and No. 3 and their transfer to JSC Ventbukers (the claim amount - LVL 281 758), as well as annulment of the sub-lease agreement which should be declared as null and void (the claim amount - LVL 160 680) and joint collection of damages in the amount of LVL 29 417. On 27 March 2008, the Civil Court Panel of the Kurzeme Regional Court rejected the claim filed by JSC Ventbukers as unsubstantiated.

JSC Ventbukers appealed against the above mentioned ruling in full. The case has been referred to the Appeal Court and will be heard at the Civil Court Panel of the Supreme Court on 8 October 2009. The grounds for the appeal are basically the same as for the prior claim.

32. Off balance sheet assets

Technological amount of oil

For technological needs of the oil transportation process, 150 thousand tons of oil is kept in *LatRosTrans Ltd* oil pipelines (36 thousand tons in the pipeline Polotsk – Mažeikiai and 114 thousand tons in the pipeline Polotsk – Ventspils). This oil amount is not accounted for by the Group.

Surplus oil products

The agreements with clients provide for the rate of allowed wastages that could be incurred as a result of transportation activities. Currently, the rate is 0.1% of total transported volume. In 2007 and 2006, losses of oil products were below the stated rate of wastages. As a result, during 2007 and 2006 *LatRosTrans Ltd* has acquired in its possession 1 123 and 1 939 tons of oil products respectively. In 2008, wastages of oil products exceed the rate allowed by the clients by 0.08%. To cover the said wastages, *LatRosTrans Ltd* used all surplus accumulated in 2006 and 2007, as well as 1 077 tons of oil products from its own reserves which were written off.

33. Related party transactions

For the purpose of these financial statements the entities that are part of the *JSC Ventspils nafta* Group as at 31 December 2008 or have been part of the Group during 2008 are considered to be related entities of the Group.

These entities are *Ventspils nafta termināls Ltd, LatRosTrans Ltd, JSC Preses nams, Mediju nams Ltd, Rīgas līcis VN Ltd* and *Nekustamie īpašumi VN Ltd* and its subsidiaries *Darījumu centrs Daugava Ltd, Namserviss VN Ltd, Ventspils biznesa centrs Ltd, Pārventas sporta centrs Ltd* and *Lejastiezumi Ltd,* associated companies *JSC Latvijas kuģniecība, Mediji un poligrāfija Ltd* and *Futbola klubs Ventspils Ltd*.

In addition, significant shareholders of *JSC Ventspils nafta* i.e. *JSC Latvijas naftas tranzīts* and its significant shareholder *JSC Ventbunkers* including its subsidiaries and associated entities and *Euromin Holdings (Cyprus) Limited*, a company of *Vitol Group* are considered related parties of the Group.

Terms and conditions of transactions with related parties

For terms and conditions for Loan note from *Euromin Holdings' (Cyprus) Limited* see Note 19. For terms and conditions for the sale of investment properties, real estate and capital shares to *JSC Latvijas kuģniecība* and *LASCO Investment Ltd* see Note 12 and further in Note 33. Other receivable/ payable balances are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables and payables. For the year ended 31 December 2008, the Group has not made any provisions for doubtful debts relating to amounts owed by related parties (2007: nil).

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:

Related party	Nature of services	Year	Sales and other income from related parties	Payments to related parties	Amounts owed by related parties**	Amounts owed to related parties
Euromin Holdings' (Cyprus) Limited	Interest income	2008	1 816	-	44 550	-
		2007	2 200	-	-	-
Euromin Holdings' (Cyprus) Limited	Sale of shares	2007	47 880	-	43 560	-
*Ventspils Tank Services SA**	Agent	2008	41 889	-	1 055	-
		2007	29 610	-	1 099	-
AK Transnefteprodukt	Transit services	2008	-	184	-	51
		2007	-	254	-	72
Futbola klubs Ventspils Ltd	Marketing services	2008	-	190	-	-
		2007	-	70	-	-
LASCO Investment Ltd	Sale of non-current assets	2008	81 550	-	62 622	-
Preses nams Ltd	Agent printing	2008	408	-	-	-
		2007	74	-	-	-
Vitol S.A Ltd	Sales of oil	2008	2 853	-	1 511	-
Rigas Licis VN Ltd (Rigas Licis Ltd)		2008	31	-	542	-
Nekustamie ipašumi VN Ltd (LASCO nekustamie īpašumi Ltd)		2008	234	615	3	94
JSC Latvijas kuģniecība	Sale of non-current assets	2008	1 808	-	1 310	-
JSC Latvijas kuģniecība	Lease of premises	2008	4	-	-	-
		2007	4	-	-	-
	TOTAL 2008:		**130 593**	**989**	**111 593**	**145**
	TOTAL 2007:		**79 768**	**324**	**44 659**	**72**

* *Ventspils nafta termināls* Ltd has concluded a contract with *Ventspils Tank Services S.A.*, a subsidiary of *Euromin Holdings (Cyprus) Limited* which commenced on 1 March, 2007 and continues through 31 December 2011 regarding terminal services. This contract has an option of prolongation for further 5 years which could be exercised by *Ventspils Tank Services S.A.* According to the current contract *Ventspils Tank Services S.A.* is obliged to pay monthly fixed fees for terminal services which are based on reserved terminal capacities. The monthly fees are due even if the agreed capacities are not fully utilised by *Ventspils Tank Services S.A.*

*** The amounts owed by related parties are classified as loans and receivables and were neither past due nor impaired as at 31 December 2008 and 31 December 2007.*

LASCO Investment Ltd

On 17 December 2008, the Parent company signed several sales agreements with *LASCO Investment Ltd.,* a subsidiary of *JSC Latvijas kuģniecība,* on the sale of the shares in *JSC Preses nams*, *Mediju nams Ltd*, *LASCO nekustamie īpašumi Ltd (until March 2009 – Nekustamie īpašumi VN Ltd)*, *Rīgas līcis Ltd (until March 2009 –Rīgas Līcis VN Ltd)* owned by *JSC Ventspils nafta*, as well on the sale of *JSC Ventspils nafta* real estate located at Aristida Briāna iela 3, Riga, and Talsu iela 75D, Ventspils, and Lejastiezumi, Rendas pag., Kuldīga district, and the sale of its movable property. The total transaction amount is LVL 81 550 thousand.

According to the terms of the above agreements, *JSC Ventspils nafta* received the first payment of LVL 17 145 thousand for the sales of subsidiaries and LVL 2 110 thousand for the sales of real estate properties in December 2008. The second payment of LVL 18 200 thousands for the sale of shares and LVL 3 983 thousands for the sale of real estate was received in February 2009.

