

CONDENSED ANNUAL REPORT 2008

With New Power in the World Market



LATVIJAS
KUĢNIECĪBA **lat**

*“ With New Power
in the World Market ”*

Latvian Shipping Company & its Subsidiaries
Condensed Annual Report 2008

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MANAGEMENT REPORT

WITH NEW POWER IN THE WORLD MARKET!

DEAR SHAREHOLDERS AND BUSINESS PARTNERS!

Year 2008 has been difficult in the world markets, numerous financial media and market players have characterised it as a crisis. Economical development slowing down or even becoming negative have inevitably influenced also shipping business that has been traditionally one of the main indicators of economical activities. The reduction of the demand for raw materials and merchandises led to the reduction in demand for cargo shipments resulting in lower freight rates.

However, last year's performance results have proved again that JSC Latvijas kuģniecība is able to attain significant business success even in unfavourable conditions. Moreover the company has continued steadily its fleet renewal programme, carried out structural changes and invested in non-shipping related assets in order to diversify eventual financial risks. Over a period of only three years we have managed to reduce nearly by half the age of the fleet and today we can take pride in the average age of the vessels of around 9 years. Our new fleet ensures JSC Latvijas kuģniecība a place among the world's leading shipping companies not only by the number of vessels but also by their modern technologies. I am confident that with the recovery of the global economic situation the renewed JSC Latvijas kuģniecība will announce itself with new power. All the prerequisites are there.

PERFORMANCE RESULTS

JSC Latvijas kuģniecība performance results in 2008 prove that the correctly chosen strategy for operational performance and the sale of the elderly fleet tonnage has allowed to benefit from the market situation and attain positive fleet performance result in the amount of EUR 43.3 million in 12 months of 2008 and an excellent profit from the sale of the vessels of EUR 30.9 million.

Last year JSC Latvijas kuģniecība 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, however, I find it excellent result considering the overall unfavourable market tendencies during the report period and at the end of it in particular.

JSC Latvijas kuģniecība Group's assets have increased by EUR 194.9 million reaching EUR 785.1 million on December 31, 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 media and publishing companies.

JSC Latvijas kuģniecība Group's cost effectiveness indicator – return on equity (ROE) for the 12 months period 2008 (01.01.2008. – 31.12.2008) is 10.8 per cent, but the earnings per share comprise EUR 0.20.

At the end of the period the shareholder's equity has reached EUR 370.1 million, or EUR 34.3 million more than at the beginning of the year.

All the JSC Latvijas kuģniecība 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 shares also dropped from LVL 1.30 at the beginning of the year to LVL 0.66 at the end of the year. On December 31, 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.

MANAGEMENT REPORT *(continued)*

GROUP'S PERFORMANCE DURING THE REPORT PERIOD

FLEET RESULTS

At the end of 2008 the fleet under JSC Latvijas kuģniecība commercial management was comprised of 34 tankers, two LPG carriers and one dry cargo vessel. Over the 12 month period of 2008 all the fleet sectors have worked with profit their vessel operating profit reaching EUR 43.3 million. However, caused by the external factors leading to the biggest downturn in all industry segments world wide during the final quarter of 2008 including decline of oil price, the above mentioned result is EUR 4.8 million lower compared to the respective period a year before. The Tanker fleet of JSC Latvijas kuģniecība has brought the biggest contribution to the fleet performance result, or 81 per cent of the total, impact of the LPG fleet has augmented slightly and reached 16 per cent, the share of the Reefer fleet is 2 per cent, but the revenues from the dry cargo vessel represent a little more than 1 per cent of the total LASCO Group vessel performance result.

TANKER FLEET

During the report period 90 per cent of all the tankers of JSC Latvijas kuģniecība Tanker fleet have been chartered out, whereas those operating on the voyage charter basis have been working in the Baltic, Northern European, Black Sea, Mediterranean, trans Atlantic, as well as the Middle and the Far East markets in dark and light oil product shipments. Tanker voyage charter rates have slightly increased at the beginning of the 2008 reaching their highest level in the middle of the year, but already in the first half of July the rates started to fall and experienced particularly heavy drop during the final quarter of the report period. One could observe shortage of cargoes and overall passivity in the market that is unusual for the season. Consequently, the unfavourable tendencies intensified also in time charter markets.

