

JSC VENTSPILS NAFTA AND ITS SUBSIDIARIES

(UNIFIED REGISTRATION NUMBER 50003003091)

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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

TOGETHER WITH
THE 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 consolidated financial statements of AS Ventspils nafta (the Parent Company) and its subsidiaries (the "Group"), set out on pages 10 through 62 of the accompanying 2010 Consolidated Annual Report, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

The Parent Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union 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 consolidated 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 17 to the consolidated financial statements the Group's statement of financial position as at 31 December 2010 includes an investment in associate and the Consolidated Statement of comprehensive income includes the Group's share of loss from the associate that is based on unaudited results of the associate. 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 and share of loss in associate for the year then ended.

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 International Financial Reporting Standards as adopted by the European Union.

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 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2010.

We have assured ourselves that the Group has prepared the corporate management report for the year 2010 and verified information presented in the report according to the requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and in the section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market.

SIA Ernst & Young Baltic
Licence No. 17

Iveta Vimba
Board member
Latvian Certified Auditor
Certificate No. 153
Riga, 29 April 2011

CONTENTS

Independent Auditors' Report	Error! Bookmark not defined.
Supervisory Council of JSC <i>Ventspils nafta</i>	4
Management Board of JSC <i>Ventspils nafta</i>	5
Statement of Management's responsibilities	6
Management report	7
Consolidated income statement	10
Consolidated statement of comprehensive income	11
Consolidated statement of financial position	12
Consolidated statement of cash flows	14
Consolidated statement of changes in equity	15
Notes to the consolidated financial statements	16
Corporate governance report	63

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 prepares consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the *JSC Ventspils Nafta* and its subsidiaries (hereinafter also – the Group) as of 31 December 2010, changes in shareholders' equity, cash flows and the results of the Group for the year ended 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the European Union. In preparing those consolidated financial statements, they:

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

The Management Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Group and facilitate the preparation of financial statements which comply with International Financial Reporting Standards as adopted by the European Union.

Riga, 27 April 2011

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

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%.

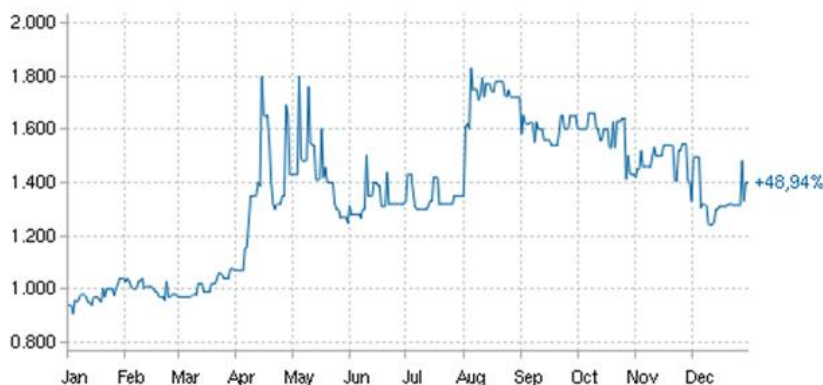
On January 20, 2010, and July 7, 2010 the Supervisory Council of *JSC Ventspils nafta* was re-elected with Mr. Vladimir Egger becoming Chairman of both of these Councils.

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 LVL104,479,519, 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 Riga.

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. 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. Due to impairments made by *JSC Latvian Shipping Company* and impairment of *LASCO Investment Ltd* debt made by *JSC Ventspils nafta* which all are according to the International Financial Reporting Standards *JSC Ventspils nafta* Group's previously unaudited 2010 results reported to NASDAQ OMX Riga differ from the actual unaudited results by more than 10%.

The parent company *JSC Ventspils nafta*'s audited net profit was LVL 3.64 million, this is LVL 2.5 million more than in 2009. In 2010 *JSC Ventspils nafta* as the 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.

Management report (cont'd)

In the fourth quarter of 2010, in order to reduce the foreign currency exposure, the *JSC Ventspils nafta* management converted the long-term loan to the company *Euromin Holdings (Cyprus) Limited* 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.

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. Please, see Note 30 (b) for details. 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 the 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 change 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 142.5 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 Instruments and Financial risk management related to the operations of *JSC Ventspils nafta Group* are disclosed in Note 31 to the consolidated financial statement.

The Consolidated Annual Report includes (on pages 63 to 79) information on compliance with the corporate governance principles in 2009 and 2010.

The Consolidated Annual report has been submitted to the NASADQ OMX Riga together with *JSC Ventspils nafta* Annual Report for 2010, as well as published on *JSC Ventspils nafta* website www.vnafta.lv.

Riga, 27 April 2011

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

Consolidated income statement

	Notes	2010 LVL thousand	2009 LVL thousand
Continuing operations			
Revenue	4	53 352	66 683
Cost of sales	5	(40 722)	(61 203)
Gross profit		12 630	5 480
General and administrative expense	6	(4 527)	(5 397)
Other operating income	7	842	799
Other operating expense	8	(2 481)	(3 196)
Share of loss in associate	17	(37 712)	(22 952)
Impairment of other financial receivables	16	(2 970)	-
Financial income	10	6 135	4 056
Financial expense	10	-	(228)
Loss before tax from continuing operations		(28 083)	(21 438)
Corporate income tax	11	(1 471)	(422)
Net loss for the year from continuing operations		(29 554)	(21 860)
Discontinued operations			
Profit after tax for the year from discontinued operations	12	4 286	4 320
(Loss) for the year		(25 268)	(17 540)
Attributable to:			
Non-controlling interest	23	4 188	1 130
Parent company's shareholders		(29 456)	(18 670)
		(25 268)	(17 540)
Earnings/ (loss) per share (Lats per share) attributable to the Parent company's shareholders:			
Diluted and basic loss per share from continuing operations	23	(0,32)	(0,22)
Diluted and basic earnings per share from discontinuing operations	23	0,04	0,04

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

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

Consolidated statement of comprehensive income

	Notes	2010 LVL thousand	2009 LVL thousand
(Loss) for the year		(25 268)	(17 540)
Other comprehensive (loss)/ income			
- Foreign currency translation resulting from investment in associate		8 945	(414)
- Cash flow hedge reserve from investment in associate		(185)	242
Other comprehensive income/ (loss) for the year, net of tax		8 760	(172)
Total comprehensive (loss)/ income for the year, net of tax		(16 508)	(17 712)
Attributable to:			
Non-controlling interests	23	4 188	1 130
Parent company's shareholders		(20 696)	(18 842)
		(16 508)	(17 712)

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

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

Consolidated statement of financial position

	Notes	31.12.2010 LVL thousand	31.12.2009 LVL thousand
Assets			
Non-current asset			
Intangible assets	13	26 020	26 809
Property, plant and equipment	14	128 263	131 122
Investments in associated entities	17	82 102	106 772
Loan note	18	47 759	44 010
Other non-current receivables	30b,16	25 659	-
Other non-current financial assets		251	282
Total non-current assets		310 054	308 995
Current assets			
Inventories	19	1 808	2 050
Trade accounts receivable	20	62	28
Receivables from related companies	30a	877	30 550
Other receivables	21a	2 685	1 884
Short term deposits	21b	20 908	8 229
Cash and cash equivalents	22	14 155	16 167
Total current assets		40 495	58 908
Total assets		350 549	367 903

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

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

Consolidated statement of financial position (cont'd)

		31.12.2010	31.12.2009
	Notes	LVL thousand	LVL thousand
Equity and liabilities			
Equity			
Issued capital	23	104 479	104 479
Share premium		42 343	42 343
Legal reserve		715	715
Reserves resulting from investment in associates	17	(7 198)	(15 958)
Other reserves		155 748	174 423
(Loss) for the year		(29 456)	(18 670)
Equity attributable to equity holders of the parent		266 631	287 332
Non-controlling interest	23	74 962	73 959
Total equity		341 593	361 291
Non-current liabilities			
Deferred tax liability	11	1 595	1 588
Deferred income	27	1 737	383
		3 332	1 971
Current liabilities			
Advances from customers		74	74
Trade accounts payable		1 395	1 866
Payables to related companies	30	-	27
Taxes payable	24	440	234
Other liabilities	25	2 139	1 932
Corporate income tax liabilities		638	46
Deferred income	27	106	43
Provisions	26	832	419
		5 624	4 641
Total liabilities		8 956	6 612
Total liabilities and equity		350 549	367 903

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

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

Consolidated statement of cash flows

		2010	2009
	Notes	LVL thousand	LVL thousand
Operating activities			
(Loss) before tax from continuing operations		(28 083)	(21 438)
Profit before tax from discontinued operations	12	4 286	4 320
Profit before tax		<u>(23 797)</u>	<u>(17 118)</u>
Non-cash adjustments to reconcile (loss)/ profit before tax to net cash flows			
Amortisation and depreciation	13, 14	9 135	9 298
Increase in provision for construction in progress	8	324	325
Disposal of investment		(4)	5
Impairment of non-current receivables		2 970	-
Interest income	10	(2 184)	(4 056)
Share of net loss in associate including realised gain from discontinued operations	17	33 430	18 627
Foreign exchange loss/ (gain)		(3 749)	540
Loss on disposal of property, plant and equipment		354	171
		16 479	7 792
Working capital adjustments:			
Decrease in inventories		242	379
Decrease in trade accounts receivable and receivables from related parties		1 623	34
Increase/ (Decrease) in current liabilities and deferred income		514	(644)
		18 858	7 561
Corporate income tax paid		(381)	(6 041)
Net cash flows from operating activities		18 477	1 520
Investing activities			
Purchase of intangibles and property, plant and equipment		(6 086)	(3 706)
Increase in short term deposits	21b	(12 679)	(7 422)
Proceeds from sale of property, plant and equipment and investment properties		62	8 797
Proceeds from disposal of shares		21	43
Proceeds from sale of subsidiaries	12, 30	-	27 709
Purchase of shares		(17)	-
Interest received		1 395	3 710
Net cash flows from investing activities		(17 304)	29 131
Financing activities			
Dividends paid		(3 185)	(50 787)
Proceeds from borrowings		-	547
Net cash flows from financing activities		(3 185)	(50 240)
Net decrease in cash and cash equivalents		(2 012)	(19 589)
Cash and cash equivalents at 1 January		16 167	35 756
Cash and cash equivalents at 31 December		14 155	16 167

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

Supplementary information of cash flows:**Non-cash investing activities:**

Acquisitions of property, plant and equipment were financed by compensation from the Client in amount of LVL 718 thousand in 2010 (2009: nil)

Consolidated statement of changes in equity

	Attributable to the equity holders of the parent							Non-controlling interest	Total shareholders' equity
	Share capital	Share premium	Legal reserve	Reserves resulting from investment in associates *	Other reserves	Total			
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand		
Balance as of 31 December 2008	104 479	42 343	715	(15 786)	224 573	356 324	73 466	429 790	
Loss for the period	-	-	-	-	(18 670)	(18 670)	1 130	(17 540)	
Other comprehensive loss	-	-	-	(172)	-	(172)	-	(172)	
Total comprehensive (loss)/ income	-	-	-	(172)	(18 670)	(18 842)	1 130	(17 712)	
Dividends declared	-	-	-	-	(50 150)	(50 150)	(637)	(50 787)	
Balance as of 31 December 2009	104 479	42 343	715	(15 958)	155 753	287 332	73 959	361 291	
Adjustment of prior year other reserves**	-	-	-	-	(5)	(5)	-	(5)	
Adjusted balance as of 31 December 2009	104 479	42 343	715	(15 958)	155 748	287 327	73 959	361 286	
Loss for the period	-	-	-	-	(29 456)	(29 456)	4 188	(25 268)	
Other comprehensive income	-	-	-	8 760	-	8 760	-	8 760	
Total comprehensive income/ (loss)	-	-	-	8 760	(29 456)	(20 696)	4 188	(16 508)	
Dividends declared	-	-	-	-	-	-	(3 185)	(3 185)	
Balance as of 31 December 2010	104 479	42 343	715	(7 198)	126 292	266 631	74 962	341 593	

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

* For further details see Note 17.

** Adjustment in the prior period accumulated deficit relates to prior period accrued expenses of *LatRosTrans Ltd.*

Notes to the consolidated financial statements

1. Corporate information

JSC Ventspils nafta (hereinafter also – the Company or the Parent company) is a public joint stock company organized under the laws of the Republic of Latvia. The Parent Company was first registered in the Enterprise Register on 9 May 1991, and then re-registered in the Commercial Register on 5 August 2004 (under the number 50003003091). Since 20 October 1998 *JSC Ventspils nafta* is listed on the NASDAQ OMX Riga main list.

The legal address of the Parent company is Valņu 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. *JSC Ventspils nafta* Group consisting of *JSC Ventspils nafta* and its subsidiaries (hereinafter also – the Group) is a multi-industrial holding.

The following table summarizes ownership of the Group in subsidiaries:

Name of the entity:	31.12.2010	31.12.2009	Legal address
<u>Subsidiaries of <i>JSC Ventspils nafta</i></u>			
<i>LatRosTrans Ltd</i>	66	66	Balvu iela 7, LV-5043, Daugavpils, Latvia
<i>Ventspils nafta termināls Ltd</i>	51	51	Talsu iela 75, LV-3602, Ventspils, Latvia

The main activities carried out by subsidiaries during 2010 and 2009 were as follows:

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

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

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

The consolidated financial statements of the Group were authorized for issue in accordance with resolution of the Board on 21 April 2011.

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

2.1 Basis of preparation

The consolidated financial statements are prepared on a historical cost basis.

Reporting currency and units of measurement

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

Statement of compliance

The consolidated financial statements of *JSC Ventspils nafta* and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

2.1 Basis of preparation (cont'd)

Basis of consolidation

The consolidated financial statements comprise the financial statements of *JSC Ventspils nafta* and its subsidiaries *Ventspils nafta termināls Ltd* and *LatRosTrans Ltd*.