In March 2009, *JSC Ventspils nafta* received a payment for the sold movable property in the amount of LVL 191 thousand.

LASCO Investment Ltd shall make the final payment of LVL 41 557 thousand during 2010.

The buyer pays the seller annual interest at 3-month EUR LIBOR plus 2.75% on the second and third unpaid portion of the respective amount.

33. Related party transactions (cont'd)

JSC Latvijas kuģniecība

On 17 December 2008, *JSC Ventspils nafta* signed a sales agreement with *JSC Latvijas kuģniecība* on the sale of the real estate located at Dubultu prospekts 51, Jūrmala, for the amount of LVL 1 637 thousand. According to the terms of the above agreement, *JSC Ventspils nafta* received the first payment of LVL 327 thousand at the end of December 2008.

According to the agreement, *JSC Ventspils nafta* received the final payment of LVL 1 310 thousand in February 2009.

34. Financial instruments and financial risk management

The main financial instruments of the Group are issued/ received current and non-current loans and cash and short-term deposits. The main purpose of these financial instruments is to ensure the financing of the operations of the Group. The Group also deals with several other financial instruments which are a result of its operations, for example, trade accounts receivable, other debtors, trade payables and other payables.

	31/12/2008			
Financial assets	**Loans and receivables measured at amortised cost**	**Available for sale financial assets measured at cost**	**Financial liabilities measured at amortized cost**	**Total**
Non-current portion of loan	44 550	-	-	**44 550**
Non – current proportion of receivables from related companies	41 557	-	-	**41 557**
Other non – current financial assets	312	-	-	**312**
Trade accounts receivables	1 443	-	-	**1 443**
Current proportion of receivables from related companies	24 939	-	-	**24 939**
Cash and cash equivalents	35 756	-	-	**35 716**
Total financial assets:	**148 557**	**-**	**-**	**148 557**
Non-current portion financial lease liability	-	-	7	**7**
Current portion financial lease liability	-	-	7	**7**
Trade accounts payable	-	-	2 373	**2 373**
Payables to related companies	-	-	145	**145**
Other liabilities	-	-	540	**540**
Total financial liabilities:	**-**	**-**	**3 072**	**3 072**

	31/12/2007			
Financial assets	**Loans and receivables measured at amortised cost**	**Available for sale financial assets measured at cost**	**Financial liabilities measured at amortized cost**	**Total**
Non-current portion of loan	43 560	-	-	**43 560**
Trade accounts receivables	4 347	-	-	**4 347**
Available for sale financial assets	-	51	-	**51**
Cash and cash equivalents	19 613	-	-	**19 613**
Total financial assets:	**67 520**	**51**	**-**	**67 571**
Non-current portion financial lease liability	-	-	14 067	**14 067**
Current portion financial lease liability	-	-	1 994	**1 994**
Current portion loans from credit institutions	-	-	3 056	**3 056**
Trade accounts payable	-	-	3 908	**3 908**
Other liabilities	-	-	192	**192**
Total financial liabilities:	**-**	**-**	**23 217**	**23 217**

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

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk, interest rate risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk

The Group are exposed to credit risk through trade receivables, long-term and short-term loans and cash and cash equivalents. The Group's cash equivalents have been invested in secure financial institutions.

The Group manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised.

As at 31 December 2008 the Group has credit risk concentration to its two main partners', both its related parties, amounting to 96% (31/12/2007: 91%).

As at 31 December 2008 the subsidiary *Ventspils nafta termināls Ltd* credit risk concentration to single customer amounted to 88% of the total trade receivables (31/12/2007: 85%). As of 31 December 2008 the subsidiary's *LatRosTrans Ltd* credit risk concentration to a single customer amounted to 100% (31/12/2007: 100%) of the total trade receivables.

Maximum exposure to credit risk from financial assets as at 31 December 2008 for the Group amounted to LVL 150 429 thousand (31/12/2007: LVL 71 188 thousand), out of which LVL 86 419 thousand (31/12/2007: LVL 43 900 thousand) is receivable more than after one year.

Foreign currency risk

The Group's financial assets and liabilities exposed to foreign currency risk comprise long-term loan, cash and cash equivalents, trade receivables, short-term loans, trade payables, long term loans payable to financial institutions and leasing companies.

A significant part of the revenues of the oil and oil products segment are derived in US. dollars and other income derived in euro whilst the major part of expenses is in Latvian Lats. In order to manage its foreign currency risk the subsidiaries balances the currencies of short-term and long-term borrowings with the currencies of future cash flows from operations and enters into contracts on substantial capital investments and services in US dollars and euro.

The Group does not use any financial derivatives to manage their exposure to foreign currency risk.

The Group's currency risk in U.S. dollars and euros as at 31 December 2007 and 2008 may be specified as follows:

	31/12/2008	31/12/2007
Financial assets denominated in EUR	137 787	6 985
Financial liabilities denominated in EUR	(393)	(41)
Net balance sheet position in EUR	**137 394**	**6 944**
Net balance sheet position in LVL	**96 561**	**4 880**
Financial assets denominated in USD	106 039	494 772
Financial liabilities denominated in USD	(1 696)	-
Net balance sheet position in USD	**104 343**	**494 772**
Net balance sheet position in LVL	**51 650**	**239 470**

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar 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) and the Group's equity (due to changes in the fair value of investment in associate company *JSC Latvijas kuģniecība* the functional currency of which is US Dollar).

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

Foreign currency risk *(cont'd)*

	Increase/ decrease in US Dollar rate	Effect on profit before tax (LVL thousand)
2008	+20%	10 498
	-5%	(2 624)
2007	+5%	2 914
	-5%	(2 914)

Interest rate risk

The Group is exposed to the interest rate risk mainly through its liabilities to financial institutions and leasing companies and loan issued to significant shareholder of the Parent company.

The Group does not use any financial derivatives to manage their exposure to interest rate risk.

Interest rate risk table

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). There is no impact on the Group's equity.

	2008		2007	
	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)
Euro - LIBOR	+0.75%	470	+0.25%	40
	+0.75%	(479)	-1.0%	(158)
US dollar - LIBOR	+0.25%	111	+0.25%	109
	-0.5%	(223)	-1.0%	(436)
Latvian Lats - RIGIBOR	-	-	+1.0%	1
	-	-	-3.0%	(4)

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks and planning terms of payments and receivables by analyzing future cash flows. The budgeting system which is being successfully applied by the Group is of great use for liquidity risk management and control.

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted payments.

