

ANNUAL REPORT 2008

With New Power in the World Market



LATVIJAS
KUĢNIECĪBA **lat**

*“ With New Power
in the World Market ”*

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JSC Latvijas kuģniecība

Address: 1 Elizabetes Street, Riga, LV 1807

Unified registration number: 40003021108

**Financial Statements
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

Address: 1 Elizabetes Street, Riga, LV 1807

Unified registration number: 40003021108

**Financial Statements
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
Miks 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		
Miks 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

Address: 1 Elizabetes Street, Riga, LV 1807

Unified registration number: 40003021108

**Financial Statements
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

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.

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 shared 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 LVL 9.5 million and net profit of LVL 18.5 million.

Overall in 12 months of 2008 LASCO Group has worked with net profit in the amount of USD 58.7 million. The profit earned in 2008 is USD 8.3 million or 12 per cent 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 USD 293.1 million reaching USD 1 150.2 million on 31 December 2008. This is the first time in LASCO history when the Group's assets have exceeded one billion USD. 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.

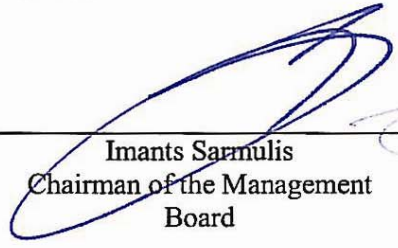

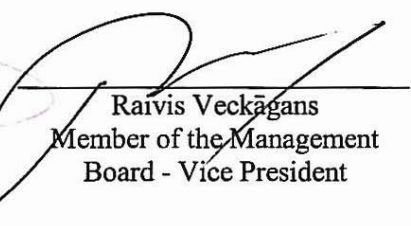

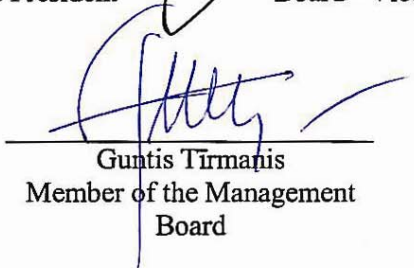
MANAGEMENT REPORT (Continued)

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.

 _____ 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
 _____ Ilva Purēna Member of the Management Board	 _____ Guntis Tīrmanis Member of the Management Board	

7 April 2009

The Annual Report was approved by the Annual general meeting of Shareholders on _____ 2009

JSC Latvijas kuģniecība

Address: 1 Elizabetes Street, Riga, LV 1807





Unified registration number: 40003021108

**Financial Statements
for the year ended 31 December 2008****Income statement**

	Notes	2008 LVL	2007 LVL
Net sales	1	9 479 083	5 809 609
Cost of sales	2	(3 388 750)	(3 116 081)
Gross profit		6 090 333	2 693 528
Administrative expenses	3	(8 134 776)	(7 069 516)
Other operating income	4	3 983	117 575
Other operating expenses	5	-	(1 265 137)
Income from participation in subsidiaries	6	20 938 312	3 054 800
Other interest and similar income	7	333 348	68 236
Impairment of non-current investments', net	8	(16 618)	(233 863)
Interest expenses and similar expenses	9	(824 576)	(120 704)
Profit/(loss) before taxation		18 390 006	(2 755 081)
Corporate income tax	10	153 110	-
Real estate tax		(23 784)	(25 247)
Net profit/(loss) for the year		18 519 332	(2 780 328)

The accompanying notes on pages 15 to 35 are an integral part of these financial statements.

The financial statements were signed on 7 April 2009 by:

 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
 Ilva Purēna Member of the Management Board	 Guntis Tirmanis Member of the Management Board	

JSC Latvijas kuģniecība

Address: 1 Elizabetes Street, Riga, LV 1807

Unified registration number: 40003021108

**Financial Statements
for the year ended 31 December 2008****Balance sheet**

<u>Assets</u>	Notes	31.12.2008 LVL	31.12.2007 LVL
Non-Current Assets			
Intangible Assets:			
Concessions, patents, licenses, trademarks and similar rights		253 707	302 580
Advances for intangible assets		-	5 407
Total Intangible Assets:	11	253 707	307 987
Tangible Assets:			
Land, buildings and constructions	12	2 722 687	2 578 835
Machinery and equipment	12	10 124	12 605
Other fixed assets, fixtures and fittings	12	548 887	709 218
Assets under construction	12	6 131	18 733
Advances for fixed assets		-	2 544
Total Tangible Assets:		3 287 829	3 321 935
Investment properties:	12	1 759 977	122 977
Non-Current Financial Assets:			
Investments in subsidiaries	13	131 268 699	114 774 397
Investments in associated undertakings	14	7 553	7 553
Total Non-Current Financial Assets:		131 276 252	114 781 950
Total Non-Current Assets:		136 577 765	118 534 849
Current Assets			
Inventories:			
Raw materials	15	14 407	16 751
Total Inventories:		14 407	16 751
Accounts receivable and prepayments:			
Trade receivables	16	3 204	24 526
Amounts due from related companies	17	421 028	1 176 087
Other receivables	18	465 338	965 017
Deferred expenses		183 567	264 568
Total Accounts Receivable:		1 073 137	2 430 198
Current Investments:			
Deferred tax asset	10	153 110	-
Other current investments		-	25 780
Total Current Investments:		153 110	25 780
Cash and Cash Equivalents		185 178	230 629
Total Current Assets:		1 425 832	2 703 358
<u>Total Assets</u>		<u>138 003 597</u>	<u>121 238 207</u>

