



LATVIJAS KUĢNIECĪBA

Joint Stock Company
Latvian Shipping Company

CONDENSED ANNUAL REPORT 2008

With New Power in the World Market



*“ With New Power
in the World Market ”*

JSC Latvijas kuģniecība

Address: 1 Elizabetes Street, Riga, LV 1807

Unified registration number: 40003021108

**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008**

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JSC Latvijas kuģniecība

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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008****General information**

Name	Latvijas kuģniecība (hereinafter also referred to as “Company”)
Legal status	Joint Stock Company
Registration number, place and date	Reg. No. 40003021108, Riga, 13 September 1991 Reregistered in the Commercial Register on 17 November 2004
Registered Office	1 Elizabetes street, Riga, LV 1807, Latvia
Reporting period	1 st January 2008 – 31 st December 2008
Previous reporting period	1 st January 2007 – 31 st December 2007

Shareholders of the Company

The Shareholders of the Company that have announced notification about acquisition of significant shareholding (over 5%) as at 31 December 2008 are as follows:

<u>Name of the Shareholder</u>	<u>Share of interest</u>	<u>Registered office</u>
JSC Ventspils nafta	49.94 %	23 Ostas Street., Ventspils, LV 3601, Latvia
JSC International Baltic Investments LTD	27.55 %	5a Blaumana Street, Riga, LV-1011, Latvia
Ojay Limited	17.64 %	P.O.Box 175, Frances House, SLR William Place, St.Peter, Guernsey, Channel Islands GYI 4HQ
SJSC Valsts sociālās apdrošināšanas aģentūra	10.80 %	70b Lacplesa Street, Riga, LV-1011, Latvia
Eastgate Properties Limited	9.88 %	Frances House, SLR William Place, St.Peter, Guernsey, Channel Islands GYI 4HQ

JSC Latvijas kuģniecība

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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008****General information (continued)****The Supervisory Council of the Company**

Māris Gailis	Chairman of the Council
Vladimirs Solomatins	Deputy Chairman of the Council
Andris Vilcmeiers	Deputy Chairman of the Council
Ansis Sormulis	Member of the Council
Guntis Ločmelis	Member of the Council
Kārlis Boldiševics	Member of the Council
Uldis Pumpurs	Member of the Council
Mīks Ekbaums	Member of the Council
Normunds Staņevičs	Member of the Council
Olga Pētersone	Member of the Council
Svens Zālītis	Member of the Council
Vladimirs Koškuls	Member of the Council

The changes in the Supervisory Council during the period from 1 January 2008 till issuing these financial statements were as follows:

Name	Position held	Elected	Reelected	Mandate has expired
Māris Gailis	Chairman of the Council	13.01.2009		
Uldis Pumpurs	Chairman of the Council		15.02.2008	12.01.2009
Andris Vilcmeiers	Deputy Chairperson of the Council	15.02.2008		
Vladimirs Solomatins	Deputy Chairperson of the Council	15.02.2008		
Andris Linužs	Deputy Chairperson of the Council			10.02.2008
Olga Pētersone	Deputy Chairperson of the Council			10.02.2008
Guntis Ločmelis	Member of the Council	15.02.2008		
Kārlis Boldiševics	Member of the Council	15.02.2008		
Mīks Ekbaums	Member of the Council	15.02.2008		
Normunds Staņevičs	Member of the Council	15.02.2008		
Olga Pētersone	Member of the Council	15.02.2008		
Svens Zālītis	Member of the Council	15.02.2008		
Vladimirs Koškuls	Member of the Council	15.02.2008		
Uldis Pumpurs	Member of the Council	13.01.2009		
Ansis Sormulis	Member of the Council		15.02.2008	
Māris Gailis	Member of the Council	15.02.2008		12.01.2009
Aldis Āķis	Member of the Council			10.02.2008
Laimonis Junkers	Member of the Council			10.02.2008
Mamerts Vaivads	Member of the Council			10.02.2008
Pēteris Putniņš	Member of the Council			10.02.2008
Vladimirs Krastiņš	Member of the Council			10.02.2008
Vladimirs Solomatins	Member of the Council			10.02.2008

JSC Latvijas kuģniecība

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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008****General information (continued)****The Management Board of the Company**