Year ended 31 December 2008	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans	-	-	-	-	-	-
Finance lease liabilities	7	-	-	7	-	14
Trade accounts payable	2 373	-	-	-	-	2 373
Payables to related companies	145	-	-	-	-	145
Other financial liabilities at amortized cost	540	-	-	-	-	540
TOTAL:	**3 065**	**-**	**-**	**7**	**-**	**3 072**

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

Liquidity risk *(cont'd)*

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments.

Year ended 31 December 2007	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans	3 056	-	-	-	-	3 056
Finance lease liabilities	1 994	-	-	14 067	-	16 061
Trade accounts payable	3 908	-	-	-	-	3 908
Other financial liabilities at amortized cost	192	-	-	-	-	192
TOTAL:	**9 150**	**-**	**-**	**14 067**	**-**	**23 217**

Fair value

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments:

	Carrying amount		Fair value	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Financial assets	**148 557**	**67 911**	**148 557**	**67 860**
Cash	35 756	19 613	35 756	19 613
Loan note (loans and receivables)	44 550	43 560	44 550	43 560
Non – current proportion of receivables from related companies	41 557	-	41 557	-
Current proportion of receivables from related companies	24 939	-	24 939	-
Trade accounts receivable	1 443	4 347	1 443	4 347
Other non – current financial assets	312	340	312	340
Available-for-sale investments	-	51	-	Not determined
Financial liabilities	***3 072***	***23 217***	***3 072***	***23 217***
Interest bearing loans (floating rate)	-	3 056	-	3 056
Finance lease liabilities	14	16 061	14	16 061
Other financial liabilities at amortized cost	3 058	4 100	3 058	4 100

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loan notes and other financial assets have been calculated using market interest rates.

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions in Latvia and the European Union, the capital market trends and interest rate fluctuations. The Group's capital management objectives, policies and procedures have not been changed in 2007 and 2008.

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

Capital management (cont'd)

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 and other non-current liabilities less cash and cash equivalents. Equity includes share capital with share premium, reserves and retained earnings or accumulated deficit. The Group's policy is to maintain the gearing ratio not exceeding 25% in medium term.

	31/12/2008	31/12/2007
Interest bearing loans and leases	14	19 117
Trade and other payables	3 058	4 851
Less cash and cash equivalents	(35 716)	(19 613)
Net debt	**-**	***4 355***
Equity	356 637	324 801
Total capital	356 637	329 156
GEARING RATIO:	**-**	**1.32%**

35. Subsequent events

In January 2009 *Ventspils nafta termināls Ltd* terminated cooperation agreement with Gecco Logistics PTE Ltd and WK Commodities. In February 2009 *LatRosTrans Ltd* terminated cooperation agreement with Gecco Logistics PTE Ltd, the previous agent engaged in providing services related to transportation of oil products.

On 1 January 2009 *LatRosTrans Ltd* signed an agreement with Ventspils Tank Services S.A. on gas oil supply via the pipeline. Therefore, starting from January 2009, the sole client of *Ventspils nafta termināls Ltd* and *LatRosTrans Ltd* is Ventspils Tank Services S.A.

According to the agreement with Ventspils Tank Services S.A., as of March 2009, the payments for the transportation services, both to *LatRosTrans Ltd* and *Ventspils nafta termināls Ltd* will be made in EUR.

As of 24 March 2009, the liquidation process of associated entity *Mediji un Poligrafija Ltd* was completed and *JSC Ventspils nafta* received its liquidation quota amounting to LVL 43 thousand.

In May 2009 the shareholders of subsidiary *Ventspils Nafta Terminals Ltd* decided to pay out dividends in total amount of LVL 1 300 thousand, out of which LVL 663 thousand is attributable to *JSC Ventspils Nafta*.

Except for the above, 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.

Corporate governance report

Introduction

This Corporate Governance Report of the *joint stock company Ventspils nafta* (hereinafter – the Report) is prepared on the basis of requirements of the Financial Instruments Market Law 56.[2], Paragraph 15.14 of NASDAQ OMX Riga Rules “On Listing and Trading of Financial Instruments on the Markets Regulated by the Exchange” and “Corporate Governance Principles and Recommendations on their Implementation” issued by NASDAQ OMX Riga, available at the website www.nasdaqomxbaltic.com in the section “Companies & issuers”. The Report is prepared by the Management Board of *JSC Ventspils nafta* (hereinafter – Ventspils nafta) and considered by the Supervisory Council of Ventspils nafta.

The Report is prepared on implementation of corporate governance principles in 2008, and it is made taking into consideration the “comply or explain” principle recommended in “Corporate Governance Principles and Recommendations on their Implementation” issued by NASDAQ OMX Riga. In 2008 Ventspils nafta complied with the majority of corporate governance principles encompassed in “Corporate Governance Principles and Recommendations on their Implementation” issued by NASDAQ OMX Riga. Principles that Ventspils nafta did not comply with in 2008 are included in this report explaining the reasons of Ventspils nafta for their inadequate implementation or noncompliance with them.

This Report is submitted to *JSC NASDAQ OMX Riga* as part of Ventspils nafta consolidated annual report 2008, as well as published on the Internet website of Ventspils nafta www.vnafta.lv.

Riga, 15 July 2009

On behalf of the Council:	On behalf of the Board:
Vladimirs Solomatins Chairman of the Council	Olga Pētersone Chairperson of the Board

Principles of good corporate governance implemented by JSC Ventspils nafta

A. Shareholders meeting

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

1.1. It shall be important to ensure that all the holders of shares of one category have also 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

Ventspils nafta ensures compliance with this principle. According to its Articles of Association, Ventspils nafta has issued bearer and registered shares that are of one category and all entitle shareholders to receive dividends, liquidation quotas and right to vote at shareholders' meetings. Bearer shares are currently included in the NASDAQ OMX Riga official list. Ventspils nafta has in total issued 104,479,519 shares, which include 60,598,121 bearer shares and 43,881,398 registered shares. Taking into account that Ventspils nafta bearer shares are included in regulated market and considering the information provided by shareholders according to data as at 30 April 2008 when the last shareholders' meeting of Ventspils nafta was held, Euromin Holdings (Cyprus) Limited was registered as the largest Ventspils nafta shareholder, as it owned 47.89% of share capital, whereas the second largest shareholder JSC Latvijas naftas tranzīts owned 37.98%. Information on composition of shareholders is available at the website of Ventspils nafta www.vnafta.lv.
According to the Commercial Law of the Republic of Latvia (hereinafter – the Commercial Law) and Articles of Association of Ventspils nafta, the Company does not have any shareholders with special control rights. Articles of Association of Ventspils nafta do not comprise any regulations on restrictions of voting rights of shareholders in relation to maximum scope of voting rights irrespective of the number of owned shares with voting rights. Similarly Articles of Association of Ventspils nafta do not comprise any regulation on rights of shareholders to part of profit that is not related to part of shares owned by the shareholder, and on other suchlike restrictions. According to the information at disposal of the Management Board for Ventspils nafta, shareholders of Ventspils nafta have concluded an agreement that could cause restrictions for transfer of shares owned by shareholders or transfer of voting rights to other persons, as well as conditions that provide for previous approval of such transfer.
According to the Commercial Law, Articles of Association of Ventspils nafta and resolutions adopted by shareholders' meeting of Ventspils nafta, the Management Board is not authorized to issue or repurchase shares.

