

JOINT STOCK COMPANY VENTSPILS NAFTA
(UNIFIED REGISTRATION NUMBER 50003003091)

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

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

Riga, 2011

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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 2010 to 27 April 2011 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

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:	Boris Bednov Aleksej Tarasov

The changes in the Board during the period from 1 January 2010 to 27 April 2011 were as follows:

Elected	Dismissed	Name	Position held
28/04/2010	-	Boris Bednov	Member of the Board
28/04/2010	30/12/2010	Alexander Jagdžijanc	Member of the Board
30/12/2010	-	Aleksej Tarasov	Member of the Board
16/06/2010	30/12/2010	Andris Vilcmeiers	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 10 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 2010.

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.

Rīga, 27 April 2011

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, clients and cooperation partners,

In 2010 JSC Ventspils nafta and its subsidiaries continued work on the improving operational efficiency of group companies, optimizing expenses and improving corporate governance. In 2010 the largest shareholder of JSC Ventspils nafta took a significant role in bringing the international experience of seasoned professionals to the Supervisory Councils of the parent company and its holdings.

In 2010 the largest JSC Ventspils nafta shareholder *Euromin Holdings (Cyprus) Limited* increased its shareholding in by over 1.5%, to 49.5%.

On January 20, 2010, and July 7, 2010 the Supervisory Council of JSC Ventspils nafta was re-elected with Mr. Vladimir Egger becoming Chairman of both of these Councils.

On January 20, 2010 Mr. Simon Boddy was elected Chairman of the Management Board of JSC Ventspils nafta.

The Management Board of JSC Ventspils nafta has three members. During the year four members either resigned or were dismissed and four new members were elected by the Supervisory Council.

The registered and paid-up share capital of JSC Ventspils nafta in the financial year was LVL 104,479,519, comprised of 104,479,519 shares with a nominal value of LVL 1 per share. Part of the JSC Ventspils nafta share capital is listed on NASDAQ OMX.

During the financial year the price of JSC Ventspils nafta shares on the NASDAQ OMX Riga ranged from LVL 0.91 to LVL 1.89, the average price being LVL 1.34. The market capitalization of JSC Ventspils nafta at the end of 2010 was LVL 146.27 million compared to LVL 98.21 million at the end of 2009. It should be noted that market value may not be representative due to the low level of turnover in the company's shares – the average daily turnover in 2010 was approximately LVL 10 thousand, this is only 0.01% of the market capitalization. During 2010 1,492,345 shares with a value of LVL 2.22 million were traded on the NASDAQ OMX Riga. This is an increase of 50% over 2009.

Share price of JSC Ventspils nafta – January 1 to December 31, 2010 (Currency LVL)



The unaudited consolidated turnover of the JSC Ventspils nafta Group in 2010 was LVL 53 million and unaudited net loss was LVL 25.27 million. The reason for the losses of the JSC Ventspils nafta Group is the negative result of its associated company JSC Latvian Shipping Company.

The parent company JSC Ventspils nafta's unaudited net profit was LVL 3.64 million, this is LVL 2.5 million more than in 2009. In 2010 JSC Ventspils nafta as a parent company implemented a cost cutting programme resulting in a reduction of administrative expenses from LVL 2.45 million in 2009 to LVL 1.47 million in 2010. The management of JSC Ventspils nafta will continue working on the reduction of administrative expenses in 2011.

In the fourth quarter of 2010, in order to reduce to foreign currency exposure, the JSC Ventspils nafta management converted the long-term loan to the company *Euromin Holdings (Cyprus)* from USD 90 million to the equivalent amount in Euro (EUR 67.96 million). In line with this conversion the variable element of the interest rate was changed from 3 month US dollar Libor to 3 month Euro Libor. There were no delays in interest payments during the financial year.

Management report (cont'd)

On 17 December 2010, *JSC Latvian Shipping Company* lost control over *LASCO Investment Ltd*. The insolvency of *LASCO Investment Ltd* was announced on January 3, 2011. *LASCO Investment Ltd* is a significant debtor of *JSC Ventspils nafta* – as at December 31, 2010 the principal amount of this debt was LVL 27.6 million and the accrued interest was in excess of LVL 1.02 million (see Note 15). As at 31 December 2010, *JSC Latvian Shipping Company* deconsolidated *LASCO Investment Ltd*. However, *JSC Latvian Shipping Company* plans to regain a control over *LASCO Investment Ltd* in the future.

