Public Joint Stock Company
Latvian Shipping Company
and it's Subsidiaries

ANNUAL REPORT 2008

With New Power in the World Market

LATVIJAS KUĢNIECĪBA

CONTENTS

JSC LATVIJAS KUĢNIECĪBA IN BRIEF

MISSION

JSC Latvijas kuģniecība is a competitive company in the world's shipping industry that focuses its activity on a handy sized and medium range tanker segment providing its clients with highly qualified services in compliance with international safety standards.

STRATEGY

The key guidelines of JSC Latvijas kuģniecība strategy provide for maintaining and increasing the total tonnage of the medium range tanker fleet by acquisition of newer and economically more efficient fleet.

STRATEGIC OBJECTIVES

In accordance with JSC Latvijas kuģniecība Strategic Plan to the year 2015 developed by JSC Latvijas kuģniecība Management Board and earned the consent of the Supervisory Council the objectives of JSC Latvijas kuģniecība provide for increase of the company's value by raising its equity along with maintaining the company's position amongst the ten leading handy sized and medium range tankers' owners in the world simultaneously safeguarding the leader's position in the Northern European market.

JSC LATVIJAS KUĢNIECĪBA PERFORMANCE

The core activity of JSC Latvijas kuģniecība is cargo shipments by sea between ports worldwide. Today JSC Latvijas kuģniecība in the leadership of Chairman of the Management Board Imants Sarmulis plays significant role in the world's shipping business, ranking among the ten largest shipowners of medium range tanker fleet in the world. JSC Latvijas kuģniecība is an unquestionable leader in the Northern Europe by the volumes of the transported oil products in the above mentioned fleet segment.

JSC Latvijas kuģniecība (the Company) offers wide and diverse range of sea shipments and as such its vessels can be met in all the ports, seas and oceans of the world. Following the best Latvian maritime traditions JSC Latvijas kuģniecība carries out safe and qualitative cargo shipments as well as offers technical management for international cargo shipping. Along with the above mentioned services JSC Latvijas kuģniecība successfully offers also professional education of seamen providing training and crewing in compliance with the international conventions for both its own vessels and vessels owned by other shipping companies.

The strategic guidelines and basic principles of the Group remaining unchanged, in order to diversify the financial risks at the end of 2008 JSC Latvijas kuģniecība has invested in precious real estate, printing and publishing enterprises administered by JSC Latvijas kuģniecība 100% daughter company LASCO Investment Ltd. :

JSC LATVIJAS KUĢNIECĪBA IN BRIEF*(continued)*

JSC LATVIJAS KUĢNIECĪBA PERFORMANCE *(continued)*

- LASCO nekustamie īpašumi Ltd. – real estate administration enterprise and its daughter companies:
  – Darījumu centrs Daugava Ltd., possessing one of the most valuable objects in the centre of Riga, real estate on the left bank of the Daugava River where the building of JSC Preses nams is situated;
  – Ventspils biznesa centrs Ltd. – the most modern business infrastructure object in Ventspils with conference and exhibition facilities in the historic centre of the city;
  – LASCO Housing Service Ltd. – real estate management company.
- Rīgas līcis Ltd. – possessing one of the most valuable real estate objects in Jurmala;
- Real estate on Briana Street 3, Riga – Maikapar's House, one of the most precious real estate objects and an exclusive represenation building in Riga;
- Real estate Lejastiezumi - conference and recreation centre on the shore of Usma lake, the largest recreation camp in Kurzeme and one of the largest in the Baltic States;
- Real estate on Talsu Street 75, Ventspils - Pārventas sporta centrs, a modern sports and medical service complex;
- JSC Preses nams – the biggest printing enterprise in the Baltic States and one of the 300 largest book publishing enterprises in the world providing the highest quality printing services;
- Mediju nams Ltd. – one of the leading publishers in Latvia providing wide range of periodical media.

JSC LATVIJAS KUĢNIECĪBA MAIN EVENTS IN 2008

On January 30, 2008, JSC Latvijas kuģniecība Tanker fleet became richer by one more vessel – Croatian shipyard *3.Maj* delivered the twelfth out of fourteen tanker newbuildings ordered by JSC Latvijas kuģniecība. The new JSC Latvijas kuģniecība tanker is named "Užava.

On February 1, 2008, JSC Latvijas kuģniecība tanker *Ance* received *Award for Exceptional Bravery at Sea* from International Maritime Organisation (IMO) for saving two Canadian citizens. IMO awards those who under risk to their lives have saved lives of other people at sea, prevented or reduced damage to the marine environment thus deserving international recognition.

On February 15, 2008, Shareholders Meeting approved the new Supervisory Council of JSC Latvijas kuģniecība. In the new Supervisory Council there were elected: Uldis Pumpurs, Olga Pētersone, Vladimirs Solomatins, Andris Vilcmeiers, Ansis Sormulis, Svens Zālītis, Guntis Ločmelis, Miks Ekbaums, Māris Gailis, Normunds Staņevičs, Vladimirs Koškuls and Kārlis Boldiševics.

On April 26, 2008, a launching and naming ceremony of JSC Latvijas kuģniecība newbuilding was held at 3.Maj Shipyard in Croatia. Following the tradition the new JSC Latvijas kuģniecība tanker was called in the name of the coastal city Salacgriva.

On April 14, 2008, JSC Latvijas kuģniecība reported the audited financial results of the Group for 2007. JSC Latvijas kuģniecība Group's Net Profit for 2007 reached USD 67,0 millions thus twice or by 33.3 millions USD exceeding the respective result for 2006. The 2007 successful operational results prove that JSC Latvijas kuģniecība is a competitive company in international shipping environment.

On April 28, 2008, the annual Shareholders Meeting took place. The Shareholders took a notice of the reports of the Management Board, the Supervisory Council of JSC Latvijas kuģniecība and the sworn auditors, and approved the Annual Report for the year 2007. The audit company Ernst & Young Baltic, Ltd., was appointed as an auditor of the Annual Report of JSC Latvijas kuģniecība for the year 2008.

On July 24, 2008, the delivery of the thirteenth JSC Latvijas kuģniecība tanker newbuilding Salacgrīva took place at 3. Maj shipyard in Croatia. Traditionally the Tanker fleet of the company ensures the largest turnover and contribution into the Company's profit. Geographically the tankers built in Croatian 3.Maj Shipyard are employed all over the world, and their parameters provide for their comprehensive employment for wide range cargo shipments – oil products, chemicals and vegoils.

On August 27, 2008, the Supervisory Council of JSC Latvijas kuģniecība reviewed and took notice of JSC Latvijas kuģniecība Group's audited financial results for the first half of 2008. Regardless of the unfavourable impact of various external factors on the Company's performance, JSC Latvijas kuģniecība had worked with success and earned profit in the amount of USD 42.1 million during the report period.

On September 5, 2008, with participation of President of Latvia Valdis Zatlers there was held the name giving and launching ceremony of the JSC Latvijas kuģniecība tanker newbuilding in 3.Maj shipyard in Croatia. The tanker was named after the birthplace of Latvian navigation - Ainaži.

On November 18, 2008, on the day of the 90th anniversary of the Republic of Latvia, JSC Latvijas kuģniecība took delivery of the new tanker Ainaži at the Croatian shipyard "3. Maj completing the first stage of its tanker fleet renewal programme. Within the programme JSC Latvijas kuģniecība fleet had been enlarged by 14 new modern double-hull tankers resulting in considerable reduction of the average age of its fleet.

On December 15, 2008, JSC Latvijas kuģniecība established an enterprise for the Company's investment allocation and management - LASCO Investment Ltd. Its capital is LVL 19 million and it is planned to place investment in non-shipping related industries and companies in order to secure business risk diversification and strengthen its asset base in the prevailing global economic crisis situation.

JSC LATVIJAS KUĢNIECĪBA MAIN EVENTS IN 2008 *(continued)*

On December 17, 2008, the Council of JSC Latvijas kuģniecība approved a decision on supplementing the company's development strategy with a new direction – long-term investment in various assets which will allow the company to reduce its business risks. The first step in risk diversification involved an investment of some of the company's free resources in projects which are not related to its basic area of operations – first and foremost in liquid and exclusive real estate projects in the most valuable developmental territories in Latvia, as well as in the publishing and printing industries

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 USD 63.4 million in 12 months of 2008 and an excellent profit from the sale of the vessels of USD 45.2 million.

