JOINT STOCK COMPANY VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2010

INDEPENDENT AUDITORS' REPORT

To the shareholders of JSC Ventspils nafta

Report on the Financial Statements

We have audited the accompanying 2009 financial statements of JSC Ventspils nafta (the "Company"), which are set out on pages 9 through 39 of the accompanying 2009 Annual Report and which comprise the balance sheet as at 31 December 2009, the income statement, the statement of changes in equity and the 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 the Law of the Republic of Latvia on Annual Reports. 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. Except as disclosed under section *Basis for Qualified Opinion* below, 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.

Basis for Qualified Opinion
JSC Ventspils nafta assets as at 31 December 2009 include receivable from related party of LVL 27 940 thousands. As disclosed in Note 18 to the accompanying financial statements, the related party negotiates the terms of the outstanding balance and the balance has not been settled on its maturity in April 2010. We were not able to obtain sufficient audit evidence as to the potential outcome of ongoing negotiations and their impact, if any, on the recoverable value of the Company's receivable from the related party as at 31 December 2009.

Qualified Opinion
In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter referred to in the paragraph *Basis for Qualified Opinion* above, the financial statements give a true and fair view of the financial position of JSC Ventspils nafta as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Emphasis of Matter
Without further qualifying our opinion, we draw attention that JSC Ventspils nafta assets as at 31 December 2009 include investment in associate of LVL 34 945 thousands, accounted at cost. As disclosed in Note 17 to the accompanying financial statements, the associate has not approved and released its annual report for the year 2009.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2009 (included on pages 6 through 8 of the accompanying 2009 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 2009.

SIA Ernst & Young Baltic, Licence No. 17

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

Riga, 28 October 2010

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SUPERVISORY COUNCIL OF JSC VENTSPILS NAFTA

Supervisory Council (as at the date of signing of the financial statements):

Appointed:

Chairman of the Council:	Vladimir Egger
Deputy Chairman of the Council:	Mikhail Dvorak
Members of the Council:	Javed Ahmed Oļegs Stepanovs Rubil Yilmaz Mark Ware Christophe Theophanis Matsacos Rudolf Meroni Michael Hason David Alexander Schlaff Edgars Jansons

The changes in the Council during the period from 1 January 2009 to 15 October 2010 were as follows:

Elected	Dismissed	Name	Position held
20/01/2010	-	Vladimir Egger	Chairman of the Council
20/01/2010	-	Mikhail Dvorak	Deputy Chairman of the Council
20/01/2010	-	Oļegs Stepanovs	Member of the Council
20/01/2010	-	Javed Ahmed	Member of the Council
20/01/2010	-	Rubil Yilmaz	Member of the Council
20/01/2010	-	Mark Ware	Member of the Council
07/07/2010	-	Christophe Theophanis Matsacos	Member of the Council
07/07/2010	-	Rudolf Meroni	Member of the Council
07/07/2010	-	Michael Hason	Member of the Council
07/07/2010	-	David Alexander Schlaff	Member of the Council
07/07/2010	-	Edgars Jansons	Member of the Council
20/01/2010	07/07/2010	Paul Thomas	Member of the Council
20/01/2010	07/07/2010	Gatis Grāvītis	Member of the Council
20/01/2010	07/07/2010	Mārtiņš Kvēps	Member of the Council
20/01/2010	07/07/2010	Valērijs Godunovs	Member of the Council
20/01/2010	07/07/2010	Aleksejs Ovods	Member of the Council
-	25/10/2009	Vladimirs Solomatins	Chairman of the Council
-	25/10/2009	Dennis Crema	Deputy Chairman of the Council
-	25/10/2009	Andris Vilcmeiers	Deputy Chairman of the Council
-	25/10/2009	Jeffrey Scott Martz	Deputy Chairman of the Council
-	25/10/2009	Māris Gailis	Member of the Council
-	25/10/2009	Gints Laiviņš - Laivenieks	Member of the Council
-	25/10/2009	Mamerts Vaivads	Member of the Council
-	25/10/2009	Paul Edward Mulholland	Member of the Council
-	25/10/2009	Ashley John Neale	Member of the Council
-	25/10/2009	Ansis Sormulis	Member of the Council
-	25/10/2009	Vladimirs Krastiņš	Member of the Council

According to the Council’s resolution of 31 August 2010 Vladimir Egger has been re-elected as the Chairman of the Supervisory Council and Mikhail Dvorak has been elected as deputy chairman of the Supervisory Council.

MANAGEMENT BOARD OF JSC VENTSPILS NAFTA

Management Board (as at the date of signing of the financial statements):

Appointed:

Chairman of the Board:	Simon Boddy
Members of the Board:	Andris Vilcmeiers Boris Bednov Alexander Jagdžijanc

The changes in the Board during the period from 1 January 2009 to 15 October 2010 were as follows:

Elected	**Dismissed**	**Name**	**Position held**
15/10/2009	-	Simon Boddy	Member of the Board
28/04/2010	-	Boris Bednov	Member of the Board
28/04/2010	-	Alexander Jagdžijanc	Member of the Board
16/06/2010	-	Andris Vilcmeiers	Member of the Board
-	19/11/2009	Olga Pētersone	Chairperson of the Board
-	31/08/2009	Guntis Tīrmanis	Member of the Board
-	28/04/2010	Normunds Staņēvičs	Member of the Board
-	16/06/2010	Ilva Purēna	Member of the Board

According to the Council's resolution of 20 January 2010, Simon Boddy was appointed as the Chairman of the Board.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of *JSC Ventspils nafta* (the Company) is responsible for the preparation of *JSC Ventspils nafta* financial statements for each financial year.

Accompanying financial statements, presented on pages 9 through 39, are prepared based on accounting records and give a true and fair view of the state of affairs of the Company, the cash flows and the results of the Company for the reporting year 2009.

The financial statements have been prepared in accordance with the Law of the Republic of Latvia On annual reports, based on going concern principle. Suitable accounting policies have been selected and applied consistently. Reasonable and prudent judgments and estimates have been used while preparing the financial statements.

The Management Board of *JSC Ventspils nafta* is responsible for accounting records and for safeguarding the Company's assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Riga, 26 October 2010

On behalf of the Supervisory Council:

Vladimir Egger
Chairman of the Supervisory Council

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

MANAGEMENT REPORT

Dear shareholders, customers and cooperation partners,

2009 has been a complicated year for *JSC "Ventspils nafta"* due to the unstable and inconsistent global economy, the economic crisis in Latvia and the geopolitical uncertainty between the European Union and Russia. In relation to the parent company, the largest shareholder of *JSC "Ventspils nafta"* has played a significant role in 2009. The term of office of three years of the previous Supervisory Council expired in late 2009. The Supervisory Council in new composition was elected in July 2010. In early 2010, a new Chairman of the Management Board Simon Boddy was elected.

In 2009, net profit of *JSC Ventspils nafta* as the parent company after tax reached 1.145 million lats. The total costs were considerably cut down by *JSC Ventspils nafta* in 2009, for example, by cutting down general and administrative costs by 36.2% compared to the previous year. This trend of decreasing administrative costs continues in 2010.

JSC Ventspils nafta continues working on ensuring high liquidity and low debt load, by accordingly continuing to implement a strategy that will minimise all risks while providing an adequate return to shareholders in the medium term. The new management of *JSC Ventspils nafta* has also worked on improvement of corporate governance at *JSC Ventspils nafta*, so that the company's management would meet the common standards of international practice.

