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

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Ventspils nafta

Report on the financial statements

We have audited the accompanying financial statements of AS Ventspils nafta (the "Company"), set out on pages 10 through 39 of the accompanying 2010 Annual Report, which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 qualified audit opinion.

Basis for Qualified Opinion
As described in Note 14 to the financial statements, the balance sheet as at 31 December 2010 includes an investment in the associate accounted at cost. The associate has not approved and released its annual report for the year 2010. Accordingly, we have not been able to fully perform procedures in relation to the present book value and recoverability of the investment in the associate as at 31 December 2010.

Qualified opinion
In our opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of AS Ventspils nafta as of 31 December 2010, 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.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2010 (set out on pages 7 through 9 of the accompanying 2010 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 2010.

SIA Ernst & Young Baltic
Licence No. 17

Iveta Vimba
Board member
Latvian Certified Auditor
Certificate No. 153
Riga,
29 April 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.

Riga, 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.

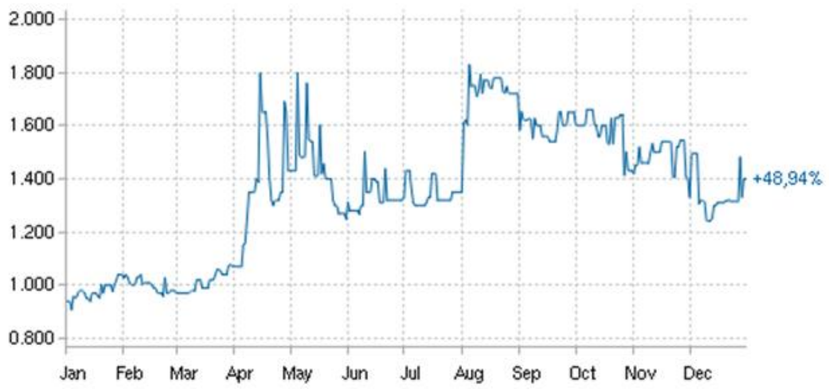
On January 20, 2010 Mr. Simon Boddy was elected Chairman of the Management Board of *JSC Ventspils nafta*.

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 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.

Riga, 27 April 2011

On behalf of the Supervisory Council:

Vladimir Egger
Chairman of the Council

On behalf of the Management Board:

Simon Boddy
Chairman of the Board

INCOME STATEMENT

	Notes	2010 LVL'000	2009 LVL'000
Net sales	3	131	50
Gross profit		**131**	**50**
General and administrative expense	4, 7	(1 465)	(2 450)
Other operating income		3	68
Other operating expense	5	(183)	(6)
Result from operating activities		**(1 514)**	**(2 338)**
Income from securities forming non-current assets, net	6	3 530	658
Impairment of other financial assets	8	(2 970)	-
Financial income	9	5 469	3 388
Financial expense	10	-	(462)
Result before taxes		**4 515**	**1 246**
Corporate income tax	11	(878)	(101)
Net result		**3 637**	**1 145**

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	31/12/2010	31/12/2009
		LVL'000	LVL'000
NON-CURRENT ASSETS			
Property, plant and equipment			
Other property, plant and equipment	12	79	185
TOTAL		**79**	**185**
Investments			
Investments in subsidiaries	13	119 187	118 976
Investments in associates	14	34 945	34 945
Loan note	15a	47 759	44 010
Other financial assets	15c	25 659	-
TOTAL		**227 550**	**197 931**
TOTAL NON-CURRENT ASSETS		**227 629**	**198 116**
CURRENT ASSETS			
Receivables			
Short term deposits	16	4 555	-
Receivables from related companies	15b	44	28 000
Other receivables	17	7	806
Other assets	18	120	49
TOTAL		**4 726**	**28 855**
Cash	19	**97**	**1 621**
TOTAL CURRENT ASSETS		**4 823**	**30 476**
TOTAL ASSETS		**232 452**	**228 592**