JSC Latvijas kuģniecība

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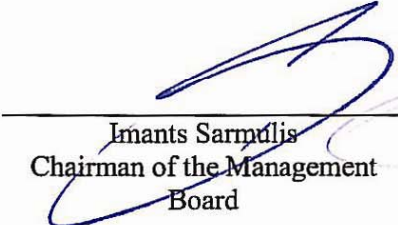
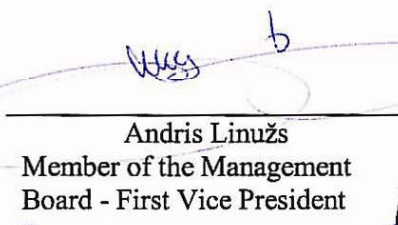
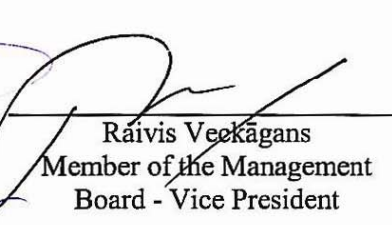


Unified registration number: 40003021108

**Financial Statements
for the year ended 31 December 2008****Balance sheet (continued)**

<u>Shareholders' Equity and Liabilities</u>	Notes	31.12.2008 LVL	31.12.2007 LVL
Shareholders' Equity:			
Share capital		200 000 000	200 000 000
Retained earnings:			
accumulated losses for the previous years		(84 278 130)	(81 497 802)
profit/(loss) for the reporting year		18 519 332	(2 780 328)
Total Shareholders' Equity:		134 241 202	115 721 870
Liabilities:			
Current Liabilities:			
Trade payables		434 793	364 600
Amounts due to related companies	19	1 794 455	2 985 218
Taxes and social security contributions	20	549 168	111 520
Other accounts payable	21	343 720	245 849
Accrued liabilities	23	640 259	1 809 150
Total Current Liabilities:		3 762 395	5 516 337
<u>Total Shareholders' Equity and Liabilities</u>		<u>138 003 597</u>	<u>121 238 207</u>

The accompanying notes on pages 15 to 35 are an integral part of these financial statements.

The financial statements were signed on 7 April 2009 by:

 Imants Sarmūlis Chairman of the Management Board	 Andris Linužs Member of the Management Board - First Vice President	 Raivis Veckāgans Member of the Management Board - Vice President
 Ilva Purēna Member of the Management Board	 Guntis Tirmanis Member of the Management Board	

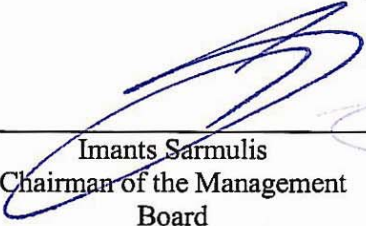



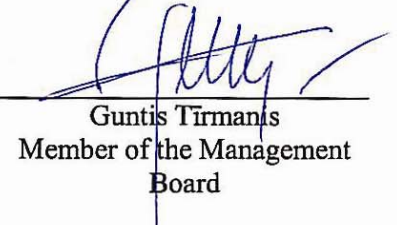
Statement of Changes in Shareholders' Equity

	Share Capital LVL	Accumulated losses LVL	Total LVL
31 December 2006	200 000 000	(81 497 802)	118 502 198
Net loss for the year	-	(2 780 328)	(2 780 328)
31 December 2007	200 000 000	(84 278 130)	115 721 870
Net profit for the year	-	18 519 332	18 519 332
31 December 2008	200 000 000	(65 758 798)	134 241 202

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.

The accompanying notes on pages 15 to 35 are an integral part of these financial statements.

The financial statements were signed on 7 April 2009 by:

 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
 Ilva Purēna Member of the Management Board	 Guntis Tīrmanis Member of the Management Board	

JSC Latvijas kuģniecība

Address: 1 Elizabetes Street, Riga, LV 1807

Unified registration number: 40003021108

**Financial Statements
for the year ended 31 December 2008****Cash Flow Statement**

	Notes	2008 LVL	2007 LVL
Cash Flow from Operating Activities			
Profit/(loss) before taxation		18 390 006	(2 755 081)
<u>Adjustments for:</u>			
Depreciation	2,3	331 685	333 998
Intangible assets amortisation	2,3	183 665	102 350
Accrued expenses (decrease)/increase		(1 392 863)	319 847
Foreign exchange (gain)/loss		(4 803)	15 615
Income from participation in subsidiaries, associates	6	(20 938 312)	(3 054 800)
Other interest income	7	(53 206)	(19 500)
Impairment of non-current investments	8	16 618	233 863
Impairment of current securities value		25 529	-
Gain from the disposal of fixed assets	4	(3 983)	(71 910)
Loss before adjustments for movements in net working capital		(3 445 664)	(4 920 865)
<u>Adjustments for:</u>			
Decrease in trade and other receivables		1 358 828	99 934
Decrease in inventories		2 344	4 378
Increase in trade and other payables		(1 066 077)	2 291 739
Gross Cash Flow from Operating Activities		(3 150 569)	(2 524 814)
Real estate tax	22	(20 938)	(25 247)
Net Cash Flow from Operating Activities		(3 171 507)	(2 524 814)
Cash Flow from Investing Activities			
Investments in subsidiaries	13	(16 510 920)	-
Investments in investment property		(327 400)	-
Acquisition of tangible and intangible assets, assets under construction		(221 721)	(964 711)
Proceeds from sale of fixed and intangible assets		22 712	387 876
Proceeds from repayment of the loans issued		-	21 927
Income from securities		251	-
Interest received		48 593	19 500
Dividends received	6	20 938 312	3 054 800
Net Cash Flow from Investing Activities		3 949 827	2 519 392
Cash Flow from Financial Activities			
Repayment of borrowings received from subsidiaries		(828 574)	-
Net Cash Flow from Financial Activities		(828 574)	-
Currency Translation Difference		4 803	(15 615)

JSC Latvijas kuģniecība

Address: 1 Elizabetes Street, Riga, LV 1807

Unified registration number: 40003021108

**Financial Statements
for the year ended 31 December 2008****Cash Flow Statement (continued)**

	2008 LVL	2007 LVL
Net Decrease in Cash and Cash Equivalents	(45 451)	(21 037)
Cash and Cash Equivalents at the beginning of the year	230 629	251 666
Cash and Cash Equivalents at the end of the year	185 178	230 629

The accompanying notes on pages 15 to 35 are an integral part of these financial statements.

