

STATEMENT BY THE MANAGEMENT BOARD OF LSC

The Company

JSC *Latvijas kuģniecība* (*Latvian Shipping Company – LSC*) activity in the first half of 2004 was marked by a number of significant events in the Company. The most important of those was launching Tanker Fleet Renewal Programme incorporated in the Group's Strategic Plan 2003-2010. During the period *LSC* fleet was expanded with three 37,000 dwt product tankers *Kuldīga*, *Kolka* and *Kaltene*. Besides, Shipbuilding Contract for the construction of 4 middle-range tankers was signed with *Hyundai Mipo Dockyard Co. Ltd.* in Korea, and another Shipbuilding Contract for 8 tanker newbuilds signed with *3. Maj* shipyard in Croatia came into effect. The new-buildings are planned to be financed both through bank loans and the Company's own funds. As at the end of the first half of 2004 the total tonnage of *LSC* Tanker Fleet made up 1,051,548 deadweight tons.

LSC shares are listed on the official list of *Riga Stock Exchange*. At the beginning of 2004 the Company's shares were traded at the price of LVL 0.36 per share. Due to the interest shown by the buyers *LSC* share price continued to grow, reaching the record high of LVL 0.53 per share on March 31 and April 1, 2004. However, already in the following months the share price started to gradually decrease, down to LVL 0.40 in the end of the period. Despite the above fluctuations *LSC* shares remained among the most liquid shares on *Riga Stock Exchange*.

The Fleet

LSC Group's profit after tax for the first six months ended June 30, 2004 reached \$ 5.4 million. The above-mentioned result was achieved mainly due to the successful *LSC* fleet performance that was positively influenced by the relatively high freight rates and stable demand prevailing in the shipping market in early 2004. With the onset of summer, however, the demand for oil products decreased, leading to the reduction of freight rates. The situation was further aggravated by the unfavourable prospects for the employment of *LSC* older tonnage, whose technical condition does not comply with EU regulations.

First half 2004 vessel operating profit of *LSC* Reefer and LPG fleet exceeded the respective results of 2003.

As at the end of the first six months 2004 *LSC* Tanker Fleet consisted of 33 product tankers, which were mainly employed either on time charter or in the spot market. *LSC* Tanker Fleet's vessel operating profit for the first half of

2004 has decreased threefold compared to the respective period of 2003. Such a deterioration of the Tanker Fleet's result was caused mainly by considerably lower average TCE (Time Charter Equivalent) rates in the tanker market – those were unprecedentedly high in the first half of 2003. Besides, in the previous year the employment prospects for single-hull tankers were more favourable compared to 2004. It is the non-compliance with EU regulations that was the main reason for *LSC*'s searching a potential buyer for its product tanker *Gaida*.

Following the practice commenced in late 2003, *LSC* vessels *Rīga*, *Kurzeme*, *Vidzeme*, *Latgale* and *Juris Avots* were reflagged during the first half of 2004 and are now flying Latvian flag. Subject to positive reflagging experience also other *LSC* vessels are planned to be transferred to Latvian Ship Register and fly Latvian flag.

LSC Reefer Fleet, consisting of five ice-classed reefer vessels, was traditionally employed in carrying banana as well as other fruit and frozen cargoes from the Southern Hemisphere to Northern Europe. Despite the fact that at the beginning of the year freight rates in the given sector were lower compared to 2003, the Reefer Fleet's performance in the first half of 2004 is regarded as positive. The fleet's vessel operating profit for the first six months ended June 30, 2004 exceeded the respective result of 2003 that was affected by the non-profitable activity of *Kurska* type reefers.

Also LPG Fleet's vessel operating profit for the first half of 2004 was higher compared to the previous year. During the period *LSC*'s both LPG carriers continued to be employed by *ScandiGas Pool*, and LPG rates remained on their average level.

Decrease in the demand for liner transportation (caused by changes in the Customs Transit Procedures upon Latvia's accession in EU) and m/v *Juris Avots* planned dry dock repairs were the main reasons for the lower, compared to 2003, first half 2004 result of *LSC* Dry Cargo Fleet.