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains legal control, and continue to be consolidated until the date that such legal control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.2 Changes in accounting policy and disclosures

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

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

- Amendment to IFRS 2 Share-based Payment
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- IFRIC 12 Service Concession Arrangements
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

The standards and interpretations and their amendments adopted in 2010 did not impact the financial statements of the Group, because the Group did not have the respective financial statement items and transactions addressed by these changes.

2.3 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

2.3 Summary of significant accounting policies (cont'd)

Investment in an associate (cont'd)

At the end of 2008 the Parent company had a significant downstream transaction with its associate *JSC Latvian Shipping Company* and the associate's subsidiary *LASCO Investment Ltd*. Profit from the downstream transaction is recognised in the Group's consolidated financial statements only to the extent of the unrelated Group's interest in the associate. The investment in associated entity *JSC Latvian Shipping Company* has been decreased by the excess of the proportional part of unrealised profit over the carrying value of assets. The decrease in investment will be reversed by the respective amount upon the disposal of the related assets to external parties or gradual depreciation of respective assets. According to the unaudited consolidated financial statements of *JSC Latvian Shipping Company* for 2010, *JSC Latvian Shipping Company* has recognized that it has lost control over its subsidiary *LASCO Investment Ltd* but in January 2010 shares in *Mediju nams Ltd* owned by the *JSC Latvian Shipping Company* Group were sold. Therefore, in 2010, *JSC Ventspils nafta* has recognized the remainder of the proportional profit in the amount of LVL 4 286 thousand.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

2.3 Summary of significant accounting policies (cont'd)***Foreign currency translation***

The Group's consolidated financial statements are presented in Lats, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

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

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction.

The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts.

Prior to 1 January 2005 the Group treated goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition, as assets and liabilities of the parent. Therefore, those assets and liabilities are already expressed in the reporting currency or are non-monetary items and hence no further translation differences occur.

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

		31/12/2010	31/12/2009
As at the reporting year-end	USD/LVL	0.535000	0.489000
	EUR/LVL	0.702804	0.702804
Average rate per period	USD/LVL	0.530425	0.505294
	EUR/LVL	0.702804	0.702804

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

The services rendered by the Group comprise pipeline transportation of crude oil and oil products. Revenue is recognized in the period when the services are provided. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable. Revenue from reloading of crude oil and oil products and corresponding expenses are recognised by reference to the stage of completion as at the year-end.

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the revenue can be reliably measured.

2.3 Summary of significant accounting policies (cont'd)

Revenue recognition (cont'd)

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Dividends

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

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grant.

Taxes

Corporate income tax

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 reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred 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 except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.3 Summary of significant accounting policies (cont'd)

Taxes (cont'd)

Deferred tax (cont'd)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

There are no held to maturity financial assets, available for sale financial assets and financial assets at fair value through profit or loss within the Group.

The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, and loan and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

2.3 Summary of significant accounting policies (cont'd)

Financial instruments – initial recognition and subsequent measurement (cont'd)

i) Financial assets (cont'd)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.3 Summary of significant accounting policies (cont'd)

Financial instruments – initial recognition and subsequent measurement (cont'd)

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings. The Group's financial liabilities do not include financial liabilities at fair value through profit or loss.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

Derecognition

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 the income statement.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 31.

2.3 Summary of significant accounting policies (cont'd)

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

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

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.3 Summary of significant accounting policies (cont'd)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. As of 31 December 2010 and 2009 the Group has not recognised any intangible assets with indefinite useful lives.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

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

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

2.3 Summary of significant accounting policies (cont'd)

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Crude oil and oil products

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

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

Materials

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

2.3 Summary of significant accounting policies (cont'd)

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Restructuring

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

Contingencies

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

Related parties

The parties are considered related when one party has the possibility to control the other one or has significant influence over the other party in making financial and operating decisions.

Earnings per share

Earnings per share are calculated by dividing the net result for the year attributable to ordinary equity holders of the Parent company shares by the average number of shares in issue during the year. The average number of the issued shares during the year has been weighted to take into account the timing of the issuance of new shares, if any. As the Group has neither in 2009 nor in 2010 outstanding instruments with dilutive effects the diluted and basic earnings per share are equal.

Subsequent events

Post-year-end events that provide additional information about the Group's position at the reporting 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.

2.4 Significant accounting judgments, estimates and assumptions

Judgments

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the following years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 15.

Useful life of property, plant and equipment

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

Residual value of property, plant and equipment

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised deferred tax asset at 31 December 2010 is LVL 9 469 thousand (2009: LVL 9 102 thousand) and the unrecognised deferred tax assets at 31 December 2010 is LVL 2 790 thousand (2009: LVL 2 984 thousand). Further details are contained in Note 11.

Provision for restructuring

The Group has recognised a provision for restructuring associated with the subsidiary *Ventspils nafta termināls Ltd*. In determining the amount of the provision, assumptions and estimates are required in relation to the expected cost of reorganisation. The carrying amount of the provision as at 31 December 2010 is LVL 680 thousand (2009: LVL 246 thousand). Further details are explained in Note 26.

Changes in estimates

In 2010, the subsidiary *LatRosTrans Ltd* has changed the applied inflation and growth rates used in the estimates of the future cash flows for determining the impairment of non-current assets. The inflation and growth rate for 2011 to 2012 is determined at 0%, and from 2013 onwards – at 2.4% for the whole projection period. In prior period 2.5% inflation and growth rates were applied starting from 2013 onwards. No impairment would have been identified also in the event the previous inflation and growth had been applied. For more information refer to Note 15.

2.5 Standards and Interpretations issued but not yet effective

Standards and Interpretations issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This is listing of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

Amendments to IFRS 7 Financial instruments: Disclosures

The amendments are effective for financial years beginning on or after 1 July 2011, once adopted by the EU. The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the consolidated financial statements since the Group does not have these kinds of transfers.

IFRS 9 Financial Instruments

IFRS 9 is effective for financial years beginning on or after 1 January 2013, once adopted by the EU. It will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 24 Related Party Disclosures

The amendments are effective for financial years beginning on or after 1 January 2011. The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

The amendment is effective for financial years beginning on or after 1 February 2010. It changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

Amendment to IFRIC 14 IAS 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The amendment is effective for financial years beginning on or after 1 January 2011.

The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

Amendments to IAS 12 Income Taxes

The amendments are effective for financial years beginning on or after 1 January 2012, once adopted by the EU.

The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. The Group has not estimated yet the impact of the implementation of these changes.

Improvements to IFRSs

In May 2010 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations;
- IFRS 7 Financial instruments: Disclosures;
- IAS 1 Presentation of Financial Statements;
- IAS 27 Consolidated and Separate Financial Statements;
- IFRIC 13 Customer Loyalty Programmes.

3. Segment information

The below table presents the breakdown of income statement item, as well as assets and liabilities by reportable segments:

	Crude oil and oil products		Shipping		Holding and other activities		Consolidated	
	2010 LVL '000	2009 LVL'000	2010 LVL '000	2009 LVL'000	2010 LVL '000	2009 LVL'000	2010 LVL '000	2009 LVL'000
Revenue from external customers	53 352	66 683	-	-	-	-	53 352	66 683
Intersegment revenue *	-	-	-	-	-	-	-	-
Cost of sales	(40 722)	(61 203)	-	-	-	-	(40 722)	(61 203)
Of which amortisation and depreciation	(8 929)	(9 062)	-	-	-	-	(8 929)	(9 062)
General and administrative expense	(3 207)	(2 964)	-	-	(1 320)	(2 433)	(4 527)	(5 397)
Of which amortisation and depreciation	(138)	(155)	-	-	(26)	(31)	(164)	(186)
Other operating income/ (expense), net	(1 459)	(2 459)	-	-	(180)	62	(1 639)	(2 397)
Of which impairment	-	-	-	-	-	-	-	-
Of which amortisation and depreciation	(42)	(50)	-	-	-	-	(42)	(50)
Segment result	7 964	57	-	-	(1 500)	(2 371)	6 464	(2 314)
Loss in associates	-	-	(37 716)	(22 777)	4	(175)	(37 712)	(22 952)
Financial income, net	666	902	-	-	5 469	2 926	6 135	3 828
Impairment of other financial assets	-	-	-	-	(2 970)	-	(2 970)	-
Realised gain from discontinued operations	-	-	-	-	4 286	4 320	4 286	4 320
Corporate income tax	(593)	(321)	-	-	(878)	(101)	(1 471)	(422)
Net result	8 037	638	(37 716)	(22 777)	4 411	4 599	(25 268)	(17 540)
Non-controlling interest	4 188	1 130	-	-	-	-	4 188	1 130
Net result attributable to parent company's shareholders	3 849	(492)	(37 716)	(22 777)	4 411	4 599	(29 456)	(18 670)
Segment assets	190 171	186 521	82 102	106 772	78 276	74 610	350 549	367 903
Total consolidated assets							350 549	367 903
Segment liabilities	8 606	6 486	-	-	350	126	8 956	6 612
Total consolidated liabilities							8 956	6 612
Capital expenditure	6 816	3 695	-	-	5	11	6 821	3 706

* Inter-segment revenues are eliminated on consolidation.

3. Segment information (cont'd)

The management considers that the preparation of reportable segment cash flows is not practical.

All operations as well as all material assets of the Group are located in Latvia.

The descriptions of the segments:

Crude oil and oil products:

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

Shipping:

The business represents marine cargo shipping business and includes the investment in the associate *JSC Latvian Shipping Company*.

Holding and other activities

The holding activities represent financial income from investments made and gain or loss from holding and selling shares in subsidiaries and associated companies. In 2010, the main General and administrative expenses of Holding and other activities relate to Remuneration for work and statutory social insurance contributions in amount of LVL 457 thousand (2009: LVL 1 481 thousand) as well as professional charges and legal costs in amount of LVL 378 thousand (2009: LVL 365 thousand). In 2010, the main Segment assets of Holding and other activities relate to Loan note in amount of LVL 47 759 thousand (2009: LVL 44 010 thousand) as well as receivable from Sale of non-current assets in amount of LVL 25 659 thousand (2009: LVL 27 940 thousand).

4. Revenue

	2010 LVL thousand	2009 LVL thousand
Reloading of crude oil and oil products	28 241	25 031
Railway services	15 199	34 463
Transportation of oil products	9 901	6 500
Income from sale of crude oil and oil products	-	689
Other income	11	-
TOTAL:	53 352	66 683

Net revenues are earned in Latvia from customers representing international oil companies.

5. Cost of sales

	2010 LVL thousand	2009 LVL thousand
Railway charges	15 199	34 487
Amortization and depreciation	8 929	9 062
Remuneration for work	5 756	5 356
Utilization of piers	1 418	1 681
Social security contributions	1 351	1 249
Electricity	1 119	804
Utilities	1 109	1 142
Land rent	785	784
Environment protection expense	770	856
Materials and spare parts	746	771
Insurance expenses	682	930
Raw materials	433	476
Treatment of technological waste water	330	290
Security	267	843
Property tax	116	115
Cost of sold oil and oil products	-	318
Other	1 712	2 039
TOTAL:	40 722	61 203

6. General and administrative expense

	2010 LVL thousand	2009 LVL thousand
Remuneration for work	1 530	2 317
Professional charges and legal costs	992	890
Social security contributions	366	561
Property tax	300	10
Amortization and depreciation	164	186
Advertising and marketing expense	162	342
Other personnel expense	155	122
Vehicle maintenance expense	65	142
Rent of premises	40	92
Communication expense	32	39
Bank charges	29	38
Insurance fees	11	60
Other administrative expense	681	598
TOTAL:	4 527	5 397

7. Other operating income

	2010 LVL thousand	2009 LVL thousand
Income from oil extracted from groundwater and waste waters	343	418
Other income	499	381
TOTAL:	842	799

8. Other operating expense

	2010 LVL thousand	2009 LVL thousand
Payments to local municipality (See Note 28)	891	905
Construction in progress object written off	324	325
Non-current assets written off	285	290
Personnel expenses	267	257
Sponsorship	178	23
Amortization and depreciation	42	50
Loss (wastages) of oil products	34	471
Taxes on oil product wastages above allowable rate	33	450
Other expenses	427	425
TOTAL:	2 481	3 196

9. Personnel expenses

	2010	2009
Average number of employees during the reporting year	633	650

Remuneration for work and social security expense

	2010 LVL thousand	2009 LVL thousand
Remuneration for work	6 586	6 221
Social security contributions	1 584	1 471
Other personnel expense	457	269
<i>Management and the Board</i>		
Remuneration for work	464	867
Social security contributions	112	212
Other personnel expense	-	5
<i>Members of the Council</i>		
Remuneration for work	179	658
Social security contributions	43	157
Other personnel expense	-	2
TOTAL:	9 425	9 862

9. Personnel expenses (cont'd)**Remuneration for work and social security expense (cont'd)**

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

	2010	2009
	LVL thousand	LVL thousand
Cost of sales	7 107	6 605
General and administrative expense	2 051	3 000
Other operating expense	267	257
TOTAL personnel expenses for the reporting year:	9 425	9 862

10. Financial income and (expense)

	2010	2009
	LVL thousand	LVL thousand
Interest income from loans and receivables	1 634	2 711
Interest income from bank account balances and deposits	550	1 345
Foreign currency exchange profit, net	3 951	-
TOTAL financial income:	6 135	4 056

Of which from financial instruments relating to financial instrument categories:

Loans and receivables and cash	6 135	4 056
--------------------------------	-------	-------

	2010	2009
	LVL thousand	LVL thousand
Interest expense	-	-
Foreign currency exchange loss, net	-	(228)
TOTAL financial expense:	-	(228)

11. Corporate income tax

In accordance with Latvian tax legislation current corporate income tax is applied at the rate of 15% (2009: 15%) on taxable income generated by the Parent company and its subsidiaries during the taxation period ending 31 December 2010.