The financial statements were signed on 7 April 2009 by:

 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
 Ilya Purēna Member of the Management Board	 Guntis Tirmanis Member of the Management Board	

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.

(3) Related parties

Parties are considered as related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operating decisions. The related parties in this report consist of the Company, its subsidiaries and sub-subsidiaries, management of the Company and shareholders holding substantial portion of shares in the Company. In providing and receiving the services from the related parties the pricing policy is the same as would be applied to transactions with third parties.

(4) Net sales and income recognition

Net sales represent the total of goods sold and services provided during the year net of value added tax and discounts.

Income is recognised upon delivery of goods or provision of services. The interest income is recognized as the interest accrues. Income from fines and penalties is recognised as received.

Notes (continued)**Accounting policies and measurement basis (continued)****(5) Foreign currency conversion into Lats**

An accounting currency used by the Company is Latvian lat. All transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats at the foreign exchange set forth by the Bank of Latvia at the end of the reporting period. Any gain or loss resulting from the rate foreign currency translation is recognised in the Income Statement of the respective reporting period and represented in the net value:

	31.12.2008	31.12.2007
	LVL	LVL
1 USD	0.495	0.484
1 EUR	0.702804	0.702804

(6) Intangible assets

All intangible assets are recorded at historical cost net of amortization. Amortization is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life as follows – 33.33 % per annum. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(7) Tangible fixed assets

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the tangible fixed asset is put into operation or engaged in commercial activity.

Each part of an item of fixed asset with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of fixed asset, it also depreciates separately the remainder of the item. When tangible fixed assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statements.

The following depreciation rates were established and applied:

	% per annum
Buildings and constructions	2 – 20
Machinery and equipment	14.29
Other fixed assets	14.29 – 50

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the fixed assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statements in the period when incurred. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalized as an additional cost of property, plant and equipment.

Notes (continued)**Accounting policies and measurement basis (continued)****(7) Tangible fixed assets (continued)**

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The Company reassessed the useful life of fixed assets for each individually significant part of property, plant and equipment.

Assets under construction represents tangible fixed assets under construction and are stated at historical cost or as appropriate. This includes the cost of construction and other direct expenses. Assets under construction in progress are not depreciated as long as the respective assets are not completed and put into operation.

(8) Investment property

Investment properties consist of investments in land and building held to earn rentals or for capital appreciation purposes, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. Investment properties are measured at cost, representing purchase price and related transaction costs.

When events or changes in circumstances indicate the carrying value may not be recoverable, the carrying value of investment property is reviewed for impairment. Subsequent to initial recognition, valuation of the investment property is performed at the end of each reporting period. If there are any indications that investment property has suffered an impairment loss, it is written down to Income statement to recognise the asset on the Balance sheet at its recoverable amount.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

(9) Investments in subsidiaries

Investments in subsidiary undertakings (such entities in which the Company has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations) are stated at cost. Investments in subsidiaries are valued at their initial value less impairment losses. Where events or changes in circumstances indicate that the carrying amount of investments in subsidiaries may not be recoverable, the respective investments are tested for impairment. Recoverable value of investment is determined on the basis of cash flow forecasts based on budgets and business plans prepared by the management of companies.

The Company recognises income from its investments in subsidiary only to the extent that the Company receives distributions from accumulated profits of the subsidiary or arising after the date of acquisition. Any distributions received out of pre-acquisition profits are treated as a recovery of the cost of investment.

Notes (continued)**Accounting policies and measurement basis (continued)****(10) Investments in associates**

Investments in associates (such entities over which the Company generally has 20 to 50% of the voting rights, or over which the Company has significant influence, but it does not control) are stated at cost. Subsequent initial recognition, investments in associate are valued at their initial value less impairment losses. Where events or changes in circumstances indicate that the carrying amount of investments in associates may not be recoverable, the respective investments are tested for impairment.

The Company recognises income from its investments in associates only to the extent that the Company receives distributions from accumulated profits of the associate arising after the date of acquisition. Any distributions received out of pre-acquisition profits are treated as a recovery of the cost of investment.

(11) Other securities and investments

Investments in entities, in which the Company has no significant influence (ownership interest does not exceed 20%), are stated at cost. Where the decline in value is other than temporary, the resulting difference between the investment's initial value and its recoverable amount is recognised in the Income Statement.

(12) Inventories

Cost is determined by the first-in, first-out (FIFO) method. Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. When necessary, the provisions are made for obsolete, slow-moving or damaged inventories, or their value is written-down.

(13) Trade receivables

Trade receivables are carried at original invoiced amount less the provision made for bad and doubtful receivables. Provisions for bad and doubtful receivables are made when management considers the recovery of these receivables is doubtful.

(14) Cash and cash equivalents

Cash and cash equivalents include cash and short term deposits, which do not exceed three months maturity on the date of placement.

(15) Provisions

Provisions are recognised when the Company 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 of the amount of the obligation can be made.

Provisions are measured in the balance sheet at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are used only for expenditures for which the provisions were originally recognised and are reversed if an out flow of resources is no longer probable.

(16) Loans and borrowings

All loans and borrowings are initially recognised at cost.

Notes (continued)**Accounting policies and measurement basis (continued)****(17) Accruals for employee vacation expenses**

The amount of accruals for employee vacation expenses is determined by multiplying the average daily salary within last six month with unused vacation days as at the end of the reporting year, but not exceeding the two year period.

(18) Taxes

Corporate income tax is calculated according to the Law on Corporate Income Tax. Deferred income tax is calculated using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the years when the temporary differences are reversed. The principal temporary differences arise from difference in depreciation rates applied to fixed assets, as well as from tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(19) Operating lease

Lease of the assets where the lessor retains substantially all risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Contingent liabilities are not recognized in the financial statements.