Other Operations

Along with maritime transportation services rendered by the company the Group is also involved in other shipping-related activities. These are performed by *LSC* Group's subsidiaries. To comply with LR legislative requirements, during the first half of 2004 all *LSC* 100% owned subsidiaries were registered in the Commercial Register. The names of two subsidiaries were changed upon registration: SIA *Kuģu menedžments* was renamed to SIA *LSC Shipmanagement*, and SIA *Jūrnieku aģentūra* – to SIA *LSC Marine Training*. The main aim of the renaming and adding *LSC* abbreviation to the companies' new names was to ensure their recognizability in the international shipping markets.

In the first half of 2004 *LSC* AGM of shareholders was convened. The AGM of shareholders approved *JSC Latvijas kuģniecība* Annual and Consolidated Report 2003, as well as reviewed other important issues. Unfortunately, the review of items related to *LSC* registration in the Commercial Register had to be postponed due to the lack of quorum. Neither were they reviewed at the Company's Repeated AGM of shareholders, thus being postponed till the Extraordinary Shareholders Meeting.

During the period a number of changes took place in the composition of *LSC* Supervisory Council: Ms. Elena Makarova and Mr. Harijs Ilmārs Bondars were elected members of *LSC* Supervisory Council and replaced the revoked members Mr. Māris Kaijaks and Mr. Jānis Ādamsons.

Outlook

Considering slow-down of the global economy, steadily growing prices for oil products, traditionally high order books at the world shipyards, as well as tightened regulations for oil transportation and other circumstances influencing the situation in the shipping market, there are no grounds to believe that relatively high current freight rates will persist in the long-term perspective. Since charterers prefer modern, reliable and safe tonnage, any eventual decrease in the demand for maritime transportation services will in the first place affect the oldest part of *LSC* fleet. However, further implementation of the Fleet Renewal Programme will enable the Group to develop and preserve its market share in the middle-range tanker segment of the shipping industry. Furthermore, it is economically sounder to maintain a younger and smaller tonnage, than an older but a larger fleet.

Chairman of *LSC* Management Board,
President

Imants Vikmanis

Members of *LSC* Management Board

Valērijs Godunovs

Alvis Akmens

Aivars Enkuzens

***CONSOLIDATED INCOME STATEMENT FOR
THE PERIOD ENDED JUNE 30***

	2004	2003
Voyage income	77.058	123.772
Voyage costs	(16.978)	(49.585)
Net Voyage Results	60.080	74.187
Vessel Operating costs	(36.433)	(35.337)
Vessel Operating Result before Depreciation	23.647	38.850
Vessel Depreciation	(10.554)	(11.217)
Vessel Operating Profit	13.093	27.633
Administration expenses	(6.427)	(5.032)
Gain on sale of assets	2.132	1.014
Operating Profit	8.798	23.615
Net Financial Items	(3.408)	(3.673)
Profit before Taxation	5.390	19.942
Taxation	(22)	(60)
Profit after Taxation	5.368	13.882
Minority interest	10	(20)
Net Profit	5.378	19.862

**CONSOLIDATED BALANCE SHEET AS AT
JUNE 30(Expressed in US \$ '000s)**

	2004	2003
<u>ASSETS</u>		
<i>LONG TERM ASSETS</i>		
Fleet	370.873	321.240
Other fixed assets	7.737	7.774
Assets under construction	26.332	4
Investments	79	601
TOTAL LONG TERM ASSETS	405.021	329.619
<i>CURRENT ASSETS</i>		
Inventories	5.937	7.752
Accounts receivable and prepayments	21.423	19.214
Available-for-sale investments	2.202	2.215
Bank and cash balances	38.851	60.936
TOTAL CURRENT ASSETS	68.413	90.117
TOTAL ASSETS	473.434	419.736
<u>SHAREHOLDERS' EQUITY & LIABILITIES</u>		
<i>SHAREHOLDERS EQUITY</i>		
Share capital	362.319	362.319
Translation reserve	(12.916)	(12.525)
Retained earnings	(74.356)	(74.347)
TOTAL SHAREHOLDERS' EQUITY	275.047	275.447
MINORITY INTEREST	0	845
<i>LONG TERM LIABILITIES</i>		
Long term portion of bank loans	160.643	105.740
Provision for deferred taxation	29	35
Provisions	512	504
TOTAL LONG TERM LIABILITIES	161.184	106.279
<i>CURRENTS LIABILITIES</i>		
Current portion of bank loans	17.357	13.080
Accounts payable	19.846	24.085
TOTAL CURRENT LIABILITIES	37.203	37.165
TOTAL LIABILITIES	198.387	143.444
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	473.434	419.736