Inevitably the Baltic Stock exchange NASDAQ OMX was affected by instability in the global markets, with a negative impact on the value of *JSC "Ventspils nafta"* shares, as their trading price in 2009 ranged from LVL 0.59 to LVL 1.50 per share with an average share price over the year of LVL 0.99 per share. In 2009, on the NASDAQ OMX, 900,402 shares were traded in total comprising total turnover of LVL 890,378, which is three times lower than in 2008 and eight times lower than in 2007. Total market capitalization of *JSC "Ventspils nafta"* as of end of 2009 was 98 million lats. At the end of 2009, 50.15 million lats were paid in dividends to shareholders of *JSC "Ventspils nafta"*, therefore the dividend sum per share was LVL 0.48, which had a positive effect on the share price in the stock exchange.

One of the unexpected circumstances for the management of *JSC Ventspils nafta* in 2010 is the out-of-court legal protection process initiated in October 2010 for *LASCO Investment Ltd*, which is one of the largest debtors of *JSC Ventspils nafta* and is entirely owed by *JSC Latvijas kuģniecība*. Taking into account real estate properties and shares of companies holding the real estate properties are pledged to secure repayment of the loan, *JSC Ventspils nafta* cannot evaluate the possibility of retrieving the debt at the moment because JSC Ventspils nafta has no information on terms and conditions of out-of-court legal protections process of *LASCO Investment Ltd*. The possibility of debt's retrieving is related also to value of the real estate properties and shares of companies holding the real estate properties, which is affected by equitable conditions not controlled by *JSC Ventspils nafta*, for example, improvement of the macroeconomic situation in Latvia, inflow of investments into the Latvian real estate market and resumption of activities in the Latvian real estate market.

MANAGEMENT REPORT (cont'd)

In the course of 2010, the Management Board of *JSC Ventspils nafta* has faced continuous avoidance of the Management Board and Supervisory Council of the associated company *JSC Latvijas kuģniecība* to fulfill their legal obligations and convene a shareholders' meeting, which is completely unacceptable for a public joint stock company that is included in regulated market. The actions of the Management Board and Supervisory Council of *JSC Latvijas kuģniecība* have resulted in *JSC Latvijas kuģniecība* not preparing the annual reports for 2009, thus hindering *JSC Ventspils nafta* to prepare the consolidated annual report of *JSC Ventspils nafta* for 2009 in due course. Also as a result of the aforementioned actions of the Management Board and Supervisory Council of *JSC Latvijas kuģniecība*, *JSC Ventspils nafta* cannot duly assess its investment into *JSC Latvijas kuģniecība*. Considering that *JSC Ventspils nafta* is concerned that the situation with the annual reports of *JSC Latvijas kuģniecība* for 2009 might go on, *JSC Ventspils nafta* has prepared this annual report for 2009 in accordance with the Law on Annual Accounts of the Republic of Latvia.

The Management Board of *JSC Ventspils nafta* has proposed to transfer the net profit of 2009 to other reserves.

Riga, 26 October 2010

On behalf of the Supervisory Council:

Vladimir Egger
Chairman of the Council

On behalf of the Management Board:

Simon Boddy
Chairman of the Board

Address: Vaļņu iela 3-18, LV-1050,
Riga, Latvia
Unified registration number: 50003003091

INCOME STATEMENT

	Notes	**2009** LVL'000	**2008** LVL'000
Net sales	3	50	4 581
Cost of sales	4	-	(1 481)
Gross profit		**50**	**3 100**
General and administrative expense	5, 10	(2 450)	(3 841)
Other operating income	6	68	8 029
Other operating expense	7	(6)	(1 412)
Result from operating activities		**(2 338)**	**5 876**
(Loss)/ Income from securities forming non-current assets, net	8	658	32 829
Reversal of impairment of non-current financial assets	9	-	4 104
Financial income	11	3 388	2 911
Financial expense	12	(462)	(29)
Result before taxes		**1 246**	**45 691**
Corporate income tax	13	(101)	(5 630)
Other taxes	14	-	(15)
Net result		**1 145**	**40 046**

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

On behalf of the Supervisory Council:

Vladimir Egger
Chairman of the Supervisory Council

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

BALANCE SHEET

ASSETS

	Notes	31/12/2009	31/12/2008
		LVL'000	**LVL'000**
NON-CURRENT ASSETS			
Property, plant and equipment			
Other property, plant and equipment		185	205
TOTAL	15	**185**	**205**
Investments			
Investments in subsidiaries	16	118 976	118 976
Investments in associates	17	34 945	34 993
Loan note	18	44 010	44 550
Receivables from related companies	18	-	41 557
TOTAL		**197 931**	**240 076**
TOTAL NON-CURRENT ASSETS		**198 116**	**240 281**
CURRENT ASSETS			
Receivables			
Loans to related companies	18	-	547
Receivables from related companies	18	28 000	23 667
Other receivables	19	806	15
Other assets	20	49	158
TOTAL		**28 855**	**24 387**
Cash	21	**1 621**	**18 601**
TOTAL CURRENT ASSETS		**30 476**	**42 988**
TOTAL ASSETS		**228 592**	**283 269**

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

On behalf of the Supervisory Council:

Vladimir Egger
Chairman of the Supervisory Council

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	31/12/2009 LVL'000	31/12/2008 LVL'000
SHAREHOLDERS' EQUITY			
Share capital	22	104 479	104 479
Share premium		42 343	42 343
Other reserves		80 495	90 599
Current year unappropriated result		1 145	40 046
TOTAL SHAREHOLDERS' EQUITY		**228 462**	**277 467**
LIABILITIES			
Non-current liabilities			
Deferred corporate income tax	13	17	10
TOTAL		**17**	**10**
Current liabilities			
Trade payables		20	111
Payables to related companies	26	4	78
Taxes payable	23	29	5 356
Other liabilities	24	-	51
Accrued liabilities	25	60	196
TOTAL		**113**	**5 792**
TOTAL LIABILITIES		**130**	**5 802**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**228 592**	**283 269**

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

On behalf of the Supervisory Council:

Vladimir Egger
Chairman of the Supervisory Council

On behalf of the Management Board:

Simon Boddy
Chairman of the Management Board

CASH FLOW STATEMENT

	2009	2008
	LVL'000	LVL'000
Operating activities		
Result before taxes	1 246	45 691
Adjustments:		
Interest income	(3 381)	(1 902)
Amortisation and depreciation	31	198
Disposal of investments	5	-
Impairment reversal	-	(4 104)
Interest expense	-	29
Gain on disposal of tangible assets	-	(7 375)
Gain on sale of investments	-	(32 829)
Loss/ (Income) from fluctuations of currency exchange rates	540	(990)
Operating profit before changes in current assets and liabilities	***(1 559)***	***(1 282)***
Decrease in inventories	-	607
Decrease/ (increase) in receivables	506	(473)
(Decrease)/ increase in current liabilities	(352)	203
Net cash used in operating activities	***(1 405)***	***(945)***
Real estate tax paid	-	(15)
Corporate income tax paid	(6 041)	(751)
Net cash used in operating activities	**(7 446)**	**(1 711)**
Investing activities		
Purchase of intangible and tangible assets	(11)	(12)
Interest received	3 035	1 730
Dividends received	663	-
Proceeds from disposal of investments	43	-
Proceeds from disposal of tangible assets	8 630	4 358
Proceeds from sale of subsidiaries	27 709	17 321
Investments in subsidiaries	-	(3 659)
Net cash flow from investing activities	**40 069**	**19 738**
Financing activities		
Dividends paid	(50 150)	-
Repayment of borrowings	547	-
Interest payments	-	(29)
Net cash used in financing activities	**(49 603)**	**(29)**
Net (decrease)/ increase in cash	**(16 980)**	**17 998**
Cash at the beginning of the year	**18 601**	**603**
Cash at the end of the year	**1 621**	**18 601**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves	Current year's unappropriated result	**Total**
	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**
Balance as at 31 December 2007	**104 479**	**42 343**	**51 150**	**39 449**	**237 421**
Transfer of 2007 net result	-	-	39 449	(39 449)	-
Current year profit	-	-	-	40 046	40 046
Balance as at 31 December 2008	**104 479**	**42 343**	**90 599**	**40 046**	**277 467**
Transfer of 2008 net result	-	-	40 046	(40 046)	-
Dividends declared and paid	-	-	(50 150)	-	(50 150)
Current year profit	-	-	-	1 145	1 145
Balance as at 31 December 2009	**104 479**	**42 343**	**80 495**	**1 145**	**228 462**