(20) Post balance sheet events

The amounts recognised in financial statements are adjusted to reflect post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events). Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

(21) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported values of assets, liabilities, income and expenses and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

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**Financial Statements
for the year ended 31 December 2008****Notes (continued)****Notes to the separate Income statement positions (continued)**

	2008	2007
	LVL	LVL
(1) Net sales		
Income from commercial and management services	8 892 813	5 346 522
Income from IT and accounting services	426 696	306 183
Rental income	159 574	156 904
	9 479 083	5 809 609
(2) Cost of sales		
Salaries, trainings and other social costs	1 533 956	1 402 527
Social security contributions	236 636	203 255
Professional charges and legal costs	917 550	895 124
Depreciation and amortisation	281 592	217 714
Repairs and maintenance expenditure	127 992	150 530
IT and communication	120 168	138 295
Transport and travelling expenses	117 554	78 277
<i>incl. social security contributions</i>	5 068	2 553
Advertising and marketing	10 173	13 338
Other costs	43 129	17 021
	3 388 750	3 116 081

In 2008 position *Salaries, trainings and other social costs* included expenses for annual bonuses in the total amount of LVL 268 937. In 2007 accrued bonuses related to that period were included in Income statement position *Other operating expenses* (see Note 5).

(3) Administrative expenses

Salaries, trainings, health insurance and other social costs	4 695 607	4 092 107
Social security contributions	283 069	205 117
Advertising and marketing	907 726	924 063
Occupation and repairs	653 450	312 386
Professional fees	338 395	258 708
Transport and travelling expenses	307 775	225 212
<i>incl. social security contributions</i>	4 252	5 100
Depreciation and amortisation	233 758	218 634
IT and communication	25 789	10 787
Other expenses	802 865	651 254
Movements in doubtful debts and other provisions	(113 658)	171 248
	8 134 776	7 069 516

In 2008 position *Salaries, trainings, health insurance and other social costs* included expenses for annual bonuses in the total amount of LVL 1 363 281. In 2007 accrued bonuses related to that period were included in Income statement position *Other operating expenses* (see Note 5).

Notes (continued)**Notes to the separate Income statement positions (continued)**

	2008	2007
	LVL	LVL
(4) Other operating income		
Gain on disposal of fixed assets	3 983	71 910
Reversed accruals for legal proceedings and salaries	-	45 665
	3 983	117 575
(5) Other operating expenses		
Accruals for employees bonuses	-	1 265 137
	-	1 265 137
The employees' bonuses for 2008 were both, calculated and paid until the end of the reporting year. These expenses were divided and included in the following Income statement position – <i>Cost of sales</i> within sub-position <i>Salaries, trainings and other social costs</i> , and <i>Administrative expenses</i> within sub-position <i>Salaries, trainings, health insurance and other social costs</i> (see notes 2 and 3).		
(6) Income from investments in subsidiaries		
Dividends received from Latmar Holdings Corporation	20 000 000	2 585 000
Dividends received from SIA LSC Marine Training	869 099	-
Dividends received from SIA Karavella Property	69 213	-
Dividends received from Santomar Holdings Company Ltd.	-	469 800
	20 938 312	3 054 800
(7) Other interest and similar income		
Interest income from short term loans advanced to subsidiaries	45 582	7 839
Interest income	7 624	11 661
Net gain from foreign currency translation	280 142	-
Net gain from foreign currency rate fluctuations	-	74 030
	333 348	93 530
(8) Impairment of non-current investments, net		
SIA Jūras servisa centrs	33 241	46 254
SIA LASCO Investment	(16 623)	-
SIA Ostas serviss	-	176 405
SIA Kuģu remonta bāze	-	11 204
	16 618	233 863

The negative financial results for the 2008 of SIA Jūras servisa centrs led to impairment of this investment.

Correction (reversal of provision) for the investment value of SIA LASCO Investment was made based on the Company's management forecasts of future positive financial results from the operations of this subsidiary (see note 13).

Notes (continued)**Notes to the separate Income statement positions (continued)**

	2008 LVL	2007 LVL
(9) Interest expenses and similar expenses		
Interest expenses	119 154	117 536
Loss on sale of JSC Morbank shares	25 529	-
Financial institutions charges	3 277	3 168
Net loss from foreign currency rate fluctuations	676 616	-
Net loss from foreign currency translation	-	25 294
	824 576	145 998

(10) Corporate income tax

The Company's corporate income tax charge differs from the theoretical amount that would arise applying the tax rate of 15% to the Company's profit before tax:

	2008 LVL	2007 LVL
Profit/(loss) before taxes	18 390 006	(2 755 081)
Tax calculated at tax rate of 15%	2 758 501	(413 262)
Expenses not deductible for tax purposes	202 147	198 971
Income not subject to corporate income tax	(140 748)	-
Expenses reducing taxable income	(3 568)	(3 880)
Tax losses carried forward within the Group	-	3 331
Changes in unrecognised deferred tax asset	(2 969 442)	214 860
Deferred tax asset	(153 110)	-

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet:

	31.12.2008 LVL	31.12.2007 LVL
Excess of tax allowances over depreciation	149 681	152 967
Other temporary differences	(92 774)	(302 085)
Tax losses carried forward for the corporate income tax purposes	(210 017)	(2 820 324)
Unrecognised deferred tax asset	-	(2 969 442)
Deferred tax asset	(153 110)	-

The carrying value of recognized deferred tax asset is represented on the Balance sheet as *Current investments* within position *Deferred tax asset* in accordance with the judgment of the Company's management on its recoverability in 2009 foreseen with reasonable certainty.

The recoverability of the deferred tax asset calculated in 2007 was not foreseen as reasonable certain on that date, therefore, deferred tax asset had not been recognised as at 31 December 2007.