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

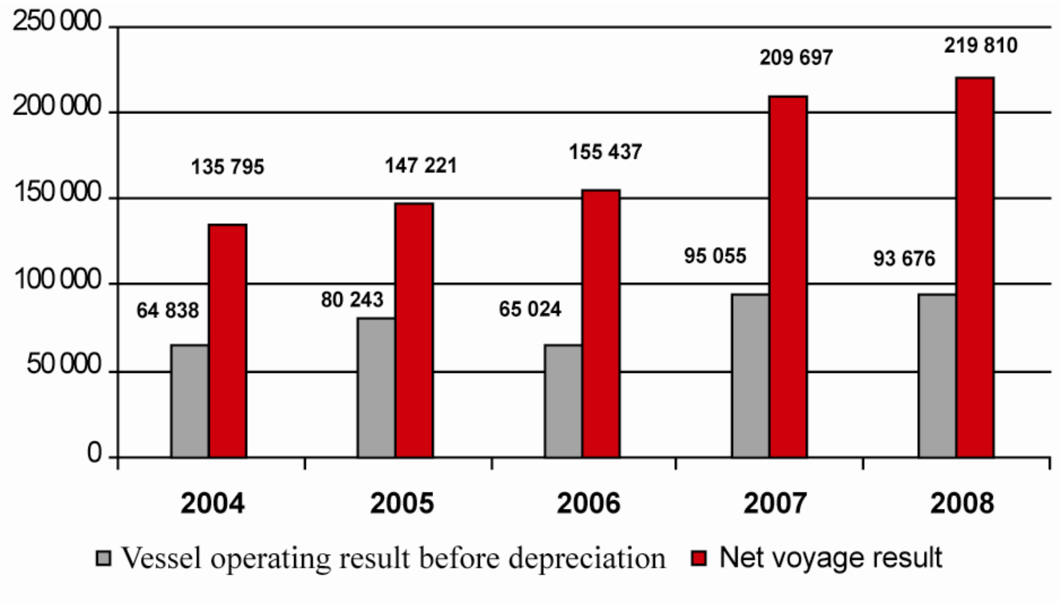
JSC Latvijas kuģniecība Group's assets have increased by USD 293.1 million reaching USD 1 150.2 million on December 31, 2008. This is the first time in the history of JSC Latvijas kuģniecība Group when its assets have exceeded the level of one billion USD.

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 media and publishing companies.

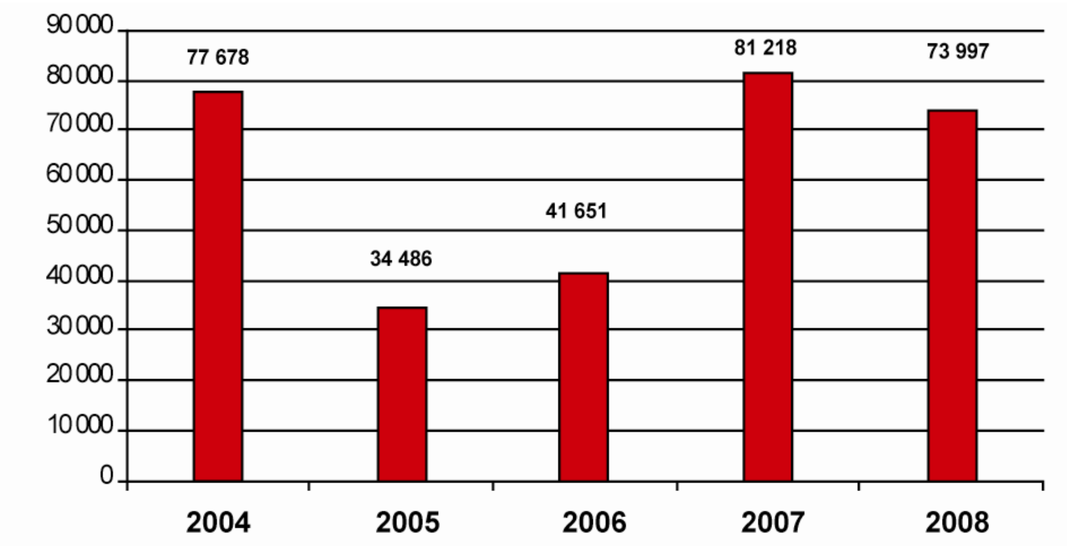
MANAGEMENT REPORT *(continued)*

GROUP'S PERFORMANCE DURING THE REPORT PERIOD

Net Voyage Result and Vessel Operating Result Before Depreciation (USD '000)



Performance Result (USD '000)



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 USD 0.29.

At the end of the period the shareholder's equity has reached USD 542.0 million, or USD 54.5 million more than at the beginning of the year.

MANAGEMENT REPORT *(continued)*

GROUP'S PERFORMANCE DURING THE REPORT PERIOD *(continued)*

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 USD 63.4 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 USD 6.4 million or 9 per cent 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 USD 2.8 million higher than the respective indicator a year before. In 2008 the sale of the old reefer fleet tonnage has been finalized. 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.

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.

Chairman of the Management Board:

I.Sarmulis

Riga, April 7, 2009

SUPERVISORY COUNCIL:

Chairman of the Council	Māris Gailis (from 13.01.2009)
	Uldis Pumpurs (from 15.02.2008 until 12.01.2009)
Deputy Chairpersons of the Council	Andris Vilcmeiers (from 15.02.2008)
	Vladimirs Solomatins (from 15.02.2008)
	Andris Linužs (until 10.02.2008)
	Olga Pētersone (until 10.02.2008)
Padomes locekļi:	Ansis Sormulis (until 10.02.2008, from 15.02.2008)
	Guntis Ločmelis (from 15.02.2008)
	Kārlis Boldiševics (from 15.02.2008)
	Māris Gailis (from 15.02.2008 until 12.01.2009)
	Uldis Pumpurs (from 13.01.2009)
	Miks Ekbaums (from 15.02.2008)
	Normunds Staņevičs (from 15.02.2008)
	Olga Pētersone (from 15.02.2008)
	Svens Zālītis (from 15.02.2008)
	Vladimirs Koškuls (from 15.02.2008)
	Aldis Āķis (until 10.02.2008)
	Laimonis Junkers (until10.02.2008)
	Mamerts Vaivads (until 10.02.2008)
	Pēteris Putniņš (until 10.02.2008)
	Vladimirs Krastiņš (until 10.02.2008)
	Vladimirs Solomatins (until 10.02.2008)

PROFESSIONAL EXPERIENCE OF THE MEMBERS OF THE SUPERVISORY COUNCIL

Māris Gailis – Chairman of the Supervisory Council

Since 2009	JSC Latvijas kuģniecība, Chairman of the Council
Since 2008	JSC Latvijas kuģniecība, Member of the Council
Since 2006	JSC Ventspils nafta, Member of the Council
Since 1996	JSC Māris Gailis, Chairman of the Management Board
	MG nekustamie īpašumi Ltd., Chairman of the Management Board
	Māris Gailis un partneri Ltd., Chairman of the Management Board

Andris Vilcmeiers – Deputy Chairman of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Deputy Chairman of the Supervisory Council,
	Ventspils nafta termināls Ltd., Member of the Supervisory Council
Since 2007	JSC ALA Investments, Chairman of the Supervisory Council
Since 2007	JSC Ventspils nafta, Deputy Chairman of the Supervisory Council
2006 – 2007	JSC Ventspils nafta, Member of the Supervisory Council
Since 2006	Baltic Juice Terminal Ltd., Deputy Chairman of the Supervisory Council
2004 – 2007	JSC ALA Investments, Chairman of the Management Board
2003 – 2008	JSC Latvijas kuģniecība, Member of the Audit Committee
Since 2002	LSF Holdings Ltd., Member of the Management Board, Finance Director