LPG AND REEFER FLEETS

Both the LPG carriers of JSC Latvijas kuģniecība continued to operate within the ScandiGas pool over the twelve months period of 2008. The revenues from both the LPG carriers have been higher than the respective indicator a year before. In 2008 the sale of the old reefer fleet tonnage has been finalised. The revenues from the transaction are foreseen for investment into four medium range tanker newbuildings. During the report period the dry cargo vessel of JSC Latvijas kuģniecība fleet continued to work in accordance with the time charter agreement signed earlier showing moderate, but stable performance result at the level of the previous year.

CONSTANT FLEET MODERNISATION

Optimistic forecasts for JSC Latvijas kuģniecība future perspectives are based on the decision taken several years ago to renew the fleet and it has been implemented persistently. Within the framework of the fleet renewal programme over a three year period there have been 14 vessel newbuildings received ordered from *3.Maj* shipyard in Croatia and *Hyundai Mipo Dockyard Co., Ltd* in Korea. During the report period JSC Latvijas kuģniecība has taken delivery of three tanker newbuildings *Užava*, *Salacgrīva* and *Ainaži*. As the result the average age of JSC Latvijas kuģniecība fleet has reduced from 17.5 years of age at the end of 2005 to 9.7 years at the end of 2008. This is an important signal to all the business partners demonstrating focused development and increase of the service quality standards of the Group. The implementation of the above mentioned programme has brought positive impact on JSC Latvijas kuģniecība total fleet tonnage rising from 1.01 million DWT to 1.29 DWT.

After the 2008 report period 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 JSC Latvijas kuģniecība Operational Strategy for the period till year 2015.

The new tanker fleet in medium range or handy tanker segment has become nearly the main advantage of JSC Latvijas kuģniecība in the world markets where with the reduction of demand the competition among freight carriers has increased considerably.

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MANAGEMENT REPORT *(continued)*

POST BALANCE SHEET EVENTS

After the report period there have been changes made in the leadership of JSC Latvijas kuģniecība Supervisory Council. Maris Gailis, former Supervisory Council member, has been elected as the Chairman. The former prime Minister of Latvia has considerable international experience, broad vision and his long-term private experience in shipping business will certainly be a positive further contribution into efficient supervision of JSC Latvijas kuģniecība.

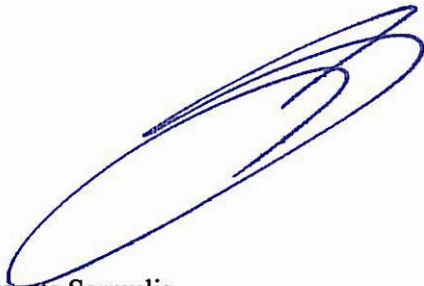
FUTURE PERSPECTIVES

Throughout 2009 JSC Latvijas kuģniecība will continue to operate in difficult external situation affected both by unstable situation in the world financial markets as well as slow down of world's economic development. In accordance with the forecasts of leading shipping experts the shipping industry may face considerable stagnation in the forthcoming years therefore the main focus is on commercial and financial risk management.

At the prevailing complicated economical situation in the global markets JSC Latvijas kuģniecība pays much attention and will continue to focus on securing the maximum performance of the internal structure of the company and assessment of all the costs by keeping the resources that are needed objectively.

Even though due to the unfavourable global processes the planned activities of JSC Latvijas kuģniecība may not bring increase of the Group's revenues and profit in short term, the management of JSC Latvijas kuģniecība is facing future perspectives with sound optimism. The new fleet in combination with the experience gained over tens of years announces JSC Latvijas kuģniecība with a new power to the world market.