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**Financial Statements
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Tax losses carried forward were used in amount of LVL 17 402 137 for the recoverability of the taxable income for 2008

Tax losses carried forward as at 31 December 2008 are represented in amount of LVL 1 400 111. In accordance with Latvian legislation tax losses calculated could be used in chronological order from the taxable income in the following eight years:

	Loss amount	Expires
	LVL	
Corporate income tax losses for 2006	45 896	2014
Corporate income tax losses for 2007	1 354 215	2015
	1 400 111	

Notes (continued)**Notes to the separate Balance sheet items****(11) Intangible assets**

	Licences LVL	Advances for licences LVL	Total LVL
Historical cost			
as at 31.12.2006	239 314	-	239 314
Additions	280 651	5 407	286 058
Disposals	(57 832)	-	(57 832)
as at 31.12.2007	462 133	5 407	467 540
Additions	109 445	19 940	129 385
Reclassification	25 347	(25 347)	-
Disposals	(50 349)	-	(50 349)
as at 31.12.2008	546 576	-	546 576
Accumulated amortisation			
as at 31.12.2006	115 035	-	115 035
Charge for the year	102 350	-	102 350
Released on disposal	(57 832)	-	(57 832)
as at 31.12.2007	159 553	-	159 553
Charge for the year	183 665	-	183 665
Released on disposal	(50 349)	-	(50 349)
as at 31.12.2008	292 869	-	292 869
Carrying value as at 31.12.2007	302 580	5 407	307 987
Carrying value as at 31.12.2008	253 707	-	253 707

Notes (continued)**Notes to the separate Balance sheet items (continued)****(12) Tangible Assets and Investment Property**

Historical cost	Lands and buildings LVL	Machinery and equipment LVL	Other fixed assets LVL	Assets under construction LVL	Investment property LVL	Total LVL
as at 31.12.2006	2 525 713	19 175	1 799 052	31 243	-	4 375 183
Additions	568 260	-	109 095	1 298	-	678 653
Reclassification	(122 977)	-	23 673	(13 808)	122 977	9 865
Disposals	-	-	(186 114)	-	-	(186 114)
as at 31.12.2007	2 970 996	19 175	1 745 706	18 733	122 977	4 877 587
Additions	-	-	64 753	27 583	1 637 000	1 729 336
Reclassification	480	-	33 592	(34 072)	-	-
Disposals	-	-	(157 449)	(6 113)	-	(163 562)
as at 31.12.2008	2 971 476	19 175	1 686 602	6 131	1 759 977	6 443 361
Accumulated depreciation						
as at 31.12.2006	82 497	4 090	972 741	-	-	1 059 328
Charge for the year	83 147	2 480	248 371	-	-	333 998
Released on disposal	-	-	(184 624)	-	-	(184 624)
31.12.2007	165 644	6 570	1 036 488	-	-	1 208 702
Charge for the year	83 145	2 481	246 059	-	-	331 685
Released on disposal	-	-	(144 832)	-	-	(144 832)
as at 31.12.2008	248 789	9 051	1 137 715	-	-	1 395 555
Impairment						
as at 31.12.2007	(226 517)	-	-	-	-	(226 517)
Carrying value as at 31.12.2007	2 578 835	12 605	709 218	18 733	122 977	3 442 368
Carrying value as at 31.12.2008	2 722 687	10 124	548 887	6 131	1 759 977	5 047 806

The carrying value of the Company's real estate as at 31 December 2008 amounted to LVL 2 722 687 (31 December 2007: LVL 2 578 835). The cadastral value of the real estate as at 31 December 2008 amounted to LVL 2 541 589 (31 December 2007: LVL 2 541 649).

As at 31 December 2008 the fair value of real estate owned by Company was estimated based on independent valuator's valuation, where the market value of the real estate was determined to be LVL 4 507 000 (31 December 2007: LVL 5 197 000).

The carrying value of the investment property as at 31 December 2008 amounted to LVL 1 759 977 (31 December 2007: LVL 122 977). It includes the purchased real estate as at the end of year 2008 for LVL 1 637 000 - value based on the market price determined by independent valuers (*see Note 28*). Also it consists of carrying value of the investment property acquired in 2006 for LVL 122 977 (31 December 2007: LVL 122 977), cadastral value – LVL 456 895 (31 December 2007: LVL 456 895), market value – LVL 297 000 (31 December 2007: LVL 490 000).

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**Financial Statements
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<u>Name and address</u>	<u>Percentage holding %</u>	<u>31.12.2008</u>	<u>Acquisition</u>	<u>Impairment</u>	<u>31. 12. 2007</u>
Latmar Holdings Corporation 80 Broad Street, City of Monrovia, Liberia	100	111 417 849	-	-	111 417 849
Kristaps Insurance Ltd. 11 Victoria Street P.O. Box HM 392 Hamilton HM PX Bermudas	100	79 542	-	-	79 542
LSC Holdings Limited 21 Bucks Road, Douglas, Isle of Man	100	10 920	10 920	-	-
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3rd floor, 32 flat, Limassol, Cyprus	100	1 210	-	-	1 210
Crown Navigation Inc. Ajeltake Road, Ajeltake Island, Majuro Marshall Islands	100	-	-	-	-
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-	-
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-	-
SIA LASCO Investment*** Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	17 500 000	16 500 000	16 623	983 377
SIA Karavella Property Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	613 377	-	-	613 377
SIA LSC Marine Training Andrejostas ielā 6, Rīga, LV 1045, Latvija	100	300 000	-	-	300 000
SIA Jūras servisa centrs Andrejostas 4a, Rīga, LV 1045, Latvija	100	60 505	-	(33 241)	93 746
SIA Kuģu remonta bāze** Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	-	-	(893 318)	893 318
SIA Jūrnieku mācību centrs** Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	-	-	(391 978)	391 978
LSIA Latvian - Finnish Maritime Agency* Elizabetes iela 1, Rīga, LV 1010, Latvija	100	-	-	-	-
SIA LSC Shipmanagement Andrejostas 4a, Rīga, LV 1045, Latvija	100	-	-	-	-
SIA Ostas serviss Elizabetes iela 1, Rīga, LV 1807, Latvija		-	-	-	-
Reorganization reserve related to acquisitions****		1 285 296	-	1 285 296	-
		131 268 699	16 510 920	(16 618)	114 774 397

* The company under the liquidation, the insolvency procedures had been initiated. The financial results represented are as of 31 July 2007.