During the financial year, changes took place in the composition of shareholders of *Ventspils nafta termināls Ltd*, as restructuring took place within the *Vitol* Group. On March 23, 2010 the *Ventspils nafta termināls Ltd* shareholder *Euromin Holdings (Cyprus) Limited* transferred its 49% share in *Ventspils nafta termināls Ltd* to *Eurotank Holding Sarl*, which is also a member of the *Vitol* Group. The management of *JSC Ventspils nafta* is of the opinion that this change will have no adverse impact upon *Ventspils nafta termināls Ltd*.

The revenue mix of the Group changed in 2010, with an increase of 13% in reloading revenue, a 52% increase in pipeline revenues and a reduction of 56% in railway revenues. This favourable change in mix, combined with the continuing restructuring programme lead to a 133% increase in gross profits.

The audited turnover of *Ventspils nafta termināls Ltd* was LVL 43.4 million in 2010, which is 27% less than in 2009; the audited net profit in 2010 was LVL 9.67 million, an increase of 46% over 2009.

During 2010 *Ventspils nafta termināls Ltd* continued the implementation of various modernisation programmes, optimisation of operating processes and procedures, increasing labour efficiency and the introduction of improved environmental protection standards.

In order to ensure competitiveness and long-term development *Ventspils nafta termināls Ltd* implemented an investment project worth LVL 1 million. The company is now able to produce a new and competitive product – butanized gasoline.

The audited turnover of *LatRosTrans Ltd* increased by 52% to LVL 9.9 million compared to LVL 6.5 million in 2009.

Transportation volumes increased by 49% to 5.635 million tonnes. The audited net losses of *LatRosTrans Ltd* were LVL 1.619 million, this is a 74% improvement over 2009 when losses were LVL 6.132 million.

As in prior years, the largest component of *LatRosTrans Ltd's* costs was amortization of long-term investments and depreciation, LVL 4.965 million 2010 (2009: LVL 5.103 million). Notwithstanding the financial losses the company has achieved a positive net cash flow.

In January 2010, due to dissatisfaction with the performance of the management of *JSC Latvian Shipping Company*, *JSC Ventspils nafta* requested that the Management Board and Supervisory Council of *JSC Latvian Shipping Company* convene an extraordinary shareholders' meeting in order to changes the Supervisory Council. The *JSC Latvian Shipping Company* Management Board and Supervisory Council failed to convene any shareholders' meetings until December 17. At the December 17 meeting a new Supervisory Council was elected, the Council then appointed a new Management Board. Moreover, the previous management of *JSC Latvian Shipping Company* has concluded several transactions which the current management is investigating and endeavouring to mitigate and reverse. The *JSC Latvian Shipping Company* Group ended the year 2010 with unaudited losses of USD 142.49 million or LVL 78.4 million.

The audited consolidated financial statements of *JSC Latvian Shipping Company* for 2009 were approved by an extraordinary shareholders' meeting of the *JSC Latvian Shipping Company* on January 28, 2011. The audited consolidated net losses of *JSC Latvian Shipping Company* for 2009 were USD 90.3 million or LVL 45.6. Taking these losses into account the audited consolidated losses of the *JSC Ventspils nafta* Group for 2009 were LVL 17.54 million, while the audited net assets of the *JSC Ventspils nafta* Group were LVL 361 million.

Management report (cont'd)

In addition it should be noted that on January 28, 2011, an extraordinary shareholders' meeting of *JSC Latvian Shipping Company* elected a new Supervisory Council and decided to pursue a claim against the previous members of the Supervisory Council and individual Management Board members for the compensation of losses caused to *JSC Latvian Shipping Company*.

Financial risk management related to the operations of *JSC Ventspils nafta* are disclosed in Note 26 to the financial statement.

The Management Board of *JSC Ventspils nafta* has proposed to transfer the net profit of 2010 to other reserves while management seeks opportunities to expand or enhance the Company's activities.

Rīga, 27 April 2011

On behalf of the Supervisory Council:

On behalf of the Management Board:

Vladimir Egger
Chairman of the Council

Simon Boddy
Chairman of the Board

INCOME STATEMENT

	2010	2009
	EUR'000	EUR'000
Net sales	186	71
Gross profit	186	71
General and administrative expense	(2 085)	(3 486)
Other operating income	4	97
Other operating expense	(260)	(9)
Result from operating activities	(2 155)	(3 327)
Income from securities forming non-current assets, net	5 023	936
Impairment of other financial assets	(4 226)	-
Financial income	7 782	4 821
Financial expense	-	(657)
Result before taxes	6 424	1 773
Corporate income tax	(1 249)	(144)
Net result	5 175	1 629

EUR exchange rate of the Bank of Latvia on 31.December 2010 – 0,702804 LVL.