Imants Sarmulis	Chairman of the Management Board
Andris Linužs	Member of the Management Board – First Vice President
Raivis Veckāgans	Member of the Management Board – Vice President
Guntis Tīrmanis	Member of the Management Board
Ilva Purēna	Member of the Management Board

The changes in the Management Board during the period from 1 January 2008 till issuing these financial statements were as follows:

Name	Position held	Elected	Reelected	Mandate has expired
Andris Linužs	Member of the Management Board – First Vice President	14.02.2008		
Raivis Veckāgans	Member of the Management Board – Vice President	14.02.2008		
Guntis Tīrmanis	Member of the Management Board		14.02.2008	
Ilva Purēna	Member of the Management Board		14.02.2008	
Miks Ekbaums	Member of the Management Board – First Vice President			13.02.2008
Solvita Deglava	Member of the Management Board – Vice President			13.02.2008

The Auditors of the Company

Name and address of the Auditors:	Diāna Krišjāne Sworn Auditor Certificate Nr. 124 SIA <i>Ernst & Young Baltic</i> Licence Nr. 17 1 Muižas street Riga, LV-1010 Latvia
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Some of JSC Latvijas kuģniecība Supervisory Council and Management Board members hold a management position in other companies, as well as are shareholders of companies registered in the Register Commercial of the Republic of Latvia.

The above stated information on the members of JSC Latvijas kuģniecība Supervisory Council and Management Board is available at the secretary of JSC Latvijas kuģniecība Supervisory Council and JSC Latvijas kuģniecība Management Board, respectively.

JSC Latvijas kuģniecība

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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008**

MANAGEMENT REPORT

Dear Shareholders and Business Partners!

The core business of JSC Latvijas kuģniecība (Latvian Shipping Company – LASCO) is fleet operation. JSC Latvijas kuģniecība is the Parent company of JSC Latvijas kuģniecība Group. The Group comprises a number of subsidiaries and associated companies that ensure fleet operation, perform transportation of cargoes by sea as well as provide other shipping related services.

Successful performance results of JSC Latvijas kuģniecība Group for 2008 prove its competitiveness in international shipping markets.

During the reporting period JSC Latvijas kuģniecība Group worked actively to achieve the strategic objective set – ensure the increase in Group's value maintaining its position among the ten leading handy sized and middle range tanker owners in the world. During the reporting period JSC Latvijas kuģniecība Group focusing its efforts on the core business – cargo shipments worldwide – expanded its activities in handy sized and middle range tankers markets covering Far East, Americas, West Africa, Indian Ocean, Western Europe, as well as Mediterranean, Baltic and Black Sea regions.

As at 31 December 2008, the fleet in commercial management of JSC Latvijas kuģniecība consisted of 31 tanker, two LPG carriers and one dry cargo vessel. During the report period LASCO has taken delivery of three tanker newbuildings *Užava*, *Salacgrīva* and *Ainaži* and continued exploitation of three tankers time chartered in from other shipowners *Green Star*, *Blue Star*, *Maria M*.

JSC Latvijas kuģniecība Group Performance during the Reporting Period

All the LASCO shares are being traded publically and listed in NASDAQ OMX Riga Official List. In 2008 due to particularly negative factors in global share markets the value of LASCO share also dropped from LVL 1.30 at the beginning of the year to LVL 0.66 at the end of the year. On 31 December 2008 the LASCO share capitalisation at the Stock Exchange reached LVL 132 million. In total there have been 3 297 transactions with 8.28 million shares for the amount of LVL 8.62 million during the report period. Expressed in value it comprises 30 per cent of the total NASDAQ OMX Riga turnover of shares and more than 50 per cent of the traded shares.

The Company - LASCO Group's Parent company closed the year 2008 with the net sales of EUR 13.5 million and net profit of EUR 26.4 million.

Overall in 12 months of 2008 LASCO Group has worked with net profit in the amount of EUR 40.1 million. The profit earned in 2008 is EUR 6.1 million lower compared to 2007 revealing general market tendencies during the report period and at the end of it in particular.

LASCO Group assets have increased by EUR 194.9 million reaching EUR 785.1 million on 31 December 2008. The significant increase is mainly attributed to the delivery of new vessels along with the purchase of assets in alternative non-shipping related investment sectors, acquiring exclusive real estate objects, as well as shares in printing and publishing companies.