1.2. The Issuer shall prepare a policy for the profit distribution. 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 distribution 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 information on the policy of profit distribution of the Issuer shall be included in the Report and published on the Issuer's website on the Internet.

At the moment, Ventspils nafta has not developed a profit distribution policy. According to the Commercial Law the shareholders' meeting shall resolve upon profit distribution. Taking into consideration the fact that the Management Board and the Supervisory Council of Ventspils nafta have not received proposals from its shareholders relating to profit distribution policy, administrative bodies of Ventspils nafta have not made a decision about development of a profit distribution policy. However, the Management Board for Ventspils nafta has updated the issue on necessity of the development of profit distribution policy in further periods taking into account changes in the shareholders' structure in 2006.

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 call, announce and organize a shareholders' meeting are asked to comply with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information.

Ventspils nafta ensures compliance with this principle. According to provisions of the Commercial Law, shareholders' meetings of Ventspils nafta are convened by the Management Board for Ventspils nafta, which has also until now ensured compliance of convening, announcing and organizing procedures of a shareholders' meeting with laws regulations of the Articles of Association for Ventspils nafta.

Corporate governance report (cont'd)

1. Ensuring shareholders' rights and participation at shareholders' meetings (cont'd)

1.4. 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 call, announce and organize a shareholders' meeting are asked to comply with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information.

Ventspils nafta ensures compliance with this principle. According to provisions of the Commercial Law, shareholders' meetings of Ventspils nafta are convened by the Management Board for Ventspils nafta, which has also until now ensured compliance of convening, announcing and organizing procedures of a shareholders' meeting with laws regulations of the Articles of Association for Ventspils nafta.

1.5. Shareholders of the Issuers 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.

Ventspils nafta ensures compliance with this principle.

1.6. The Issuers shall inform their shareholders on calling 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.

Ventspils nafta ensures compliance with this principle.

1.7. The Issuer shall ensure that comprehensive 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 Issuers shall also inform the shareholders whom they can address to receive answers to any questions on the shareholders' meeting and the agenda issues and ensure that the required additional information is provided to the shareholders.

Ventspils nafta ensures compliance with this principle.

1.8. The Issuer shall ensure that at least 14 (fourteen) days prior to the meeting the shareholders have the possibility to 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 statutes, election of the Issuer's officials, determination of their remuneration, division of the Issuer's profit and other issues.

Ventspils nafta ensures compliance with this principle. Approval of amendments in the Articles of Association is set by Articles of Association of Ventspils nafta and by provisions of the Commercial Law.

Corporate governance report (cont'd)

1. Ensuring shareholders' rights and participation at shareholders' meetings (cont'd)

1.9. In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for Supervisory Council elections. The candidates to the Supervisory 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.

Ventspils nafta ensures compliance with this principle taking into consideration rules of the Commercial Law on the procedure of nominating Supervisory Council member candidates.

1.10. In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for Supervisory Council elections. The candidates to the Supervisory 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.

Especially, 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 Supervisory Council member candidates whose approval is planned at the meeting. When disclosing information on Supervisory Council member candidates, also a short personal biography of the candidates shall be published. Since the nomination of Supervisory Council member candidates has to be very careful, it is recommended that the Issues disclose the said information as soon as possible.

Ventspils nafta ensures compliance with this principle.

1.11. The Issuer may not restrict the right of shareholders to consult among themselves during a shareholders' meeting if it is required in order to adopt a decision or to make clear some issue.

Ventspils nafta ensures compliance with this principle.

1.12. To provide shareholders with comprehensive information on the course of the shareholders' meeting, the Issuer shall prepare the regulations on the course of shareholders' meeting, in which the agenda of shareholders' meeting and the procedure for solving any organizational issues connected with the shareholders' meeting (e.g., registration of meeting participants, 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 is 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.

Ventspils nafta ensures compliance with this principle.

1.13. 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 speeches.

Ventspils nafta ensures compliance with this principle.

1.14. Since, if a long break in a meeting is announced, the right of shareholders to dispose of freely with their shares is hindered for an undetermined time period, it shall not be recommended to announce a break during a shareholders' meeting. The conditions upon which it is possible to announce a break shall be stipulated also in the regulations on the course of meeting. A break of meeting may be a lunch break, a short break (up to 30 minutes) etc.

Ventspils nafta ensures compliance with this principle.

Corporate governance report (cont'd)

1. Ensuring shareholders' rights and participation at shareholders' meetings (cont'd)

1.15. When recording the course and contents of discussions on the agenda issues to be dealt with at the shareholders' meeting in the minutes, 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 proposals or questions are appended thereto in written form.

Ventspils nafta ensures compliance with this principle.

2. Participation of members and member candidates of the Issuer's management institutions at shareholders' meetings

Shareholders' meetings shall be attended by the Issuer's Management Board members, auditors, and as possibly many Supervisory Council members.

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 fulfill 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 not discussing the finances of the Issuer. 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.

Ventspils nafta ensures compliance with this principle.

2.2. Shareholders' meetings shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall in particular apply to Supervisory Council members. If a Supervisory 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 disclosed before the shareholders' meeting.

Ventspils nafta ensures compliance with this principle.

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.

Ventspils nafta ensures compliance with this principle.

B. Management Board

The Management 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 profit-oriented, therefore its obligations and responsibilities have to be clearly determined.

3. Obligations and responsibilities of the Management Board

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

Corporate governance report (cont'd)

3. Obligations and responsibilities of the Management Board (cont'd)

3.1. The Management 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 Management Board shall be responsible for the said to the Supervisory Council and the shareholders' meeting. In fulfillment of its obligations, the Management Board shall adopt decisions irrespective of their personal interests or interests of the shareholders that control the Issuer and be guided by interests of all the shareholders, taking into account the common interests of the Issuer and its associated companies (or affiliates).

Ventspils nafta ensures compliance with this principle. According to the Commercial Law and Articles of Association of Ventspils nafta, a member of the Management Board is elected and dismissed from the position by the Supervisory Council for Ventspils nafta. According to the Commercial Law and Articles of Association of Ventspils nafta, term of office of members of the Management Board is three years. The Supervisory Council has rights to make changes in composition of the Management Board.