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

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

JSC Ventspils nafta (hereinafter– the Company) is a public joint stock company organized under the laws of the Republic of Latvia. The 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. Legal address of the Company is Vaļņu street 3 - 18, LV-1050, Riga, 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. Previously *JSC Ventspils nafta* was involved in reloading of crude oil and oil products, however, as a result of *JSC Ventspils nafta* restructuring in 2003 all reloading activities were transferred to the daughter company *Ventspils nafta termināls Ltd*. Initially, the Company's assets used in reloading transactions were partly invested in, partly sold to and partly rented to *Ventspils nafta termināls Ltd*. During 2004 the restructuring process was completed with *JSC Ventspils nafta* selling all non-current assets previously used in reloading activities to *Ventspils nafta termināls Ltd*.

In 2009 and 2008, the main activities carried out by the subsidiaries *JSC Ventspils nafta* are as follows:

- Transporting crude oil and oil products via pipelines (*LatRosTrans Ltd*),
- Storage and reloading of crude oil and oil products from/ to rail tank cars and vessels (*Ventspils nafta termināls Ltd*).

The following activities have been disposed in the end of 2008:

- Printing and publishing (*JSC Preses nams* and *Mediju nams Ltd*),
- Real estate management (*Rīgas līcis Ltd (until March 2009: Rīgas Līcis VN)*, *LASCO nekustamie īpašumi Ltd (until March 2009: Nekustamie īpašumi VN)* and its subsidiaries).

On 17 December 2008, the Company signed a share sales agreement with *LASCO Investment Ltd.*, the subsidiary of the Company's associate *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.*

Therefore, since 2009, the subsidiaries of *JSC Ventspils nafta* will 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 (see Note 16).

The following table summarizes ownership of the Company in subsidiaries:

Ownership, %	31/12/2009	31/12/2008	31/12/2007	Registration number	Legal address
Subsidiaries					
LatRosTrans Ltd	66.00	66.00	66.00	40003190740	Balvu iela 7, LV-5043, Daugavpils, Latvija
Ventspils nafta termināls Ltd	51.00	51.00	51.00	41203019923	Talsu iela 75, LV-3602, Ventspils, Latvija
JSC Preses nams	-	-	95.39	40003000248	Balasta dambis 3, LV-1081, Rīga, Latvija
Mediju nams Ltd	-	-	94.23	40003610627	Cēsu iela 31/2, LV-1012, Rīga, Latvija
Rīgas līcis Ltd (until March 2009: Rīgas Līcis VN)	-	-	100.00	50003571641	Dubultu prospekts 51, LV-2015, Jūrmala, Latvija
LASCO nekustamie īpašumi Ltd (until March 2009: Nekustamie īpašumi VN Ltd)	-	-	100.00	50003612051	Elizabetes iela 1, LV-1807, Rīga, Latvija

1. Corporate information (cont'd)

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

The financial statements of the Company were authorized for issue in accordance with resolution of the Board of Directors on 27 September 2010. The Company's shareholders, in accordance with statutes, have the right to amend the financial statements after issue.

2. Significant accounting policies

Basis of preparation

These financial statements represent the financial situation of JSC Ventspils nafta on a stand alone basis: the financial situation of JSC Ventspils nafta Group companies (i.e., JSC Ventspils nafta and its subsidiaries) is presented in a separate set of the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements of the Company have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year.

The financial statements are prepared on a historical cost basis.

The financial statements cover the period 1 January 2009 through 31 December 2009.

Reporting currency and units of measurement

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

Changes in accounting policies

Standards issued but not yet effective

The Company has not adopted the following Latvian Accounting Standards which are issued but not yet effective:

LAS No.10 „Leases" (this standard is effective for annual periods beginning on or after 1 January 2010). LAS No.10 „Leases" determines measurement of finance and operating leases and appropriate disclosure of operating and finance lease information in the financial statements of lessees and lessors.

Foreign currency transactions

The functional currency of the Company is Latvian lats (LVL).

The major part of the Company's revenues from sale of oil and oil products and interest income is denominated in Euro. Revenues from sale of long term assets are in Euro.

Invoices on goods and services issued or payable in foreign currency are translated into lats according to the exchange 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. The differences arising from foreign exchange rate fluctuations are included in the income statement for the respective period.

	31/12/2009	**31/12/2008**
USD	0.489000	0.495000
EUR	0.702804	0.702804

The monetary unit used in the Company's accounting is lat (LVL).

2. Significant accounting policies (cont'd)

Significant accounting judgments, estimates and assumptions

The preparation of the Company's 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.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the non-current assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. When tangible non-current assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The following depreciation rates were established and applied:

	years
Buildings and constructions	*10-100*
Machinery and equipment	*3-10*
Other tangible assets	*2-10*

Depreciation is calculated starting with the following month after the tangible non-current asset is put into operation or engaged in commercial activity. 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 Company 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.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's fair value less cost to sell and its value in use. In assessing the 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement as other operating expense.

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 and depreciated over the lease period on a straight-line basis.

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.

2. Significant accounting policies (cont'd)

Investments in subsidiaries and associates

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) and associates (i.e. where the Company has significant influence, but less than a controlling interest, which is presumed to exist with 20 to 50% interest of the share capital of the entity) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries and associates are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries and associates are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of the investment and are recognised as a reduction of the cost of the investment.

Difference between the value of the investments in subsidiary and the liquidation balance of the respective subsidiary is disclosed in the income statement.

Investments and other financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company 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 Company 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.

<u>Loans and receivables</u>

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.

<u>Available-for-sale financial investments</u>

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. 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 value cannot be reliably measured carrying amount is stated at cost.

2. Significant accounting policies (cont'd)

Impairment of financial assets

The Company 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 (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be 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 Company 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.

Inventories

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

Cash

Cash comprises cash at bank and on hand and short-term deposits with an original maturity of three months or less.

Financial liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'.

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.

Financial guarantee liabilities

Financial guarantee liabilities issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount initially recognised.

2. Significant accounting policies (cont'd)

Derecognition of financial assets and liabilities

Financial assets

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 Company 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 Company 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 Company 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 Company'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 Company 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 Company's continuing involvement is the amount of the transferred asset that the Company 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 Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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.

Accruals and deferrals

Accruals and deferrals are recorded to recognize revenues and costs as they are earned or incurred.

Revenue

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

Sale of goods

Revenues from sale of goods mainly comprise revenue from sale of oil and oil products. Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Similarly, revenue from sale of long term assets are recogised when all significant benefits and risks have been transferred in substance.

Rendering of services

Revenue is recognized in the period when the services are provided, by reference to the stage of completion.

Interest

Revenue is recognized as the interest accrues.

Dividends

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

2. Significant accounting policies (cont'd)

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.

In accordance with Latvian tax legislation current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period ending 31 December 2009.

Deferred income tax

Deferred 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.

Related parties

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

Subsequent events

Post-year-end events that provide additional information about the Company'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.

3. Net turnover

	2009	2008
	LVL'000	LVL'000
Sale of crude oil and oil products	-	4 411
Management services	50	170
TOTAL:	**50**	**4 581**

Revenue generated from sale of crude oil and management services are generated in Latvia.