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	31/12/2010 LVL'000	31/12/2009 LVL'000
SHAREHOLDERS' EQUITY			
Share capital	20	104 479	104 479
Share premium		42 343	42 343
Other reserves		81 640	80 495
Retained earnings for the period		3 637	1 145
TOTAL SHAREHOLDERS' EQUITY		**232 099**	**228 462**
LIABILITIES			
Non-current liabilities			
Deferred corporate income tax	11	-	17
TOTAL		**-**	**17**
Current liabilities			
Trade payables		51	20
Payables to related companies	23	3	4
Taxes payable	21	156	29
Accrued liabilities	22	143	60
TOTAL		**353**	**113**
TOTAL LIABILITIES		**353**	**130**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**232 452**	**228 592**

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

	2010 LVL'000	2009 LVL'000
Operating activities		
Result before taxes	4 515	1 246
Adjustments:		
Interest income	(1 682)	(3 381)
Amortisation and depreciation	26	31
Reversal of impairment of investments	(211)	-
Dividends	(3 315)	(663)
Impairment of other financial assets	2 970	-
Disposal of investments	-	5
Loss on disposal of property, plant and equipment	83	-
Gain on sale of investments	(4)	-
(Income)/ Loss from fluctuations of currency exchange rates	(3 749)	540
Operating profit before changes in current assets and liabilities	***(1 367)***	***(2 222)***
Decrease in receivables	4	1 169
Increase/ (decrease) in current liabilities	262	(352)
Net cash used in operating activities	***(1 101)***	***(1 405)***
Corporate income tax paid	(119)	(6 041)
Net cash used in operating activities	**(1 220)**	**(7 446)**
Investing activities		
Purchase of intangible assets and property, plant and equipment	(5)	(11)
Interest received	935	3 035
Dividends received	3 315	663
Proceeds from disposal of investments	21	43
Proceeds from disposal of property, plant and equipment	2	8 630
Proceeds from sale of subsidiaries	-	27 709
(Increase) in short-term deposits	(4 555)	-
Investments in subsidiaries	(17)	-
Net cash flow from investing activities	**(304)**	**40 069**
Financing activities		
Dividends paid	-	(50 150)
Repayment of borrowings	-	547
Net cash used in financing activities	**-**	**(49 603)**
Net (decrease) in cash	**(1 524)**	**(16 980)**
Cash at the beginning of the year	**1 621**	**18 601**
Cash at the end of the year	**97**	**1 621**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves	Retained earnings for the period	**Total**
	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**
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)
Profit for the reporting year	-	-	-	1 145	1 145
Balance as at 31 December 2009	**104 479**	**42 343**	**80 495**	**1 145**	**228 462**
Transfer of 2009 net result	-	-	1 145	(1 145)	-
Profit for the reporting year	-	-	-	3 637	3 637
Balance as at 31 December 2010	**104 479**	**42 343**	**81 640**	**3 637**	**232 099**

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 incorporated 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. 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 subsidiary *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 2010 and 2009, 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 table summarizes ownership of the Company in subsidiaries:

Ownership, %	31/12/2010	31/12/2009	31/12/2008	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

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 on 21 April 2011. The Company's shareholders, in accordance with the Articles of Association, 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 2010 through 31 December 2010.

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.

2. Significant accounting policies (cont'd)

Foreign currency transactions

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

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

Invoices on 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.

	31/12/2010	**31/12/2009**
USD	0.535000	0.489000
EUR	0.702804	0.702804

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

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.

2. Significant accounting policies (cont'd)

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
Machinery and equipment	*3-10*
Other property, plant and equipment	*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.

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.

2. Significant accounting policies (cont'd)

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any 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.

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.

2. Significant accounting policies (cont'd)

Cash and cash equivalents

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

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.

2. Significant accounting policies (cont'd)

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:

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.

Corporate income tax

Corporate income tax includes current and deferred taxes. The Corporate income tax is calculated by applying to the taxable income in the respective taxation period the tax rate 15%.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent eight years.

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

	2010 LVL'000	2009 LVL'000
Management services	131	50
TOTAL:	**131**	**50**

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 expense (see Note 4).