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

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

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

	2010 LVL thousand	2009 LVL thousand
Current corporate income tax	1 464	140
Relating to origination and reversal of temporary differences	7	282
Total corporate income tax for the reporting year:	1 471	422

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

	2010 LVL thousand	2009 LVL thousand
(Loss) before corporate income tax from continuing operations	(28 083)	(21 438)
Income before corporate income tax from discontinued operations	4 286	4 320
Total Loss for the reporting year	(23 797)	(17 118)
<i>Corporate income tax at 15%</i>	(3 570)	(2 568)
The effect of different tax rates and tax rebates within the Group	(1 189)	(1 301)
Permanent differences including the non-taxable income from revaluation of associate	6 639	4 346
Corporate income tax from recognised profit from downstream sales to associated company	(643)	(648)
Change in valuation allowance for deferred tax asset	622	593
Total corporate income tax for the reporting year:	1 471	422

11. Corporate income tax (cont'd)**Deferred corporate income tax:**

	Statement of financial position		Income statement	
	31/12/2010 LVL'000	31/12/2009 LVL'000	2010 LVL'000	2009 LVL'000
Deferred tax liability				
Accelerated depreciation for tax purposes	(11 064)	(10 690)	(374)	55
<i>Gross deferred corporate income tax liability</i>	<i>(11 064)</i>	<i>(10 690)</i>	<i>(374)</i>	<i>55</i>
Deferred tax asset				
Tax losses carried forward	7 951	7 863	88	502
Deferred tax assets related to other temporary differences	142	57	85	(61)
Tax rebate on investment projects above LVL 10 000 thousand ^{a)}	4 166	4 166	-	-
Less valuation allowance for tax asset	(2 790)	(2 984)	(194)	(777)
<i>Gross deferred corporate income tax asset</i>	<i>9 469</i>	<i>9 102</i>	<i>367</i>	<i>(336)</i>
TOTAL net deferred corporate income tax liability	(1 595)	(1 588)	(7)	(281)

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

** As disclosed in Note 15, *LatRosTrans Ltd* management resolved in 2010 to sell a part of the *LatRosTrans Ltd* assets related to the Company's pipeline, i.e., technological reserves. According to the *LatRosTrans Ltd* estimates, this transaction will result in taxable income; therefore, *LatRosTrans Ltd* will be able to utilise the tax losses carried forward fully as well as all of the above mentioned tax rebate unless the litigation process is postponed to as far as till 2013 or 2014 in the most unfavourable case. In this most unfavourable, the tax losses may be utilised partially as well as the tax rebate may or may not be utilised depending on the timing of the asset sales transaction before or after the expiry date of the tax rebate in April 2013. However, the *LatRosTrans Ltd* management believes that the litigation case will not follow the most unfavourable case.

Moreover, *LatRosTrans Ltd* management believes that part of the remaining tax rebate asset can be used to cover the deferred corporate tax liability arising from accelerated depreciation for tax purposes. As management estimates that *LatRosTrans Ltd* will not be able to fully utilize the above mentioned tax rebate before its expiry (April 2013), a valuation allowance of LVL 2 790 thousand (31/12/2009: LVL 2 984 thousand) has been recorded.

In 2010 and 2009, *Ventspils nafta termināls Ltd* applied a 5% corporate income tax rate on management's assumption that *Ventspils nafta termināls Ltd* will benefit from an 80% corporate income tax discount applied to companies operating in accordance with the Law of the Republic of Latvia on Tax Application in Free Ports and Special Economic Zones. As at 31 December 2010, *Ventspils nafta termināls Ltd* had accrued the applicable discounts for direct taxes in the amount of LVL 39 384 thousand (31/12/2009: LVL 38 947 thousand).

11. Corporate income tax (cont'd)**Group's tax losses carried forward expire as follows:**

	Tax loss (LVL'000)	Expiry term
Tax loss for 2003	8 567	2011
Tax loss for 2004	4 627	2012
Tax loss for 2005	3 534	2013
Tax loss for 2006	1 357	2014
Tax loss for 2007	5 017	2015
Tax loss for 2008	4 664	2016
Tax loss for 2009	2 300	2017
Tax loss for 2010	1 736	2018
TOTAL:	31 802	

12. Discontinued operations

At the end of December 2008 *JSC Ventspils nafta* announced the decision of its Supervisory Council to dispose its real estate properties and investment in a number of subsidiaries and on 17 December 2008 a sales agreement was signed between the Parent company, *JSC Latvian Shipping Company* and its subsidiary *LASCO Investment Ltd*.

The following subsidiaries of *JSC Ventspils nafta* were sold:

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

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

The total sales value of the capital shares was LVL 72 447 thousands. The profit from the sale of capital shares was LVL 13 133 thousand of which LVL 6 575 thousand was recognised as a gain from discontinued operations in 2008.

The total sales value of real estate sales was LVL 10 548 thousands. The profit from the sale of real estate was LVL 4 040 thousand of which LVL 2 031 thousand was recognised as unrealised profit in the year 2008.

As the subsidiaries and real estate were sold to an associated company and its subsidiary the unrealised portion of the profit was deferred. See also Note 17.

Information on consideration received for the above sales transaction is disclosed in Note 30.

12. Discontinued operations (cont'd)

Movement of unrealised profit from disposal of discontinued operations and sale of real estate properties.

	2010 LVL thousand	2009 LVL thousand
Balance at the beginning of the year	4 286	8 606
Realised profit from disposal of shares in the year*	(2 255)	(4 320)
Realised profit from disposal of real estate in the year*	(2 031)	-
Balance at the end of the year	-	4 286

*Realised gain from discontinued operations2010

JSC *Latvian Shipping Company* has recognized that it has lost control over its subsidiary *LASCO Investment Ltd* from 17 December 2010 and it is not consolidated as at 31 December 2010. In 2010, due to this JSC *Ventspils nafta* recognized a profit of LVL 675 thousand from sale of the capital shares and a profit of LVL 2 031 thousand from sale of real estate.

In January 2010 shares in *Mediju nams Ltd* owned by the JSC *Latvian Shipping Company* Group were sold. JSC *Ventspils nafta* recognized a profit of LVL 1 580 thousand from this transaction in 2010.

2009

On 18 December 2009, insolvency proceedings of JSC *Preses nams* were announced. JSC *Ventspils nafta* associate company – JSC *Latvian Shipping Company* recognized in its consolidated financial statements for 2009 that it had lost control over JSC *Preses nams* and had performed deconsolidation of investments in this company as at 31 December 2009. Due to this, JSC *Ventspils nafta* recognized a profit of LVL 4 320 thousand in 2009.

13. Intangible assets

	Land use rights*
	LVL'000
Cost:	
At 1 January 2009	49 659
Additions	-
31 December 2009	49 659
Additions	-
31 December 2010	49 659
Amortisation and impairment:	
At 1 January 2009	22 061
Amortisation charge for the year	789
31 December 2009	22 850
Amortisation charge for the year	789
31 December 2010	23 639
Net book value:	
At 31 December 2010	26 020
At 31 December 2009	26 809
At 1 January 2009	27 598
Amortisation rate (straight line method)	2.5-4%

As at 31 December 2010, the remaining amortization period of land use rights is 30 years.

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

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

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

In 2010 and 2009, based on the discounted cash flow projections, no impairment loss for intangible assets was recognised. See Note 15 for impairment assessment.

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

	2010	2009
	LVL thousand	LVL thousand
Cost of sales	789	789

14. Property, plant and equipment

	Land, buildings and pipeline networks	Machinery and equipment	Other property, plant and equipment	Construction in progress *	Total, excluding prepayments for property, plant and equipment
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Cost:					
At 1 January 2009	217 150	86 039	24 445	2 786	330 420
Additions	3	48	620	3 035	3 706
Disposals	(137)	(1 191)	(410)	(581)	(2 319)
Transfers	795	1 069	(118)	(1 746)	-
31 December 2009	217 811	85 965	24 537	3 494	331 807
Additions	7	73	96	6 645	6 821
Disposals	(372)	(399)	(2 620)	(326)	(3 717)
Transfers	1 830	2 363	1 241	(5 434)	-
31 December 2010	219 276	88 002	23 254	4 379	334 911
Depreciation and impairment:					
At 1 January 2009	129 157	43 057	20 681	1 744	194 639
Depreciation charge for the year	3 587	3 781	1 141	-	8 509
Disposals	(117)	(1 139)	(400)	-	(1 656)
31 December 2009	132 627	45 699	21 422	1 744	201 492
Depreciation charge for the year	3 609	3 785	952	-	8 346
Disposals	(187)	(332)	(2 460)	-	(2 979)
31 December 2010	136 049	49 152	19 914	1 744	206 859
Net book value:					
At 31 December 2010	83 227	38 850	3 340	2 635	128 052
At 31 December 2009	85 184	40 266	3 115	1 750	130 315
At 1 January 2009	87 993	42 982	3 764	1 042	135 781
Depreciation rate (straight-line)	1,25% -20%	5%-50%	10%-50%		

As at 31 December 2010 the outstanding property, plant, and equipment balance includes also prepayments for property, plant, and equipment – LVL 211 thousand (31/12/2009: LVL 807 thousand).

*Construction in progress represents unfinished construction related to a new pipeline and support structures (Please see Note 28 Commitments and Contingencies for Commitments for capital expenditure).

See Note 15 for impairment assessment.

The total original cost value of fully depreciated property, plant and equipment still in use as at 31 December 2010 was LVL 75 677 thousand (31/12/2009: LVL 75 588 thousand).

14. Property, plant and equipment (cont'd)

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

	2010 LVL thousand	2009 LVL thousand
Cost of sales	8 140	8 273
General and administrative expense	164	186
Other operating expense	42	50
Total depreciation expenses for the reporting year:	8 346	8 509

15. Impairment of non-current assets

The Company's non-current assets are tested for impairment when indicators of impairment exist. The total net carrying value of the non-current assets of the Company tested for impairment is LVL 80 817 thousand (31/12/2009: LVL 85 671 thousand) and consist of intangible assets (land use rights) and property, plant and equipment.

In 2010 and 2009, no additional impairment loss for non-current assets was recognised.

As at 31 December 2010 no indicators of impairment existed for *Ventspils nafta terminals Ltd* therefore no impairment test was performed for this subsidiary. For *LatRosTrans Ltd* indicators of impairment existed therefore an impairment test was performed as detailed below.

LatRosTrans Ltd

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. In the calculation a twenty-year period is used as the pipeline business has been stable with long historical track. The remaining useful life on the pipelines exceeds 20 years. The management expects stable cash flows over the remaining useful life of the pipelines. The recoverable amount of the other CGU is determined based on the fair value less cost to sell calculation. As of 31 December 2010 the carrying value of the non-current assets of the CGU tested on a value in use basis amounts to LVL 50 503 thousand (31/12/2009: LVL 53 702 thousand) and the corresponding carrying value of the CGU tested based on fair value less cost to sell and value in use amounts to LVL 30 314 thousand (31/12/2009: LVL 31 969 thousand).

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, *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 crude oil, major part of the non-current assets of this CGU might be impaired after the sale.

The following describes major key assumptions 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.

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

16. Impairment of non-current receivables

The net present value of *LASCO Investment Ltd* debt as 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).

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 receivables 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 30b). The market value of the pledged real estate properties is LVL 25 879 thousand as at 31 December 2010.

17. Investments in associated entities

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

Associated entities:	Ownership (%)		Legal address
	31/12/2010	31/12/2009	
<i>JSC Latvian Shipping Company</i>	49.94	49.94	Elizabetes iela 1, LV-1807, Riga, Latvia
<i>Futbola klubs Ventspils Ltd</i>	21.25	21.25	Dzintaru iela 20a, LV-3602, Ventspils, Latvia

17. Investments in associated entities (cont'd)

	Latvian Shipping Company JSC LVL'000	Futbola klubs Ventspils Ltd LVL'000	Mediji un Poligrāfija Ltd (liquidated) LVL'000	Total LVL'000
Cost:				
At 1 January 2009	34 946	170	48	35 164
Disposal of investment	-	-	(48)	(48)
At 31 December 2009	34 946	170	-	35 116
Disposal of investment	-	-	-	-
At 31 December 2010	34 946	170	-	35 116
Impairment:				
At 1 January 2009	-	-	-	-
Impairment	-	170	-	170
At 31 December 2009	-	170	-	170
Impairment	-	-	-	-
At 31 December 2010	-	170	-	170
Proportional share of profit:				
At 1 January 2009	106 251	-	-	106 251
Loss for a year	(22 777)	-	-	(22 777)
Realised profit from disposal of discontinued operations*	4 320	-	-	4 320
At 31 December 2009	87 794	-	-	87 794
Loss for a year	(37 716)	-	-	(37 716)
Realised profit from disposal of discontinued operations*	4 286	-	-	4 286
As at 31 December 2010	54 364	-	-	54 364
Foreign currency translation:				
As at 1 January 2009	(14 615)	-	-	(14 615)
Change for a year	(414)	-	-	(414)
At 31 December 2009	(15 029)	-	-	(15 029)
Change for a year	8 945	-	-	8 945
At 31 December 2010	(6 084)	-	-	(6 084)
Cash flow hedge reserve:				
At 1 January 2009	(1 181)	-	-	(1 181)
Change for a year	242	-	-	242
At 31 December 2009	(939)	-	-	(939)
Change for a year	(185)	-	-	(185)
At 31 December 2010	(1 124)	-	-	(1 124)
Net carrying value:				
At 1 January 2009	125 401	170	48	125 619
At 31 December 2009	106 772	-	-	106 772
At 31 December 2010	82 102	-	-	82 102

* See also Note 12.