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

	31/12/2010	31/12/2009
	EUR'000	EUR'000
NON-CURRENT ASSETS		
Property, plant and equipment		
Other property, plant and equipment	112	263
TOTAL	112	263
Investments		
Investments in subsidiaries	169 588	169 288
Investments in associates	49 722	49 722
Loan note	67 955	62 621
Other financial assets	36 509	-
TOTAL	323 774	281 631
TOTAL NON-CURRENT ASSETS	323 886	281 894
CURRENT ASSETS		
Receivables		
Short term deposits	6 481	-
Receivables from related companies	63	39 840
Other receivables	10	1 147
Other assets	171	70
TOTAL	6 725	41 057
Cash	138	2 306
TOTAL CURRENT ASSETS	6 863	43 363
TOTAL ASSETS	330 749	325 257

EUR exchange rate of the Bank of Latvia on 31.December 2010 – 0,702804 LVL.

On behalf of the Supervisory Council:

On behalf of the Management Board:

 Vladimir Egger
 Chairman of the Supervisory Council

 Simon Boddy
 Chairman of the Management Board

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	31/12/2010	31/12/2009
	EUR'000	EUR'000
SHAREHOLDERS' EQUITY		
Share capital	148 660	148 660
Share premium	60 249	60 249
Other reserves	116 163	114 534
Retained earnings for the period	5 175	1 629
TOTAL SHAREHOLDERS' EQUITY	330 247	325 072
LIABILITIES		
Non-current liabilities		
Deferred corporate income tax	-	24
TOTAL	-	24
Current liabilities		
Trade payables	73	28
Payables to related companies	4	6
Taxes payable	222	41
Accrued liabilities	203	86
TOTAL	502	161
TOTAL LIABILITIES	502	185
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	330 749	325 257

EUR exchange rate of the Bank of Latvia on 31.December 2010 – 0,702804 LVL.

On behalf of the Supervisory Council:

On behalf of the Management Board:

 Vladimir Egger
 Chairman of the Supervisory Council

 Simon Boddy
 Chairman of the Management Board

CASH FLOW STATEMENT

	2010	2009
	EUR'000	EUR'000
Operating activities		
Result before taxes	6 424	1 773
Adjustments:		
Interest income	(2 393)	(4 811)
Amortisation and depreciation	37	44
Reversal of impairment of investments	(300)	-
Dividends	(4 717)	(943)
Impairment of other financial assets	4 226	-
Disposal of investments	-	7
Loss on disposal of property, plant and equipment	118	-
Gain on sale of investments	(6)	-
(Income)/ Loss from fluctuations of currency exchange rates	(5 334)	768
Operating profit before changes in current assets and liabilities	(1 945)	(3 162)
Decrease in receivables	6	1 663
Increase/ (decrease) in current liabilities	373	(500)
Net cash used in operating activities	(1 566)	(1 999)
Corporate income tax paid	(169)	(8 596)
Net cash used in operating activities	(1 735)	(10 595)
Investing activities		
Purchase of intangible assets and property, plant and equipment	(7)	(16)
Interest received	1 329	4 320
Dividends received	4 717	943
Proceeds from disposal of investments	30	61
Proceeds from disposal of property, plant and equipment	3	12 279
Proceeds from sale of subsidiaries	-	39 426
(Increase) in short-term deposits	(6 481)	-
Investments in subsidiaries	(24)	-
Net cash flow from investing activities	(433)	57 013
Financing activities		
Dividends paid	-	(71 357)
Repayment of borrowings	-	778
Net cash used in financing activities	-	(70 579)
Net (decrease) in cash	(2 168)	(24 161)
Cash at the beginning of the year	2 306	26 467
Cash at the end of the year	138	2 306

EUR exchange rate of the Bank of Latvia on 31.December 2010 – 0,702804 LVL.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves	Retained earnings for the period	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance as at 31 December 2008	148 660	60 249	128 911	56 980	394 800
Transfer of 2008 net result	-	-	56 980	(56 980)	-
Dividends declared and paid	-	-	(71 357)	-	(71 357)
Profit for the reporting year	-	-	-	1 629	1 629
Balance as at 31 December 2009	148 660	60 249	114 534	1 629	325 072
Transfer of 2009 net result	-	-	1 629	(1 629)	-
Profit for the reporting year	-	-	-	5 175	5 175
Balance as at 31 December 2010	148 660	60 249	116 163	5 175	330 247

EUR exchange rate of the Bank of Latvia on 31.December 2010 – 0,702804 LVL.