4. General and administrative expense

	2010 LVL'000	2009 LVL'000
Remuneration for work (see also Note 7)	440	1 187
Professional charges and legal costs	378	365
Statutory social insurance contributions (see also Note 7)	107	294
Acccruals for personnel and similar expense (see also Note 7)	72	19
Lease of premises	62	104
Vehicle maintenance expense	31	106
Bank charges	29	38
Amortisation and depreciation	26	31
Audit fees	21	18
Communications	7	16
Advertising and marketing	5	18
Insurance	4	52
Representation expense	4	20
Business trips	3	19
Conferences, seminars and training	2	11
Other expense	274	152
TOTAL:	**1 465**	**2 450**

5. Other operating expense

	2010 LVL'000	2009 LVL'000
Sponsorship	165	6
Other expense	18	-
TOTAL:	**183**	**6**

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

	2010 LVL'000	2009 LVL'000
Dividends received	3 315	663
Reversal of impairment (see also Note 13)	211	-
Gain on sale of investments, net	4	-
Loss from disposal of investments, net	-	(5)
TOTAL:	**3 530**	**658**

7. Personnel expense

	2010	2009
Average number of employees	24	27

Remuneration for work and statutory social insurance contributions

	2010 LVL'000	2009 LVL'000
Remuneration for work	279	150
Statutory social insurance contributions	67	43
Management and Board Members		
Remuneration for work	217	739
Statutory social insurance contributions	52	181
Council Members		
Remuneration for work	3	313
Statutory social insurance contributions	1	74
TOTAL:	**619**	**1 500**

7. Personnel expense (cont'd)

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

	2010 LVL'000	2009 LVL'000
General and administrative expense	619	1 500
TOTAL:	**619**	**1 500**

8. Impairment of other financial assets

The net present value of *LASCO Investment Ltd* debt at 31 December 2010 is LVL 25 659 thousand (31/12/2009: LVL 27 940 thousand). The gross value of *LASCO Investment Ltd* debt as at 31 December 2010 is LVL 28,629 thousand (31/12/2009: LVL 27 940). In 2010 *JSC Ventspils nafta* recognized LVL 2 970 thousand as impairment of the *LASCO Investment Ltd* debt.

JSC Latvian Shipping Company lost control over the entity on 17 December 2010 due to the insolvency procedures. Subsequently, *JSC Latvian Shipping Company* deconsolidated *LASCO Investment ltd* as at 31 December 2010. Consequently, the receivable from *LASCO Investment Ltd* is not considered a related party in these financial statements as at 31 December 2010. In addition to that, the receivable has been reclassified from current to non-current assets due to the insolvency procedure which is expected to take 3 years. The debt is secured by real estate properties and shares of the companies holding the sold companies and real properties (Please see Note 15c). The market value of the pledged real estate properties is LVL 25 879 thousand as at 31 December 2010.

9. Financial income

	2010 LVL'000	2009 LVL'000
Currency exchange gain, net	3 781	-
Interest income from loans and receivables	1 634	2 711
Interest on bank account balances	48	670
Proceeds from purchase/ sale of foreign currency, net	6	7
TOTAL:	**5 469**	**3 388**

10. Financial expense

	2010 LVL'000	2009 LVL'000
Currency exchange loss, net	-	462
TOTAL:	**-**	**462**

11. Corporate income tax

	2010 LVL'000	2009 LVL'000
Current corporate income tax		
Current corporate income tax charge for the reporting year	(895)	(89)
Withholding tax, non-resident	-	(5)
Deferred corporate income tax		
Deferred corporate income tax due to changes in temporary differences	17	(7)
TOTAL:	**(878)**	**(101)**

Deferred corporate income tax:

	Balance sheet LVL'000		Income statement LVL'000	
Deferred corporate income tax liability	31/12/2010	31/12/2009	2010	2009
Accelerated depreciation for tax purposes	(7)	(21)	14	3
Gross deferred tax liability	(7)	(21)	14	3
Deferred corporate income tax asset				
Provisions established	453	4	449	(10)
Valuation allowance for deferred income tax asset	(446)	-	(446)	-
Gross deferred income tax asset	**7**	**4**	**3**	**(10)**
Net deferred income tax liability	**-**	**(17)**	**17**	**(7)**

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

	2010 LVL'000	2009 LVL'000
Profit before tax	4 515	1 246
Corporate income tax at 15%	*677*	*187*
Permanent differences, net	201	(86)
Corporate income tax charged to the income statement:	**878**	**101**

12. Other property, plant and equipment

	Equipment and machinery	Other property, plant and equipment	**TOTAL**
	LVL'000	LVL'000	**LVL'000**
Cost:			
At 1 January 2009	34	874	908
Additions	-	11	11
Disposals	(16)	(42)	(58)
31 December 2009	**18**	**843**	**861**
Additions	-	5	5
Disposals	(18)	(691)	(709)
31 December 2010	**-**	**157**	**157**
Depreciation and impairment			
At 1 January 2009	34	669	703
Deprecition charge for the year	-	31	31
Disposals	(16)	(42)	(58)
31 December 2009	**18**	**658**	**676**
Deprecition charge for the year	-	26	26
Disposals	(18)	(606)	(624)
31 December 2010	**-**	**78**	**78**
Net book value			
31 December 2010	-	79	79
31 December 2009	-	185	185
1 January 2009	-	205	205

The total depreciation charge is included in General and administrative expense caption. See also Note 4.

13. Investments in subsidiaries

The following table summarises the Company's investments in subsidiaries as at 31 December 2009 and 2010, as well as the key performance indices, core business activities and registered offices of the subsidiaries:

	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009	2010	2009		
	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	93 247	94 870	(1 619)	(6 132)	Crude oil and oil product transportation by pipeline	Balvu iela 7, LV-5043, Daugavpils, Latvia
Ventspils nafta termināls Ltd.	51.00	51.00	39 693	39 482	88 278	85 108	9 670	6 560	Crude oil and oil product reloading and storage	Talsu iela 75, LV-3602, Ventspils, Latvia
		TOTAL:	**119 187**	**118 976**						

13. Investments in subsidiaries (cont'd)

The investments in the subsidiaries can be specified as follows:

	LatRosTrans Ltd	*Ventspils nafta termināls Ltd*	**Total**
	LVL'000	*LVL'000*	***LVL'000***
Cost:			
At 1 January 2009	80 250	39 693	119 943
Additions	-	-	-
At 31 December 2009	**80 250**	**39 693**	**119 943**
Additions	-	-	-
At 31 December 2010	**80 250**	**39 693**	**119 943**
Accumulated impairment:			
At 1 January 2009	756	211	967
Reversal of impairment	-	-	-
At 31 December 2009	**756**	**211**	**967**
Reversal of impairment	-	(211)	(211)
At 31 December 2010	**756**	**-**	**756**
Net carrying amount:			
At 31 December 2010	79 494	39 693	**119 187**
At 31 December 2009	79 494	39 482	**118 976**
At 1 January 2009	79 494	39 482	**118 976**

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 2010 was LVL 119 187 thousand (2009: LVL 118 976 thousand). In 2010 and 2009, based on the cash flow projections, no additional impairment loss on non-current assets was recognized.

13. Investments in subsidiaries (cont'd)

Information on the recoverable amount of the investment in LatRosTrans Ltd

The impairment test of the Company's 66% shareholding in *LatRosTrans Ltd* as at 31 December 2010 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 2010 *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 is recognised as an asset to be sold.
- Sales revenues are based upon ICE (Intercontinental Exchange) quotations.
- The crude oil is assumed to be sold in the two stages: in 2011 and in 2012. Regarding the litigation process to claim the ownership for the crude oil initiated by the third party, the *LatRosTrans Ltd* possesses the legal opinion indicating that the ownership should be considered in favour of the *LatRosTrans Ltd*; however, it may be postponed to as far as till 2013 or 2014 in the most unfavourable case.