On behalf of the Management of JSC Latvijas kuģniecība:



Imants Sarmulis
Chairman of the Management Board
JSC Latvijas kuģniecība

Riga, Latvia
April 7, 2009

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THE SUPERVISORY COUNCIL

Chairman of the Council	Māris Gailis (from 13.01.2009) Uldis Pumpurs (from 15.02.2008, till 12.01.2009)
Deputy Chairperson of the Council	Vladimirs Solomatins (from 15.02.2008) Andris Vilcmeiers (from 15.02.2008) Andris Linužs (till 10.02.2008) Olga Pētersone (till 10.02.2008)
Members of the Council:	Ansis Sormulis (till 10.02.2008, from 15.02.2008) Olga Pētersone (from 15.02.2008) Svens Zālītis (from 15.02.2008) Guntis Ločmelis (from 15.02.2008) Miks Ekbaums (from 15.02.2008) Māris Gailis (from 15.02.2008, till 12.01.2009) Uldis Pumpurs (from 13.01.2009) Normunds Staņēvičs (from 15.02.2008) Vladimirs Koškuls (from 15.02.2008) Kārlis Boldiševics (from 15.02.2008) Aldis Āķis (till 10.02.2008) Laimonis Junkers (till 10.02.2008) Mamerts Vaivads (till 10.02.2008) Pēteris Putniņš (till 10.02.2008) Vladimirs Krastiņš (till 10.02.2008) Vladimirs Solomatins (till 10.02.2008)

THE MANAGEMENT BOARD

Chairman of the Management Board	Imants Sarmulis (from 01.11.2007)
Member of the Management Board – 1.vice-president	Andris Linužs (from 14.02.2008) Miks Ekbaums (till 13.02.2008)
Member of the Management Board – vice-president	Raivis Veckāgans (from 14.02.2008) Solvita Deglava (till 13.02.2008)
Members of the Management Board	Guntis Tīrmanis (till 13.02.2008, from 14.02.2008) Ilva Purēna (till 13.02.2008, from 14.02.2008)

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CONSOLIDATED INCOME STATEMENT

	2008 EUR '000	2007 EUR '000
Voyage income	172 046	165 187
Voyage costs	(21 995)	(20 775)
Net Voyage Result	150 051	144 412
Vessel operating costs	(86 104)	(78 951)
Vessel Operating Profit before Depreciation	63 947	65 461
Vessel depreciation	(20 697)	(17 417)
Vessel Operating Profit	43 250	48 044
Administration expenses	(22 448)	(17 504)
Other operational income	856	839
Other operational expenses	(2 023)	(1 665)
Gain on sale of assets	30 879	26 218
Operating Profit	50 514	55 932
Financial income	2 518	4 242
Financial expense	(13 178)	(14 004)
Profit before Taxation	39 854	46 170
Taxation	210	(23)
Net Profit for the Year	40 064	46 147
Earnings per share	EUR 0.20	EUR 0.23

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

Chairman of the Management Board

Imants Sarmulis

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CONSOLIDATED BALANCE SHEET

	31.12.2008	31.12.2007
	EUR '000	EUR '000
<hr/>		
ASSETS		
<i>Non-current assets</i>		
Goodwill	11 363	-
Intangible assets	2 540	439
Total intangible assets	13 903	439
Fleet	473 156	438 383
Other property, plant and equipment	36 184	7 164
Assets under construction	69 917	49 203
Total property, plant and equipment	579 257	494 750
<i>Investment properties</i>	101 858	1 062
Investments in associates accounted for using the equity method	18	18
Other financial assets	-	1 049
Total non-current financial assets	18	1 067
Total non-current assets	695 036	497 319
<i>Current assets</i>		
Inventories	4 578	4 613
Trade accounts receivable	9 943	6 748
Prepayments and other receivables	5 874	7 274
Accounts receivable from related party	97	-
Deposits with maturity more than three months	42 393	33 033
Financial assets designated at fair value through profit or loss	2 750	3 967
Cash and cash equivalents	24 472	37 255
Total current assets	90 107	92 890
TOTAL ASSETS	785 143	590 209

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CONSOLIDATED BALANCE SHEET *(continued)*