Vladimirs Solomatins – Deputy Chairman of the Supervisory Council

Since 2009	JSC Baltijas tranzīta serviss, Deputy Chairman of the Supervisory Council
Since 2008	JSC Latvijas kuģniecība, Deputy Chairman of the Supervisory Council
Since 2007	JSC Ventspils nafta, Chairman of the Supervisory Council
	LatRosTrans Ltd., Member of the Supervisory Council
2003 – 2007	JSC Ventspils nafta, Member of the Supervisory Council
Since 2002	JSC Latvijas kuģniecība, Member of the Supervisory Council
1996 – 2007	JSC Latvijas Naftas Tranzīts, Member of the Management Board, Vice-president
1995 – 2006	JSC Multibanka, Member of the Supervisory Council

Olga Pētersone – Member of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Member of the Supervisory Council
	Ventspils nafta terminals Ltd., Chairperson of the Supervisory Council
2005 – 2008	JSC Latvijas kuģniecība, Deputy Chairperson of the Supervisory Council
Since 2004	LatRosTrans Ltd., Member of the Supervisory Council
	JSC Ventspils nafta, Chairperson of the Management Board, President

PROFESSIONAL EXPERIENCE OF THE MEMBERS OF THE SUPERVISORY COUNCIL *(continued)*

Uldis Pumpurs – Chairman of the Supervisory Council

Since 2009	JSC Ūdens transporta sistēma Rīga-Hersona-Astrahaņa, Chairman of the Supervisory Council
Since 2009	JSC Latvijas kuģniecība, Member of the Supervisory Council
Since 2007	Užavas lauku tūrisms Ltd., Member of the Management Board
2005 - 2009	JSC Latvijas kuģniecība, Chairman of the Supervisory Council
2003 – 2007	Ventspils nafta terminals Ltd., Chairman of the Supervisory Council
2000 – 2006	JSC Ventspils nafta, Member of the Supervisory Council
Since 1995	Zaksi Ltd., Member of the Management Board, Director
Since 1993	Puses Ltd., Chairman of the Management Board

Miks Ekbaums – Member of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Member of the Supervisory Council
2006 – 2008	JSC Latvijas kuģniecība, Member of the Management Board, First Vice President
2003 – 2006	JSC Ventbunkers, Chairman of the Management Board

Normunds Staņēvičs – Member of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Member of the Supervisory Council
Since 2008	JSC Ventspils nafta, Member of the Management Board
Since 2007	JSC Ventspils nafta, Investment Director
2007 – 2009	JSC Preses nams, Chairman of the Supervisory Council
2006 – 2007	Jaunrīgas attīstības uzņēmums Ltd., Member of the Supervisory Council
2004 - 2008	Eurodeal Advisory Services Ltd., Member of the Management Board
2003 – 2005	British Chamber of Commerce in Latvia, Member of the Management Board

Ansis Sormulis – Member of the Supervisory Council

Since 2006	JSC Ventspils nafta, Member of the Supervisory Council
Since 2005	JSC Latvijas kuģniecība, Member of the Supervisory Council
Since 2002	LSF Holdings Ltd., Member of the Management Board

Svens Zālītis – Member of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Member of the Supervisory Council
Since 2008	LatRosTrans Ltd., Member of the Supervisory Council
2006 – 2008	JSC Latvijas kuģniecība, Legal Advisor to the Management Board
Since 2005	Sworn advocate

Guntis Ločmelis – Member of the Supervisory Council

Since 2009	JSC Optima management, Deputy Chairman of the Supervisory Council
Since 2008	JSC Latvijas kuģniecība, Member of the Supervisory Council
Since 2008	Pārventa Ltd., Member of the Management Board
2001 – 2007	Ventspils City Council, Deputy Chairman of the Health Committee
Since 1996	AOB Ltd., Member of the Management Board, Director Kronoss Ltd., Member of the Management Board, Director
1994 – 2007	Pārventa Ltd., Physician, Director of the Seafarers Medical Examination Board

PROFESSIONAL EXPERIENCE OF THE MEMBERS OF THE SUPERVISORY COUNCIL *(continued)*

Vladimirs Koškuls – Member of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Member of the Supervisory Council
2004 – 2008	Wallem (Hong Kong), Captain

Kārlis Boldiševics – Member of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Member of the Supervisory Council
2005 – 2006	JSC Ventspils nafta, Member of the Supervisory Council
Since 2004	JSC Latvijas valsts meži, Member of the Management Board

MANAGEMENT BOARD:

Chairman of the Management Board	Imants Sarmulis (from 01.11.2007)
Member of the Management Board, First Vice President	Andris Linužs (from 14.02.2008)
	Miks Ekbaums (until 13.02.2008)
Member of the Management Board, Vice President	Raivis Veckāgans (from 14.02.2008)
	Solvita Deglava (until 13.02.2008)
Members of the Management Board	Guntis Tīrmanis (until 13.02.2008, from 14.02.2008)
	Ilva Purēna (until 13.02.2008, from 14.02.2008)

PROFESSIONAL EXPERIENCE OF THE MEMBERS OF THE MANAGEMENT BOARD

Imants Sarmulis

Since 2007	JSC Latvijas kuģniecība, Chairman of the Management Board
Since 1995	Manager of the Ventspils Free Port

Andris Linužs

Since 2008	JSC Latvijas kuģniecība, Member of the Management Board, First Vice-President
2006 – 2007	JSC Preses nams, Chairman of the Management Board, President
2005 – 2008	JSC Latvijas kuģniecība, Deputy Chairman of the Supervisory Council
2004 – 2007	JSC Latvijas naftas tranzīts, Member of the Supervisory Council
2003 – 2006	JSC Ventbunkers, Director of Investment and Development Department, Member of the Management Board
	JSC Preses nams, Member of the Supervisory Council

Raivis Veckāgans

Since 2009	JSC Preses names, Chairman of the Supervisory Council
Since 2008	LSC Shipmanagement Ltd., Member of the Management Board
Since 2008	JSC Latvijas kuģniecība, Member of the Management Board, Vice- President
2007 – 2008	Ventall Termināls Ltd., Member of the Supervisory Council
2006 – 2008	BIO-Venta Ltd., Member of the Managment Board, Finance Director
2005 – 2008	VK Tranzīts Ltd., Member of the Managment Board, Finance Director
2005 – 2006	JSC Baltic Coal terminal, Member of the Managment Board

Ilva Purēna

Since 2005	JSC Latvijas kuģniecība, Member of the Management Board
2004 - 2009	JSC Preses nams, Member of the Supervisory Council
Since 2003	JSC Ventspils nafta, Member of the Management Board
Since 2003	JSC Ventspils nafta, Legal Director

Guntis Tīrmanis

Since 2005	JSC Latvijas kuģniecība, Member of the Management Board
Since 2003	JSC Ventspils nafta, Member of the Management Board;
Since 2002	Ventspils Free Port Authority, Deputy Chief Executive;

THE ELECTION OF THE SUPERVISORY COUNCIL, THE MANAGEMENT BOARD AND COMMITTEES

In accordance with internal regulations of JSC Latvijas kuģniecība in order to ensure effective planning and management of the company's operations and to allocate specific area of supervision to each member of the Management Board to encourage preparation, approval and execution of competent and well prepared Management Board decisions, the areas of supervision are distributed and allocated between the members of the Management Board by decision made by the Management Board and consent received from the Supervisory Council. Before election the education and previous work experience in the respective area of the potential member of the Management Board is evaluated.
The members of the Supervisory Council of JSC Latvijas kuģniecība are nominated to election in Supervisory Council in compliance with the Commercial Law and best corporate governance practices according to which members of the Supervisory Council are independent and unaffected in the decision-making process.

In order to ensure effective execution of their functions the Supervisory Council of JSC Latvijas kuģniecība has established five supervisory commissions from its members - Finance Commission, Legal and Company's Reorganisation Commission, Strategic Development Commission, Fleet Supervision Commission and Audit Commission. All the commissions are comprised of three commisson members and having advisory functions assess in detail the issues within the competence of the Supervisory Council. In cases of significant or complicated issues the Supervisory Council committees can require experts' opinion. The Supervisory Council members do not receive additional remuneration for work in the committees. The committees deliver their resolution to the Supervisory Council for decision making, but the final decision is taken by the Supervisory Council itself.

Changes into the Statutes of JSC Latvijas kuģniecība are carried out in accordance with the Commercial Law.