If alternative cash inflows for this CGU will not or not sufficiently occur after the sale of the technological 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 2011 is projected at 5.4 million tonnes, 2012 to 2015: 5.5 million tonnes, 2016 and thereafter: 6 million tonnes.
- From 2012 *LatRosTrans Ltd* projects additional revenues from the storage of oil products in the company's tank farm. The total estimated discounted net cash flow amounts LVL 9.448 million.
- Cost savings will amount to 6% in 2012 and 4% in 2013.
- The weighted average cost of capital applied is 11% in 2011 onwards.
- The growth rate of reloading tariffs is equal to the inflation rate.
- The inflation rate used is 0% for 2011 and 2012 and 2.4% from 2013 onwards.

Sensitivity to changes in key assumptions

The discounted cash flow projections are most sensitive to the volume of oil product flow, the weighted average cost of capital, and the existence of the services on storage of oil products. The following individual changes in key assumptions would make recoverable amount of the CGU tested on a value in use basis less than its carrying amount as at 31/12/2010:

- Decrease of oil product flow volumes by 10% would result in impairment of LVL 8 million.
- Increase of the weighted average cost of capital rate by 1% would result in impairment of LVL 3 million.
- Elimination of the services on storage of oil products would result in impairment of LVL 8.9 million.

The following individual changes in key assumptions would reduce recoverable amount of the CGU tested based on fair value less cost to sell and value in use compared to its carrying amount as at 31/12/2010:

- Decrease of the crude oil market price by 10% would decrease the recoverable amount by LVL 5.6 million. No impairment results because of change of this assumption.
- Postponement of the sale of the crude oil by 1 year would decrease the recoverable amount by LVL 4.9 million. No impairment results because of change of this assumption.

13. Investments in subsidiaries (cont'd)

Information on the operations of the subsidiaries

Ventspils nafta termināls Ltd

Ventspils nafta termināls Ltd has been in the transit business for eight 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 2010, *Ventspils nafta termināls Ltd* ensured a stable reloading level, by reloading 9.0 million tons of oil and oil products. Traditionally, the major share of the transported cargos represents gas oil delivered by railway and via the oil product pipeline in the amount of 7.9 million tons, gasoline of various grades transported by rail – 0.7 million tons, and crude oil and oil products delivered by sea – 0.4 million tons.

Notwithstanding the decrease in the volumes reloaded by *Ventspils nafta termināls Ltd* compare to the year 2009, the company's net turnover in 2010 reached LVL 43.4 million, while the net profit for the reporting period amounted to LVL 9.67 million.

LatRosTrans Ltd

The sales of *LatRosTrans Ltd* in 2010 amounted to LVL 9.9 million, and oil product transportation for the year reached 5.635 million tons which is by 1.864 million more if compared to the year 2009. *LatRosTrans Ltd* closed the year 2010 with a net loss of LVL 1 619 thousand.

In 2010, *LatRosTrans Ltd* continued 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.

14. Investments in associates

The following table presents the investments in the associates:

	31/12/2010	31/12/2009	Legal address
	Shareholding, %		
JSC Latvian Shipping Company	49.94	49.94	Elizabetes iela 1, LV-1807, Riga, Latvia

The investments in the associates can be specified as follows:

	Latvian Shipping Company JSC	Mediji un poligrāfija Ltd (liquidated)	**Total**
	LVL'000	LVL'000	**LVL'000**
Cost:			
At 1 January 2009	34 945	66	35 011
Disposals	-	(66)	(66)
At 31 December 2009	**34 945**	**-**	**34 945**
Acquisitions	21	-	21
Disposals	(21)	-	(21)
At 31 December 2010	**34 945**	**-**	**34 945**
Accumulated impairment:			
At 1 January 2009	-	18	18
Impairment	-	(18)	(18)
At 31 December 2009	**-**	**-**	**-**
Impairment	-	-	-
At 31 December 2010	**-**	**-**	**-**
Net carrying amount:			
At 31 December 2010	34 945	-	**34 945**
At 31 December 2009	34 945	-	**34 945**
At 1 January 2009	34 945	48	**34 993**