4. Cost of sales

	2009	2008
	LVL'000	LVL'000
Cost of crude oil and oil products sold	-	1 481
TOTAL:	**-**	**1 481**

The costs for provided management services mainly include remuneration for work, statutory social insurance contributions and professional charges and legal costs. These costs are included in General and administrative expenses (see Note 5).

5. General and administrative expense

	2009	2008
	LVL'000	LVL'000
Remuneration for work (see also Note 10)	1 187	2 068
Professional charges and legal costs	365	447
Statutory social insurance contributions	294	163
Vehicle maintenance expense	106	108
Lease of premises	104	188
Insurance	52	70
Bank charges	38	70
Amortisation and depreciation	31	198
Representation expense	20	38
Business trips	19	51
Acccruals for personnel and similar expense	19	88
Advertising and marketing	18	121
Audit fees	18	23
Communications	16	22
Conferences, seminars and training	11	16
Other expense	152	170
TOTAL:	**2 450**	**3 841**

6. Other operating income

	2009 LVL'000	2008 LVL'000
Gain on disposal of property, plant and equipment, net (see Note 15)	-	7 450
Lease of oil and oil products to *Ventspils nafta termināls Ltd* for ensuring technological processes (see Note 7)	-	225
Assignment of property management rights	-	212
Other income	68	142
TOTAL:	**68**	**8 029**

7. Other operating expense

	2009 LVL'000	2008 LVL'000
Sponsorship*	6	912
Real estate development expense	-	275
Storage of oil and oil products (see also Note 6)	-	225
TOTAL:	**6**	**1 412**

* According to the sponsorship agreement signed on 30 December 2008, an amount of LVL 900 thousand was donated to the *Latvian Olympic Committee* at the end of 2008.

8. Income from securities forming non-current assets, net

	2009 LVL'000	2008 LVL'000
Dividends received	663	-
Gain on sale of shares in subsidiaries	-	32 823
(Loss)/ Gain from associate	(5)	6
TOTAL:	**658**	**32 829**

See also Note 16.

9. Reversal of impairment of non-current financial assets

		2009 LVL'000	2008 LVL'000
Gain on reversal of impairment of subsidiary		-	4 019
Gain on reversal of impairment of associate		-	85
	TOTAL:	**-**	**4 104**

See also Note 16.

10. Personnel expense

	2009	2008
Average number of employees	27	34

Remuneration for work and statutory social insurance contributions

		2009 LVL'000	2008 LVL'000
Remuneration for work		150	354
Statutory social insurance contributions		43	102
Management and Board Members			
Remuneration for work		739	860
Statutory social insurance contributions		181	29
Council Members			
Remuneration for work		313	925
Statutory social insurance contributions		74	49
	TOTAL:	**1 500**	**2 319**

The total personnel expense is included in the income statement as follows:

		2009 LVL'000	2008 LVL'000
General and administrative expense		1 500	2 319
	TOTAL:	**1 500**	**2 319**

11. Financial income

		2009 LVL'000	2008 LVL'000
Interest income from loans and receivables		2 711	1 889
Interest on bank account balances		670	13
Currency exchange gain, net		-	1 002
Proceeds from purchase/ sale of foreign currency, net		7	7
	TOTAL:	**3 388**	**2 911**

12. Financial expense

	2009 LVL'000	2008 LVL'000
Currency exchange loss, net	462	-
Interest expense	-	29
TOTAL:	**462**	**29**

13. Corporate income tax

	2009 LVL'000	2008 LVL'000
Current corporate income tax		
Current corporate income tax charge for the reporting year	(89)	(5 964)
Withholding tax, non-resident	(5)	-
Deferred corporate income tax		
Deferred corporate income tax due to changes in temporary differences	(7)	334
TOTAL:	**(101)**	**(5 630)**

Deferred corporate income tax:

	Balance sheet LVL'000		Income statement LVL'000	
Deferred corporate income tax liability	31/12/2009	31/12/2008	2009	2008
Accelerated depreciation for tax purposes	(21)	(24)	3	329
Gross deferred tax liability	(21)	(24)	3	329
Deferred corporate income tax asset				
Provisions established	4	14	(10)	5
Gross deferred income tax asset	4	14	(10)	5
Net deferred income tax liability	**(17)**	**(10)**	**(7)**	**334**

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

	2009 LVL'000	2008 LVL'000
(Loss)/ Profit before tax	1 246	45 691
Real estate tax	-	(15)
Profit before corporate income tax	***1 246***	***45 676***
Corporate income tax at 15%	*187*	*6 852*
Permanent differences, net	(86)	(457)
Sponsorship	-	(765)
Corporate income tax charged to the income statement:	**101**	**5 630**

14. Other taxes comprise real estate tax fo the reporting year. There is no real estate tax payable for 2009 (2008: LVL 15 thousand).

15. Property, plant and equipment and investment properties

	Investment properties*	Land and buildings**	Equipment and machinery	Other property, plant and equipment***	Construction in progress	TOTAL
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**
Cost:						
At 1 January 2008	661	5 656	184	1 921	-	8 422
Additions	-	-	-	-	12	12
Disposals	(661)	(5 656)	(150)	(1 059)	-	(7 526)
Transfer	-	-	-	12	(12)	-
31 December 2008	**-**	**-**	**34**	**874**	**-**	**908**
Additions	-	-	-	11	-	11
Disposals	-	-	(16)	(42)	-	(58)
31 December 2009	**-**	**-**	**18**	**843**	**-**	**861**
Depreciation and impairment						
At 1 January 2008	53	882	183	1 491	-	2 609
Deprecition charge for the year	4	117	1	76	-	198
Disposals	(57)	(999)	(150)	(898)	-	(2 104)
31 December 2008	**-**	**-**	**34**	**669**	**-**	**703**
Deprecition charge for the year	-	-	-	31	-	31
Disposals	-	-	(16)	(42)	-	(58)
31 December 2009	**-**	**-**	**18**	**658**	**-**	**676**
Net book value						
31 December 2009	-	-	-	185	-	185
31 December 2008	-	-	-	205	-	205
1 January 2008	608	4 774	1	430	-	5 813

* In 2008, the Company sold its real estate (a building and the related land plot) located at Palasta iela 10, Riga, for the total amount of LVL 2 249 thousand. Before the sale, the aforementioned real estate had been held to receive revenue from the lease of premise.

** At the end of the year 2008, the Company's real estate properties which are located at Aristida Briāna iela 3, Riga (a representation building and the related land plot), Talsu iela 75D, Ventspils (a building of sports centre), *Lejastiezumi*, Rendas pag., Kuldīga district (a conference and leisure complex and the related land plot), and Dubultu prospekts 51, Jūrmala (buildings on a state owned land plot) were sold. The total income from the sale of the aforesaid properties amounted to LVL 10 548 thousand.

*** In December 2008, the Company's property, plant and equipment related to the sold real estate properties were sold for the amount of LVL 162 thousand.

The total depreciation charge is included in General and administrative expense caption. See also Note 5.