3.2. The powers of the Management Board shall be stipulated in the Management Board Regulations or a 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

Ventspils nafta ensures compliance with this principle.

3.3. The Management 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.

Ventspils nafta ensures compliance with this principle.

3.4. The Management Board shall perform certain tasks, including:

1. corporate strategies, work plan, risk control procedure, assessment and advancement of 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 and control of their work and their replacement, if necessary, complying with the personnel policy adopted by the Issuer;
3. timely and qualitative submission of reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled.

Ventspils nafta ensures compliance with this principle.

3.5. In annual reports, the Management 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.

Ventspils nafta ensures compliance with this principle.

3.6. It shall be preferable that the Management Board submits decisions that determine the objectives and strategies for achievement thereof (participation in other companies, acquisition or alienation of property, opening of representation offices or branches, expansion of business etc) to the Issuer's Supervisory Council for approval.

Ventspils nafta ensures compliance with this principle.

Corporate governance report (cont'd)

4. Management Board composition and requirements for the Management Board members

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

4.1. In composing the Management Board, it shall be observed that every Management Board member has appropriate education and work experience. The Issuer shall prepare a summary of the requirements to be set for every Management Board member, which specifies the skills, education, previous work experience and other selection criteria for every Management Board member.

Ventspils nafta ensures compliance with this principle. All Management Board members of Ventspils nafta have adequate education and work experience in their field of work.

4.2. On the Issuer's website on the Internet, the following information on every Issuer's Management 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.

Ventspils nafta ensures compliance with this principle, taking into account provisions of the Law on Protection of Personal Data of physical persons. Information is placed in the website of Ventspils nafta with name, surname of the members of the Management Board, position held by them, professional experience and the most relevant positions held in other enterprises.

4.3. In order to fulfill their obligations successfully, Management Board members must have access in due time to accurate information on the activity of the Issuer. The Management Board must have the possibility to provide objective evaluation on the activity of the Issuer. Management Board members must have enough time for the performance of their duties.

Ventspils nafta ensures compliance with this principle.

4.4. It is not recommended to elect one and the same Management 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 changing of the field of work of the relevant Management Board member at the Issuer.

Ventspils nafta ensures compliance with this principle.

5. Remuneration of Management Board members

For every Management Board member a fair and commensurate remuneration shall be determined. The principles for the determination of remuneration shall be clear and transparent.

5.1. The remuneration for Management Board members shall be clearly determined and transparent. The Issuer's Supervisory Council shall revise the remuneration on a regular basis in compliance with the policy of remuneration adopted by the Issuer.

Ventspils nafta ensures compliance with this principle.

5.2. In determining remuneration of Management Board members and the variable part in the remuneration structure, it is recommended to peg it to previously determined long-term and short-term objectives. If the variable part of remuneration is pegged only to the short-term results, it will not facilitate the interest of Management Board members in the long-term growth of the Issuer and the improvement of results. It is recommended that the amount and structure of remuneration depends on the business results of the company, share price and other events connected with the Issuer.

Management Board members of Ventspils nafta do not have the variable part of remuneration.

Corporate governance report (cont'd)

5. Remuneration of Management Board members (cont'd)

5.3. In determining the remuneration of Management Board members, the Issuer's Supervisory Council shall comply with the remuneration policy adopted by the Issuer. In assessing the work of Management Board members, the Supervisory Council shall take into account the work tasks of every Management Board member, the financial situation of the Issuer, and other indices that are considered to be important in assessing the work of Management Board members.

Ventspils nafta ensures compliance with this principle. Remuneration of Management Board members is determined by considering the amount of work and duties of a Management Board member, as well as by evaluating economic and financial situation and operating results of Ventspils nafta. Ventspils nafta has not concluded agreements with its Management Board members providing for compensation in cases when they resign from their position or when they are dismissed after making a share repurchase offer.

5.4. If a Management Board member gets share options that give the member the right to obtain shares of the Issuer as remuneration, the Issuer shall comply with the conditions for granting options as stipulated in the regulations of the Stock Exchange.

Ventspils nafta has not issued any share options.

5.5. When disclosing information on the total amount of remuneration paid to Management Board members of the Issuer, the Issuer, if possible, shall be asked to disclose the information on previous reporting years too, if such information has not been disclosed previously. Disclosure of information on previous years is especially important in order for investors to be able to evaluate the policy of remuneration applied to the Management Board members in the long-term and the linking of the development indices of the Issuer with the changes in the remuneration systems.

Ventspils nafta ensures compliance with this principle. In the annual report of Ventspils nafta information on the total amount of remuneration paid to Management Board members is disclosed on the current and previous reporting year.

Every Management Board member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances and wishing 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.

6.1. It shall be the obligation of every Management Board member to avoid any, even only supposed, interest conflicts in his/her work. In taking decisions, Management 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.

Ventspils nafta ensures compliance with this principle.

6.2. On the occurrence of any interest conflict or even only on its possibility, a Management Board member shall notify other Management Board members without delay. Management 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 Management Board member in question, as well as inform on any interest conflicts 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 Management Board member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Management 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 Management Board member: legal persons where the Management Board member or a closely related to him/her person is a Management Board or Supervisory 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.

Ventspils nafta ensures compliance with this principle.

6.3. Management Board members should not participate in taking decisions that could cause an interest conflict.

Ventspils nafta ensures compliance with this principle.

Corporate governance report (cont'd)

Supervisory Council

In compliance with legal acts a Supervisory Council is the institution that supervises the Issuer and represents interests of shareholders between meetings and, in cases stipulated in the law and in the statutes of the Issuer, supervises the work of the Management Board.

7. Obligations and responsibilities of the Supervisory Council

The objective of the Issuer's Supervisory 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 Supervisory Council and the responsibility of the Supervisory Council members, as well as ensure that individual Supervisory Council members or a group thereof do not have a dominating role in decision making.

7.1. The functions of the Supervisory Council shall be set forth in the Supervisory Council regulation or a document equated thereto that regulates the work of the Supervisory 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.

Ventspils nafta ensures compliance with this principle. Regulations of the Supervisory Council for Ventspils nafta are available at the office of Ventspils nafta.

7.2. In the Supervisory Council report appended to the Issuer's annual report, the Supervisory Council shall provide overall information on its work in the relevant year of reporting, information on the compliance with the principles of corporate governance in the business of the Issuer, as well as any other information as regarded by it to be necessary.

Ventspils nafta ensures compliance with this principle.