14. Investments in associates (cont'd)

Information on the operations of associate

JSC Latvian Shipping Company

JSC Latvian Shipping Company is treated as an associated company of *JSC Ventspils nafta* because *JSC Ventspils nafta* owns 49.94% of the share capital of *JSC Latvian Shipping Company*. *JSC Ventspils nafta* interests in *JSC Latvian Shipping Company* has not changed since acquisition.

The share price on NASDAQ OMX Riga at the end of the year was LVL 0.379 per share (31/12/2009: 0.40 per share). On a net asset value basis *JSC Ventspils nafta's* 49.94% share of *JSC Latvian Shipping Company* as at 31 December 2010 is LVL 82 102 thousand (31/12/2009: LVL 106 772 thousand). Impairment test for investment in associate *JSC Latvian Shipping Company* was performed, as a result no impairment was recognised.

The associate *JSC Latvian Shipping Company* has not approved and released its annual report for the year 2010 as at the date of issuing these financial statements.

Unaudited net losses of the *JSC Latvian Shipping Company* Group in twelve months of 2010 are 142.44 million US dollars (78.32 million lats). In the same period of 2009, net losses of the *JSC Latvian Shipping Company* amounted to 90.26 million US dollars (45.6 million lats).

15. Loans to related companies, receivables from related companies and other financial assets

15 (a) Non-current loans:	31/12/2010	31/12/2009
	LVL'000	LVL'000
Receivable from *Euromin Holdings (Cyprus) Limited* for *Ventspils nafta termināls Ltd* shares	47 759	44 010
TOTAL non-current loans:	**47 759**	**44 010**

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.

On 8 December 2010, the principal amount of the loan note issued by the company *Euromin Holdings (Cyprus) Limited* was converted from USD 90 000 thousand to an equivalent amount in Euro (Euro 67 955 thousand). In accordance with the mentioned conversion, as of 8 December 2010, interest rate of the loan note is fixed as 3M EUR LIBOR + 1% or 9.99% per year (whichever is lower). All other conditions of the loan note remained unchanged.

The loan note is repayable either when *Euromin Holdings (Cyprus) Limited* disposes of its investment in *JSC Ventspils nafta* or when *Vitol SA* disposes of its investment in *Euromin Holdings (Cyprus) Limited* or 15 October 2016: whichever is the earliest.

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

15 (b) Receivables from related companies:	31/12/2010 LVL'000	31/12/2009 LVL'000
Receivable from *Ventspils nafta termināls Ltd* in relation to management consulting services (current)	39	30
Receivable from *LatRosTrans Ltd* in relation to management consulting services (current)	5	30
Receivable from *LASCO Investment Ltd* for sold assets (current)*	-	27 940
TOTAL receivables from related companies:	**44**	**28 000**

* *JSC Latvian Shipping Company* lost control over the entity on 17 December 2010 due to the insolvency procedures. Subsequently, *JSC Latvian Shipping Company* deconsolidated *LASCO Investment Ltd* as at 31 December 2010. Consequently, the receivable from *LASCO Investment Ltd* is not considered a related party in these financial statements as at 31 December 2010. The *LASCO Investment Ltd* debt in the amount of LVL 25 659 thousand has been reclassified from current receivable from related parties to non-current other financial assets in 2010 (See Note 15c).

15(c) Other financial assets:

LASCO Investment Ltd

The net present value of *LASCO Investment Ltd* debt at 31 December 2010 is LVL 25 659 thousand (31/12/2009: LVL 27 940 thousand included in the "Receivables from related companies"). The gross value of *LASCO Investment Ltd* debt as at 31 December 2010 is LVL 28,629 thousand (31/12/2009: LVL 27 940 included in the "Receivables from related companies"). Please, see also Note 8.