16. Investments in subsidiaries

The following table summarises the Company's investments in subsidiaries as at 31 December 2008 and 2009, as well as the key performance indices, core business activities and registered offices of the subsidiaries:

	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008	2009	2008		
	Shareholding, %		Investment, LVL'000		Equity of subsidiary, LVL'000		Profit/(loss) of subsidiary LVL'000		Business activity	Legal address
LatRosTrans Ltd.	66.00	66.00	79 494	79 494	94 870	101 002	(6 132)	(7 774)	Crude oil and oil product transportation by pipeline	Balvu iela 7, LV-5043, Daugavpils, Latvia
Ventspils nafta termināls Ltd.	51.00	51.00	39 482	39 482	85 108	79 848	6 560	1 124	Crude oil and oil product reloading and storage	Talsu iela 75, LV-3602, Ventspils, Latvia
JSC Preses nams	-	-	-	-	-	-	-	(7 551)	Printing	Balasta dambis 3, LV-1081, Riga, Latvia
Mediju nams Ltd.	-	-	-	-	-	-	-	(1 857)	Publishing	Cēsu iela 31/2, LV-1012, Riga, Latvia
Rīgas līcis Ltd. *(until March 2009 Rīgas līcis VN Ltd.)*	-	-	-	-	-	-	-	(148)	Real estate management	Dubultu prospekts 51, LV-2015, Jūrmala, Latvia
LASCO nekustamie īpašumi Ltd. *(until March 2009 Nekustamie īpašumi VN Ltd)*	-	-	-	-	-	-	-	(239)	Real estate management	Elizabetes iela 1, Rīga, Latvia, LV-1807
		TOTAL:	**118 976**	**118 976**						

On 17 December 2008, the Company signed a share sales agreement with *LASCO Investment Ltd,* the subsidiary *of JSC Latvijas kuģniecība,* on the sale of the shares in *JSC Preses Nams* (and its subsidiary)*, Rīgas līcis Ltd, LASCO nekustamie īpašumi Ltd* (and its subsidiaries), and *Mediju Nams Ltd* (and its subsidiaries). The total sales amount was LVL 72 447 thousand. As a result of the aforesaid transaction, *JSC Ventspils nafta* has gained a profit of LVL 36 842 thousand (including the reversal of impairment of non-current assets of LVL 4 018 thousand). In 2008, the Company received a consideration for the above sales transaction in the amount of LVL 17 145 thousand and in 2009 further LVL 29 028 thousand. Remaining amount is a receivable in 2010 including the principal of LV 27 593 thousand and accrued interest LVL 347 thousand. See also Notes 8, 9, and 18.

16. Investments in subsidiaries (cont'd)

The investments in the subsidiaries can be specified as follows:

	LatRosTrans Ltd	*Ventspils nafta termināls Ltd*	*Preses nams JSC*	*Mediju nams Ltd*	*Rīgas līcis Ltd*	*Lasco nekustamie īpašumi Ltd*	**Total**
	LVL'000	*LVL'000*	*LVL'000*	*LVL'000*	*LVL'000*	*LVL'000*	***LVL'000***
Cost:							
At 1 January 2008	80 250	39 693	16 927	5 419	2 590	11 115	155 994
Additions	-	-	1 724	1 850	-	-	3 574
Disposals	-	-	(18 651)	(7 269)	(2 590)	(11 115)	(39 625)
At 31 December 2008	**80 250**	**39 693**	**-**	**-**	**-**	**-**	**119 943**
Additions	-	-	-	-	-	-	-
At 31 December 2009	**80 250**	**39 693**	**-**	**-**	**-**	**-**	**119 943**
Accumulated impairment:							
At 1 January 2008	756	211	-	4 019	-	-	4 986
Reversal of impairment as a result of disposals	-	-	-	(4 019)	-	-	(4 019)
At 31 December 2008	**756**	**211**	**-**	**-**	**-**	**-**	**967**
Impairment	-	-	-	-	-	-	-
At 31 December 2009	**756**	**211**	**-**	**-**	**-**	**-**	**967**
Net carrying amount:							
At 31 December 2009	79 494	39 482	-	-	-	-	**118 976**
At 31 December 2008	79 494	39 482	-	-	-	-	**118 976**
At 1 January 2008	79 494	39 482	16 927	1 400	2 590	11 115	**151 008**

Information on significant changes

In 2008, the Company made the remaining contribution of LVL 1 724 thousand to the share capital of its subsidiary *JSC Preses nams* completing the increase of the subsidiary's share capital commenced in 2007.

In 2008, the share capital of *Mediju nams Ltd* was increased by the contribution of LVL 1 850 thousand made by *JSC Ventspils nafta*. As a result, *JSC Ventspils nafta* owns 95.63% of the shares in *Mediju nams Ltd*.

As disclosed above, on 17 December 2008, *JSC Ventspils nafta* signed a share sales agreement with *LASCO Investment Ltd,* the subsidiary of *JSC Latvijas kuģniecība*, on the sale of 95.39% of the shares in *JSC Preses nams*, 100% of the shares in *Rīgas līcis Ltd* (formerly *Rīgas līcis VN Ltd*), 100% of the shares in *LASCO nekustamie īpašumi Ltd* (formerly *Nekustamie īpašumi VN Ltd), and* 95.63% of the shares in *Mediju nams Ltd*.

Information on the recoverable amount of the non-current investments in subsidiaries

The Company's non-current investments in the subsidiaries are tested for impairment on an annual basis. The total net carrying value of the Company's non-current investments in its subsidiaries tested for impairment in 2009 was LVL 118 976 thousand (2008: LVL 118 976 thousand). In 2009 and 2008, based on the cash flow projections, no additional impairment loss on non-current assets was recognized.

16. Investments in subsidiaries (cont'd)

Information on the recoverable amount of the non-current investments in LatRosTrans Ltd capital shares

The impairment test of the Company's 66% shareholding in LatRosTrans Ltd as at 31 December 2009 has been performed by assuming that the Company will continue as a going concern for the following 20 plus 20 years. The cash flow analysis has been carried out by projecting revenues, expenses, and capital investments and considering the net estimates of the free assets and liabilities.

In making the investment's impairment assessment, as at 31 December 2009 *LatRosTrans Ltd* business including the non-current assets are considered as two separate cash generating units (CGU), for which cash inflows are largely independent. The recoverable amount of one CGU is determined based on the value in use calculation using discounted cash flow projections approved by the management and covering a twenty-year period plus the following 20 years. The recoverable amount of the other CGU is determined based on the fair value less cost to sell calculation.

The following describes major key assumption used in determination of fair value less cost to sell:

- The technological oil as at 31 December 2008 and 2009 is recognised as a contingent asset and thereby will be recognised as asset for sale upon transaction.
- Fair value is determined based on future sales agreement with a related party.
- 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 for this CGU will not or not sufficiently occur after the sale of the technological crude oil, major part of the non-current assets of this CGU might be impaired after the sale.

The following describes major key assumption on which the management has based its cash flow projections for value in use calculation:

- Oil product flow in 2010 is planned in the amount of 4 000 thousand tons, in 2011: 4 500 thousand tons, in 2012: 5 000 thousand tons, in 2013: 5 500 thousand tons, further increasing to 6 000 thousand tons from 2014 onwards.
- Crude oil flow in 2010 is planned in the amount of 2 100 thousand tons, further increasing to 8 400 thousand tons from 2011 onwards.
- As of 2010, the Company is planning to gain additional revenue from rendering of services on storage of oil products by the use of the tank park owned by the Company. The total estimated discounted net cash flow amounted to LVL 9 606 thousand.
- Operations are reorganized in a more efficient way resulting in cost saving in 2010 (14% saving compared to 2009) and in 2011 and 2012 (6% to 7% saving compared to 2010 and 2011, respectively).
- The weighted average cost of capital rate applied to the cash flow projections is 16% in 2010 to 2012, and 11% from 2013 onwards.
- The growth rate used to extrapolate future revenue due to the increased reloading tariffs equals inflation rate.
- The inflation rate used is 0% for 2010 to 2012, and 2.5% from 2013 onwards.

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

16. Investments in subsidiaries (cont'd)

Sensitivity to changes in key assumptions

Discounted cash flows projections are most sensitive to volume of oil product flow, expected cost savings, weighted average cost of capital rate applied and probability applied to cash flows from crude oil transportation.

Should oil product flow volumes and / or cost savings and / or probability of oil transportation be less than expected or average weighted cost of capital be higher as expected, significant impairment loss will result. The following individual change in key assumptions would make recoverable amount approximate its carrying amount as at 31/12/2009:

- Decrease of oil product flow volumes by 270 thousand tons per annum.
- Cost savings in 2010 compared to 2009 at 7% instead of 14% assessed.
- Increase of weighted average cost of capital rate to 20% in 2010 to 2012, and 12% from 2013 onwards.
- Decrease of probability applied to cash flows from crude oil transportation below 6%.