MANAGEMENT REPORT *(Continued)*

Tanker Fleet Renewal Program

LASCO has gained new energy by implementation of its fleet modernization program – within its framework over a three year there have been 14 vessel newbuildings received ordered from 3.Maj shipyard in Croatia and *Hyundai Mipo Dockyard Co., Ltd* in Korea.

The accomplishment of the tanker fleet renewal program has resulted in reduction of the average age of the LASCO fleet from 17.5 years of age at the end of 2005 to 9.7 years at the end of 2008. Implementation of the above mentioned program has brought a positive impact on the LASCO fleet total tonnage rising from 1.01 million DWT to 1.29 DWT.

In addition to the fleet renewal program project mentioned above there are four medium range 52 000 DWT tankers being built at *Hyundai Mipo Dockyard Co., Ltd* in Korea in accordance with the tanker fleet development scenario foreseen in LASCO Operations Strategy for the period till year 2015. The optimum parameters of the tanker newbuildings ordered will provide for their comprehensive employment in oil product, chemical cargo and vegoil shipments.

Future Outlook

In 2009 LASCO Group will continue to work towards the accomplishment of the strategic goals set by LASCO Operations Strategy for the period till year 2015, ensuring growth of the Group's value by increasing equity capital and securing its place among the ten leading shipowners in the world in medium range tanker segment.

Considering uncertain times in international shipping markets and global economic conditions in order to secure business risk diversification LASCO Group has made investments in projects which are not related to its core operations – purchased a real estate as well as capital shares in the publishing and printing companies. In 2009 restructuring, development and implementation of the strategy in respect of these investments will be carried out.

It is foreseen that during 2009 LASCO Group will have to operate in complicated external conditions which will be affected by uncertain financial market conditions as well as decrease of development of global economy, therefore there will be a strong focus on financial and business risk management and cost optimization.

Environment Protection Initiatives

JSC Latvijas kuģniecība recognises the importance of the environmental protection policy therefore its attention is paid to ensure safe vessels operations and environmental protection. The implementation of tanker fleet renewal program by JSC Latvijas kuģniecība considerably decreases the risk of environmental pollution by the new vessels, improves effective utilisation of energy resources and testifies increasing corporate social responsibility of JSC Latvijas kuģniecība towards ocean and coastal waters environmental protection.

MANAGEMENT REPORT *(Continued)*


Post Balance Sheet Events

In 2009 LASCO Group will continue to work towards the accomplishment of the strategic goals set, maximising the results and paying particular attention to the efficiency of the administrative expenses and mobilisation of its tangible and intangible resources.

Proposal for use of the profit

The Management Board proposes to transfer current year profit to cover the previous years' accumulated losses.

On behalf of the Management of JSC Latvijas kuģniecība:



Imants Sarmulis
Chairman of the Management Board
JSC Latvijas kuģniecība

Riga, Latvia
April 7, 2009

JSC Latvijas kuģniecība

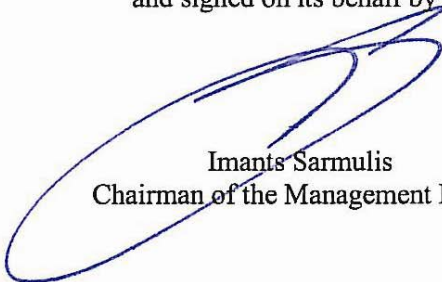
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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008****Income statement**

	2008	2007
	EUR	EUR
Net sales	13 487 520	8 266 329
Cost of sales	(4 821 757)	(4 433 784)
Gross profit	8 665 763	3 832 545
Administrative expenses	(11 574 743)	(10 059 015)
Other operating income	5 667	167 294
Other operating expenses	-	(1 800 128)
Income from participation in subsidiaries	29 792 534	4 346 589
Other interest and similar income	474 311	97 091
Impairment of non-current investments', net	(23 645)	(332 757)
Interest expenses and similar expenses	(1 173 266)	(171 746)
Profit/(loss) before taxation	26 166 621	(3 920 127)
Corporate income tax	217 856	-
Real estate tax	(33 842)	(35 923)
Net profit/(loss) for the year	26 350 635	(3 956 050)

These Financial Statements were approved by the Management Board on April 7, 2009
and signed on its behalf by



Imants Sarmulis
Chairman of the Management Board

JSC Latvijas kuģniecība

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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008****Balance sheet**