7.3. The supervision carried out by the Supervisory Council over the work of the Management 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, Management 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 Supervisory Council should discuss every of the said matters and express its opinion at least annually, complying with frequency of calling Supervisory Council meetings as laid down in regulatory acts, and the results of discussions shall be reflected in the Supervisory Council's report.

Ventspils nafta ensures compliance with this principle. The Supervisory Council for Ventspils nafta carries out supervision in compliance with the Commercial Law, Articles of Association of Ventspils nafta and Regulations of the Supervisory Council.

7.4. The Supervisory Council and every its member shall be responsible that they have all the information required for them to fulfill their duties, obtaining it from Management Board members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the Supervisory Council chairperson shall contact the Issuer's Management Board, inter alia the Management 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.

Ventspils nafta ensures compliance with this principle.

Corporate governance report (cont'd)

7. Obligations and responsibilities of the Supervisory Council (cont'd)

7.5. When determining the functions of the Supervisory Council, it should be stipulated that every Supervisory Council member has the obligation to provide explanations to the Issuer in case the Supervisory Council member is unable to participate in Supervisory Council meetings. It shall be recommended to disclose information on the Supervisory Council members who have not attended more than a half of the Supervisory Council meetings within a year of reporting, providing also the reasons for non-attendance.

The Regulations of the Supervisory Council do not provide for that a Supervisory Council member shall have an obligation to provide explanations in case of being unable to participate in a Supervisory Council meeting. Such rules are not included in the Regulations of the Supervisory Council for Ventspils nafta because the former activities of the Supervisory Council for Ventspils nafta has proved that Supervisory Council members fulfill their duties in good faith and only in few cases could not participate in Supervisory Council meetings because of objective reasons. However, if the further practice shows that Supervisory Council members are negligent to their duties, the Supervisory Council of Ventspils nafta will decide upon implementation of such rules.

7.6. The supervision carried out by the Supervisory Council over the Management Board shall be especially important in spheres where the possibility that interest conflicts might occur is large: appointment of Management Board members, determination of the remuneration of Management Board members, and audit of the Issuer. To facilitate a more efficient work of the Supervisory Council and the division of work duties among its members, the Supervisory Council may establish separate committees (audit, nomination (appointment), remuneration and other committees).

Ventspils nafta ensures compliance with this principle. Taking into account that Ventspils nafta is a holding company whose key tasks comprise management of its investments and funds and making investments, the Supervisory Council for Ventspils nafta has established Finance Committee. The Finance Committee reviews issues in relation to finances, investments and the company's budget, its execution. Specialists in the finance area having international experience are working in the Finance Committee.

7.7. Prior to making a decision on establishing a committee, the Supervisory Council should assess the possible benefits and the planned costs of its work, if any. The Supervisory Council itself shall determine the structure and the number of committees which the Supervisory Council considers to be required to optimize its work. The Supervisory Council shall inform the Issuer's shareholders on establishing a committee, inform on it in the Report, and publish information on it on the Issuer's website on the Internet.

7.8. If a decision is taken to establish one or more committees, the work of the committees may be financed only within the Supervisory Council budget approved by the shareholders' meeting. Assignment of individual tasks to committees may in no way be considered as an assignment of the functions of the Supervisory Council. Supervisory Council committees do not substitute the Supervisory Council and their decisions should be treated as recommendations. The establishment of committees does not release the Issuer's Supervisory Council from the responsibility for the decisions taken. The task of committees shall be to prepare proposals for Supervisory Council decisions, while the final decisions are taken by the Supervisory Council.

Ventspils nafta ensures compliance with this principle. Suggestions of the Finance Committee are of recommending nature, and final resolutions are adopted by the Supervisory Council within its competence. Whereas members of the Finance Committee do not receive any remuneration for their work in the committee.

Corporate governance report (cont'd)

8. Supervisory Council composition and requirements for Supervisory Council members

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

8.1. The Issuer shall require every Supervisory Council member as well as Supervisory Council member candidate who is planned to be elected at a shareholders' meeting that they submit to the Issuer the following information: name, surname, year of birth, education, office term as a Supervisory Council member, 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. 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 Supervisory Council member is elected, its position, including also additional positions and obligations, if any.

Ventspils nafta ensures compliance with this principle observing the rules of the Personal Data Protection Law. Information of the name and surname of Supervisory Council's members is published in the website of Ventspils nafta.

8.2. When determining the requirements for Supervisory Council members as regards the number of additional positions, attention shall be paid that a Supervisory Council member has enough time to perform his or her duties in order to fulfill their duties successfully and act in the interests of the Issuer to a full extent.

Ventspils nafta ensures compliance with this principle.

8.3. In establishing the Issuer's Supervisory Council, the qualification of Supervisory Council members should be taken into account and assessed on a periodical basis. The Supervisory Council should be composed of members whose knowledge, opinions and experience is varied, which is required for the Supervisory Council to fulfill their tasks successfully.

Ventspils nafta ensures compliance with this principle.

8.4. Every Supervisory 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 decisions in relation to the business of the Issuer.

Ventspils nafta ensures compliance with this principle.

8.5. It is impossible to compile a list of all the circumstances that might threaten the independence of Supervisory Council members or that could be used in assessing the conformity of a certain person to the status of an independent Supervisory Council member. Therefore, the Issuer, when assessing the independence of Supervisory Council members, shall be guided by the independence criteria of Supervisory Council members specified in the Annex hereto.

8.6. It shall be recommended that at least a half of Supervisory Council members are independent according to the independence criteria specified in the Annex hereto. If the number of Supervisory Council members is an odd number, the number of independent Supervisory Council members may be one person less than the number of the Supervisory Council members who do not conform to the independence criteria specified in the Annex hereto.

8.7. As independent shall be considered persons that conform to the independence criteria specified in the Annex hereto. If a Supervisory Council member does not conform to any of to the independence criteria specified in the Annex hereto but the Issuer does consider the Supervisory Council member in question to be independent, then it shall provide an explanation of its opinion in detail on the tolerances permitted.

Corporate governance report (cont'd)

8. Supervisory Council composition and requirements for Supervisory Council members (cont'd)

8.8. The conformity of a person to the independence criteria of Supervisory Council members recommended by NASDAQ OMX Riga shall be evaluated already when the Supervisory Council member candidate in question has been nominated for election to the Supervisory Council. The Issuer shall specify in the Report who of the Supervisory Council members are to be considered as independent every year.