** Acquired by SIA LASCO Investment in 2008.

*** The company's name changed from SIA Kuģu menedžments to SIA LASCO Investment and shareholders have made a decision on increase of the share capital for LVL 18 000 000. LVL 16 500 000 where paid in the share capital of the company as at the year end.

**** The reorganization of the Company's subsidiaries were carried out during the 2008 where SIA Kuģu remonta bāze and SIA Jūrnieku mācību centrs were acquired by SIA LASCO Investment. The residual investment value of these subsidiaries were transferred to the reorganization reserve.

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**Financial Statements
for the year ended 31 December 2008****Notes (continued)****Notes to the separate Balance sheet items (continued)****(13) Information on the subsidiaries and investments in those (continued)****(a) Investments in subsidiaries (continued)**

<u>Name and address</u>	Percentage holding %	31.12.2007	Impairment	31. 12. 2006
Latmar Holdings Corporation 80 Broad Street, City of Monrovia, Liberia	100	111 417 849	-	111 417 849
Kristaps Insurance Ltd. 11 Victoria Street P.O. Box HM 392 Hamilton HM PX Bermudas	100	79 542	-	79 542
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3 rd floor, 32 flat, Limassol, Cyprus	100	1 210	-	1 210
Crown Navigation Inc. Ajeltake Road, Ajeltake Island, Majuro Marshall Islands	100	-	-	-
LSIA Latvian-Finnish Maritime Agency Elizabetes iela 1, Rīga, LV 1010, Latvija	100	-	-	-
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-
SIA Kuģu menedžments Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	983 377	-	983 377
SIA Kuģu remonta bāze Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	893 318	(11 204)	904 522
SIA Karavella Property Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	613 377	-	613 377
SIA Jūrnieku mācību centrs Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	391 978	-	391 978
SIA LSC Marine Training Andrejostas ielā 6, Rīga, LV 1045, Latvija	100	300 000	-	300 000
SIA Jūras servisa centrs Andrejostas 4a, Rīga, LV 1045, Latvija	100	93 746	(46 254)	140 000
SIA Ostas serviss Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	-	(491 990)	491 990
SIA LSC Shipmanagement Andrejostas 4a, Rīga, LV 1045, Latvija	100	-	-	-
		114 774 397	(549 448)	115 323 845

Notes (continued)**Notes to the separate Balance sheet items (continued)****(13) Information on the subsidiaries and investments in those (continued)****(b) Information on subsidiaries**

Name and address	Shareholders' Equity of the subsidiaries, LVL		Profit/(Loss) of the subsidiaries, LVL	
	31. 12. 2008	31. 12. 2007	2008	2007
Latmar Holdings Corporation 80 Broad Street, City of Monrovia, Liberia	217 312 211	215 341 237	16 357 320	29 379 486
LSC Holdings Limited 21 Bucks Road, Douglas, Isle of Man	34 994 195	-	13 642 687	-
Kristaps Insurance Ltd. 11 Victoria Street P.O. Box HM 392 Hamilton HM PX Bermudas	893 683	917 235	(40 774)	50 728
Crown Navigation Inc. Ajeltake Road, Ajeltake Island, Majuro Marshall Islands	-	22 755 963	-	12 762 490
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3 rd floor, 32 flat, Limassol, Cyprus	19 924	20 310	(821)	(545)
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	(3 000 976)	(3 315 429)	377 805	84 876
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	(2 621 086)	(2 909 394)	343 520	169 278
SIA LASCO Investment *** Elizabetes iela 1, Rīga, LV 1807, Latvija	18 462 160	1 027 446	(1 875 640)	31 180
SIA Karavella Property Elizabetes iela 1, Rīga, LV 1807, Latvija	665 075	719 213	15 075	29 220
SIA LSC Marine Training Andrejostas ielā 6, Rīga, LV 1045, Latvija	426 884	1 236 880	59 102	(276 549)
SIA Ostas serviss Elizabetes iela 1, Rīga, LV 1807, Latvija	235 206	345 630	(110 423)	(9 716)
SIA Jūras servisa centrs Andrejostas 4a, Rīga, LV 1045, Latvija	59 228	100 843	(41 615)	(41 402)
SIA LSC Shipmanagement Andrejostas 4a, Rīga, LV 1045, Latvija	(1 274 715)	(2 106 578)	831 863	(2 066 718)
LSIA Latvian-Finnish Maritime Agency* Elizabetes iela 1, Rīga, LV-1010, Latvija	(194 218)	(194 218)	-	12 068
SIA Kuģu remonta bāze ** Elizabetes iela 1, Rīga, LV 1807, Latvija	-	893 318	-	(11 204)
SIA Jūrnieku mācību centrs ** Elizabetes iela 1, Rīga, LV 1807, Latvija	-	417 036	-	21 438

* The company under the liquidation, the insolvency procedures had been initiated. The financial results represented are as of 31 July 2007.

** Acquired by SIA LASCO Investment in 2008.

*** The company's name changed from SIA Kuģu menedžments to SIA LASCO Investment and shareholders have made a decision on increase of the share capital for LVL 18 000 000. LVL 16 500 000 where paid in the share capital of the company as at the year end.

The Group of Latmar Holdings Corporation has of 79 subsidiaries 100% owned by the Latmar Holdings Corporation from which 21 company is registered in Malta, 34 in Cyprus, 23 in Liberia and one in Caymans islands.

Notes (continued)**Notes to the separate Balance sheet items (continued)****(13) Information on the subsidiaries and investments in those (continued)****(b) Information on subsidiaries (continued)**

LSC Holdings Limited has 17 subsidiaries 100% owned by the LSC Holdings Limited and all of them are registered in Marshall Islands. During the year 2008 all the above mentioned subsidiaries were acquired by LSC Holdings Limited from previous parent company registered in Marshall Islands – Crown Navigation Inc. The transaction was accounted for by using a pooling of interest method.