17. Investments in associated entities (cont' d)

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

	31/12/2010	Change (2010)	31/12/2009
	LVL'000	LVL'000	LVL'000
Changes in foreign currency translation resulting from investment in associate	(3 812)	11 207	(15 019)
Changes Cash flow hedge reserve from investment in associate	(1 124)	(185)	(939)
Total reserves resulting from investment in associate:	(4 936)	11 022	(15 958)

The functional currency of *JSC Latvian Shipping Company* is US dollar.

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 consolidated financial statements. *JSC Latvian Shipping Company* financial performance indicators (representing 100%) for the year 2010 and 2009 are as follows:

- unaudited net loss attributable to equity holders of the parent for 2010 was USD 142 494 thousand, equivalent to LVL 78 351 thousand (audited net loss attributable to equity holders of the parent for 2009 was USD 90 259 thousand, equivalent to LVL 45 607 thousand);
- unaudited total revenues for 2010 were USD 111 160 thousand, equivalent to LVL 58 840 thousand (2009 (audited): USD 215 268 thousand, equivalent to LVL 108 772 thousand);
- unaudited total equity attributable to equity holders of the parent as at 31 December 2010 was USD 307 295 thousand, equivalent to LVL 165 316 thousand (31/12/2009 (audited): USD 454 772 thousand, equivalent to LVL 222 384 thousand);
- unaudited total assets as at 31 December 2010 were USD 680 469 thousand, equivalent to LVL 363 728 thousand (31/12/2009 (audited): USD 964 414 thousand, equivalent to LVL 471 598 thousand) and unaudited total liabilities were USD 367 292 thousand, equivalent to LVL 196 502 thousand (31/12/2009 (audited): USD 509 642 thousand, equivalent to LVL 249 214 thousand).

The share price in Riga Stock Exchange at the end of the year was LVL 0.379 per share (31/12/2009: 0.40 per share).

The management of *JSC Ventspils nafta* has assessed the value of investment in associated entity *JSC Latvian Shipping Company* for impairment and concluded that the value in use is higher than the carrying amount of the investments as at 31 December 2010. 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).

Consolidation

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.

Therefore, the interest in the share capital of *JSC Latvian Shipping Company* is accounted for *JSC Ventspils nafta* by the equity method.

18. Loan note

Pursuant to the decision of the *JSC Ventspils nafta* Council dated 26 October 2006, an Option agreement on sale of 49% of shares in the subsidiary *Ventspils nafta termināls Ltd* has been concluded with *Euromin Holdings (Cyprus) Limited* (a subsidiary of *Vitol SA*). The other party had the right to call the shares over one year period at the exercise price which is based on fair value of shares. The option has been exercised in March 2007 when a share sale agreement was signed after the necessary permit was obtained from the Latvian Competition Council. The change of shareholders in the subsidiary has been registered on 15 March 2007. The Group has received a loan note from *Euromin Holdings (Cyprus) Limited* in the amount of USD 90 million (LVL 47 880 thousand) bearing interest rate of LIBOR + 1% or 9.99% (whichever is lower).

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, namely, 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.

The loan note at the end of the reporting year was Euro 67 955 thousand (LVL 47 759 thousand), 31/12/2009: USD 90 million (LVL 44 010 thousand). As at 31 December 2010 and 31 December 2009 the loan note balance was neither due nor impaired.

19. Inventories

	31/12/2010 LVL thousand	31/12/2009 LVL thousand
Materials:		
Materials, spare parts and low value items	636	700
Allowance for obsolete materials	(107)	(110)
<i>TOTAL materials, net:</i>	<u>529</u>	<u>590</u>
Crude oil and oil products	1 277	1 455
Prepayments for materials	2	5
TOTAL:	<u>1 808</u>	<u>2 050</u>

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

There are no inventories carried at net realizable value as at 31 December 2010 and 2009. The amount of inventories recognized as an expense is disclosed in Note 5.

20. Trade accounts receivable

	31/12/2010 LVL thousand	31/12/2009 LVL thousand
For transporting of oil and oil products	62	28
Doubtful debts	2	2
Allowance for doubtful debts	(2)	(2)
TOTAL:	<u>62</u>	<u>28</u>

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

	Individually impaired LVL'000
As at 1 January 2009	<u>26</u>
Charge for the year	2
Allowance for doubtful debts of sold subsidiaries	(26)
As at 31 December 2009	<u>2</u>
Charge for the year	-
As at 31 December 2010	<u>2</u>

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

20. Trade accounts receivable (cont'd)

As at 31 December 2010 and 2009, the ageing analysis of trade receivables is as follows:

	Total LVL'000	Neither past due nor impaired	Past due				
			up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days
31/12/2009	28	28	-	-	-	-	-
31/12/2010	62	62	-	-	-	-	-

21. Other receivables and short term deposits

	31/12/2010 LVL thousand	31/12/2009 LVL thousand
21. (a) Other receivables:		
Value added tax receivable	685	663
Prepaid oil storage expenses	532	-
Prepaid oil pipeline conservation expenses	448	-
Other prepaid expense	228	147
Accrued income	165	132
Prepaid insurance expense	129	199
Corporate income tax receivable	-	651
Other current assets	498	92
TOTAL:	2 685	1 884

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

21. (b) Short term deposits:

	31/12/2010 LVL'000	31/12/2009 LVL'000
Short-term deposits	20 908	8 229
TOTAL:	20 908	8 229

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

22. Cash and cash equivalents

	31/12/2010	31/12/2009
	LVL thousand	LVL thousand
Term deposits ^{a)}	12 677	8 266
Current bank accounts	1 435	7 852
Accumulated interest on term deposits	42	47
Cash on hand	1	2
TOTAL:	14 155	16 167

a) Term deposits are placed in banks for periods ranging from one week to three months depending on the immediate cash requirements of the Company and earn interest at the respective period deposit rates.

23. Share capital, earnings per share, reserves and non-controlling interests**Share capital**

The following table represents the distribution between bearer shares and registered shares:

	Registered shares LVL	Bearer shares LVL	Total LVL
31 December 2009	43 881 398	60 598 121	104 479 519
31 December 2010	43 881 398	60 598 121	104 479 519

Information on shareholders' equity participation is summarized shortly before shareholders' general meeting. 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.

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

Earnings per share and dividends

Basic and diluted earnings per share attributable to the Parent company shareholders are calculated by dividing the net loss for the year of LVL 33 742 thousand from continuing operations and profit of LVL 4 286 thousand from discontinued operations) (for 2009: net loss of LVL 22 990 thousand from continuing and profit of LVL 4 320 thousand from discontinued operations) by weighted average number of shares during the year of 104 479 thousand (2009: 104 479 thousand). During 2009 *JSC Ventspils nafta* declared and paid out dividends of 50 150 thousands LVL (0.48 LVL per share).

Reserves

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of associates for which functional currency is other than lats. Please see also Note 17.

The cash flow hedge reserve records the effective portion of the gain or loss on hedging instruments in cash flow hedges of associate. The loss on cash flow hedges recognized in equity stands for a negative value of interest swaps acquired by associate in 2008. No additional hedges acquired in 2009 and 2010. Please see also Note 17.

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

According to the Articles of Association net result after restricted reserves and dividends is allocated to Other reserves.

23. Share capital, earnings per share, reserves and non-controlling interests (cont' d)**Non-controlling interests**

As at 31 December 2010 non-controlling interests are represented by:

- 34% non-controlling interest in *LatRosTrans Ltd* capital shares, and
- 49% non-controlling interest in *Ventspils nafta termināls Ltd* capital shares.

The Income statement non-controlling interest of LVL 4 188 thousand represents net result attributable to non-controlling shareholders on year 2010 net result.

	2010 LVL thousand	2009 LVL thousand
Attributable to <i>Ventspils nafta termināls Ltd</i> non-controlling interest holders	4 738	3 214
Attributable to <i>LatRosTrans Ltd</i> non-controlling interest holders	(550)	(2 084)
TOTAL:	4 188	1 130

The Statement of financial position represents attributable equity share to the non-controlling holders as at the end of the reporting year.

	2010 LVL thousand	2009 LVL thousand
At the beginning of the reporting period	73 959	73 466
Dividends paid to non-controlling interest holders	(3 185)	(637)
Profit or loss charge for the reporting year	4 188	1 130
At the end of the reporting period, TOTAL:	74 962	73 959

24. Taxes payable

	31/12/2010 LVL thousand	31/12/2009 LVL thousand
Social security contributions	230	120
Personal income tax	164	107
Real estate tax	28	-
Value added tax	10	-
Natural resources tax	8	7
TOTAL:	440	234

25. Other liabilities

	31/12/2010 LVL thousand	31/12/2009 LVL thousand
Remuneration for work	1 061	1 027
Accrued vacation pay reserve	213	170
Accrued VAT and excise tax for oil product wastages above allowable rate	33	450
Other and accrued liabilities	832	285
TOTAL:	2 139	1 932

26. Provisions

	31/12/2010 LVL thousand	31/12/2009 LVL thousand
Restructuring expense	680	246
Environmental pollution elimination	152	173
TOTAL:	832	419

Restructuring expense

The provision on restructuring expense relates to restructuring provision of the subsidiary *Ventspils nafta termināls Ltd*. The restructuring plan of *Ventspils nafta termināls Ltd* was drawn up and announced to the employees of the subsidiary. The restructuring is expected to be completed in 2011. Restructuring provision has been recorded relating to optimizing activities of the terminal.

Environmental pollution elimination

Environmental pollution elimination relates to cleaning works for leakages of oil products from *LatRosTrans Ltd* pipeline. The provision is charged in the period when leakages are detected.

Movements in the provisions were as follows:

	Restructuring expenses LVL thousand	Environmental pollution elimination LVL thousand	Total LVL thousand
As at 1 January 2009	339	173	512
Charge for the year	31	-	31
Utilised	(124)	-	(124)
As at 31 December 2009	246	173	419
Charge for the year	658	68	726
Utilised	(224)	(89)	(313)
As at 31 December 2010	680	152	832

27. Deferred income

	31/12/2010 LVL thousand	31/12/2009 LVL thousand
Non-current portion of deferred income	1 737	383
Current portion of deferred income	106	43
Total	1 843	426

Deferred income represents compensation and ERDF funding for implementation of complex for treatment of gasoline with butane. In the statement of income statement, the Company's incomes are considered proportional to the estimated amount of depreciation of fixed assets within 50 years after the launch of the gasoline treatment complex. 50 years – is estimated useful life of the butanisation complex.

In 2010 a subsidiary *Ventspils Nafta Termināls Ltd* received ERDF funding in amount of LVL 985 thousand (2009: 0 LVL). During 2010 ERDF funding in amount of LVL 22 thousand was recognised as income (2009: 0 LVL) in the „Other operating income” caption. The carrying value of ERDF funding amounted to LVL 963 thousand as at 31 December 2010 (31 December 2009: 0 LVL)

There are no unfulfilled conditions or contingencies attached to this funding.

28. Commitments and Contingent liabilities***Wastages of oil products****LatRosTrans Ltd*

According to the statutory laws and regulations, the norm of allowable transportation wastages of oil products is fixed at 0.20% of the total volume transported. In 2010 and 2009, the Company's actual wastages did not exceed this allowable norm.

In 2010, due to transportation losses of oil products the value of Company's technological reserve of oil products has been reduced by LVL 34 thousand (2009: LVL 471 thousand) and related expenses recognized in other operating expenses.

Environmental commitments*LatRosTrans Ltd*

In order to implement the declared environment and quality policy goals, in 2010 *LatRosTrans Ltd* continued to fulfill the tasks included in the environment management program – maintenance of safety level of technological processes, improvement of the functioning environment monitoring system, utilization of hazardous waste and decrease of emergency risk.

On the basis of Regulations No.804 and No.118 issued by the Cabinet of Ministers of the Republic of Latvia, the requirements regarding performance of recovery works have increased during the last years. Requirements are stricter with respect to the degree of soil pollution with oil products as a result of leaked oil products due to unauthorized connections to main pipelines of oil products.

Decisions on closing the renewed recovery objects were made based on directions of acts issued by the Regional Environment Administration of the State Environmental Service, as well as data of testing reviews of the polluted soil samples, and testing reviews of over-ground and underground water samples.

LatRosTrans Ltd has developed and submitted to the State Environmental Service a notification on the dangerous substances at LRDS (Line Production Dispatcher Station) “Ilūkste”, as well as the inventory data base of chemical substances at LRDS “Ilūkste”, NPS (Oil Pumping Station) “Džūkste” and NPS “Skrudaliena” has been updated. Its data serves as the basis to assess risks of working environment.

Taking into account the requirements of the Regulations No.532 “On Procedures for Industrial Accident Risk Assessment and Risk Reduction” issued by the Cabinet of Ministers of the Republic of Latvia and the directions in the inspection reports of the State Revenue Service, work was continued on updating the safety report of *LatRosTrans Ltd* LRDS “Ilūkste”.

Taking into account the requirements of laws and regulations of the Republic of Latvia, in 2009 *LatRosTrans Ltd* developed and submitted for reviewing to the Regional Environment Administration of the State Environmental Service a project on emission limits of stationary pollution sources of LRDS “Ilūkste” and an application to receive permit for B category polluting activity that was received in 2010 with an indefinite due date. The aim of the developed and approved annual environment management system of *LatRosTrans Ltd* is to ensure maintenance and restoration of environmental quality, as well as sustainable usage of natural resources, and reduction of emergency risk at the environmental objects of *LatRosTrans Ltd*.

28. Commitments and Contingent liabilities (cont'd)

Ventspils nafta termināls Ltd

Ventspils nafta termināls Ltd (previously *JSC Ventspils nafta*) has been reloading crude oil and oil products for more than 40 years. During this time, a certain amount of leaked oil products has accumulated in the soil. In the last decade, the Company has implemented new technologies to reduce and control the pollution level in the soil and ground waters, as well as performed all required monitoring and treatment operations which resulted in reducing the historical pollution.