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 payment in the amount of LVL 18 927 thousand for the above mentioned sale transaction, and in 2009 – LVL 36 188 thousand (including interest income). In 2010, LVL 266 thousand (interest for 2009) were received. Payment of debt in 2010 was delayed.

The aforementioned debt is secured against real properties and shares of the companies holding the sold companies and real properties are pledged. In 2010 *JSC Ventspils nafta* proposed to the management of *LASCO Investment Ltd* to extend the payment date to until December 31, 2011, despite this the Management Board of *LASCO Investment Ltd* initiated out-of-court legal protection proceedings, which were announced with a court ruling on October 4, 2010. O.Cers was appointed as the administrator in the out-of-court legal protection proceedings.

To October 4, 2010 in total LVL 955 thousand were calculated as interest, for which bills were issued to *LASCO Investment Ltd*. *LASCO Investment Ltd* did not comply with the approved program of the out-of-court legal protection proceedings, and on December 17, 2010 the administrator O.Cers filed an application for the insolvency of *LASCO Investment Ltd*. On 3 January 2011, the insolvency of *LASCO Investment Ltd* was announced by the Vidzeme Suburb Court.

On 26 January 2011, *JSC Ventspils nafta* submitted a creditor's claim to the administrator of the insolvent *LASCO Investment Ltd* O.Cers, which was rejected by the administrator O.Cers on January 31, 2011. As at the time of preparing this annual report, *JSC Ventspils nafta* is pursuing a claim in the Riga Regional Court against the insolvent *LASCO Investment Ltd*, requesting the court to recognize *JSC Ventspils nafta* as a secured creditor.

After the end of the reporting period, the administrator of the insolvent *LASCO Investment Ltd* has initiated a claim in the Riga Regional Court against *JSC Ventspils nafta*, requesting the reversal a sale of the shares of *Nekustamie īpašumi VN Ltd* and *JSC Preses nams.*

In view of the above mentioned proceedings, it is management opinion that the recoverable amount of the debt directly related to the value of real properties and shares of companies holding real properties that are pledged for *JSC Ventspils nafta*. As at 31 December 2010, the carrying value of the debt is the net present value in today's market (See also Note 8). The market value will increase as the economic situation improves.

16. Short-term deposits

	31/12/2010 LVL'000	31/12/2009 LVL'000
Short-term deposits	4 555	-
TOTAL:	**4 555**	**-**

Short-term deposits are placed for periods ranging from three months to twelve months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates. Interests for short-term deposits are calculated corresponding with the respective short-tem deposit rates. Annual rates of short-term deposits that are placed in the reporting period range from 1.6% to 2.1%.

After maturity date in January 2011, deposits have been prolonged for the next short term period in the same bank.

17. Other receivables

	31/12/2010 LVL'000	31/12/2009 LVL'000
Value added tax receivable (see Note 21)	-	147
Corporate income tax receivable	-	651
Advances for services to be provided	-	5
Other	7	3
TOTAL:	**7**	**806**

18. Other assets

	31/12/2010 LVL'000	31/12/2009 LVL'000
Accrued interest income	105	47
Accrued income	12	-
Other prepaid expense	3	2
TOTAL:	**120**	**49**

19. Cash

	31/12/2010 LVL'000	31/12/2009 LVL'000
Current bank accounts	97	1 621
TOTAL:	**97**	**1 621**

20. Share capital

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

	Registered shares	Bearer shares	**Total, LVL**
31 December 2010	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 0.04 (2009: LVL 0.01) are calculated by dividing the net profit for the reporting year of LVL 3 637 thousand (2009: LVL 1 145 thousand) by the weighted average number of shares in issue of 104 479 thousand (2009: 104 479 thousand) during the reporting year. As on 11 November 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.