SIA LASCO Investment has subsidiaries SIA Mediju nams (99.8%), JSC Preses nams (95.39%) as well as 100% owned subsidiary SIA Rīgas līcis and SIA LASCO Nekustamie īpašumi, the later having 100% owned subsidiaries SIA Darījumu centrs Daugava, SIA Ventspils biznesa centrs, SIA Lejastiezumi, SIA Pārventas sporta centrs and SIA LASCO Housing Service.

(14) Investments in associated undertakings

Name and address	Percentage Holding % 31.12.2008	Investment Value LVL 31.12.2008	Shareholders' Equity LVL 31.12.2008
SIA Via Una Katrinās dambis 10, Rīga, Latvia	45.45	7 553	60 857

The profit for the associated company SIA Via Una for 2008 was LVL 6 188 (2007: LVL 5 399).

(15) Raw materials

	31.12.2008 LVL	31.12.2007 LVL
Fuel	97	225
Advances for spare parts	98	-
Other materials and inventories	14 212	16 526
	14 407	16 751

(16) Accounts receivable

Trade receivables, gross	1 493 331	1 530 516
Provision for doubtful debts	(1 490 127)	(1 505 990)
	3 204	24 526

During 2008 the doubtful trade receivables were written off in amount of LVL 15 863 which were fully provided for.

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**Financial Statements
for the year ended 31 December 2008****Notes (continued)****Notes to the separate Balance sheet items (continued)**

	31.12.2008	31.12.2007
	LVL	LVL
(17) Amounts due from related companies		
Latmar Holdings Corporation	313 020	71 719
LSC Holdings Limited	74 883	-
SIA "LSC Shipmanagement"	27 417	177 683
Santomar Holdings Company Ltd.	3 778	3 694
SIA "LSC Marine Training"	1 029	7 276
SIA "Jūras servisa centrs"	901	7 175
SIA "Kuģu menedžments"	-	636 454
Crown Navigation Inc.	-	264 055
Rāzna Shipping Corporation	-	3 664
Taganroga Shipping Corporation	-	3 657
SIA "Ostas serviss"	-	225
SIA "Karavella Property"	-	201
SIA "Kuģu remonta bāze"	-	142
SIA "Jūrnieku mācību centrs"	-	142
	421 028	1 176 087

*(See also Notes 13 and 28.)***(18) Other receivables**

Overpaid value added tax <i>(see Note 22)</i>	132 536	695 159
Deductable value added tax	58 266	32 432
Overpaid non-resident income tax	3 379	3 379
Overpaid real estate tax <i>(see Note 22)</i>	-	2 846
Other receivables stated at their net value	271 157	231 201
	465 338	965 017

(19) Amounts due to related parties

JSC Ventspils nafta	1 310 758	-
SIA LSC Marine Training *	241 949	1 047 105
SIA LASCO Investment	207 884	-
SIA Jūras servisa centrs *	20 275	43 693
SIA Karavella Property	10 717	-
SIA LSC Shipmanagement	1 862	3 841
LSC Holdings Limited	643	-
Latmar Holdings Corporation	367	310 375
SIA Kuģu remonta bāze	-	934 377
SIA Jūrnieku mācību centrs	-	415 132
Crown Navigation Inc.	-	230 695
	1 794 455	2 985 218

*The amounts due to related parties include loans from subsidiaries in accordance with agreements on financial resource management. The interest rates applied are linked to the RIGIBOR and LIBOR rate at the date the loan amount is transferred into the bank account of the borrower.

(See also Notes 13 and 28.)

JSC Latvijas kuģniecība

Address: 1 Elizabetes Street, Riga, LV 1807

Unified registration number: 40003021108

**Financial Statements
for the year ended 31 December 2008****Notes (continued)****Notes to the separate Balance sheet items (continued) and general notes**

	2008 LVL	2007 LVL
(20) Taxes and social security contributions		
Personal income tax (see Note 22)	479 987	74 666
Social security contributions (see Note 22)	69 152	36 824
State business risk duty	29	30
	549 168	111 520

(21) Other accounts payable

Salaries	305 500	213 830
Deductions from salaries	231	172
Other payables	37 989	31 847
	343 720	245 849

(22) Taxes and social security contributions

	Value added tax LVL	Real estate tax (land, buildings and constructions) LVL	Social security contribution LVL	Personal income tax LVL	Total LVL
Payable 31.12.2007.	-	-	36 824	74 666	111 490
(Overpaid) 31.12.2007.	(695 159)	(2 846)	-	-	(698 005)
Charge for 2008	(478 766)	23 784	910 363	1 786 359	2 241 740
Reduced for 2007	-	-	(80 164)	-	(80 164)
Paid in 2008	-	(20 938)	(797 871)	(1 381 038)	(2 199 847)
Reimbursed	1 041 389	-	-	-	1 041 389
Payable 31.12.2008.	-	-	69 152	479 987	549 139
(Overpaid) 31.12.2008.	(132 536)	-	-	-	(132 536)

Notes (continued)**Notes to the separate Balance sheet items (continued) and general notes****(23) Accrued liabilities**

	Accruals for employee vacations LVL	Accruals for employee bonuses and salaries LVL	Accruals for other expenses LVL	Other accruals LVL	Total LVL
31.12.2007	366 467	1 407 493	13 424	21 766	1 809 150
Increase	465 670	-	108 546	-	574 216
Decrease	(322 190)	(1 407 493)	(13 424)	-	(1 743 107)
31.12.2008	509 947	-	108 546	21 766	640 259

General Notes**(24) Fees paid to external auditors**

	2008 LVL	2007 LVL
Audit of the financial statements	36 546	13 424
Management consulting	33 813	28 675
	70 359	42 099

(25) Contingent liabilities**Operating lease liabilities**

At the year end the Company as a lessee has entered into two vehicles operating lease agreements. In 2008 the total amount of the annual operating lease expense was LVL 28 760 (2007: LVL 7 559).