Information on the operations of the subsidiaries

Ventspils nafta termināls Ltd

Ventspils nafta termināls Ltd has been in the transit business for seven years, providing services such as receiving crude oil and gas oil by pipelines, receiving gas oil, gasoline and other oil products delivered by rail and by sea, storing and reloading such products. *Ventspils nafta termināls Ltd* is the largest company of this type in the region. *Ventspils nafta termināls Ltd* has crude oil and oil product storage facilities with total capacity of 1.2 million cubic meters that has no match among any other companies doing similar business in the neighbouring countries.

In 2009, *Ventspils nafta termināls Ltd* ensured a stable reloading level, by reloading 10.4 million tons of oil and oil products, which was by 1.2 tons less than in 2008. Traditionally, the major share of the transported cargos represents gas oil delivered by railway and via the oil product pipeline in the amount of 8.2 million tons, gasoline of various grades transported by rail – 1.9 million tons, and crude oil and oil products delivered by sea – 0.6 million tons.

Notwithstanding the decrease in the volumes reloaded by *Ventspils nafta termināls Ltd* from 2009, the company's net turnover in 2009 slightly increased and totalled LVL 59.5 million, while the net profit for the reporting period amounted to LVL 6.6 million.

LatRosTrans Ltd

The sales of *LatRosTrans Ltd* in 2009 amounted to LVL 6 500 thousand, and oil product transportation for the year reached 3.771 million tons which is by 1.262 million less if compared to the year 2008. *LatRosTrans Ltd* closed the year 2009 with a net loss of LVL 6 132 thousand.

The Company has commenced the reorganization process by considerably reducing its costs, as well as by looking for alternative use of the oil pipeline and additional income sources in order to considerably improve its financials in the foreseeable future.

17. Investments in associates

The following table presents the investments in the associates:

	31/12/2009	31/12/2008	Legal address
	Shareholding, %		
JSC Latvijas kuģniecība	49.94	49.94	Elizabetes iela 1, LV-1807, Riga, Latvia
Mediji un poligrāfija Ltd (liquidated)	-	32.70	Balasta dambis 3, LV-1081, Riga, Latvia

17. Investments in associates (cont'd)

The investments in the associates can be specified as follows:

	Latvijas kuģniecība JSC LVL'000	Mediji un poligrāfija Ltd (liquidated) LVL'000	Futbola klubs Ventspils Ltd LVL'000	**Total** **LVL'000**
Cost:				
At 1 January 2008	34 945	66	85	35 096
Acquisitions	-	-	85	85
Increase in value	-	-	6	6
Disposals	-	-	(176)	(176)
At 31 December 2008	**34 945**	**66**	**-**	**35 011**
Disposals	-	(66)	-	(66)
At 31 December 2009	**34 945**	**-**	**-**	**34 945**
Accumulated impairment:				
At 1 January 2008	-	18	85	103
Reversal of impairment	-	-	(85)	(85)
At 31 December 2008	**-**	**18**	**-**	**18**
Impairment	-	(18)	-	(18)
At 31 December 2009	**-**	**-**	**-**	**-**
Net carrying amount:				
At 31 December 2009	34 945	-	-	**34 945**
At 31 December 2008	34 945	48	-	**34 993**
At 1 January 2008	34 945	48	-	**34 993**

In April 2008, the liquidation process of *Mediji un poligrāfija Ltd* was commenced. As of 24 March 2009, the liquidation process for associated company *Mediji un Poligrafija Ltd* has been concluded, as the result the Company has received its liquidation quota in total amount of LVL 43 thousand

In April 2008, the share capital of *Futbola klubs Ventspils Ltd* was increased by contribution of LVL 85 thousand made by *JSC Ventspils nafta*. As a result, the shareholding of *JSC Ventspils nafta* in *Futbola klubs Ventspils Ltd* was maintained at the level of 42.5%. In December 2008, 42.5% of the shares of *Futbola klubs Ventspils Ltd* owned by *JSC Ventspils nafta* were invested in the newly established subsidiary *Ventspils futbola sabiedrība Ltd* as a contribution in kind totaling LVL 176 thousand. In December 2008, *JSC Ventspils nafta* signed a sales agreement with *Ventspils nafta termināls Ltd* on the sale of 100% of the shares in *Ventspils futbola sabiedrība Ltd* for the total amount of LVL 176 thousand.

Information on the operations of associate

JSC Latvijas Kuģniecība

The share price in Riga Stock Exchange at the end of the year was LVL 0.40 per share (31/12/2008: 0.66 per share).

JSC Latvijas kuģniecība can be regarded as the associated company of *JSC Ventspils nafta* because interest part of *JSC Ventspils nafta* in *JSC Latvijas kuģniecība* is 49.94% of the share capital.

17. Investments in associates (cont'd)

Information on the operations of associate (cont'd)

As audited financial results of *JSC Latvijas kuģniecība* is not available for *JSC Ventspils nafta* at the moment of preparing this Annual Report, *JSC Ventspils nafta* has not possibility to include information of financial results of *JSC Latvijas kuģniecība* for 2009 in this Annual Report.

From the beginning of 2010 the management of *JSC Ventspils nafta* using its legal rights according to Commercial Law has requested to convene shareholders' meeting for approval of the annual accounts for 2009, as well as for changes in the Supervisory Council of *JSC Latvijas kuģniecība*. In the course of 2010, the Management Board of *JSC Ventspils nafta* has faced continuous avoidance of the Management Board and Supervisory Council of the associated company *JSC Latvijas kuģniecība* to fulfill their legal obligations and convene and held a shareholders' meeting, which is completely unacceptable for a public joint stock company that is included in regulated market. The actions of the Management Board and Supervisory Council of *JSC Latvijas kuģniecība* have resulted in *JSC Latvijas kuģniecība* not preparing the annual reports for 2009, thus hindering *JSC Ventspils nafta* to prepare the consolidated annual report of *JSC Ventspils nafta* for 2009 in due course. Considering that *JSC Ventspils nafta* is concerned that the situation with the annual reports of *JSC Latvijas kuģniecība* for 2009 might go on, *JSC Ventspils nafta* has prepared this annual report for 2009 in accordance with the Law on Annual Accounts of the Republic of Latvia. Since shareholders' meeting of *JSC Latvijas kuģniecība* in April, 2009 no shareholders' meeting of *JSC Latvijas kuģniecība* has not taken place until now.

18. Loans to related companies and receivables from related companies

Non-current loans:	31/12/2009 LVL'000	31/12/2008 LVL'000
Receivable from *Euromin Holdings (Cyprus) Limited* for *Ventspils nafta termināls Ltd* shares	44 010	44 550
TOTAL non-current loans:	**44 010**	**44 550**

On 2 March 2007, an agreement for purchase of *Ventspils nafta termināls Ltd* shares was signed with *Euromin Holdings (Cyprus) Limited*. Under this agreement, 49% of shares in *Ventspils nafta termināls Ltd* were sold for USD 90 000 thousand. According to the terms of the Loan Note issued under the agreement for purchase of *Ventspils nafta termināls Ltd* shares and dated 1 June 2007, *Euromin Holdings (Cyprus) Limited* has to pay *JSC Ventspils nafta* the principal of USD 90 000 thousand (ninety million US dollars) and the interest at the rate of 3-month USD LIBOR +1% or 9.99% per annum (whichever is the lower), starting from 2 March 2007. The loan note is repayable at the earliest of 15 October 2016 or the date when *Euromin Holdings (Cyprus) Limited* receives payment for its JSC *Ventspils nafta Ltd* shares should it decide to dispose its shareholding in JSC *Ventspils nafta*.