21. Taxes receivable/ (payable)

	31/12/2010 LVL'000	(Calculated) LVL'000	Paid LVL'000	31/12/2009 LVL'000
Statutory social insurance contributions	(8)	(145)	156	(19)
Personal income tax	(13)	(104)	101	(10)
Corporate income tax	(125)	(895)	119	651
Value added tax	(10)	(240)	83	147
TOTAL:	**(156)**	**(1 384)**	**459**	**769**
TOTAL PAYABLE:	**(156)**			**(29)**
TOTAL RECEIVABLE:	**-**			**798**

22. Accrued liabilities

	31/12/2010 LVL'000	31/12/2009 LVL'000
Accrued personnel expense	72	19
Vacation pay reserve	47	28
Other accrued liabilities	24	13
TOTAL:	**143**	**60**

23. Related party disclosures

Related party	Nature of services	2010 Income from related parties LVL'000	2010 Purchases from related parties LVL'000	31/12/2010 Amounts owed by related parties LVL'000	31/12/2010 Amounts owed to related parties LVL'000
SIA Ventspils Nafta Termināls	Consulting services received/ provided	71	3	39	-
Euromin Holdings' (Cyprus) Ltd	Interest income	679	-	47 759	-
LASCO Investment Ltd	Interest income*	955	-	-	-
LatRosTrans Ltd	Rent of premises/ Consulting services provided	50	22	5	3
Total		**1 755**	**25**	**47 803**	**3**

* Until 17 December 2010 (See Note 8, 15)

Related party	Nature of services	2009 Income from related parties LVL'000	2009 Purchases from 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**

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

	2010 LVL'000	2009 LVL'000
Audit of financial statements	21	18
Tax and consulting	15	39
TOTAL:	**36**	**57**

25. 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.

	31/12/2010			
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	47 759	-	-	47 759
Receivables from related parties	44	-	-	44
Other financial assets (non-current)	25 659	-	-	25 659
Other assets	4 682	-	-	4 682
Cash and cash equivalents	-	-	97	97
Total financial assets:	**78 144**	**-**	**97**	**78 241**
Trade payables	-	-	51	51
Payables to related companies	-	-	3	3
Total financial liabilities:	**-**	**-**	**54**	**54**

	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**

26. Financial risk management

The main financial risks arising from the Company's financial instruments are foreign currency risk, interest rate risk, liquidity risk, interest rate risk and credit risk.

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 2010 and 2009 may be specified as follows:

	31/12/2010	31/12/2009
Financial assets denominated in EUR'000	110 584	41 511
Financial liabilities denominated in EUR'000	-	-
Net balance sheet position in EUR'000	**110 584**	**41 511**
Net balance sheet position in LVL'000	**77 719**	**29 174**
Financial assets denominated in USD'000	651	90 678
Financial liabilities denominated in USD'000	-	-
Net balance sheet position in USD'000	**651**	**90 678**
Net balance sheet position in LVL'000	**348**	**44 342**

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 exchange rate	Effect on profit before tax (LVL'000)	Effect on equity (LVL'000)
2010			
	+5%	17	(17)
	-5%	(17)	17
2009			
	+5%	2 217	(2 217)
	-5%	(2 217)	2 217

26. Financial risk management (cont'd)

Liquidity risk

The Company manages its liquidity risk by planning of terms of payment of trade payables. 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 2009 and 2010 based on contractual undiscounted payments.

2010	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	-	51	-	-	-	51
Payables to related companies	3	-	-	-	-	3
TOTAL:	**3**	**51**	**-**	**-**	**-**	**54**

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**

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 other financial non-current asset is managed by evaluating the creditworthiness of business partners. See also Notes 15 and 23.

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 15.

	2010		2009	
	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
	-	-	-	-
EUR - LIBOR	+0.20%	766	+0.15%	41
	-	-	-	-

26. **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 a 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 2009 and 2010.

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.

	2010 LVL'000	2009 LVL'000
Borrowings	-	-
Less cash and cash equivalents	(97)	(1 621)
Net debt	*(97)*	*(1 621)*
Equity	232 099	228 462
Total capital	232 002	226 841
GEARING RATIO:	**0%**	**0%**

27. Events after balance sheet date

Between the last day of the reporting year and 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 as mentioned in Note 15 (c).