	31.12.2008	31.12.2007
	EUR '000	EUR '000
<i>EQUITY AND LIABILITIES</i>		
<i>Equity</i>		
Share capital	284 574	284 574
Cash flow hedge reserve	(3 261)	-
Translation reserve	(54 117)	(51 061)
Retained earnings	142 340	102 276
	369 536	335 789
<i>Minority interest</i>	514	-
<i>Total equity</i>	370 050	335 789
<i>Non-current liabilities</i>		
Non-current portion of bank loans	240 343	205 881
Finance lease	14 550	-
Accounts payable to related party	57 310	-
Derivative financial instruments	2 384	-
Deferred tax liabilities	11 989	25
Deferred revenue	725	-
<i>Total non-current liabilities</i>	327 301	205 906
<i>Current liabilities</i>		
Current portion of bank loans	26 824	28 769
Finance lease	5 142	-
Accounts payable to related party	31 734	-
Trade accounts payable	6 437	2 458
Derivative financial instruments	877	-
Deferred revenue	5 143	-
Other liabilities	11 635	17 287
<i>Total current liabilities</i>	87 792	48 514
<i>Total liabilities</i>	415 093	254 420
<i>TOTAL EQUITY & LIABILITIES</i>	785 143	590 209

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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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Cash flow hedge reserve	Translation Reserve	Retained earnings	Total before minority interest	Minority interest	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
At 31 December 2006	284 574	-	(12 897)	56 129	327 806	-	327 806
Currency translation differences	-	-	(38 164)	-	(38 164)	-	(38 164)
Net income and expense for the year recognised directly in equity	-	-	(38 164)	-	(38 164)	-	(38 164)
Net Profit for the year	-	-	-	46 147	46 147	-	46 147
Total income and expense for the year	-	-	(38 164)	46 147	7 983	-	7 983
At 31 December 2007	284 574	-	(51 061)	102 276	335 789	-	335 789
Currency translation differences and other reserves	-	(3 261)	(3 056)	-	(6 317)	-	(6 317)
Net income and expense for the year recognised directly in equity	-	(3 261)	(3 056)	-	(6 317)	-	(6 317)
Net Profit for the year	-	-	-	40 064	40 064	-	40 064
Total income and expense for the year	-	(3 261)	(3 056)	40 064	33 747	-	33 747
Minority interest	-	-	-	-	-	514	514
At 31 December 2008	284 574	(3 261)	(54 117)	142 340	369 536	514	370 050

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CONSOLIDATED CASH FLOW STATEMENT

	2008	2007
	EUR '000	EUR '000
Profit before taxation	39 854	46 170
Adjustments for :		
Depreciation	21 571	18 134
Profit on sale of fleet and other property, plant and equipment	(30 879)	(26 218)
Fair value amortisation	2 023	
Dry-docking deferred expenditure depreciation	4 667	4 768
Currency translation difference	(1 534)	(1 085)
Interest expenses	12 273	13 329
Interest income	(2 628)	(4 119)
	45 347	50 979
Movement in net working capital – net of provisions		
Inventories	(6)	(793)
Trade accounts receivable, prepayments and other receivables	(1 774)	262
Trade accounts payable and other liabilities	2 801	(432)
	1 021	(963)
Cash inflow from operations	46 368	50 016
Corporate income taxes paid	(5)	(12)
Net cash inflow from operating activities	46 363	50 004
Investing activities		
Payments for fleet newbuildings	(58 309)	(137 136)
Payments for assets under construction	(21 790)	(49 139)
Dry-dock deferred expenditure	(2 662)	(3 398)
Purchase of other property, plant and equipment	(306)	(3 523)
Business combinations (net of cash acquired)	(26 951)	-
Proceeds on sale of fleet, other property, plant and equipment	47 522	73 193
Purchase of financial assets designated at fair value through profit or loss	-	(32 268)
Settlement of financial assets designated at fair value through profit or loss	935	36 335
Placement of deposits with maturity more than three months	(9 762)	-
Interest received	2 605	4 699
Net cash outflow from investing activities	(68 718)	(111 237)

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CONSOLIDATED CASH FLOW STATEMENT *(continued)*

	2008	2007
	EUR '000	EUR '000
Cash outflow before financing activities	(22 355)	(61 233)
Financing activities		
Bank loans received	63 711	151 481
Bank loans repaid	(42 005)	(63 480)
Prepaid financing expenses	(356)	(1 337)
Interest paid on loans	(11 778)	(13 414)
Net cash inflow from financing activities	9 572	73 250
(Decrease) / increase in cash and cash equivalents	(12 783)	12 017
Cash and cash equivalents at 1 January:	37 255	25 238
Cash and cash equivalents at 31 December:	24 472	37 255

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NOTES

1. Accounting policies

These condensed consolidated financial statements are prepared in accordance with and comply with accounting policies applied in preparation of the consolidated financial statements of Latvian Shipping Company & its Subsidiaries for the year ended 31 December 2008, which were prepared in accordance with International Financial Reporting Standards adopted by the European Union (EU).