In 2007, the Company developed the action plan for 2007 – 2011 for soil and groundwater monitoring and further reduction of the historical pollution. The plan was approved by the Ventspils Regional Environmental Board of the State Environment Service of the Republic of Latvia. Based on the Company's estimates, the implementation of this plan will require LVL 2 million. Over four years, the Company had spent LVL 1 298 thousand for soil and groundwater monitoring and for reduction of the historical pollution. Future expenses related to the complete environmental recovery cannot be estimated, as these are dependent on the intensity of the Company's operations, effectiveness of the environmental recovery measures taken, as well as potential changes in laws. There are no provisions for this as at 31 December 2010 and 31 December 2009.

Commitments for capital expenditure

As at 31 December 2010 and 2009 the Group has no significant capital commitments.

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

Payments to local authorities

Ventspils nafta termināls Ltd

Under the agreement signed between *Ventspils nafta termināls Ltd* and the Ventspils City Council, every year *Ventspils nafta termināls Ltd* has to pay to the Ventspils City Council for transportation of crude oil and oil products through the Ventspils city territory a fixed amount of LVL 700 thousand plus a variable amount not exceeding 1% of the Company's net turnover for development of the social infrastructure in Ventspils. In 2007, the agreement with the Ventspils City Council was renewed for the period till 2032. Starting with 2007 and in the coming years the fixed portion of the payment will be adjusted for the Harmonised Consumer Price Index (HICP) published by the EU statistics office. In 2010, HICP was 0.3% (2009: 0.3%).

Assuming that the variable amount will remain on the 2010 level and the HICP determined by the EU statistics office will be 0.3% each year, the Company has estimated the total amount of contingency payable to the Ventspils City Council, the fair value of which as at 31 December 2010 was LVL 21 million (2009: LVL 21 million).

Minimum technological reserve

LatRosTrans Ltd

The Company has calculated that the technological reserve of oil products necessary for the oil product transport network amount to 90 200 tons (as at December 31, 2009: 87 400 tons). Taking into account the oil product losses, 9 937 tons of oil products were at disposal of the Company as at December 31, 2010 (as at December 31, 2009: 10 359 tons). Therefore, products owned by the Company's customers are currently used for the needs of technological reserves of oil products.

The approximate cost of restoring the minimum reserve of oil products used as the technological reserve for the oil product transportation network entirely on the own resources as at 31 December 2010 is estimated in the amount of LVL 32 206 thousand (31/12/2009: LVL 24 130 thousand), based on the average market price.

Land use rights

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

28. Commitments and Contingent liabilities (cont'd)**Legal claims**

JSC *Ventbunkers* had made a claim against *Ventspils nafta termināls Ltd*, seeking to resume possession of jetties No. 2 and No. 3 and hand them over to JSC *Ventbunkers* (the claim amount - LVL 281 758), cancel the sub-lease agreement and declare it void (the claim amount - LVL 160 680) and to collect damages in the amount of LVL 29 417. On 27 March 2008, the Judicial for Civil Cases of the Kurzeme Regional Court rejected the claim filed by JSC *Ventbunkers*.

On October 22, 2009, the Chamber of Civil Cases of the Supreme Court of the Republic of Latvia passed a judgment to partially satisfy the claim of JSC *Ventbunkers* against *Ventspils nafta termināls Ltd* and to declare the jetty sub-lease agreement, concluded on May 15, 2006 between JSC *Ventbunkers* and *Ventspils nafta termināls Ltd*, void from the moment of signing thereof. To reject the part of the claim of JSC *Ventbunkers* on preventing disturbance of possession, recognising and resuming possession, collecting of damages and cancelling of the jetty sub-lease agreement concluded on May 15, 2006. On December 18, 2009, *Ventspils nafta termināls Ltd* has filed an appeal to the Department of Civil Cases of the Supreme Court of the Republic of Latvia, indicating the misapplication of substantive law standards and violation of procedural norms by the appellate instance court. There are accruals for sub-lease of piers established in the amount of LVL 354 thousand at 31 December 2010 (2009: LVL 80 thousand). These accruals are carried on the statement of financial position as Other Liabilities.

29. Off balance sheet assetsTechnological oil stocks

For technological needs of the oil transportation process, 110 thousand tons of oil is kept in *LatRosTrans Ltd* oil pipelines (36 thousand tons in the pipeline Polotsk – Mažeikiai and 74 thousand tons in the pipeline Polotsk – Ventspils) as well as 40 thousand tons are stored at the premises of *Ventspils nafta termināls Ltd*. This oil amount is not accounted for by the Company.

In December, 2010, the Belarus company *Polocktransneft Družba* has claimed ownership of the technological oil that currently is situated in Latvia. The ownership rights are claimed in the court of Daugavpils and the litigation process is in progress. The Management of the *LatRosTrans* strongly believes that the Belarus Company *Polocktransneft Družba* will be unsuccessful in its claim. The oil in the pipelines is currently under arrest and any activities regarding the oil will be possible only after the appropriate court ruling is issued. *LatRosTrans* has incurred extra expenses in this respect that according to the Management plans will be recovered when the oil is sold.

30. Related party transactions and other non-current receivables**30 (a) Related party transactions:**

The parties are considered related when one party has the possibility to control the other one or has significant influence over the other party in making financial and operating decisions.

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

Terms and conditions of transactions with related parties

For terms and conditions for Loan note from *Euromin Holdings' (Cyprus) Limited* see Note 18. For terms and conditions for the sale of investment properties, real estate and capital shares to JSC *Latvian Shipping Company* and *LASCO Investment Ltd (until 17 December 2010, see below)* see Note 2.3. Other receivable/ payable balances are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables and payables.

JSC *Latvian Shipping Company* lost control over the *LASCO Investment Ltd* 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 receivables in 2010 (See Note 30b). In 2010, the JSC *Ventspils nafta* has not made an allowance for related parties (2009: nil).

30. Related party transactions and other non-current receivables (cont'd)**30 (a) Related party transactions (cont'd):**

The related party transactions performed by the Group during the reporting year can be seen in the table below (LVL' 000):

2010		Income from related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Related party	Nature of services	LVL'000	LVL'000	LVL'000	LVL'000
Euromin Holdings' (Cyprus) Ltd**	Interest income	679	-	47 759	-
Ventspils Tank Services SA*	Reloading services/ transportation of oil products	52 903	-	877	-
Ventspils Tank Services SA*	Storage of oil	-	532	-	-
LASCO Investment Ltd***	Sale of non-current assets	955	-	-	-
LASCO Investment Ltd***	Real estate maintenance	1	3	-	-
LASCO Housing services Ltd	Utility services	1	171	-	-
Vitol S.A Ltd	Supply of goods	-	18	-	-
Total		54 539	724	48 636	-

*** Until 17 December 2010 (See Note 16, 30b)

2009		Income from related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Related party	Nature of services	LVL'000	LVL'000	LVL'000	LVL'000
Euromin Holdings' (Cyprus) Ltd**	Interest income	881	-	44 010	-
Ventspils Tank Services SA*	Reloading services/ transportation of oil products	66 089	-	2 608	-
LASCO Investment Ltd	Sale of non-current assets	1 813	35	27 940	1
LASCO Investment Ltd	Real estate maintenance	5	3	2	-
LASCO Housing services Ltd	Utility services	12	262	-	26
Vitol S.A Ltd	Sale of oil	689	94	-	-
Total		69 489	394	74 560	27

30. Related party transactions and other non-current receivables (cont'd)**30 (a) Related party transactions (cont'd):**

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

** Loans and receivables were neither past due nor impaired as at 31 December 2010 and 31 December 2009.

30 (b) Other non-current receivables:***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 16.

On 17 December 2008, the Company signed a share sales agreement with *LASCO Investment Ltd*, the subsidiary of *JSC Latvian Shipping Company*, 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*. Current carrying value is the net present value in today's market (See also Note 16). The market value will increase as the economic situation improves.

31. Financial instruments and financial risk management

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

31/12/2010

	Loans and receivables measured at amortised cost LVL'000	Financial liabilities measured at amortized cost LVL'000	Total LVL'000
Financial assets			
Non-current portion of loan	47 759	-	47 759
Other non – current financial assets	251	-	251
Other non-current receivables	25 659	-	25 659
Trade accounts receivables	62	-	62
Current proportion of receivables from related companies	877	-	877
Short term deposits	20 908	-	20 908
Cash and cash equivalents	14 155	-	14 155
Total financial assets:	109 671	-	109 671
Trade accounts payable	-	1 395	1 395
Payables to related companies	-	-	-
Other liabilities	-	865	865
Total financial liabilities:	-	2 260	2 260

31/12/2009

	Loans and receivables measured at amortised cost LVL'000	Financial liabilities measured at amortized cost LVL'000	Total LVL'000
Financial assets			
Non-current portion of loan	44 010	-	44 010
Other non – current financial assets	282	-	282
Trade accounts receivables	28	-	28
Current proportion of receivables from related companies	30 550	-	30 550
Short term deposits	8 229	-	8 229
Cash and cash equivalents	16 167	-	16 167
Total financial assets:	99 266	-	99 266
Trade accounts payable	-	1 866	1 866
Payables to related companies	-	27	27
Other liabilities	-	735	735
Total financial liabilities:	-	2 628	2 628

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

31. Financial instruments and financial risk management (cont'd)**Credit risk**

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

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

As at 31 December 2010 the Group has credit risk concentration to single customer, related party amounting to 99% (31/12/2009: 99%).

As at 31 December 2010 the subsidiary *Ventspils nafta termināls Ltd* credit risk concentration to single customer amounted to 91% of the total trade receivables (31/12/2009: 99%). As of 31 December 2010 the subsidiary's *LatRosTrans Ltd* credit risk concentration to a single customer amounted to 100% (31/12/2009: 100%) of the total trade receivables.

Maximum exposure to credit risk from financial assets as at 31 December 2010 for the Group amounted to LVL 109 671 thousand (31/12/2009: LVL 99 266 thousand), out of which LVL 73 669 thousand (31/12/2009: LVL 44 292 thousand) is receivable more than after one year.

Foreign currency risk

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

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

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

The Group's currency risk in U.S. dollars and euros as at 31 December 2010 and 2009 may be specified as follows:

	31/12/2010	31/12/2009
Financial assets denominated in EUR'000	154 433	75 626
Financial liabilities denominated in EUR'000	(422)	(244)
Net balance sheet position in EUR'000	154 011	75 382
Net balance sheet position in LVL'000	108 240	52 979
Financial assets denominated in USD'000	672	93 580
Financial liabilities denominated in USD'000	-	(23)
Net balance sheet position in USD'000	672	93 557
Net balance sheet position in LVL'000	359	45 750

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 also ensures that the market rate does not differ from the official rate by more than 1%. Therefore, the Group's future profit or loss due to fluctuations of the euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

31. Financial instruments and financial risk management (cont'd)**Foreign currency risk (cont'd)**

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in US Dollar rate	Effect on profit before tax (LVL thousand)
2010	+5%	18
	-5%	(18)
2009	+5%	2 288
	-5%	(2 288)

Interest rate risk

The Group is exposed to the interest rate risk mainly through its issued loans.

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

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	2010		2009	
	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)
Euro - LIBOR	+0.20%	766	+0.15%	41
	-	-	-	-
US dollar - LIBOR	-	-	+0.25%	110
	-	-	-	-

31. Financial instruments and financial risk management (cont'd)**Liquidity risk**

The Group manages its liquidity risk by planning terms of payments and receivables by analyzing future cash flows. The budgeting system which is being successfully applied by the Group is of great use for liquidity risk management and control.

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments.

Year ended 31 December 2010

LVL'000	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Trade accounts payable	1 395	-	-	-	-	1 395
Payables to related companies	-	-	-	-	-	-
Other financial liabilities at amortized cost	865	-	-	-	-	865
TOTAL:	2 260	-	-	-	-	2 260

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted payments.

Year ended 31 December 2009

LVL'000	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Trade accounts payable	1 866	-	-	-	-	1 866
Payables to related companies	27	-	-	-	-	27
Other financial liabilities at amortized cost	734	-	-	1	-	735
TOTAL:	2 627	-	-	1	-	2 628

Fair value

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

LVL'000	Carrying amount		Fair value	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Financial assets	109 671	99 266	109 671	99 266
Cash	14 155	16 167	14 155	16 167
Short term deposits	20 908	8 229	20 908	8 229
Loan note (loans and receivables)	47 759	44 010	47 759	44 010
Non – current proportion of receivables	25 659	-	25 659	-
Current proportion of receivables from related companies	877	30 550	877	30 550
Trade accounts receivable	62	28	62	28
Other non – current financial assets	251	282	251	282
			-	
Financial liabilities	2 260	2 628	2 260	2 628
Other financial liabilities at amortized cost	2 260	2 628	2 260	2 628

The fair value of loan notes, other financial assets and other non-current receivables have been calculated using market interest rates.

31. Financial instruments and financial risk management (cont'd)**Capital management**

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions in Latvia and the European Union, the capital market trends and interest rate fluctuations. The Group's capital management objectives, policies and procedures have not been changed in 2009 and 2010.

The Group manages its capital structure by using the gearing ratio of net debt against total capital. Total capital is the sum of net debt and equity. Net debt is calculated as the sum of interest-bearing loans and other non-current liabilities less cash and cash equivalents. Equity includes share capital with share premium, reserves and retained earnings or accumulated deficit. The Group's policy is to maintain the gearing ratio not exceeding 25% in medium term.

	31/12/2010	31/12/2009
Trade and other payables, LVL'000	2 260	2 628
Less cash and cash equivalents, LVL'000	(35 063)	(24 396)
Net debt	-	-
Equity, LVL'000	266 631	287 332
Total capital, LVL'000	266 631	287 332
GEARING RATIO:	-	-

32. Subsequent events

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 below.