SHAREHOLDERS

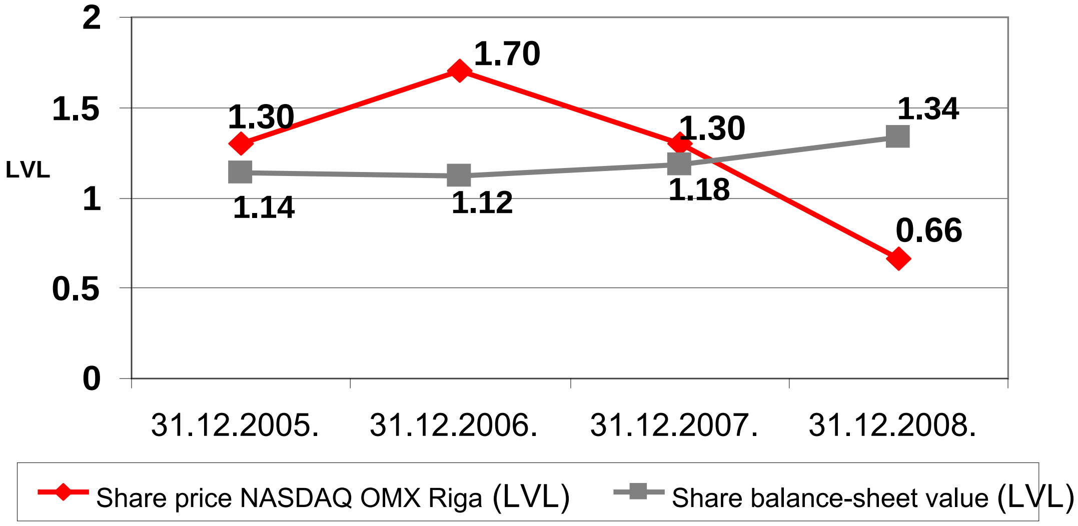
The major Shareholders as at December 31, 2008, having announced acquisition of significant share in JSC Latvijas kuģniecība (above 5%):

- JSC *Ventspils nafta* - 49.94%
- *International Baltic Investments* Ltd. - 27.55 %
- *Ojay* Ltd. - 17.60 %
- *Eastgate Properties* Ltd. - 10.80 %
- SSC *Valsts sociālās apdrošināšanas aģentūra* - 10.00 %

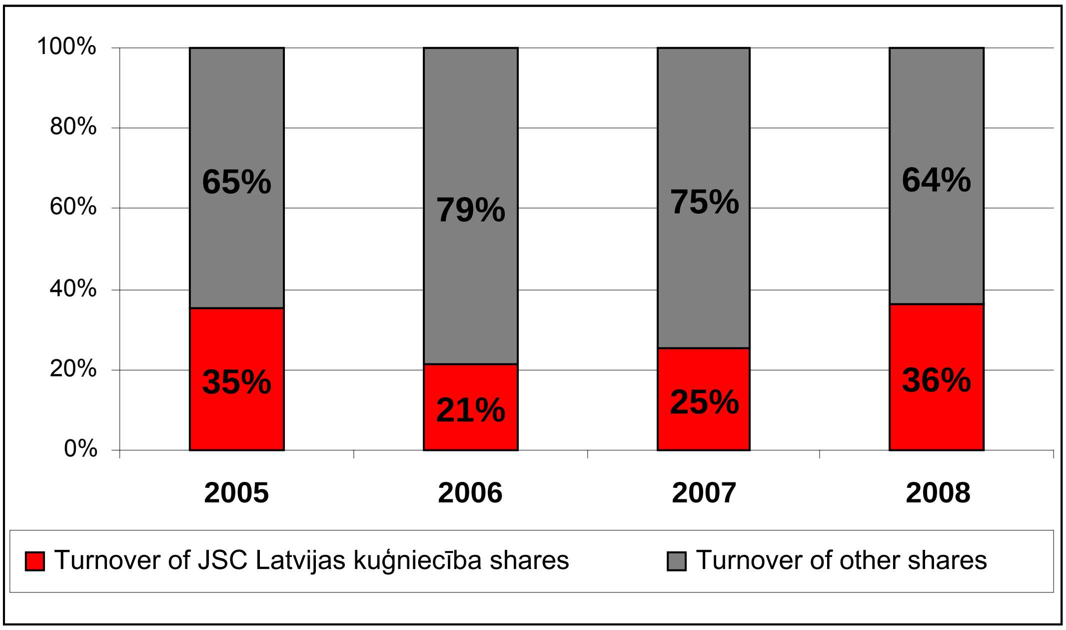
JSC Latvijas kuģniecība has no shareholders having particular control rights.

REVIEW OF SHARES

Share Price Development (LVL)



Proportion of Shares in the Total Share Turnover of NASDAQ OMX Riga Official List



REVIEW OF SHARES *(continued)*

BASIC INFORMATION

ISIN (share identification code)	LV0000101103
Stock Exchange	NASDAQ OMX Rīga
Stock Exchange Code	LSC1R
Stock Exchange List	BALTIC MAIN LIST
Nominal Value of Shares	1.00 LVL
Total Number of Shares	200 000 000
Number of Publically Traded Shares	200 000 000
The First Quoting Date	26.06.2002

Information on the price and number of the traded shares

	2005	2006	2007	2008
Highest share price	1.42	1.31	1.57	1.37
Lowest share price	0.47	0.84	1.07	0.56
Last transaction price	1.30	1.07	1.30	0.66
Number of shares traded	13 477 984	12 850 514	16 355 655	8 277 028
Turnover, million LVL	11.06	13.33	20.64	8.62
Capitalisation, miljon LVL	260.00	214.00	260.00	132.00

Characteristics of the Shares

JSC Latvijas kuģniecība has issued 200 000 000 (two hundred million) dematerialized bearer's shares. The nominal value of one share is LVL 1.00 (one LVL). All the shares are of the same category providing equal rights to receive dividends, liquidation quotas and voting rights at the Shareholders' Meeting.

The shares have no alienation restrictions or requirement to receive approval of the Company or other shareholders for alienation of shares.

JSC Latvijas kuģniecība has not issued any employees' shares. The shares do not have any voting restrictions or shareholders right to claim a share of the profit that is not related to the proportion of one's shares in possession.

JSC Latvijas kuģniecība is not aware of any shareholders' agreements that may cause restrictions for transferring shares belonging to the shareholders or their voting rights to other persons, or regulations requiring advance confirmation of this kind of transfer.

JSC Latvijas kuģniecība Members of the Management Board has no extraordinary mandate to issue or repurchase the shares, except for the cases provided in the Commercial Law.

KEY FINANCIAL INDICATORS (USD '000)

Financial results	**2008**	**2007**	**2006**	**2005**	**2004**
Voyage income	252 031	239 864	216 292	198 688	181 097
Net voyage income	219 810	209 697	155 437	147 221	135 795
Vessel operating profit before depreciation	93 676	95 055	65 024	80 243	64 838
- share of the Voyage income %	37%	40%	30%	40%	36%
Vessel operating profit	**63 357**	**69 764**	**45 097**	**53 313**	**40 620**
- share of the Voyage income %	25%	29%	21%	27%	22%
Operating profit	**73 997**	**81 218**	**41 651**	**34 486**	**77 678**
- share of the Voyage income %	29%	34%	19%	17%	43%
Profit before interest, tax and depreciation (EBITDA)	**115 395**	**113 623**	**68 901**	**66 184**	**91 610**
- share of the Voyage income %	46%	47%	32%	33%	51%
Profit before taxes	58 382	67 042	33 759	27 427	71 338
- share of the Voyage income %	23%	28%	16%	14%	39%
Net profit	**58 690**	**67 009**	**33 735**	**27 404**	**71 361**
- share of the Voyage income %	23%	28%	16%	14%	39%
Financial ratios					
Return on Equity (ROE) %	11%	15%	8%	7%	22%
Return on Assets (ROA) %	6%	9%	5%	5%	15%
Liquidity ratios					
- quick liquidity %	97%	182%	145%	259%	279%
- current liquidity %	103%	191%	152%	275%	296%
Earnings per share USD	**0.29**	**0.34**	**0.17**	**0.14**	**0.36**
P/E ratio USD	4.54	7.90	11.74	15.66	2.53

INFORMATION ON THE COMPANY'S PERFORMANCE

DIVIDEND'S POLICY

Decision on dividends payment is taken by the Shareholders Meeting. In 2007 the Management Board of JSC Latvijas kuģniecība developed and with the consent of the Supervisory Council approved JSC Latvijas kuģniecība Strategic Plan to the year 2015 that provides for increase in the Company's value and raising its equity along with maintaining the Company's position amongst the ten leading handy sized and middle range tankers owners in the world simultaneously keeping the leader's position in the Northern European market.