Detailed accounting policies and notes disclosing the items of the consolidated income statement and the consolidated balance sheet form the part of the above mentioned consolidated financial statements.

The functional currency of the Group is U.S. dollars. These condensed consolidated financial statements are presented in EUR in the following way: assets and liabilities, as well as income and expenses are translated in EUR using the rate of exchange stated by the Bank of Latvia as of 31.12.2008: 1 USD = 0.682640 EUR (31.12.2007: 1 USD = 0.68867 EUR).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

2. Segment information

	Shipping*		Real estate management		Publishing and printing		Total	
	2008 EUR '000	2007 EUR '000	2008 EUR '000	2007 EUR '000	2008 EUR '000	2007 EUR '000	2008 EUR '000	2007 EUR '000
Voyage income	172 046	165 187	-	-	-	-	172 046	165 187
Voyage costs	(21 995)	(20 775)	-	-	-	-	(21 995)	(20 775)
Net voyage result	150 051	144 412	-	-	-	-	150 051	144 412
Vessel operating costs	(86 104)	(78 951)	-	-	-	-	(86 104)	(78 951)
Vessel depreciation	(20 697)	(17 417)	-	-	-	-	(20 697)	(17 417)
Vessel operating profit	43 250	48 044	-	-	-	-	43 250	48 044
Gain on sale of assets	30 874	26 104	-	-	-	-	30 874	26 104
Segment result	74 124	74 148	-	-	-	-	74 124	74 148
Unallocated sale of assets							5	114
Unallocated administration expenses							(22 448)	(17 504)
Unallocated other operational income							856	839
Unallocated other operational expenses							(2 023)	(1 665)
Operating Profit							50 514	55 932
Financial income							2 518	4 242
Financial expense							(13 178)	(14 004)
Profit before taxation							39 854	46 170
Taxation							210	(23)
Net profit for the year							40 064	46 147
Segment assets	614 918	590 209	135 919	-	34 306	-	785 143	590 209
Segment liabilities	271 747	254 420	102 054	-	41 292	-	415 093	254 420

* - more detailed information for the shipping segment is presented on page 15.

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(continued)

2. Segment information *(continued)*

	Tankers		Reefers		LPG		Dry		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Voyage income	151 004	143 728	5 856	8 019	12 878	11 258	2 308	2 182	172 046	165 187
Voyage costs	(20 613)	(20 170)	(1 220)	(621)	(43)	(62)	(119)	78	(21 995)	(20 775)
Net voyage result	130 391	123 558	4 636	7 398	12 835	11 196	2 189	2 260	150 051	144 412
Vessel operating costs	(77 853)	(66 919)	(3 128)	(6 889)	(3 465)	(3 638)	(1 658)	(1 505)	(86 104)	(78 951)
Vessel depreciation	(17 777)	(13 991)	(559)	(1 045)	(2 361)	(2 381)	-	-	(20 697)	(17 417)
Vessel operating profit	34 761	42 648	949	(536)	7 009	5 177	531	755	43 250	48 044
Gain on sale of assets	14 427	26 104	16 447	-	-	-	-	-	30 874	26 104
Segment result	49 188	68 752	17 396	(536)	7 009	5 177	531	755	74 124	74 148
Segment assets	505 715	451 824	604	14 609	41 507	43 174	913	1 134	548 739	510 741
Unallocated assets									66 179	79 468
									614 918	590 209
Segment liabilities	267 658	248 755	55	1 169	1 072	454	184	209	268 969	250 587
Unallocated liabilities									2 778	3 833
									271 747	254 420
Investments in vessels	83 494	188 915	-	424	-	298	-	-	83 494	189 637
Depreciation	17 777	13 991	559	1 045	2 361	2 381	-	-	20 697	17 417
Dry-docking deferred expenditure depreciation	3 912	4 083	517	368	130	198	109	119	4 667	4 768