Lasco Investment Ltd

After the end of the reporting period, on January 3, 2011, insolvency of *LASCO Investment Ltd* was announced by the Vidzeme Suburb Court. *LASCO Investment Ltd* owes LVL 28 629 thousand to JSC *Ventspils nafta* as at 31 December of 2010. The net present value of *LASCO Investment Ltd* debt as at 31 December 2010 is LVL 25 659 thousand.

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*.

Recovery of the debt is related to the value of the mortgaged real properties and pledged shares of companies holding them, which is affected by economic conditions not under control of JSC *Ventspils nafta*.

LatRosTrans Ltd

In December 2010, the Belarus company JSC *Polotsktransneft Druzhba* filed a claim with the Daugavpils Court for the acknowledgment of its ownership right to technological crude oil contained in the crude oil pipelines owned by the *Latrostrans Ltd* on the territory of the Republic of Latvia, and this litigation will continue also in 2011. The Management of the Company believes that the claim by the JSC *Polotsktransneft Druzhba* is unlikely to be satisfied. In this connection, the Company bears additional costs, which the management plans to recover during 2011.

32. Subsequent events (cont'd)

JSC Latvian Shipping Company

Disposals of assets:

In accordance with amendment to the agreement dated 4 December 2009 with Hyundai Mipo Dockyard Co., Ltd. two of ordered four ice-classed tankers were converted to two gas carriers. In March 2011 the *JSC Latvian Shipping Company* Group sold contract obligations of two gas carriers.

JSC Latvian Shipping Company acquired 747 088 shares (0.72%) of *JSC Ventspils nafta* in September 2010, out of which 50 000 shares were subsequently sold in October 2010, remaining shares were sold in January 2011.

Corporate governance report

Introduction

This Corporate Governance Report of the joint stock company “Ventspils nafta” covers both 2009 and 2010 (hereinafter – the Report) and is prepared on the basis of requirements of the Financial Instruments Market Law 56.², Paragraph 15.14 of NASDAQ OMX Riga Rules “On Listing and Trading of Financial Instruments on the Markets Regulated by the Exchange” and “Corporate Governance Principles and Recommendations on their Implementation” issued by NASDAQ OMX Riga, are available at the website www.nasdaqomxbaltic.com in the section’s “Exchange information” subsection “Rules and regulations”. The Report is prepared by the Management Board of JSC “Ventspils nafta” (hereinafter – Ventspils nafta) and considered by the Supervisory Council of Ventspils nafta.

The Report takes into consideration the “comply or explain” principle recommended in “Corporate Governance Principles and Recommendations on their Implementation” issued by NASDAQ OMX Riga.

However, considering that in January 20, 2010 a new Supervisory Board of Ventspils nafta was elected and during 2010 substantial changes were made in the composition of the Management Board, the Report does not fully cover 2009 as the current Management Board does not know the reasons for non compliance with several corporate governance principles in 2009.

In 2010, Ventspils nafta complied with the majority of corporate governance principles contained in “Corporate Governance Principles and Recommendations on their Implementation” issued by NASDAQ OMX Riga. Principles that Ventspils nafta did not take into compliance in 2010 are included in this report with explanations for non compliance or adequate implementation.

The Report is submitted to JSC “NASDAQ OMX Riga” together with Ventspils nafta audited consolidated financial statement of 2010, published at the official web site of Ventspils nafta www.vnafta.lv, in the section *Investors* in Latvian and English.

Riga, 27 April 2011

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

Corporate governance report (cont'd)

I. Principles of good corporate governance implemented by JSC "Ventspils Nafta" in 2010

A. Shareholders meeting

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

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

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

- 1.1. It shall be important to ensure that all the holders of shares of one category have also equal rights, including the right to receive a share of the Issuer's profit as dividends or in another way in proportion to the number of the shares owned by them if such right is stipulated for the shares owned by them.

According to the Articles of Association, Ventspils nafta has issued bearer and registered shares that are of one category and all entitle shareholders to receive dividends, liquidation quotas and right to vote at shareholders' meetings. Bearer shares are currently included in the NASDAQ OMX Riga Official list. Ventspils nafta has in total issued 104,479,519 shares, which include 60,598,121 bearer shares and – 43,881,398 registered shares. Therefore, Ventspils nafta complied with this best practice provision.

- 1.2. The Issuer shall prepare a policy for the profit distribution. In the preparation of the policy, it is recommended to take into account not only the provision of immediate benefit for the Issuer's shareholders by paying dividends to them but also the expediency of profit reinvesting, which would increase the value of the Issuer in future. It is recommended to discuss the policy of profit distribution at a shareholders' meeting thus ensuring that as possibly larger a number of shareholders have the possibility to acquaint themselves with it and to express their opinion on it. In the Report, the Issuer shall specify where the Issuer's profit distribution policy is available.

At the moment, Ventspils nafta has not developed a profit distribution policy. According to the Commercial Law the shareholders' meeting shall resolve on profit distribution. Taking into consideration the fact that the Management Board and the Supervisory Council of Ventspils nafta have not received proposals from its shareholders relating to profit distribution policy, administrative bodies of Ventspils nafta have not made a decision about development of a profit distribution policy. However, Ventspils nafta has paid dividends of LVL 0.48 per share to its shareholders at the end of 2009. Therefore, Ventspils nafta partly comply with this best practice provision.

- 1.3. In order to protect the Issuer's shareholders' interest to a sufficient extent, not only the Issuers but also any other persons who in compliance with the procedure stipulated in legislative acts call, announce and organize a shareholders' meeting are asked to comply with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information.

In 2010 only the Management Board convoked shareholders meetings and complied with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information. Therefore, Ventspils nafta complied with this best practice provision.

- 1.4. Shareholders of the Issuers shall be provided with the possibility to receive in due time and regularly all the required information on the relevant Issuer, participate at meetings and vote on agenda issues. The Issuers shall carry out all the possible activities to achieve that as many as possible shareholders participate at meetings; therefore, the time and place of a meeting should not restrict the attendance of a meeting by shareholders. Therefore, it should not be admissible to change the time and place of an announced shareholders' meeting shortly before the meeting, which thus would hinder or even make it impossible for shareholders to attend the meeting.

In 2009 Ventspils nafta only partly ensured compliance with this principle. The place of the several shareholders meeting ("Lejastiezumi", Renda civil parish, Kuldīga region) perhaps restricted the attendance of a meeting by shareholders. Therefore in 2009, Ventspils nafta did not comply with this best practice provision.

Corporate governance report (cont'd)

In 2010 Ventspils nafta did not disclose audited annual reports 2009 in due time because its associated company joint stock company „Latvian Shipping Company” did not prepare and approve its audited annual report 2009 in due time set out in the law and this report contained significant information requires for the preparation of Ventspils nafta annual report for 2009. Because of this lack of significant information joint stock company “Ventspils nafta” was not able to prepare its audited annual reports in due time.

In 2010 all the shareholders meetings of Ventspils nafta were held in at hotel “Hotel de Rome” located at Kaļķu iela 28, Riga and convenient for the shareholders. The time and place of the meeting was not changed.

Therefore in 2010, Ventspils nafta complied with this best practice provision.

- 1.5. The Issuers shall inform their shareholders on calling a shareholders' meeting by publishing a notice in compliance with the procedure and the time limits set forth in legislative acts. The Issuers are asked to announce the shareholders' meeting as soon as the decision on calling the shareholders' meeting has been taken; in particular, this condition applies to extraordinary shareholders' meetings. The information on calling a shareholders' meeting shall be published also on the Issuer's website on the Internet, where it should be published also at least in one foreign language. It is recommended to use the English language as the said other language so that the website could be used also by foreign investors. When publishing information on calling a shareholders' meeting, also the initiator of calling the meeting shall be specified.

In 2010 Ventspils nafta complied with this best practice provision.

- 1.6. The Issuer shall ensure that comprehensive information on the course and time of the meeting, the voting on decisions to be adopted, as well as the agenda and draft decisions on which it is planned to vote at the meeting is available in due time to the shareholders. The Issuers shall also inform the shareholders whom they can address to receive answers to any questions on the shareholders' meeting and the agenda issues and ensure that the required additional information is provided to the shareholders.

See comment on Clause 1.4. In 2010 Ventspils nafta complied with this best practice provision.

- 1.7. The Issuer shall ensure that at least 14 (fourteen) days prior to the meeting the shareholders have the possibility to acquaint themselves with the draft decisions on the issues to be dealt with at the meeting, including those that have been submitted additionally already after the announcement on calling the meeting. The Issuer shall ensure the possibility to read a complete text of draft decisions, especially if they apply to voting on amendments to the Issuer's statutes, election of the Issuer's officials, determination of their remuneration, division of the Issuer's profit and other issues.

See comment on Clause 1.4. In 2010 Ventspils nafta complied with this best practice provision.

- 1.8. In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for Supervisory Council elections. The candidates to the Supervisory Council and candidates to other offices shall be nominated in due time so that the information on the said persons would be available to the shareholders to the extent as stipulated in Clause 1.9 of this Section as minimum 14 (fourteen) days prior to the shareholders' meeting.

Ventspils nafta encourages shareholders to nominate the candidates to the Supervisory Council and candidates to other offices in due time so that the information on the said persons is be available to all shareholders to the extent as stipulated in Clause 1.9 of this Section as minimum 14 (fourteen) days prior to the shareholders' meeting. Therefore in 2010, Ventspils nafta complied with this best practice provision as much as it was dependent on the management board of the Ventspils nafta.

Corporate governance report (cont'd)

- 1.9. Special attention should be paid that the shareholders at least 14 (fourteen) days prior to the shareholders' meeting have the possibility to acquaint themselves with information on Supervisory Council member candidates, as well as candidates of members of the audit committee whose approval is planned at the meeting. When disclosing information on Supervisory Council member candidates, also a short personal biography of the candidates shall be published.

Ventspils nafta encourages shareholders to nominate candidates to the Supervisory Council and other offices at least 14 (fourteen) days prior to the shareholders' meeting, so that shareholders are able to acquaint themselves with information on candidates, whose approval is planned at the meeting. Ventspils nafta encourages shareholders when disclosing information on Supervisory Council member candidates, to also publish a short personal biography of the candidates. Therefore in 2010, Ventspils nafta complied with this best practice provision as much as it was dependent on the management board of the Ventspils nafta.

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

Ventspils nafta does not restrict the right of shareholders to consult among themselves during a shareholders' meeting if it is required in order to adopt a decision or to make clear some issue; therefore, Ventspils nafta complied with this best practice provision.

- 1.11. To provide shareholders with comprehensive information on the course of the shareholders' meeting, the Issuer shall prepare the regulations on the course of shareholders' meeting, in which the agenda of shareholders' meeting and the procedure for solving any organizational issues connected with the shareholders' meeting (e.g., registration of meeting participants, the procedure for the adoption of decisions on the issues to be dealt with at the meeting, the Issuer's actions in case any of the issues on the agenda is not dealt with, if it is impossible to adopt a decision etc.). The procedures adopted by the Issuer in relation to participation in voting shall be easy to implement.

In order to ensure smooth process of shareholders' registration for the meeting and in due time solve possible problem, Ventspils nafta has determined that shareholders shall inform the Management Board of Ventspils nafta about the representatives and authorised persons of shareholders who shall participate in the meeting, by submitting copies of the power of attorneys or the documents certifying the authorisation at least 5 (five) days before the day of shareholders' meeting.

At the shareholders meetings of Ventspils nafta the chairman of the meeting who is elected according to the Commercial law, suggests to determine the regulations for the discussions and decision making during the shareholders' meeting which is in force only in case the shareholders meeting approves them with majority of votes; therefore, Ventspils nafta complied with this best practice provision.

- 1.12. The Issuer shall ensure that during the shareholders' meeting the shareholders have the possibility to ask questions to the candidates to be elected at the shareholders' meeting and other attending representatives of the Issuer. The Issuer shall have the right to set reasonable restrictions on questions, for example, excluding the possibility that one shareholder uses up the total time provided for asking of questions and setting a time limit of speeches.

The extraordinary shareholders meetings in 2010 were attended only by members of the Management Board and some of the candidates to be elected at the shareholders' meeting; therefore, Ventspils nafta partly complied with this best practice provision.

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

No breaks were announced during the Company's shareholders meetings held in 2010; therefore, Ventspils nafta complied with this best practice provision.

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

Regarding the minutes of the Company's shareholders meetings held in 2010, the chairman of the meeting ensured that in case any meeting participant required it, particular debates were reflected in the minutes or that shareholder proposal or questions were appended thereto in written form; therefore, Ventspils nafta complied with this best practice provision.

Corporate governance report (cont'd)

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

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

- 2.1. The attendance of members of the Issuer's management institutions and auditor at shareholders' meetings shall be necessary to ensure information exchange between the Issuer's shareholders and members of management institutions as well as to fulfill the right of shareholders to receive answers from competent persons to the questions submitted. The attendance of the auditor shall not be mandatory at shareholders' meetings not discussing the finances of the Issuer. By using the right to ask questions, shareholders have the possibility to obtain information on the circumstances that might affect the evaluation of the financial report and the financial situation of the Issuer.

The shareholders meeting in 2010 were attended by members of the Management Board, auditors and some members of the Supervisory Board. The shareholders meeting at which the Supervisory Board was reelected was attended by majority of Supervisory Board member candidates; therefore, Ventspils nafta complied with this best practice provision.

- 2.2. Shareholders' meetings shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall in particular apply to Supervisory Council members. If a Supervisory Council member candidate or auditor candidate is unable to attend the shareholders' meeting due to an important reason, then it shall be admissible that this person does not attend the shareholders' meeting. In this case, all the substantial information on the candidate shall be disclosed before the shareholders' meeting.

See comment on Clause 2.1. Ventspils nafta complied with this best practice provision.