<u>Assets</u>	<u>31.12.2008</u> EUR	<u>31.12.2007</u> EUR
Non-Current Assets		
Intangible Assets:		
Concessions, patents, licenses, trademarks and similar rights	360 993	430 533
Advances for intangible assets	-	7 693
Total Intangible Assets:	360 993	438 226
Tangible Assets:		
Land, buildings and constructions	3 874 035	3 669 352
Machinery and equipment	14 405	17 935
Other fixed assets, fixtures and fittings	780 996	1 009 126
Assets under construction	8 724	26 655
Advances for fixed assets	-	3 620
Total Tangible Assets:	4 678 160	4 726 688
Investment properties:	2 504 222	174 980
Non-Current Financial Assets:		
Investments in subsidiaries	186 778 531	163 309 254
Investments in associated undertakings	10 747	10 747
Total Non-Current Financial Assets:	186 789 278	163 320 001
Total Non-Current Assets:	194 332 653	168 659 895
Current Assets		
Inventories:		
Raw materials	20 499	23 835
Total Inventories:	20 499	23 835
Accounts receivable and prepayments:		
Trade receivables	4 559	34 897
Amounts due from related companies	599 069	1 673 421
Other receivables	662 115	1 373 095
Deferred expenses	261 192	376 446
Total Accounts Receivable:	1 526 935	3 457 859
Current Investments:		
Deferred tax asset	217 856	36 682
Other current investments	-	-
Total Current Investments:	217 856	36 682
Cash and Cash Equivalents	263 485	328 156
Total Current Assets:	2 028 775	3 846 532
Total Assets	196 361 428	172 506 427

JSC Latvijas kuģniecība

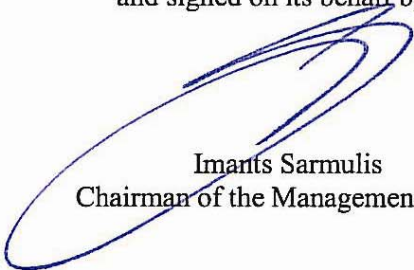
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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008****Balance sheet (continued)**

	31.12.2008	31.12.2007
	EUR	EUR
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity:		
Share capital	284 574 362	284 574 362
Retained earnings:		
accumulated losses for the previous years	(119 916 975)	(115 960 925)
profit/(loss) for the reporting year	26 350 635	(3 956 050)
Total Shareholders' Equity:	191 008 022	164 657 387
Liabilities:		
Current Liabilities:		
Trade payables	618 655	518 779
Amounts due to related companies	2 553 279	4 247 583
Taxes and social security contributions	781 396	158 679
Other accounts payable	489 070	349 810
Accrued liabilities	911 006	2 574 189
Total Current Liabilities:	5 353 406	7 849 040
<u>Total Shareholders' Equity and Liabilities</u>	<u>196 361 428</u>	<u>172 506 427</u>

These Financial Statements were approved by the Management Board on April 7, 2009
and signed on its behalf by



Imants Sarmulis
Chairman of the Management Board

JSC Latvijas kuģniecība

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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008****Statement of Changes in Shareholders' Equity**

	Share Capital EUR	Accumulated losses EUR	Total EUR
31 December 2006	284 574 362	(115 960 925)	168 613 437
Net loss for the year	-	(3 956 050)	(3 956 050)
31 December 2007	284 574 362	(119 916 975)	164 657 387
Net profit for the year	-	26 350 635	26 350 635
31 December 2008	284 574 362	(93 566 340)	191 008 022

As at 31 December 2008 the authorised, issued and fully paid share capital of the Company consists of 200 000 000 shares with nominal value of LVL 1 each. All the shares are publicly traded and listed on NASDAQ OMX Riga official list. All the shares are ordinary shares with voting rights.