Current loans:	Maturity	Interest rate	31/12/2009 LVL'000	31/12/2008 LVL'000
Loan to *Rīgas līcis Ltd*	On demand	6%	-	435
Loan to *Rīgas līcis Ltd*	On demand	7%	-	112
TOTAL current loans:			**-**	**547**

18. Loans to related companies and receivables from related companies (cont'd)

Receivables from related companies:	Maturity	Interest rate	31/12/2009 LVL'000	31/12/2008 LVL'000
Non-current:				
Receivable from *LASCO Investment Ltd* for sold assets	15/04/2010	3M EUR Libor+2.75%	-	41 557
TOTAL non-current receivables from related companies:			**-**	**41 557**
Receivable from *LASCO Investment Ltd* for sold assets			27 940	21 065
Receivable from *LatRosTrans Ltd* in relation to management consulting services			30	-
Receivable from *Ventspils nafta termināls Ltd* in relation to management consulting services			30	-
Receivable from *JSC Latvijas kuģniecība* for sold assets			-	1 311
Receivable from *Ventspils nafta termināls Ltd* for sold oil products			-	1 203
Receivable from *Rīgas līcis Ltd* in relation to loan interest payments			-	88
TOTAL current receivables from related companies:			**28 000**	**23 667**

LASCO Investment Ltd

On 17 December 2008, the Company signed a share sales agreement with *LASCO Investment Ltd,* the subsidiary *of JSC Latvijas kuģniecība,* on the sale of the shares in the following subsidiaries of *JSC Ventspils Nafta: 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),* as well as on the sale of its the real estate located at Aristida Briāna iela 3, Riga, Talsu iela 75D, Ventspils, and Lejastiezumi, Rendas pag., Kuldīga district, and its movable property. The total transaction amount is LVL 81 550 thousand.

For the outstanding payments the buyer pays interest to the seller on the actually outstanding amount at the annual rate of EUR 3-month LIBOR plus 2.75%.

In 2008, the Company received a consideration for the above sales transaction in the amount of LVL 18 927 thousand and in 2009 further LVL 36 188 thousand (including interest income). Remaining amount has not been received in 2010 including principal of LVL 27 593 thousand and accrued interest of LVL 347 thousand and is overdue. *JSC Ventspils nafta* has proposed to management of *LASCO Investment Ltd.* to prolong payment term, instead the Management Board of *LASCO Investment Ltd* has initiated out-of-court legal defence procedure. As *JSC Ventspils nafta* has no information on terms and conditions of out-of-court legal defence procedure of *LASCO Investment Ltd.,* except publicly known, the Management Board of *JSC Ventspils nafta* could not evaluate its impact of recovery of outstanding debt.

Please see also Note 26 and 30.

19. Other receivables

	31/12/2009 LVL'000	31/12/2008 LVL'000
Corporate income tax receivable (see Note 23)	651	-
Value added tax receivable (see Note 23)	147	-
Advances for services to be provided	5	5
Statutory social insurance contributions receivable	-	10
Other	3	-
TOTAL:	**806**	**15**

20. Other assets

	31/12/2009 LVL'000	31/12/2008 LVL'000
Accrued income	47	-
Prepaid expense – insurance	-	9
Accrued interest	-	141
Other prepaid expense	2	8
TOTAL:	**49**	**158**

21. Cash

	31/12/2009 LVL'000	31/12/2008 LVL'000
Current bank accounts	1 621	18 601
TOTAL:	**1 621**	**18 601**

The Company has signed an agreement with AS Swedbank on an automated overnight deposit whereby the Company authorises the bank to transfer the cash balance in the Company's 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.

22. Share capital, reserves and profit per share

The following table presents the distribution between bearer shares in the public offering and registered shares:

	Registered shares	Bearer shares	**Total, LVL**
31 December 2008	43 881 398	60 598 121	**104 479 519**
31 December 2009	43 881 398	60 598 121	**104 479 519**

All shares are authorized, issued and fully paid.

The nominal value of each share is LVL 1.

Earnings per share of LVL 0.01 (2008: LVL 0.38) are calculated by dividing the net profit for the year of LVL 1 145 thousand (2008: LVL 40 046 thousand) by the weighted average number of shares in issue of 104 479 thousand (2008: 104 479 thousand) during the year. As on 7 July 2010, when the last shareholders' general meeting of *JSC Ventspils nafta* took place, *Euromin Holdings (Cyprus) Limited*, was registered as the largest shareholder by owning 49.5% of Parent company's share capital.

23. Taxes receivable/ (payable)

	31/12/2009 LVL'000	(Calculated) LVL'000	Paid LVL'000	31/12/2008 LVL'000
Statutory social insurance contributions	(19)	(442)	413	10
Personal income tax	(10)	(278)	291	(23)
Corporate income tax	651	(94)	6 041	(5 296)
Value added tax	147	121	63	(37)
TOTAL:	**769**	**(693)**	**6 809**	**(5 346)**
TOTAL PAYABLE:	**(29)**			**(5 356)**
TOTAL RECEIVABLE:	**798**			**10**

24. Other liabilities

	31/12/2009 LVL'000	31/12/2008 LVL'000
Remuneration for work	-	48
Other liabilities	-	3
TOTAL:	**-**	**51**

25. Accrued liabilities

	31/12/2009 LVL'000	31/12/2008 LVL'000
Vacation pay reserve	28	94
Accrued personnel expense	19	88
Other accrued liabilities	13	14
TOTAL:	**60**	**196**

26. Related party disclosures

Related party	Nature of services	2009 Income from related parties LVL'000	2009 Payments to related parties LVL'000	31/12/2009 Amounts owed by related parties LVL'000	31/12/2009 Amounts owed to related parties LVL'000
SIA Ventspils Nafta Termināls	Consulting services received/ provided	25	4	30	1
Euromin Holdings' (Cyprus) Ltd	Interest income	881	-	44 010	-
LASCO Investment Ltd	Interest income/ consulting services provided	1 813	35	27 940	1
LatRosTrans Ltd	Rent of premises/ Consulting services provided	25	12	30	2
Rīgas līcis VN Ltd	Interest income	17	-	-	-
Total		2 761	51	72 010	4

Related party	Nature of services	2008 Income from related parties LVL'000	2008 Payments to related parties LVL'000	31/12/2008 Amounts owed by related parties LVL'000	31/12/2008 Amounts owed to related parties LVL'000
SIA Ventspils Nafta Termināls	Sale of crude oil	227	508	1 203	8
Euromin Holdings' (Cyprus) Ltd	Interest income	1 816	-	44 550	-
Vitol S.A Ltd	Sale of crude oil	2 853	-	-	-
LASCO Housing Office Ltd	Real estate management	212	398	-	70
Rīgas līcis VN Ltd	Interest income	31	-	635	-
Mediju nams Ltd	Interest income	42	3	-	-
LASCO Investment Ltd	Disposal of subsidiaries	81 550	-	62 622	-
JSC Latvijas Kuģniecība	Disposal of property	1 808	-	1 311	
Total		88 539	909	110 321	78

27. Total fee to commercial company of certified auditors *Ernst & Young Baltic Ltd* for:

	2009 LVL'000	2008 LVL'000
Audit of financial statements	18	23
Tax and consulting	39	19
TOTAL:	**57**	**42**

28. Financial instruments

The main financial instruments of the Company are issued loans and cash. The main purpose of these financial instruments is to ensure the financing of the operations of the Company. The Company also deals with several other financial instruments which are a result of its operations, for example, trade accounts receivable and other debtors, trade payables and other payables.