The strategic objective reveals the necessity to invest the Company's profits in the development of JSC Latvijas kuģniecība Group to enhance its value in future.

Internal Control System in the Group

The internal control system of the Group is based on internal regulations decsribing the procedures of all the signficiant business cycles, the process of risk evaluation and decision making, the control procedures for processes and transactions as well as process results evaluation criteria. The independent review of the internal control system is performed by Internal Audit Department. The work of the Internal Audit Department is organised in accordance with the approved Strategic Five Years' Audit Plan which foresees the assessment of high risk business cycles once in two years as well as review of all the business cycles once in five years. The Internal Audit Department functions in accordance with the Standards issued by Institute of Internal Auditors and the best practice examples.

The Company's internal control system for the financial report preparation is set to ensure sufficient reliability that the financial reports for external use are compiled in acccordance with the International Financial Reporting Standards, provide clear and true understanding about the financial situation of the Company and its performance results. The Company's internal control and risk management systems include procedures that:

(1) ensure complete and precise timely accounting entries and storing in systematic order to provide true presentation of the Company's operational transactions as well as the amount of the Company's assets and liabilities;
(2) ensure sufficient reliability that the transactions are revealed in the way to produce the financial reports in accordance with the International Financial Reporting Standards;
(3) ensure that the Company's revenues and costs are executed only in accordance with the mandate of the Company's management;
(4) ensure sufficient reliability that unauthorised purchase, manipulations or sale of the Company's assets that may affect considerably the Company's financial reports is prevented or disclosed without delay.

Personnel Policy

In today's globally competitive environment highly professional and motivated personnel makes a ground for success of the company. JSC Latvijas kuģniecība Personnel Policy aims to ensure equal development opportunities for all the employees and personnel potential development and utilisation for achievement of maximum performance results of the JSC Latvijas kuģniecība Group. To reach the objectives set the company expects its employees to apply their skills and competence, efficient and dynamic work, as well as further development of professional knowledge and skills. The personnel evaluation policy implemented in the company provides setting annual objectives for each employee as well as the evaluation of achievement of the objectives and overall participation in meeting the company's operation results. The results of the personnel evaluation are linked to the revision of remuneration and bonuses system of the JSC Lavijas kuģniecība Group.

INFORMATION ON THE COMPANY'S PERFORMANCE *(continued)*

Personnel Policy *(continued)*

At the end of 2008 JSC Latvijas kuģniecība Group employed 1 624 people. The company is proud to report that the personnel turnover has been minimal during the reporting period proving that the company's personnel is comprised of experienced, loyal and highly professional employees in their field. Moreover, to ensure the development of the company it is very important to attract new employees having relevant qualifications therefore JSC Latvijas kuģniecība Group actively cooperates with professional educational institutions and personnel recruitment companies.

One of the basic principles of JSC Latvijas kuģniecība Group Personnel Policy is enhancing professional development of the employees providing them with opportunities to participate in high level courses and workshops increasing their qualification as well as supporting studies and implementation of quality management principles. Considering the international business of JSC Latvijas kuģniecība Group and its high reputation in the world's shipping markets the personnel of the company is comprised of highly professional specialists who have gained experience through purposeful work. Therefore encouraging individual's initiative and independence along with involvement into decision making process makes an important part of the company's Personnel Policy.

The bonus system of JSC Latvijas kuģniecība Group is related to the financial results of the operations of the JSC Latvijas kuģniecība Group by evaluating the contribution of each individual in succeeding the achievement of the company's profits. The observation of this principle is equally attributable to both the management of the JSC Latvijas kuģniecība Group and its employees thus stimulating the interest and loyalty of the employees in successful development of the JSC Latvijas kuģniecība Group.

The company provides its employees with comfortable and compliant with security conditions requirements working environment equipped with modern technical appliances to ensure employees of JSC Latvijas kuģniecība Group with all necessities to perform their duties. JSC Latvijass kuģniecība Group pays special attention to the personnel social policy providing social guarantees and health and accident insurance.

JSC Latvijas kuģniecība acknowledges the importance of the employees' unity for future development and positive performance results of the company. JSC Latvijas kuģniecība has created and supports company's traditions for celebrating events and holidays to stimulate team spirit of its employees.

Environment Protection

One of the most important JSC Latvijas kuģniecība areas of responsibility is environmental protection. Acknowledging that our responsibility reaches further than the Company's growth, all the issues in respect of JSC Latvijas kuģniecība development are assessed also in context with safety and environment protection.

JSC Latvijas kuģniecība Group key objectives with respect to environmental protection are ensuring appropriate environmental protection management targeted at "zero-spill practice and safe management of its vessels' operations eliminating environmental pollution and minimising the possibility of accidents. In order to achieve these objectives JSC Latvijas kuģniecība Group has set the following rules to be observed by the crew members:

- organise regular trainings and courses to master the necessary skills of action in case of contamination;
- follow all the procedures set for the preventing all kinds of environmental pollution;
- identify security risks and take corresponding measures to minimise possibilities of accidental contamination;
- be prepared professionally to take actions in case of pollution and eliminate the consequences.

INFORMATION ON THE COMPANY'S PERFORMANCE *(continued)*

Environment Protection *(continued)*

A motivated, highly professional and responsible personnel is an integral part of the environmental protection policy. Company's personnel must follow such basic principles as continuous improvement of individual skills with respect to security requirements both on-board the vessels and ashore, building personal responsibility and personal involvement in health, safety and environment issues.

To ensure the implementation of the environmental protection policy of JSC Latvijas kuģniecība Group in accordance with the highest standards, the Group has developed an effective safety and quality management system ensuring complete adherence with national and international environmental regulations and guidelines. The safety and quality system is maintained in accordance with the requirements of International Security Management (ISM) Code.

Corporate Social Responsibility

JSC Latvijas kuģniecība has gained recognition as an important and reliable partner in the world's shipping industry. Recognising our corporate social responsibility towards Latvia we have provided well-considered and focused support policy for culture and arts, sports and social sphere for several years already. Regardless of the events in the world's economy, JSC Latvijas kuģniecība will continue implementation of numerous support projects. We are strong enough for this!

In 2008 JSC Latvijas kuģniecība has continued supporting significant sponsorship projects important for Latvia society, in accordance with the sponsorship policy guidelines of providing for involvement in realisation of projects related to culture of Latvia, historical objects and sports activities.

JSC Latvijas kuģniecība is also among the companies involved in promotion of the professional education – the long term cooperation with Latvian Maritime Academy includes both financial and intellectual support from JSC Latvijas kuģniecība. JSC Latvijas kuģniecība finds obliged to participate actively in preserving Latvian shipping history and traditions, therefore supporting Ainaži Nautical School Museum and seafarers' reunions organised there are among the priorities of the Company's corporate social responsibility initiatives.

All through the year there have been numerous charity projects implemented with courtesy of JSC Latvijas kuģniecība rejoicing both the parties involved.

In 2008 the most significant projects supported by JSC Latvijas kuģniecība were:

- Museum of the History of Riga and Navigation, publishing book "Dzelzs vīri, koka kuģi ("Iron Men, Wooden Ships)
- Ventspils Olympic Centre
- Basketball Club Ventspils
- Football Club Ventspils
- Ventspils City Marine Celebration
- Ventspils City Celebration.

CORPORATE GOVERNANCE REPORT

I INTRODUCTION

Joint Stock Company Latvijas kuģniecība Corporate Governance Report for 2008 (hereinafter the Report) has been prepared in compliance with Article 56.[2] of Law on Financial instruments market, Article 15.14 of NASDAQ OMX Riga Rules on Listing and Trading of Financial Instruments on the Markets Regulated by the Exchange and Corporate Governance Principles and Recommendations on their Implementation issued by the NASDAQ OMX Riga. The Report has been prepared by Joint Stock Company Latvijas kuģniecība (hereinafter Latvian Shipping Company or Company) Management Board and reviewed by Latvian Shipping Company Supervisory Council.