These Financial Statements were approved by the Management Board on April 7, 2009
and signed on its behalf by



Imants Sarmulis
Chairman of the Management Board

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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008****Cash Flow Statement**

	2008	2007
	EUR	EUR
Cash Flow from Operating Activities		
Profit/(loss) before taxation	26 166 621	(3 920 127)
<u>Adjustments for:</u>		
Depreciation	471 945	475 236
Intangible assets amortisation	261 332	145 631
Accrued expenses (decrease)/increase	(1 981 865)	455 101
Foreign exchange (gain)/loss	(6 834)	22 218
Income from participation in subsidiaries, associates	(29 792 534)	(4 346 589)
Other interest income	(75 705)	(27 746)
Impairment of non-current investments	23 645	332 757
Impairment of current securities value	36 324	-
Gain from the disposal of fixed assets	(5 667)	(102 319)
Loss before adjustments for movements in net working capital	(4 902 738)	(6 965 838)
<u>Adjustments for:</u>	1 937 488	142 195
Decrease in trade and other receivables		
Decrease in inventories	3 335	6 229
Increase in trade and other payables	(1 516 891)	3 260 851
Gross Cash Flow from Operating Activities	(4 478 806)	(3 556 563)
Real estate tax	(33 842)	(35 923)
Net Cash Flow from Operating Activities	(4 512 648)	(3 592 486)
Cash Flow from Investing Activities		
Investments in subsidiaries	(23 492 923)	-
Investments in investment property	(465 848)	-
Acquisition of tangible and intangible assets, assets under construction	(315 481)	(1 372 660)
Proceeds from sale of fixed and intangible assets	32 316	551 898
Proceeds from repayment of the loans issued	-	31 199
Income from securities	357	-
Interest received	69 142	27 746
Dividends received	29 792 534	4 346 589
Net Cash Flow from Investing Activities	5 620 097	3 584 772
Cash Flow from Financial Activities		
Repayment of borrowings received from subsidiaries	(1 178 955)	-
Net Cash Flow from Financial Activities	(1 178 955)	-
Currency Translation Difference	6 835	(22 218)

JSC Latvijas kuģniecība

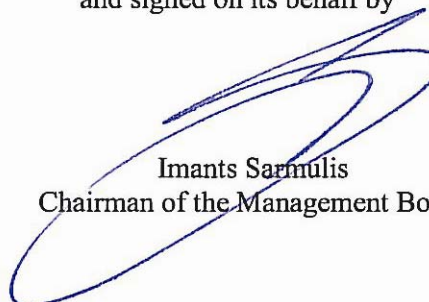
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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008****Cash Flow Statement (continued)**

	<u>2008</u> <u>EUR</u>	<u>2007</u> <u>EUR</u>
Net Decrease in Cash and Cash Equivalents	(64 671)	(29 932)
Cash and Cash Equivalents at the beginning of the year	328 156	358 088
Cash and Cash Equivalents at the end of the year	<u>263 485</u>	<u>328 156</u>

These Financial Statements were approved by the Management Board on April 7, 2009
and signed on its behalf by



Imants Sarmūlis
Chairman of the Management Board

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**CONDENSED ANNUAL REPORT
for the year ended 31 December 2008****Notes****Accounting policies and measurement basis****(1) General information**

The principal activity of JSC Latvijas kuģniecība (the Company) is management of Latvijas kuģniecība Group. The Company is registered at the Enterprise register on 13 September 1999 and reregistered in the Commercial register on 17 November 2004. All the shares of the Company are publicly traded and listed on the NASDAQ OMX Riga Official list.

The financial statements of the Company were authorized for issue in accordance with resolution of the Management Board as of 7 April 2009 and resolution of the Supervisory Board as of 7 April 2009. The Company's shareholders have the power to amend the financial statements after they have been issued.

(2) General principles

The annual report of the Company represents the parent only financial results of JSC Latvijas kuģniecība. The financial results of the Group are represented in the consolidated financial statements of the Group.

The financial statements have been prepared in accordance with the Law of the Republic of Latvia On Annual Accounts and Latvian Accounting Standards (LAS) applicable in the reporting year. The financial statements have been prepared on a historical cost basis. The reporting period for the annual report is from 1 January 2008 till 31 December 2008 and financial statements are prepared in Latvian lats (LVL). The income statement is prepared in accordance with the turnover method. Cash flow statement is prepared using the indirect cash flow method.

The accounting policies applied are consistent with those of the previous reporting period. The Company has adopted the new Latvian Accounting Standard – LAS 9 Investment property. Adoption of that standard did not have any effect on the financial statements of the Company and no material changes were made to accounting policies as a result of the adoption of the previously mentioned standard.

These condensed financial statements are translated in Euros using the rate of exchange stated by the Bank of Latvia as of 31.12.2008: 1 LVL = 0.702804 EUR