	31/12/2009			
Financial assets	**Loans and receivables LVL'000**	**Available for sales LVL'000**	**Financial assets and liabilities at amortised cost LVL'000**	**Total LVL'000**
Non-current portion of loan note	44 010	-	-	44 010
Receivables from related parties	28 000	-	-	28 000
Other assets	855	-	-	855
Cash and cash equivalents	-	-	1 621	1 621
Total financial assets:	**72 865**	**-**	**1 621**	**74 486**
Trade payables	-	-	20	20
Payables to related companies	-	-	4	4
Total financial liabilities:	**-**	**-**	**24**	**24**

	31/12/2008			
Financial assets	**Loans and receivables LVL'000**	**Available for sales LVL'000**	**Financial assets and liabilities at amortised cost LVL'000**	**Total LVL'000**
Non-current portion of loan note and receivable from related	86 107	-	-	86 107
Current portion of loan to related companies	547	-	-	547
Receivables from related parties	23 667	-	-	23 667
Other assets	173	-	-	173
Cash and cash equivalents	-	-	18 601	18 601
Total financial assets:	**110 494**	**-**	**18 601**	**129 095**
Trade payables	-	-	111	111
Payables to related companies	-	-	78	78
Total financial liabilities:	**-**	**-**	**189**	**189**

29. Financial risk management

Foreign currency risk

The Company's financial assets and liabilities exposed to foreign currency risk comprise cash and cash equivalents, trade receivables, current and non-current loans, trade payables.

The Company does not use any financial instruments to manage their exposure to foreign currency risk.

The Company's currency risk in U.S. dollars and euros as at 31 December 2009 and 2008 may be specified as follows:

	31/12/2009	31/12/2008
Financial assets denominated in EUR'000	41 511	117 164
Financial liabilities denominated in EUR'000	-	-
Net balance sheet position in EUR'000	**41 511**	**117 164**
Net balance sheet position in LVL'000	**29 174**	**82 343**
Financial assets denominated in USD'000	90 678	92 706
Financial liabilities denominated in USD'000	-	-
Net balance sheet position in USD'000	**90 678**	**92 706**
Net balance sheet position in LVL'000	**44 342**	**45 889**

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 Company'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 Company's profit before tax (due to changes in the fair value of financial assets and liabilities) and the Company's equity.

	Increase/ decrease in US dollar rate	Effect on profit before tax (LVL'000)	Effect on equity (LVL'000)
2009			
	+5%	2 217	(2 217)
	-5%	(2 217)	2 217
2008			
	+20%	9 178	(9 178)
	-5%	(2 294)	2 294

29. Financial risk management (cont'd)

Liquidity risk

The Company manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks, planning of terms of payment of trade payables, developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans. The budgeting system which is being successfully applied by the Company 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 Company's financial liabilities at 31 December 2008 and 2009 based on contractual undiscounted payments.

2009	On demand (LVL'000)	< 3 months (LVL'000)	3 to 12 months (LVL'000)	1 to 5 years (LVL'000)	> 5 years (LVL'000)	Total (LVL'000)
Trade payables	-	20	-	-	-	20
Payables to related companies	4	-	-	-	-	4
TOTAL:	**4**	**20**	**-**	**-**	**-**	**24**

2008	On demand (LVL'000)	< 3 months (LVL'000)	3 to 12 months (LVL'000)	1 to 5 years (LVL'000)	> 5 years (LVL'000)	Total (LVL'000)
Trade payables	-	111	-	-	-	111
Payables to related companies	78	-	-	-	-	78
TOTAL:	**78**	**111**	**-**	**-**	**-**	**189**

Credit risk

The Company is exposed to credit risk through its non-current loan to *Euromin Holdings (Cyprus) Limited* and the receivable from *LASCO Investment Ltd,* as well as through cash and cash equivalents. The Company manages credit risk arising out of cash and cash equivalents by investing in EU-registered credit institutions. The credit risk arising out of non-current loans and receivables from related parties is managed through entering into transactions with reliable business partners. See also Notes 18 and 21.

Interest rate risk

The Company is exposed to the interest rate risk mainly through its current loans. The interest rate receivable on the loans is disclosed in Note 18.

	2009		2008	
	Increase/ decrease in basis points	Effect on profit before tax (LVL'000)	Increase/ decrease in basis points	Effect on profit before tax (LVL'000)
US dollar - LIBOR	+0.25%	110	+0.25%	111
	-	-	-0.50%	(223)
EUR - LIBOR	+0.15%	41	+0.75%	470
	-	-	-0.75%	(470)

29. Financial risk management (cont'd)

Capital management

The primary objective of the Company'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 maximize shareholder value.

The Company 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. To maintain optimum capital structure, the Company may use share capital increase or decrease, distribution of dividends or various forms of borrowed capital. The Company's capital management objectives, policies and procedures have not been changed in 2008 and 2009.

The Company 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 Company's policy is to maintain the gearing ratio not exceeding 25 percent in medium term.

	2009 LVL'000	2008 LVL'000
Borrowings	-	-
Less cash and cash equivalents	(1 621)	(18 601)
Net debt	*(1 621)*	*(18 601)*
Equity	228 462	277 467
Total capital	226 841	258 866
GEARING RATIO:	**0%**	**0%**

30. Events after balance sheet date

LASCO Investment Ltd owes EUR 40 260 thousand to JSC Ventspils nafta as at 1 September of 2010. This amount is overdue. The mentioned debt is secured with a pledge of real properties and shares of companies holding the real properties. *JSC Ventspils nafta* has proposed to management of *LASCO Investment Ltd* to prolong payment term, instead of prolonging the payment term the Management Board of *LASCO Investment Ltd* has initiated out-of-court legal defense procedure. As *JSC Ventspils nafta* has no information on terms and conditions of out-of-court legal defense procedure of *LASCO Investment Ltd*., except publicly known. Recovery of debt is related to value of the mortgaged real properties and pleadged shares of companies holding them, which is affected by equitable conditions not under control of *JSC Ventspils nafta*, for example, improvement of the macroeconomic situation in Latvia, inflow of investments and resumption of activities in the real property market of Latvia. Taking into account above mentioned obstacles the Management Board of *JSC Ventspils nafta* could not evaluate possibility of recovery of debt.

From the beginning of 2010 the management of *JSC Ventspils nafta* using its legal rights according to Commercial Law has requested to convene shareholders' meeting for approval of the annual accounts for 2009, as well as for changes in the Supervisory Council of *JSC Latvijas kuģniecība*. In the course of 2010, the Management Board of *JSC Ventspils nafta* has faced continuous avoidance of the Management Board and Supervisory Council of the associated company *JSC Latvijas kuģniecība* to fulfill their legal obligations and convene and held a shareholders' meeting, which is completely unacceptable for a public joint stock company that is included in regulated market. The actions of the Management Board and Supervisory Council of *JSC Latvijas kuģniecība* have resulted in *JSC Latvijas kuģniecība* not preparing the annual reports for 2009, thus hindering *JSC Ventspils nafta* to prepare the consolidated annual report of *JSC Ventspils nafta* for 2009 in due course. Considering that *JSC Ventspils nafta* is concerned that the situation with the annual reports of *JSC Latvijas kuģniecība* for 2009 might go on, *JSC Ventspils nafta* has prepared this annual report for 2009 in accordance with the Law on Annual Accounts of the Republic of Latvia. Since shareholders' meeting of *JSC Latvijas kuģniecība* in April, 2009 no shareholders' meeting of *JSC Latvijas kuģniecība* has not taken place until now.

In 2010 shareholders of *Ventspils nafta termināls Ltd* resolved to divide a part of profit of 2009 in dividends. *JSC Ventspils nafta* received LVL 3,315 thousand in dividends from *Ventspils nafta termināls Ltd* on July 1, 2010.

As of the last day of the reporting year until the date of signing these financial statements, there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto, except the ones mentioned above.