Supervisory Council members of Ventspils nafta are nominated for election to the Supervisory Council in accordance with the provisions of the Commercial Law, thereby the Supervisory Council members represent the interests of both shareholders that have nominated the mentioned supervisory council members for election into the Supervisory Council and interests of other shareholders. The mentioned Supervisory Council members possibly receive remuneration for other duties of the position that they are fulfilling in addition to duties of Supervisory Council members, including shareholders of Ventspils nafta. Therefore these Supervisory Council members shall not be fully deemed as independent in accordance with the list of criteria included in the "Corporate Governance Principles and Recommendations on their Implementation" issued by NASDAQ OMX Riga. However, according to requirements of the Commercial Law, Supervisory Council members are independent and unaffected in decision-making process, and only the interests of Ventspils nafta and its shareholders shall be observed by the Ventspils nafta Supervisory Council members.

9. Remuneration of Supervisory Council members

The remuneration for Supervisory Council members shall be commensurate and the principles for the determination of remuneration shall be clear and transparent.

9.1. If remuneration is paid to a Supervisory Council member for the tasks fulfilled by him or her, it shall be stipulated in the Issuer's remuneration policy.

Ventspils nafta ensures compliance with this principle. Shareholders' meeting of Ventspils nafta has determined remuneration for Supervisory Council members.

9.2. When examining the Supervisory Council's report, it shall be recommended to assess also the work of the Supervisory Council at the current shareholders' meeting. Shareholders shall assess the work of the Supervisory Council based on the Supervisory Council's report and other information provided by the Supervisory Council available to shareholders and which allows assessing the quality and usefulness of the tasks performed by the Supervisory Council. If the work of the Supervisory Council is assessed, the assessment shall include an assessment on the Supervisory Council composition, its work organization, and the ability to act as a united entity, as well as an assessment on the competence of every Supervisory Council member. Also the efficiency of the work of every Supervisory Council member and Supervisory Council committees, if any, shall be assessed. When deciding on the remuneration of Supervisory Council members, shareholders shall take into account the assessments made.

Ventspils nafta ensures compliance with this principle.

9.3. The total amount of the remuneration of Supervisory Council members shall be disclosed by the Issuer in the Report. The Issuer shall be obliged to disclose the total amount of the remuneration paid to Supervisory Council members, as well as specify separately the amount of the wage paid to Supervisory Council members and the variable part of the remuneration, if any, paid to Supervisory Council members. The variable part of remuneration shall mean any payments other than wage paid to Supervisory Council members, e.g.: remuneration paid depending on the financial results of the Issuer (premiums), share options that give the right to the Issuer's shares, participation in pension plans etc.

The total amount of the remuneration paid to Supervisory Council members is determined by a resolution of shareholders' meeting of Ventspils nafta and is disclosed in the annual report of Ventspils nafta. No other remuneration, except for the one determined by shareholders' meeting of Ventspils nafta, is paid to the Supervisory Council members of Ventspils nafta.

Corporate governance report (cont'd)

9. Remuneration of Supervisory Council members (cont'd)

9.4. When examining the Supervisory Council's report, it shall be recommended to assess also the work of the Supervisory Council at the current shareholders' meeting. Shareholders shall assess the work of the Supervisory Council based on the Supervisory Council's report and other information provided by the Supervisory Council available to shareholders and which allows assessing the quality and usefulness of the tasks performed by the Supervisory Council. If the work of the Supervisory Council is assessed, the assessment shall include an assessment on the Supervisory Council composition, its work organization, and the ability to act as a united entity, as well as an assessment on the competence of every Supervisory Council member. Also the efficiency of the work of every Supervisory Council member and Supervisory Council committees, if any, shall be assessed. When deciding on the remuneration of Supervisory Council members, shareholders shall take into account the assessments made.

Ventspils nafta ensures compliance with this principle.

9.5. The total amount of the remuneration of Supervisory Council members shall be disclosed by the Issuer in the Report. The Issuer shall be obliged to disclose the total amount of the remuneration paid to Supervisory Council members, as well as specify separately the amount of the wage paid to Supervisory Council members and the variable part of the remuneration, if any, paid to Supervisory Council members. The variable part of remuneration shall mean any payments other than wage paid to Supervisory Council members, e.g.: remuneration paid depending on the financial results of the Issuer (premiums), share options that give the right to the Issuer's shares, participation in pension plans etc.

The total amount of the remuneration paid to Supervisory Council members is determined by a resolution of shareholders' meeting of Ventspils nafta and is disclosed in the annual report of Ventspils nafta. No other remuneration, except for the one determined by shareholders' meeting of Ventspils nafta, is paid to the Supervisory Council members of Ventspils nafta.

9.6. When determining the remuneration of Supervisory Council members and planning the variable part in the remuneration structure, it usually should be pegged to the previously determined short- and long-term objectives.

Ventspils nafta ensures compliance with this principle. The variable part in the remuneration structure of Supervisory Council members of Ventspils nafta is pegged to achievement of Ventspils Nafta Group's strategic goals, as well as results of financial and economic activity in the appropriate period of time.

9.7. When disclosing information on the total amount of remuneration paid to Supervisory Council members, the Issuer shall be asked, if possible, to disclose the information on previous reporting years too, if such information has not been disclosed previously. Disclosure of information on previous years is especially important in order for investors to be able to evaluate the policy of remuneration applied to the Supervisory Council members in the long-term and the linking of the development indices of the Issuer with the changes in the remuneration systems.

Ventspils nafta ensures compliance with this principle. The annual report of Ventspils nafta discloses information both on the total amount of remuneration paid to the Supervisory Council members in the current and previous reporting year.

10. Identification of interest conflicts in the work of the Supervisory Council members

Every Supervisory Council member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances. Supervisory 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.

10.1. It shall be the obligation of every Supervisory Council member to avoid any, even only supposed, interest conflicts in his/her work. When taking decisions, Management 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.

Ventspils nafta ensures compliance with this principle.

Corporate governance report (cont'd)

10. Identification of interest conflicts in the work of the Supervisory Council members (cont'd)

10.2. On the occurrence of any interest conflict or even only on its possibility, a Supervisory Council member shall notify other Supervisory Council members without delay. Supervisory 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 Supervisory Council member in question, as well as inform on any interest conflicts 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 Supervisory Council member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Supervisory 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 Supervisory Council member: legal persons where the Supervisory Council member or a closely related to him/her person is a Management Board or Supervisory 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.

Ventspils nafta ensures compliance with this principle.

10.3. A Supervisory Council member who is in a possible interest conflict should not participate in decision taking that might be a cause of an interest conflict.

Ventspils nafta ensures compliance with this principle.

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 – the 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.

11. 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.

11.1. The structure of corporate governance shall be established in a manner that ensures provision of timely and exhaustive information on all the substantial matters that concern the Issuer, including its financial situation, business results, and the structure of owners.

Ventspils nafta ensures compliance with this principle.

11.2. The information disclosed shall be checked, precise, and unambiguous and prepared in compliance with high-quality standards.