The Report discloses the information on the compliance with the corporate governance principles in 2008 based on the "comply or explain principle as recommended in the Corporate Governance Principles and Recommendations on their Implementation issued by the NASDAQ OMX Riga. In 2008 Latvian Shipping Company complied in fact with all of the corporate governance principles, except some formal nuances, referred to in the Corporate Governance Principles and Recommendations on their Implementation issued by the NASDAQ OMX Riga.

Information mentioned in the Article 56.[2] Par Two Clause 5. and 7. and Article 56.[1] Par One Clauses 3., 4., 6., 8. and 9 of Law on Financial instruments market are provided in the Consolidated Annual Report of Latvian Shipping Company, which is published on Latvian Shipping Company website www.lk.lv.

The Report has been submitted to the Riga Stock Exchange together with Latvian Shipping Company Annual Report for 2008, as well as published on Latvian Shipping Company website www.lk.lv.

Imants Sarmulis
Chairman of the Management Board
Joint Stock Company Latvian Shipping Company

Riga, 7 April 2009

CORPORATE GOVERNANCE REPORT *(continued)*

II PRINCIPLES OF GOOD CORPORATE GOVERNANCE

A. SHAREHOLDERS' MEETING

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

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

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

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

According to the Articles of Association Latvian Shipping Company has issued 200 000 000 (two hundred million) dematerialized bearer shares. The nominal value of each share is 1 LVL (one lat). All shares are of the same category and have rights to receive dividends, liquidation quota and voting rights at the shareholders' meeting; therefore, Latvian Shipping Company applies this best practice provision.

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

According to the Commercial law Latvian Shipping Company Shareholders' meeting makes a decision on the payment of dividends. According to the "Joint Stock Company "Latvian Shipping Company Strategy till 2015, the strategic goal of Latvian Shipping Company is to ensure the growth of the company's value through increasing the Latvian Shipping Company Group's equity and retaining the Group's position among the world's top ten handy-size and middle-range tanker owners at the same time preserving its leading position in the North European market. Such a main strategic goal indicates the necessity to reinvest the Group's profit in the development of the Latvian Shipping Company Group, thus increasing the value of Latvian Shipping Company in future. In order to comply with requirements the Commercial law of the competency of management and supervisory instructions, "Joint Stock Company "Latvian Shipping Company Strategy till 2015 has been approved by the Management board with acceptance from the Supervisory Council of Latvian Shipping Company. Information about this document is published on Latvian Shipping Company website on internet; therefore, Latvian Shipping Company applies this best practice provision.

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

CORPORATE GOVERNANCE REPORT *(continued)*

1. Ensuring shareholders' rights and participation at shareholders' meetings *(continued)*

Latvian Shipping Company complies with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information, as well as invites other persons who in compliance with the procedure stipulated in legislative acts call, announce and organise a shareholders' meeting to comply with them; therefore, Latvian Shipping Company applies this best practice provision.

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

Latvian Shipping Company discloses information according to the Law on Financial Instruments Market and the rules issued by "NASDAQ OMX Riga. Latvian Shipping Company announces the general meetings of shareholders at least 30 days advance, at first publishing relevant information in Latvian and English at the central storage of regulated information, internet home page of "NASDAQ OMX Riga and Latvian Shipping Company and then publishing relevant notifications about calling up the general meetings of shareholders at newspapers "Latvijas Vēstnesis and "Neatkarīgā Rīta Avīze, as well as by sending the information to Latvian Central Depository, which then transmits the information further to financial instruments account operators. In the notification about calling up the general meetings of shareholders the following information is included:

1) *the firm name and legal address of the company;*
2) *the place and time of the meeting;*
3) *the type of the meeting (annual or extraordinary);*
4) *the institution, which calls up the meeting;*
5) *the actions, which have to be performed by the shareholders till the meeting in order to participate and vote;*
6) *the agenda;*
7) *the place and time, where and when shareholders can get acquainted with draft decisions on the items of the agenda; as well as other items to be reviewed at the meeting;*
8) *the total amount of shares with voting rights.*

Latvian Shipping Company provides every person, who is entitled to vote at the general meetings of shareholders, with the notification about calling up the general meetings of shareholders, form of power of attorney in computerized way, and ensures that form of power of attorney is available at internet home page of Latvian Shipping Company also after the notification about calling up the general meetings of shareholders is given. According to the Commercial law shareholders who represent at least one twentieth from the company's share capital have rights to within 7 days after publication of the notification to ask the institution which calls up the meeting, to include an additional item in the agenda of the meeting. Latvian Shipping Company notifies about inclusion of the additional item in the agenda of the meeting at least 14 days before the meeting by firstly publishing relevant information in Latvian and English at the central storage of regulated information, internet home page of "NASDAQ OMX Riga and Latvian Shipping Company and then publishing relevant notifications about inclusion of the additional item in the agenda of the meeting at newspapers "Latvijas Vēstnesis and "Neatkarīgā Rīta Avīze, as well as sending the information to Latvian Central Depository, which then transmits the information further to financial instruments account operators.

CORPORATE GOVERNANCE REPORT *(continued)*

1. Ensuring shareholders' rights and participation at shareholders' meetings *(continued)*

The draft decisions of the shareholders meeting are available at least 14 days before the shareholders meeting at first publishing then in Latvian and English at the central storage of regulated information and then at internet home page of "NASDAQ OMX Riga. If at the shareholders meeting it is planned to make decision about amendments in the constitutive documents of the company, the draft amendments in Latvian and English are distributed at least 30 days before the meeting by publishing relevant information in Latvian and English at the central storage of regulated information and internet home page of "NASDAQ OMX Riga. Latvian Shipping Company invites shareholders in due time to submit and include in the draft decisions shareholders proposals for election of members of the Supervisory Council and the audit committee, as well as other proposals of shareholders, if received. Additionally, according to the Commercial law, if shareholder at least seven days before shareholders meeting submit to the management board written request, the management board no later than three days before the shareholders meeting provides him all the requested information about items of the agenda.

Latvian Shipping Company considers that until now the time and place of the shareholders meetings has not restricted the attendance of a meeting by shareholders, as the time and place of the meetings are chosen considering predictable amount of shareholders, which could attend the meeting. Latvian Shipping Company has never changed the time and place of the announced shareholders meeting; therefore, Latvian Shipping Company applies this best practice provision.

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

See explanation for Clause 1.4. Latvian Shipping Company applies this best practice provision.

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

See explanation for Clause 1.4. Latvian Shipping Company applies this best practice provision.

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

See explanation for Clause 1.4. Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

1. Ensuring shareholders' rights and participation at shareholders' meetings *(continued)*

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

See explanation for Clause 1.4. Latvian Shipping Company applies this best practice provision.

1.9. Especially, attention should be paid that the shareholders at least 14 (fourteen) days prior to the shareholders' meeting have the possibility to acquaint themselves with information on Supervisory Council member candidates whose approval is planned at the meeting. When disclosing information on Supervisory Council member candidates, also a short personal biography of the candidates shall be published. Since the nomination of Supervisory Council member candidates has to be very careful, it is recommended that the Issues disclose the said information as soon as possible.

See explanation for Clause 1.4. Latvian Shipping Company applies this best practice provision.

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

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

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

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

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

See explanation for Clause 1.11. Latvian Shipping Company applies this best practice provision.

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

See explanation for Clause 1.11. Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

1. Ensuring shareholders' rights and participation at shareholders' meetings *(continued)*

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

At the shareholders meetings of Latvian Shipping Company the secretary (recorder) takes minutes of the meeting, in the minutes the following is included:

1) *the firm name of the company;*
2) *the institution, which called up the meeting and time, when notification about calling up the shareholders meeting was published;*
3) *the place and time of the shareholders meeting;*
4) *the amount of subscribed share capital, paid-up share capital and share capital with voting rights;*
5) *the represented share capital and represented shares with voting rights;*
6) *the name and surname of the chairman of the meeting, secretary, vote counters and shareholders, who are entitled to approve that the minutes of the meeting are correct;*
7) *the agenda of the meeting;*
8) *the process and scope of the discussion of the items of the agenda;*
9) *the decisions made, specifying votes submitted "for and "against each decision;*
10) *the objections of members of Supervisory Council, management board, auditor, liquidator or shareholders.*

The minutes of the meeting are signed by the chairman of the meeting, secretary and at least two shareholders, who are entitled to approve that the minutes of the meeting are correct. The list of shareholders and the documents related to the meeting are attached to the minutes; therefore, Latvian Shipping Company applies this best practice provision.