- 2.3. During shareholders' meetings, the participants must have the possibility to obtain information on officials or official candidates who do not attend the meeting and reasons thereof. The reason of non-attendance should be entered in the minutes of shareholders' meeting.

See comment on Clause 2.1. Ventspils nafta complied with this best practice provision.

B. Management Board

The Management Board is the Issuer's executive institution, which manages and represents the Issuer in its everyday business, therefore the Issuer shall ensure that it is efficient, able to take decisions, and profit-oriented, therefore its obligations and responsibilities have to be clearly determined.

3. Obligations and responsibilities of the Management Board

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

- 3.1. The Management Board shall have the obligation to manage the business of the Issuer, which includes also the responsibility for the realization of the objectives and strategies determined by the Issuer and the responsibility for the results achieved. The Management Board shall be responsible for the said to the Supervisory Council and the shareholders' meeting. In fulfillment of its obligations, the Management Board shall adopt decisions based on interests of all shareholders and avoiding the possibilities of conflicts of interests.

The Management Board of Ventspils nafta adopts decisions based on interests of all shareholders and avoiding the possibilities of conflicts of interests. Therefore, Ventspils nafta complied with this best practice provision.

- 3.2. The powers of the Management Board shall be stipulated in the Management Board Regulations or a similar document, which is to be published on the website of the Issuer on the Internet. This document must be also available at the registered office of the Issuer.

The powers of the Management Board are stipulated in the Management Board Regulations, which are elaborated on the basis of Articles of Association of Ventspils nafta and rules of the Commercial Law. The Management Board Regulations are available in the registered office of Ventspils nafta but not published on the website of the Company; therefore, Ventspils nafta partly complied with this best practice provision.

Corporate governance report (cont'd)

- 3.3. The Management Board shall be responsible also for the compliance with all the binding regulatory acts, risk management, as well as the financial activity of the Issuer.

In 2010 Ventspils nafta complied with all the binding regulatory acts, ensured risk management, as well as the financial activity of the Ventspils nafta. Therefore, Ventspils nafta complied with this best practice provision.

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

- 1) corporate strategies, work plan, risk control procedure, assessment and advancement of annual budget and business plans, ensuring control on the fulfilment of plans and the achievement of planned results;
- 2) selection of senior managers of the Issuer, determination of their remuneration and control of their work and their replacement, if necessary, in accordance with the effective internal procedures (e.g. by complying with the personnel policy adopted by the Issuer; remuneration policy, etc.)
- 3) timely and qualitative submission of reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled.

In 2010 Management Board performed the above mentioned tasks, except that than in 2010 Ventspils nafta did not disclose its audited annual report 2009 in due time because its associated company joint stock company „Latvian Shipping Company” did not prepare and approve its audited annual report 2009 in due time set out in the law and this report contained significant information for preparation of Ventspils nafta annual report 2009. Therefore, in fact, Ventspils nafta complied with this best practice provision.

- 3.5. In annual reports, the Management Board shall confirm that the internal risk procedures are efficient and that the risk management and internal control have been carried out in compliance with the said control procedures throughout the year.

In the annual report, the Management Board confirmed that the internal risk procedures are efficient and that the risk management and internal control have been carried out in compliance with the determined control procedures throughout the year; therefore, Ventspils nafta complied with this best practice provision.

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

Ventspils nafta complied with this best practice provision.

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

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

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

The Supervisory Council of Ventspils nafta has observed that every Management Board member has appropriate education and work experience before they are elected, as well as prepared a summary of the requirements to be set for every Management Board member. Every Management Board member has appropriate education and work experience; therefore, Ventspils nafta complied with this best practice provision.

- 4.2. On the Issuer's website on the Internet, the following information on every Issuer's Management Board member shall be published: name, surname, year of birth, education, office term, position, description of the last three year's professional experience, number of the Issuer's or its parent companies/subsidiaries shares owned by the member, information on positions in other capital companies.

Corporate governance report (cont'd)

Ventspils nafta has published on its website the above mentioned information; therefore, *Ventspils nafta* complied with this best practice provision.

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

Ventspils nafta complied with this best practice provision.

- 4.4. It is not recommended to elect one and the same Management Board member for more than four successive terms. The Issuer has to evaluate whether its development will be facilitated in the result of that and whether it will be possible to avoid a situation where greater power is concentrated in hands of one or a number of separate persons due to their long-term work at the Issuer. If, however, such election is admitted, it shall be recommended to consider changing of the field of work of the relevant Management Board member at the Issuer.

None of the members of the Management Board of *Ventspils nafta* has been elected for more than four successive terms; therefore, *Ventspils nafta* complied with this best practice provision.

5. Identification of interest conflicts in the work of the Management Board members

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

- 5.1. It shall be the obligation of every Management Board member to avoid any, even only supposed, interest conflicts in his/her work. In taking decisions, Management Board members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit.

In taking decisions, Management Board members are guided by the interests of Ventspils nafta and does not use the cooperation offers proposed to Ventspils nafta to obtain personal benefit; therefore, Ventspils nafta complied with this best practice provision.

- 5.2. On the occurrence of any interest conflict or even only on its possibility, a Management Board member shall notify other Management Board members without delay. Management Board members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the Management Board member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements.

For the purposes of these recommendations the following shall be regarded as persons who have close relationship with a Management Board member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Management Board member has had a common household for at least one year. For the purposes of these recommendations the following shall be regarded as persons who are connected with a Management Board member: legal persons where the Management Board member or a closely related to him/her person is a Management Board or Supervisory Council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.

Ventspils nafta complied with this best practice provision.

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

Ventspils nafta complied with this best practice provision.

C. Supervisory Council

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

Corporate governance report (cont'd)

6. Obligations and responsibilities of the Supervisory Council

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

- 6.1. The functions of the Supervisory Council shall be set forth in the Supervisory Council regulation or a document equated thereto that regulates the work of the Supervisory Council, and it shall be published on the Issuer's website on the Internet. This document shall be also available at the Issuer's office.

The functions of the Supervisory Council are stipulated in the Supervisory Council Regulations, which are elaborated on the basis of Articles of Association of Ventspils nafta and rules of the Commercial Law. The Supervisory Council Regulations are available in the registered office of Ventspils nafta but not on the website; therefore, Ventspils nafta partly complied with this best practice provision.

- 6.2. The supervision carried out by the Supervisory Council over the work of the Management Board shall include supervision over the achievement of the objectives set by the Issuer, the corporate strategy and risk management, the process of financial accounting, Management Board's proposals on the use of the profit of the Issuer, and the business performance of the Issuer in compliance with the requirements of regulatory acts. The Supervisory Council should discuss every of the said matters and express its opinion at least annually, complying with frequency of calling Supervisory Council meetings as laid down in regulatory acts, and the results of discussions shall be reflected in the minutes of meetings of the Supervisory Council's.

In 2010 the Supervisory Council carried out sufficient supervision over the achievement of the objectives set by the Company, the corporate strategy and risk management, the process of financial accounting and the business performance of the Company in compliance with the requirements of regulatory acts; therefore, Ventspils nafta complied with this best practice provision.

- 6.3. The Supervisory Council and every its member shall be responsible that they have all the information required for them to fulfill their duties, obtaining it from Management Board members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the Supervisory Council chairperson shall contact the Issuer's Management Board, inter alia the Management Board chairperson, on a regular basis and discuss all the most important issues connected with the Issuer's business and development strategy, business activities, and risk management.

Ventspils nafta presumes that in 2010 the Supervisory Council of Ventspils nafta had all the information required for it to fulfill its duties; therefore, Ventspils nafta complied with this best practice provision.

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

The Regulations of the Supervisory Council do not provide that a Supervisory Council member shall have an obligation to provide explanations in case of being unable to participate in a Supervisory Council meeting.

Corporate governance report (cont'd)

7. Supervisory Council composition and requirements for Supervisory Council members

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

- 7.1. The Issuer shall require every Supervisory Council member as well as Supervisory Council member candidate who is planned to be elected at a shareholders' meeting that they submit to the Issuer the following information: name, surname, year of birth, education, office term as a Supervisory Council member, description of the last three year's Professional experience, number of the Issuer's or its parent companies/subsidiaries shares owned by the member, information on positions in other capital companies. The said information shall be published also on the Issuer's website on the Internet, providing, in addition to the said information, also the term of office for which the Supervisory Council member is elected, its position, including also additional positions and obligations, if any.

Ventspils nafta requires above mentioned information from members of the Supervisory Council and publishes it on its internet home page taking into consideration the regulations of the Personal Data Protection Law; therefore, Ventspils nafta complied with this best practice provision.

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

Ventspils nafta complied with this best practice provision.

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

Ventspils nafta complied with this best practice provision.

- 7.4. Every Supervisory Council member in his or her work shall be as possibly independent from any external circumstances and have the will to assume responsibility for the decisions taken and comply with the general ethical principles when taking decisions in relation to the business of the Issuer.

Ventspils nafta complied with this best practice provision.

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

The Management Board of Ventspils nafta encourages its shareholders to apply this best practice provision.

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

The Management Board of Ventspils nafta encourages its shareholders to apply this best practice provision.

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

Ventspils nafta did not comply with this best practice provision. According to Commercial Law nominating candidates for the Supervisory Council and electing members of the Supervisory Council is in the competency of the shareholders' meeting.

Corporate governance report (cont'd)

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

The Management Board of Ventspils nafta encourages its shareholders to apply this best practice provision. Ventspils nafta did not comply with this best practice provision, see also Article 7.7 above.

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

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

- 8.1. It shall be the obligation of every Supervisory Council member to avoid any, even only supposed, interest conflicts in his/her work. When taking decisions, Management Board members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit.

Ventspils nafta complied with this best practice provision.

- 8.2. On the occurrence of any interest conflict or even only on its possibility, a Supervisory Council member shall notify other Supervisory Council members without delay. Supervisory Council members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the Supervisory Council member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements.

For the purposes of these recommendations the following shall be regarded as persons who have close relationship with a Supervisory Council member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Supervisory Council member has had a common household for at least one year. For the purposes of these recommendations the following shall be regarded as persons who are connected with a Supervisory Council member: legal persons where the Supervisory Council member or a closely related to him/her person is a Management Board or Supervisory Council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.

Ventspils nafta complied with this best practice provision.

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

Ventspils nafta complied with this best practice provision.

D. Disclosure of information

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

Corporate governance report (cont'd)

9. Transparency of the Issuer's business

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

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

Ventspils nafta complied with this best practice provision.

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

Ventspils nafta complied with this best practice provision.

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

Ventspils nafta has appointed a person who is entitled to contact the press and other mass media on behalf of the company, thus ensuring uniform distribution of information and avoiding publication of contradictory and incorrect information, and this person could be contacted, if necessary, by the Stock Exchange and investors; therefore, Ventspils nafta complied with this best practice provision.

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

In 2010 Ventspils nafta did not disclose audited annual report 2009 in due time because its associated company joint stock company „Latvian Shipping Company” did not prepare and approve its audited annual report 2009 in due time set out in the law and this report contained significant information necessary for preparation of Ventspils nafta annual report 2009.

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

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

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

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

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

Therefore in 2010, Ventspils nafta complied with this best practice provision as much as it was dependent on Ventspils nafta.

Corporate governance report (cont'd)

10. Investor relations

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

- 10.1. The main objectives of the IR are the provision of accurate and timely information on the business of the Issuer to participants of finance market, as well as the provision of a feedback, i.e. receiving references from the existing and potential investors and other persons. In the realization of the IR process, it shall be born in mind that the target group consists not only of institutional investors and finance market analysts. A greater emphasis should be put on individual investors, and more importance should be attached to informing other interested parties: employees, creditors and business partners.

Ventspils nafta complied with this best practice provision.

- 10.2. The Issuer shall ensure that all investors have equal and convenient access to important information related to the Issuer, including information on the Issuer's financial position, property structure and administration. The issuer shall provide information in clear and easily comprehensible language, revealing both the positive and the negative information in relation to the Issuer, thereby providing the investors with complete and comprehensive information on the Issuer, enabling the investors to evaluate all the information before taking a decision.

Ventspils nafta complied with this best practice provision.

- 10.3. A number of channels shall be used for the information flow in the IR. The IR strategy of the Issuer shall be created using both the possibilities provided by technologies (website) and relations with mass media and the ties with the participants of finance market. Considering the development stage of modern technologies and the accessibility thereof, the Internet is used in the IR of every modern company. This type of media has become one of the most important means of communications for the majority of investors.

For the information flow in the IR Ventspils nafta uses possibilities provided by technologies (website), relations with mass media and ties with the participants of finance market; therefore, Ventspils nafta complied with this best practice provision.

- 10.4. The basic principles that should be observed by the Issuers in preparing the IR section of their websites:
- 1) The IR section of website shall be perceived not only as a store of information or facts but also as one of the primary means of communication by means of which it is possible to inform the existing and potential shareholders;
 - 2) all the visitors of the IR section of website shall have the possibility to obtain conveniently all the information published there. Information on websites shall be published in all the foreign languages in which the Issuer normally distributes information so that in no way would foreign investors be discriminated; however, it shall be taken into account that information must be disclosed at least in Latvian and English;
 - 4) It shall be recommended to consider a solution that would allow the existing and potential investors to maintain ties with the Issuer by using the IR section of website – submit questions and receive answers thereto, order the most recent information, express their opinions etc.;
 - 5) the information published on websites shall be updated on a regular basis, and the news in relation to the Issuer and its business shall be published in due time. It shall not be admissible that outdated information that could mislead investors is found on websites;
 - 6) after the website is created the creators themselves should assess the IR section of the website from the point of view of users – whether the information of interest can be found easily, whether the information published provides answers to the most important questions etc.

Ventspils nafta observes above mentioned basic principles in preparing the IR section of its website; therefore, Ventspils nafta complied with this best practice provision.