As at 31 December 2008, the future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	2008 LVL	2007 LVL
Less than one year	44 647	28 760
Between one and three years	40 957	51 172
	85 604	79 932

Minimum lease payments are calculated based on floating rates 4.56% and 4.97% respectively which were effective at the date of the agreement. Actual floating rates as at 31 December 2008 were between 4.56% and 5.98%. (31 December 2007: 4.97% - 5.43%)

Notes (continued)**General notes (continued)****Guaranteed issued**

The Company has issued a corporate guarantee to secure long-term borrowings issued by foreign credit institutions to the Group single vessel companies. These guarantees have been given in the normal course of business.

Outstanding loan amounts as at 31 December 2008 were US \$ 374.94 million (31 December 2007: US \$ 347.17 million). In accordance with long-term loans repayment schedule current portion of the loan repayable in 2009 is US \$ 29.35 million.

The management of the Company is confident that Group single vessel companies are able to cover liabilities issued by foreign credit institutions and there are no indicators to suggest the opposite as at the date of issuing these financial statements.

The Company has also issued a corporate guarantee to secure a short-term credit line facility with maximum limit of US \$ 20 million available received by it's foreign subsidiary, as well as guarantee to secure interest rate swap agreements entered by foreign subsidiary in order to fix interest rate applied to borrowings of US \$ 182 million in total. These guarantees have been given in the normal course of business.

(26) Average number of employees

The average number of the Company's employees during 2008 and 2007 was 115 and 116, respectively.

(27) Key management remuneration

Management Board remuneration for 2008 was LVL 1 363 773 (2007: LVL 1 681 033), social security contributions amounted to LVL 41 206 (2007: LVL 31 985). The remuneration of Supervisory Council members was LVL 1 659 941 (2007: LVL 1 910 738), and social security contributions amounted to LVL 116 880 (2007: LVL 56 382).

During 2008 no loans or guarantees were issued to the members of Supervisory Council and Management Board.

(28) Transactions with related parties**Transactions with subsidiaries**

In the process of normal course of business the Company provides and receives services from related parties - subsidiaries. Due to the Group policies in providing and receiving the services within the Group, a pricing policy is the same as would be applied to knowledgeable, willing parties in an arms' length transactions.

Notes (continued)**General notes (continued)****Transactions with subsidiaries (continued)**

The income and expenses related to the transactions with subsidiaries were as follows:

	2008	2007
	LVL	LVL
Income from commercial management services	9 385 409	5 707 918
Income from the goods sold and services rendered	352 836	477 617
Interest income on borrowings to subsidiaries	45 582	7 839
	9 783 827	6 193 374
Interest expense	(119 073)	(117 536)
Cost of goods and services received	(33 789)	(77 270)
	(152 862)	(194 806)

Transactions with other related parties

In December 2008 the Company purchased a real estate property from related party - shareholder. The purchase price of EUR 2 329 241 (equivalent of LVL 1 637 000) was set in accordance with the market value as it was determined by independent valuator's valuation. The real estate property acquired is recognized on the Balance sheet as an investment property. In accordance with terms of the purchase agreement the amount due for the acquired real estate property as at 31 December 2008 was EUR 1 863 393 (equivalent of LVL 1 309 600). This liability was fully paid in February 2009.

In 2008 the Company has also received from related party – shareholder management consulting services in amount of LVL 170 000 and notary services for LVL 976. As at 31 December 2008 the balance due for these services amounted to LVL 1 158. It was fully paid in January 2009.

(29) Financial risk management

The Company's most important financial instrument is cash. The main objective of the above financial instrument is to finance the Company's business activities. The Company also deals with a number of other instruments, like trade receivables, trade and other payable, that arise directly from its business activities.

Financial risks

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

Foreign currency risk

The main financial risk arising from the Company's financial instruments is foreign currency risk. The Company is exposed to foreign currency risk through cash and cash equivalents, loans issued, trade receivables and trade and other payables.

Notes (continued)**General notes (continued)***Foreign currency risk (continued)*

Considerable portion of the Company's income is denominated in USD, while the major part of its expenses is denominated in Latvian lats. Therefore, the Company is exposed to foreign currency risk mainly through USD. The Company's foreign currency exposure in USD may be stated as follows:

	31.12.2008.	31.12.2007.
Financial assets USD	794 880	1 227 670
Financial liabilities USD	(538 451)	(4 421 024)
Position USD	256 429	(3 193 354)
Position LVL	126 932	(1 545 583)

Liquidity risk

The Company's liquidity risk policy is based on a conservative approach whose main objective is to ensure the safeguarding of cash flows generated from operations and investments. At the end of the reporting period current liabilities of the Company exceed current assets by LVL 2 336 563. Due to the fact that cash flow management is carried out at the Group level, management of the Company is strongly confident that the Company will be able to generate a positive cash flow by coordinated operating and investment activities in order to set all liabilities when those are due.

An important role in liquidity management plays the Group's dividend policy that entitles the Company as a parent of the Group to receive regular interim and year end dividends from its subsidiaries, thereby part of accrued free financial resources in subsidiaries are used to improve cash flow of the Company.

Credit risk

The Company is exposed to credit risk through its trade accounts receivable. The Company manages its credit risk by continuously assessing the credit history of customers. In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is minimised.

Fair value

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the balance sheet date.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value. The Company monitors the structure of its capital and adjusts it if required by changes in market conditions.

(30) Post balance sheet events

During the period from 31 December 2008 till the date these financial statements are issued the Company has received intermediate dividends from Latmar Holdings Corporation in amount of US\$ 3 000 000 (LVL 1 671 000). Most of dividends received were paid in the share capital of subsidiary SIA LASCO Investment. Thereby, at the date of issuing of these financial statements the unpaid share capital of SIA LASCO Investment amounted to LVL 350 000.

As of the last day of the reporting year until 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.

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas Kuģniecība

Report on the Financial Statements

We have audited 2008 financial statements of AS Latvijas Kuģniecība (the "Company"), which are set out on pages 9 through 35 of the accompanying 2008 Annual Report and which comprise the balance sheet as at 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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


Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS Latvijas Kuģniecība as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2008 (included on pages 6 through 8 of the accompanying 2008 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

SIA Ernst & Young Baltic
Licence No. 17



Diāna Krišjāne
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124

Rīga, 15 April 2009