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

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

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

Latvian Shipping Company members of the management board, auditor as well as members of the Supervisory Council participates in the shareholders meetings; therefore, Latvian Shipping Company applies this best practice provision.

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

CORPORATE GOVERNANCE REPORT *(continued)*

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

Latvian Shipping Company invites to participate at the shareholders meetings official candidates whose election is planned at the meeting. If a Supervisory Council member candidate or auditor candidate is unable to attend the shareholders' meeting due to an important reason, Latvian Shipping Company at its best effort discloses all the substantial information on the candidate before the shareholders' meeting; therefore, Latvian Shipping Company applies this best practice provision.

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

During shareholders' meetings of Latvian Shipping Company, the participants have the possibility to obtain information on officials or official candidates who do not attend the meeting and reasons thereof. In the minutes of the meeting the information on officials who attend and who do not attend the meeting are recorded; therefore, Latvian Shipping Company applies this best practice provision.

B. MANAGEMENT BOARD

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

3. Obligations and responsibilities of the Management Board

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

3.1. The Management Board shall have the obligation to manage the business of the Issuer, which includes also the responsibility for the realisation of the objectives and strategies determined by the Issuer and the responsibility for the results achieved. The Management Board shall be responsible for the said to the Supervisory Council and the shareholders' meeting. In fulfilment of its obligations, the Management Board shall adopt decisions irrespective of their personal interests or interests of the shareholders that control the Issuer and be guided by interests of all the shareholders, taking into account the common interests of the Issuer and its associated companies (or affiliates).

According to the Articles of Association, the Management Board of Latvian Shipping Company consists of five members. The chairman of the Management Board has full representation rights and he can represent the company singly without special authorization an independently from other members of the Management Board. Other members of the Management Board have rights to represent the company only together with at least one other member of the Management Board. The decisions of the Management Board of Latvian Shipping Company are made at the meetings of the Management Board, by at least three of the members voting "for. Referring to the Commercial law, members of the Management Board of Latvian Shipping Company fulfill their duties as honest and careful master. Quarterly the Management Board in writing reports on its activities to Supervisory Council and at the end of the year to the shareholders meeting. In the report the following is disclosed:

1) *the results of commercial activities of the company;*
2) *the business conditions, cost-effectiveness, turnover, securities movements of the company;*
3) *the considerations which can affect the companies business condition;*
4) *the planned policy of the commercial activities of the company for the next accounting period.*

The Management Board informs the Supervisory Council also about other important aspects of activities of the Company; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

3. Obligations and responsibilities of the Management Board *(continued)*

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

The powers of the Management Board are stipulated in the Management Board Regulations, which are elaborated on the basis of Articles of Association of Latvian Shipping Company and rules of the Commercial Law. The Management Board Regulations are available in the registered office of Latvian Shipping Company; therefore, Latvian Shipping Company applies this best practice provision.

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

According to the Commercial law, the Management Board of Latvian Shipping Company is executive institution which manages and represents the company. The Management Board superintends and manages the companies business. It is responsible for commercial activities of the company, as well as for the accounting which complies with the legislation. The Management Board manages the property of the company and acts with its assets according to the laws, articles of association and decisions of the shareholders meetings; therefore, Latvian Shipping Company applies this best practice provision.

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

1) corporate strategies, work plan, risk control procedure, assessment and advancement of annual budget and business plans, ensuring control on the fulfilment of plans and the achievement of planned results;

2) selection of senior managers of the Issuer, determination of their remuneration and control of their work and their replacement, if necessary, complying with the personnel policy adopted by the Issuer;

3) timely and qualitative submission of reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled.

The Management Board of Latvian Shipping Company currently acts accordingly in order to execute "Joint Stock Company "Latvian Shipping Company Strategy till 2015. Latvian Shipping Company has worked out internal system, which provide performance of corporate strategies, work plan, risk control procedure, assessment and advancement of annual budget and business plans, ensuring control on the fulfillment of plans and the achievement of planned results. Similarly Latvian Shipping Company selects senior managers, determine their remuneration and control their work and their replacement, if necessary, complying with the adopted personnel policy. The Management Board of Latvian Shipping Company timely and qualitative submits all the reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled. The internal audit is carried out by Internal Audit department of the company which is overseen by the Supervisory Council; therefore, Latvian Shipping Company applies this best practice provision.

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

In annual reports, the Management Board confirms that the internal risk procedures are efficient and that the risk management and internal control have been carried out in compliance with the determined control procedures throughout the year; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

3. Obligations and responsibilities of the Management Board *(continued)*

3.6. It shall be preferable that the Management Board submits decisions that determine the objectives and strategies for achievement thereof (participation in other companies, acquisition or alienation of property, opening of representation offices or branches, expansion of business etc) to the Issuer's Supervisory Council for approval.
The Management Board of Latvian Shipping Company has developed and with the permission of the Supervisory Council approved "Joint Stock Company "Latvian Shipping Company Strategy till 2015; therefore, Latvian Shipping Company applies this best practice provision.

4. Management Board composition and requirements for Management Board members

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

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

The Supervisory Council of Latvian Shipping Company observes that every Management Board member has appropriate education and work experience before they are elected, as well as sets the requirements for every Management Board member, which specifies the skills, education, previous work experience and other selection criteria. All the members of the Management Board of Latvian Shipping Company have appropriate education and previous experience in respective area; therefore, Latvian Shipping Company applies this best practice provision.

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

Latvian Shipping Company has published on its website on the Internet the above mentioned information; therefore, Latvian Shipping Company applies this best practice provision.

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

The Management Board of Latvian Shipping Company on an ongoing basis follows the commercial activities of the company. Quarterly the Management Board in writing reports about its activities to Supervisory Council but at the end of the year to the shareholders meeting, providing objective evaluation on the activity of Latvian Shipping Company; therefore, Latvian Shipping Company applies this best practice provision.

4.4. It is not recommended to elect one and the same Management Board member for more than four successive terms. The Issuer has to evaluate whether its development will be facilitated in the result of that and whether it will be possible to avoid a situation where greater power is concentrated in hands of one or a number of separate persons due to their long-term work at the Issuer. If, however, such election is admitted, it shall be recommended to consider to change the field of work of the relevant Management Board member at the Issuer.
No one of the members of the Management Board of Latvian Shipping Company has been elected for more than four successive terms; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

5. Remuneration of Management Board members

For every Management Board member a fair and commensurate remuneration shall be determined. The principles for the determination of remuneration shall be clear and transparent.

5.1. The remuneration for Management Board members shall be clearly determined and transparent. The Issuer's Supervisory Council shall revise the remuneration on a regular basis in compliance with the policy of remuneration adopted by the Issuer.

The remuneration for Management Board members is clearly determined and transparent. The Supervisory Council of the Company revises the remuneration on a regular basis; therefore, Latvian Shipping Company applies this best practice provision.

5.2. In determining remuneration of Management Board members and the variable part in the remuneration structure, it is recommended to peg it to previously determined long-term and short-term objectives. If the variable part of remuneration is pegged only to the short-term results, it will not facilitate the interest of Management Board members in the long-term growth of the Issuer and the improvement of results. It is recommended that the amount and structure of remuneration depends on the business results of the company, share price and other events connected with the Issuer.

The variable part of remuneration for the members of the Management Board is determined by the Supervisory Council, taking into consideration the contribution of the members of Management Board in the achievement of the results; therefore, Latvian Shipping Company applies this best practice provision.

5.3. In determining the remuneration of Management Board members, the Issuer's Supervisory Council shall comply with the remuneration policy adopted by the Issuer. In assessing the work of Management Board members, the Supervisory Council shall take into account the work tasks of every Management Board member, the financial situation of the Issuer, and other indices that are considered to be important in assessing the work of Management Board members.