Corporate governance report (cont'd)

- 10.5. The Issuer shall ensure that at least the following information is contained in the IR section of website:
- 1) general information on the Issuer - history of its establishment and business, registration data, description of industry, main types of business;
 - 2) Issuer's Report ("comply or explain") on the implementation of the principles of corporate governance;
 - 3) Number of issued and paid financial instruments, specifying how many of them are included in a regulated market;
 - 4) information on shareholders' meetings, draft decisions to be examined, decisions adopted – at least for the last year of report;
 - 5) Issuer's statutes;
 - 7) Issuer's Management Board or Supervisory Council regulation or a document equated thereto that regulates its work, as well as the Issuer's remuneration policy (or a reference as to where it can be familiarized with) and the shareholders' meeting procedure regulation, if such has been adopted;
 - 8) Information on performance of the Audit Committee;
 - 9) information on present Issuer's Supervisory Council and Management Board members (on each individually): work experience, education, number of the Issuer's shares owned by the member (as at the beginning of year; the information shall be updated as required but at least annually), information on positions in other capital companies, and the term of office of Management Board and Supervisory Council members;
 - 10) Issuer's shareholders which/who own at least 5% of the Issuer's shares; and information on changes of shareholders;
 - 11) Financial reports and annual reports of the Issuer prepared in compliance with the procedure specified in legal acts and the Stock Exchange regulations;
 - 12) Any other information to be disclosed by the Issuer, e.g. information on any substantial events, Issuer's press releases, archived information on Issuer's financial and annual reports on previous periods etc.

The Management Board and Supervisory Council regulations as well as information on the performance of the Issuer's Audit Committee were not published on the website of Ventspils nafta; therefore, Ventspils nafta partly complied with this best practice provision.

E. Internal control and risk management

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

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

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

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

Ventspils nafta has defined the procedure of internal control; therefore, Ventspils nafta complied with this best practice provision.

- 11.2. The objective of risk management is to ensure that the risks connected with the commercial activity of the Issuer are identified and supervised. To ensure an efficient risk management, it shall be necessary to define the basic principles of risk management. It is recommended to characterize the most essential potential and existing risks in relation to the business of the Issuer.

Ventspils nafta has characterized the most essential potential and existing risks in relation to the business of the company; therefore, Ventspils nafta complied with this best practice provision.

Corporate governance report (cont'd)

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

Ventspils nafta complied with this best practice provision.

- 11.4. Auditors shall be independent in their work and their task shall be to provide the Issuer with independent and objective auditing and consultation services in order to facilitate the efficiency of the Issuer's business and to provide support in achieving the objectives set for the Issuer's management by offering a systematic approach for the assessment and improvement of risk management and control processes.

Ventspils nafta complied with this best practice provision.

- 11.5. It shall be recommended to carry out an independent internal control at least annually in order to assess the work of the Issuer, including its conformity to the procedures approved by the Issuer.

In 2010 the internal audit department of Ventspils nafta performed independent audits in order to evaluate activities of the Ventspils nafta. The external auditor approved by the general meeting of shareholders performed independent audits in order to evaluate activities of the Ventspils nafta, including compliance with approved procedures; therefore, Ventspils nafta complied with this best practice provision.

- 11.6. When approving an auditor, it is recommended that the term of office of one auditor is not the same as the term of office of the Management Board.

Each year the general meeting of shareholders of Ventspils nafta approves the auditor for the audit for the next year's Annual report; therefore, Ventspils nafta complies with this best practice provision.

12. Audit Committee of the Issuer

Audit Committee is established by a resolution of shareholders' meeting of the Issuer, defining its operation principles and scope of responsibility in accordance with the requirements of legislative acts.

- 12.1. Functions and responsibility of the Audit Committee should be defined in regulations of the Committee or an equal document.

The Audit Committee is elected in 2010 and its functions are set in the Law on Financial Instruments Market. Currently the work to prepare specific regulations of the Audit Committee is in progress. Ventspils nafta will comply with this best practice provisions in future.

- 12.2. In order to ensure effective work of the Audit Committee, it is desirable that it would consist of at least members having sufficient knowledge in accounting and preparation of financial statements, as one of the main areas of activities of the Audit Committee is matters related to the Issuer's financial reports and control.

The Audit Committee of Ventspils nafta consists of three members. The Extraordinary shareholders meeting on November 11, 2010 elected an audit committee consisting of Lahsen Idiken, Mikhail Dvorak, Jozef Hubertus Johannes Baardemans who all have adequate knowledge in accounting and financial reporting; therefore, Ventspils nafta complied with this best practice provision.

- 12.3. Information on the accounting methods used by the Issuer shall be available to all members of the Audit Committee. The Management Board shall inform the Audit Committee on the methods that are used when evaluating significant and uncommon transactions where different methods might be applied to the evaluation, as well as ensure that all the information prescribed by legislative acts shall be available to the Audit Committee.

Ventspils nafta complied with this best practice provision.

- 12.4. The Issuer shall ensure that it is possible for the Audit Committee to obtain the information necessary to ensure operation of the Committee from the Issuer's officials, Management Board members and other employees, as well as rights to carry out independent investigation in order to discover within its authority violations in the Issuer's activity.

Ventspils nafta complied with this best practice provision.

Corporate governance report (cont'd)

12.5. Audit Committee shall make decisions within its authority and account for its activity to the shareholders' meeting.

Considering that the Audit Committee was elected only in November, 2011, it has not yet reported to the shareholders meeting but will do it on annual shareholders meeting in 2011.

F. Remuneration policy

13. General principles, types and criteria of fixing remuneration

The remuneration policy of Management Board and Supervisory Council members – type, structure and amount of remuneration – is one of the spheres where the involved persons have a potentially greater risk to find themselves in a situation of conflict of interests. To avoid that, the Issuer shall develop a remuneration policy, defining general principles types and criteria of remuneration to be granted to Management Board and Supervisory Council members.

13.1. The Issuer shall develop a remuneration policy, in which the main principles for the determination of remuneration, possible remuneration schemes and other essential related issues are determined. Without restricting the role and activity of the Issuer's administrative body that is responsible for determination of remuneration of members of the Supervisory Council and Management Board, the development of the draft remuneration policy should be made a responsibility of the Issuer's Management Board, which during the preparation of a draft policy must consult with the Issuer's Supervisory Council.

Ventspils nafta has not developed a special remuneration policy. The amount of remuneration of the members of administrative bodies of Ventspils nafta is determined according to the Commercial Law, Articles of Association of Ventspils nafta and resolutions of administrative bodies of Ventspils nafta. Remuneration of Supervisory Council members is determined by the shareholders' meeting of Ventspils nafta and currently it is set to zero. Remuneration of the Management Board members is determined by a resolution of the Supervisory Council.

13.2. If upon defining the remuneration structure, also variable part of remuneration is planned in the remuneration policy, including Issuer's shares or share options as remuneration, that should be attached to preset short-term and long-term objectives. Attaching the variable part of remuneration only to short-term results will not favour interest in the company's long-term growth and improvement of results. The scope of and structure of remuneration shall depend on the company's operating results, share price and other events related to the Issuer.

Ventspils nafta did not prescribe remuneration in the form of the Ventspils nafta's shares or share options.

13.3. Remuneration schemes that include Issuer's shares as remuneration may theoretically cause losses to the Issuer's shareholders because the share price might drop due to a new issue of shares. Therefore, prior to the preparation and approval of this type of remuneration scheme, it is necessary to assess the possible benefits or losses.

Ventspils nafta did not prescribe remuneration in the form of the Ventspils nafta's shares or share options.

13.4. If a variable part is also planned in the remuneration policy, including the Issuer's shares or share options as remuneration, it shall be indicated how it is planned to ensure the necessary amount of the Issuer's shares within the approved remuneration schemes – is it planned to acquire them by purchasing them in regulated market, or by issuing new shares.

Ventspils nafta did not prescribe remuneration in the form of the Ventspils nafta's shares or share options.

13.5. When preparing the remuneration policy and planning to grant such share options that give rights acquire the Issuer's shares, the conditions with regard to granting share options defined in the regulations of the Stock Exchange shall be complied with.

Ventspils nafta did not prescribe remuneration in the form of the Ventspils nafta's shares or share options.

13.6. When defining principles on which remuneration is to be granted to members of the Supervisory Council and Management Board, also general principles shall be provided on which any compensations or other types of remuneration will be paid, if such is planned to be applied at all, in cases when agreements concluded with the mentioned officials are terminated.

See comment on Clause 13.1.

Corporate governance report (cont'd)

14. Announcement on remuneration policy

Shareholders shall be ensured with clear and thorough report on the remuneration policy applicable to members of administrative bodies of the Issuer. Publication of the mentioned information would allow the existing and potential shareholders to comprehensively evaluate the Issuer's approach to remuneration issues, therefore the responsible body of the Issuer shall prepare and publish a Remuneration Report once a year.

- 14.1. The Issuer is obliged to publish a thorough report on the remuneration policy of members of the Issuer's administrative bodies – the Remuneration Report. The Remuneration Report can be prepared as a separate document, or included as a separate section in the Report prepared by the Issuer in line with the provisions of Clause 9 of introduction of these Recommendations. The prepared Remuneration Report shall be placed also in the Issuer's web-site.
- 14.2. The Remuneration Report shall contain at least the following information:
- 1) information on applying the remuneration policy to members of the Management Board and Supervisory Council of the Issuer in the previous financial year, especially pointing out what relevant changes have been made in the Issuer's remuneration policy compared to the previous accounting year;
 - 2) proportion of the variable and the constant part of the applicable remuneration to be paid to the respective category of officials;
 - 3) sufficient information on remuneration relation to performance;
 - 4) information on the Issuer's policy with regard to conditions of the agreements that are concluded with members of the Issuer's administrative bodies (regarding duration of the concluded agreements, periods of prior notification on termination of the agreement, inter alia the payments to be made in case of terminating the agreement);
 - 5) information on main parameters and justification of the applicable bonus scheme and any other material benefits;
 - 6) description on any applicable schemes of pension or early retirement;
 - 7) report on the remuneration and other material benefits received as remuneration by any person that has held the position of member of the Supervisory Council or Management Board during the respective accounting year, by including at least the information mentioned in clauses 14.5., 14.6. and 14.7. of this section.

The total remuneration paid to the members of the Supervisory Council and the Management Board is included in the Annual report of Ventspils nafta. Ventspils nafta does not disclose information mentioned in the Clause 14.2 regarding the each separate Supervisory Council and Management Board member because of social and economic situation in Latvia, as well as considering fact that this information is commercially sensitive.

- 14.3. In order to avoid overlapping of information, the Issuer is allowed not to specify in the Remuneration Report the information required in sub-clauses 1 to 7 of Clause 14.2 of this section, if it is already mentioned in the Issuer's remuneration policy. In such case, a reference to the remuneration policy shall be given in the Remuneration Report, as well as indication as to where the Issuer's remuneration policy is available.

See comment on Clause 14.2.

- 14.4. If the Issuer holds a view that as a result of publishing the information mentioned in Clause 14.2. of these recommendations, commercially sensitive information might be disclosed possibly having a harmful effect on the Issuer's strategic position, the Issuer is allowed not to disclose the mentioned information, by stating the respective reason.

See comment on Clause 14.2.

Corporate governance report (cont'd)

14.5. In relation to remuneration and/or other income, the following information shall be disclosed about each member of the Supervisory Council and Management Board:

- 1) the total sum of remuneration (salary) paid or due during the accounting year for the performed duties;
- 2) remuneration and other preferences received from any related company of the Issuer. The term "related company" used in this Clause corresponds to definition of the term of related company given in Section 1 of the Financial Instrument Market Law;
- 3) remuneration paid as profit distribution or bonuses and substantiation for granting such payments;
- 4) payment for the activities performed in addition to the direct duties;
- 5) compensations and other payments to be paid to or received by a member of the Supervisory Council or Management Board that has resigned from the position in the accounting year;
- 6) total value of any material benefits received as remuneration to which sub-clauses 1) to 5) of this Clause are not referable.

See comment on Clause 14.2.

14.6. The following information shall be disclosed in relation to shares and/or share options or other remuneration schemes, under which the Issuer's shares can be acquired:

- 1) the number of shares or share options entitling to acquire the Issuer's shares granted in the accounting year to a member of the Issuer's administrative body, as well as conditions of their usage;
- 2) number of options entitling to acquire the Issuer's shares that have been used during the accounting year, on each of them specifying the number of the acquired shares and the set share price, or the value of the part of a member of an administrative body in the remuneration scheme related to shares in the end of the accounting year;
- 3) the number of the unused share options entitling to acquire the Issuer's shares as at the end of the accounting year, as well as the share price set in the agreement, implementation date and the main provisions regarding usage of the mentioned option;
- 4) information on the amendments made during the accounting year in the conditions of agreements of the granted options entitling to acquire the Issuer's shares (e.g. changes made in the provisions regarding usage of the option, changed the period for usage of the option, etc.).

Ventspils nafta did not prescribe remuneration in the form of the Ventspils nafta's shares or share options.

14.7. The following information shall be disclosed in relation to savings or instalments into pension plans of private pension funds:

- 1) on the amount of instalments made by the Issuer in the benefit of a person into a pension plan or plans and rules regarding paying out the pension capital;
- 2) on provisions regarding participation in the respective pension plan applicable to the particular person, inter alia regarding termination of participation.

Ventspils nafta did not prescribe remuneration in the form of the Ventspils nafta's shares or share options.

14.8. Remuneration schemes, under which remuneration is fixed by granting the Issuer's shares, share options, or in any other way entitling to acquire the Issuer's shares, shall be approved by a resolution of the general shareholders' meeting. Upon deciding on approval of the remuneration scheme, shareholders' meeting shall not resolve on applying it to particular individuals.

Ventspils nafta did not prescribe remuneration in the form of the Ventspils nafta's shares or share options.