Ventspils nafta ensures compliance with this principle.

11.3. The Issuers should appoint a person who would be entitled to contact the press and other mass media on behalf on the Issuer, thus ensuring uniform distribution of information and evading publication of contradictory and untruthful information, and this person could be contacted, if necessary, by the Stock Exchange and investors.

Ventspils nafta ensures compliance with this principle.

Corporate governance report (cont'd)

11. Transparency of the Issuer's business (cont'd)

11.4. The Issuers should ensure timely and compliant with the existing requirements preparation and disclosure of financial reports and annual reports of the Issuer. The procedure for the preparation of reports should be stipulated in the internal procedures of the Issuer.

Ventspils nafta ensures compliance with this principle. Ventspils nafta has established a control and risk management system, which is applied when preparing financial statements. Internal control and management system of Ventspils nafta, which is applied for preparation of financial reports, is formed so that it would give sufficient assurance that the financial statements that are prepared for the needs of external users in accordance with International Financial Statement Standards give a clear and true concept on financial situation of Ventspils nafta and its operating results. Internal control and risk management system of Ventspils nafta, which is applied in preparation of financial statements, includes procedures that:

(1) ensure that complete, precise and systematically arranged accounting entries are timely made and saved in order to truly reflect economic transactions made by Ventspils nafta, as well as extent of assets and liabilities of Ventspils nafta;

(2) ensure sufficient assurance that transactions are reflected in such way that financial statements could be prepared in accordance with International Financial Statement Standards;

(3) ensure that receipts and expenditures of Ventspils nafta are made only in accordance with authorization of Ventspils nafta management;

(4) ensure sufficient assurance that unauthorized acquisition, usage or sale of assets of Ventspils nafta, which could considerably affect financial reports of Ventspils nafta, is prevented and timely discovered.

12. Investor relations

Considering that shares of the Issuers are offered on a regulated market, also such activity sphere of the Issuers as investor relations (hereinafter – the 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.

12.1. The main objectives of the IR are the provision of accurate and timely information on the business of the Issuer to participants of finance market, as well as the provision of 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.

Ventspils nafta ensures compliance with this principle.

12.2. 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 technologies (website) and relations with mass media and the ties 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.

Ventspils nafta ensures compliance with this principle.

12.3. The basic principles that should be observed by the Issuers in preparing the IR section of their websites:

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 ties with the Issuer by using the IR section of website – submit questions and receive answers thereto, order the most recent 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;

Corporate governance report (cont'd)

12. Investor relations *(cont'd)*

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 of interest can be found easily, whether the information published provides answers to the most important questions etc.

Ventspils nafta ensures compliance with this principle.

12.4. The Issuer shall ensure that at least the following information is contained in the IR section of website:

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 implementation of the principles of corporate governance;
3. Number of issued and paid financial instruments, specifying how many of them are included in a regulated market;
4. information on shareholders' meetings, draft decisions to be examined, decisions adopted – at least for the last year of report;
5. Issuer's statutes;
6. Issuer's Management Board or Supervisory Council regulation or a document equated thereto that regulates its work, as well as the Issuer's remuneration policy and the shareholders' meeting procedure regulation, if such has been adopted;
7. Description of the tasks of Supervisory Council committees, if such have been established, as well as information on the work performed by the committees;
8. information on present Issuer's Supervisory Council and Management Board members (on each individually): 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 required but at least annually), information on positions in other capital companies, and the term of office of Management Board and Supervisory Council members;
9. Issuer's shareholders which/who own at least 5% of the Issuer's shares; and information on changes of shareholders;
10. Financial reports and annual reports of the Issuer prepared in compliance with the procedure specified in legal acts and the Stock Exchange regulations;
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 and annual reports on previous periods etc.

Ventspils nafta ensures compliance with this principle.

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 Management Board to identify the shortcomings in the administration of the Issuer as well as facilitates that the Supervisory Council's task - to supervise the work of the Management Board - is fulfilled efficiently.

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

To ensure successful work of the Issuer, it shall be necessary to plan regular its controls and to determine the procedure of internal and external (audit) control.

13.1. To ensure successful operation, the Issuer shall control its work on a regular basis and define the procedure of internal control.

Ventspils nafta ensures compliance with this principle.

13.2. The objective 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.

Ventspils nafta ensures compliance with this principle.

13.3. Auditors shall be granted access to the information required for the fulfillment of the auditor's tasks and the possibility to attend Supervisory Council and Management Board meetings at which financial and other matters are dealt with.

Ventspils nafta ensures compliance with this principle.

Corporate governance report (cont'd)

13. Principles of the Issuer's internal and external control (cont'd)

13.4. 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 control processes.

Ventspils nafta ensures compliance with this principle.

13.5. 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.

Ventspils nafta ensures compliance with this principle.

13.6. 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 Management Board.

Ventspils nafta ensures compliance with this principle.

Remuneration policy

14. Remuneration policy of the Issuer

The policy of the remuneration of Management Board and Supervisory Council members – type, structure and amount of remuneration - is one of the spheres where persons involved has a potentially greater risk to find themselves in an interest conflict situation. To avoid it, the Issuer should determine a clear remuneration policy.

14.1. The Issuers are called on to develop a remuneration policy in which the main principles for the determination of remuneration, possible remuneration schemes and other essential related issues are determined. The preparation of the remuneration policy should be made a responsibility of the Issuer's Supervisory Council, which during the preparation of a draft policy must consult with the Issuer's Management Board. The remuneration policy or its most significant parts shall be published like any other essential information the activity of the Issuer.

14.2. Schemes of variable remuneration that include Issuer's shares or share options as remuneration as well as any essential amendments thereto should be examined also at shareholders' meetings, adopting the relevant decisions, if necessary. Considering the aforementioned, shareholders should be provided with all the necessary information prior to the meeting.

14.3. Remuneration schemes that include Issuer's shares as remuneration may theoretically cause loss to the Issuer's 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.

14.4. When preparing the remuneration policy, the Issuer shall be obliged to disclose information on how the Issuer plans to ensure the amount of shares to be granted in compliance with the approved remuneration schemes – whether it is planned to obtain them by buying on a regulated market or by issuing new shares.

At the moment, amount of remuneration of the members of administrative bodies of Ventspils nafta is determined according to the Commercial Law, Articles of Association of Ventspils nafta and resolutions of administrative bodies of Ventspils nafta. Remuneration of Supervisory Council members is determined by the shareholders' meeting of Ventspils nafta taking into consideration that amount of remuneration for each concrete Supervisory Council member shall be determined in accordance with the remuneration policy of Supervisory Council members. Remuneration of the Management Board members shall be determined by a resolution of the Supervisory Council.