In assessing the work of the Management Board members, the Supervisory Council is taking into account the work tasks of every Management Board member, the financial situation of Latvian Shipping Company, and other indices that are important in assessing the work of the Management Board members; therefore, Latvian Shipping Company applies this best practice provision.

5.4. If a Management Board member gets share options that give the member the right to obtain shares of the Issuer as remuneration, the Issuer shall comply with.

Latvian Shipping Company has not issued share options; therefore, Latvian Shipping Company applies this best practice provision.

5.5. When disclosing information on the total amount of remuneration paid to Management Board members of the Issuer, the Issuer, if possible, shall be asked to disclose the information on previous reporting years too, if such information has not been disclosed previously. Disclosure of information on previous years is especially important in order for investors to be able to evaluate the policy of remuneration applied to the Management Board members in the long-term and the linking of the development indices of the Issuer with the changes in the remuneration systems.

The total remuneration paid to the members of the Management Board for the current and previous reporting year is disclosed in the Annual Report; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

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

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

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

While taking decisions, the Members of the Management Board of the Latvian Shipping Company are guided by the interests of the company and they do not use the cooperation offers proposed to the Latvian Shipping Company to obtain personal benefit; therefore, Latvian Shipping Company applies this best practice provision.

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

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

On the occurrence of any interest conflict or even only on its possibility, the Management Board member of the Latvian Shipping Company is notifying other Management Board members without delay. Management Board members of the Latvian Shipping Company is notifying on any deal or agreement the company is planning to conclude with a person who has close relationship or is connected with the Management Board member in question, as well as is informing on any interest conflicts occurred during the validity period of concluded agreements; therefore, Latvian Shipping Company applies this best practice provision.

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

Management Board members are not participating in taking decisions that could cause an interest conflict; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

C. SUPERVISORY COUNCIL

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

7. Obligations and responsibilities of the Supervisory Council

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

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

The Supervisory Council of Latvian Shipping Company consists of twelve members, who are elected for the three year term of the Supervisory Council. The functions of the Supervisory Council are stipulated in the Supervisory Council Regulations, which are elaborated on the basis of Articles of Association of Latvian Shipping Company and rules of the Commercial Law. The Supervisory Council Regulations are available in the registered office of Latvian Shipping Company; therefore, Latvian Shipping Company applies this best practice provision.

7.2. In the Supervisory Council report appended to the Issuer's annual report, the Supervisory Council shall provide overall information on its work in the relevant year of reporting, information on the compliance with the principles of corporate governance in the business of the Issuer, as well as any other information as regarded by it to be necessary.

In the Supervisory Council report appended to the Latvian Shipping Company annual report, the Supervisory Council is providing overall information on its work in the relevant year of reporting, information on the compliance with the principles of corporate governance in the business of the company, as well as any other information as regarded by it to be necessary; therefore, Latvian Shipping Company applies this best practice provision.

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

The Supervisory Council of Latvian Shipping Company on the ongoing basis carries out supervision of the Management Board including supervision over the achievement of the objectives set by the company, the corporate strategy and risk management, the process of financial accounting, Management Board's proposals on the use of the profit of the company, and the business performance of the company in compliance with the requirements of regulatory acts; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

7. Obligations and responsibilities of the Supervisory Council *(continued)*

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

The Supervisory Council of Latvian Shipping Company has all the information required for it to fulfill its duties. The chairman of the Supervisory Council of Latvian Shipping Company at least once a week meets chairman of the Management Board in order to discuss all the most important issues connected with the company's business and development strategy, business activities, and risk management. The information to the Supervisory Council of Latvian Shipping Company is also provided by Internal Audit department on regular basis; therefore, Latvian Shipping Company applies this best practice provision.

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

The Supervisory Council Regulations of Latvian Shipping Company does not envisage provisions requiring the members of the Supervisory Council to inform about reasons for not attending a Supervisory Council meeting. Although, usually the member of the Supervisory Council in due time informs chairman of the Supervisory Council in due time, if he/she is unable to participate in Supervisory Council meeting, providing also the reasons for non-attendance; therefore, Latvian Shipping Company applies this best practice provision.

7.6. The supervision carried out by the Supervisory Council over the Management Board shall be especially important in spheres where the possibility that interest conflicts might occur is large: appointment of Management Board members, determination of the remuneration of Management Board members, and audit of the Issuer. To facilitate a more efficient work of the Supervisory Council and the division of work duties among its members, the Supervisory Council may establish separate committees (audit, nomination (appointment), remuneration and other committees).

In order to effectively perform its duties, the Supervisory Council from among the members of the Supervisory Council has established five committees – Finance committee, Legal and company reorganization committee, Strategic development committee, Fleet supervision committee and Audit committee. All committees consist of three members and their main task is to provide advisory functions and particularly to evaluate questions which are in the area of competency of the Supervisory Council. For important and sophisticated questions the committees can ask the opinion of experts. The members of the Supervisory Council do not receive an additional remuneration for their work at the committees. The committees submit their conclusions to the Supervisory Council for the decision making, while the Supervisory Council takes the final decisions; therefore, Latvian Shipping Company applies this best practice provision.

7.7. Prior to making a decision on establishing a committee, the Supervisory Council should assess the possible benefits and the planned costs of its work, if any. The Supervisory Council itself shall determine the structure and the number of committees which the Supervisory Council considers to be required to optimise its work. The Supervisory Council shall inform the Issuer's shareholders on establishing a committee, inform on it in the Report, and publish information on it on the Issuer's website on the Internet.

CORPORATE GOVERNANCE REPORT *(continued)*

7. Obligations and responsibilities of the Supervisory Council *(continued)*

See explanation for Clause 7.6. Latvian Shipping Company applies this best practice provision.

7.8. If a decision is taken to establish one or more committees, the work of the committees may be financed only within the Supervisory Council budget approved by the shareholders' meeting. Assignment of individual tasks to committees may in no way be considered as an assignment of the functions of the Supervisory Council. Supervisory Council committees do not substitute the Supervisory Council and their decisions should be treated as recommendations. The establishment of committees does not release the Issuer's Supervisory Council from the responsibility for the decisions taken. The task of committees shall be to prepare proposals for Supervisory Council decisions, while the final decisions are taken by the Supervisory Council.

See explanation for Clause 7.6. Latvian Shipping Company applies this best practice provision.

8. Supervisory Council composition and requirements for Supervisory Council members

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

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

Latvian Shipping Company requires above mentioned information from members of the Supervisory Council and publishes it at internet home page taking into consideration the regulations of the Personal Data Protection Law; therefore, Latvian Shipping Company applies this best practice provision.

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

Latvian Shipping Company applies this best practice provision.

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

Latvian Shipping Company assesses and takes into account the qualification of Supervisory Council members; therefore, Latvian Shipping Company applies this best practice provision.

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

CORPORATE GOVERNANCE REPORT *(continued)*

8. Supervisory Council composition and requirements for Supervisory Council members *(continued)*

Referring to the Commercial law, members of the Supervisory Council of Latvian Shipping Company fulfill their duties as honest and careful master, Latvian Shipping Company appeals the Supervisory Council members in their work to be as independent as possible from any external circumstances and to assume responsibility for the decisions taken and comply with the general ethical principles when taking decisions in relation to the business of the company; therefore, Latvian Shipping Company applies this best practice provision.

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

The Supervisory Council members of Latvian Shipping Company are nominated for election in the Supervisory Council and acting in compliance with the Commercial Law, according to which the Supervisory Council members are independent and unaffected in the decision-making process.

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

See explanation for Clause 8.5.

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

See explanation for Clause 8.5.

8.8. The conformity of a person to the independence criteria specified in the Annex hereto shall be evaluated already when the Supervisory Council member candidate in question has been nominated for election to the Supervisory Council. The Issuer shall specify in the Report who of the Supervisory Council members are to be considered as independent every year.

See explanation for Clause 8.5.

9. Remuneration of Supervisory Council members

The remuneration for Supervisory Council members shall be commensurate and the principles for the determination of remuneration shall be clear and transparent.

9.1. If remuneration is paid to a Supervisory Council member for the tasks fulfilled by him or her, it shall be stipulated in the Issuer's remuneration policy.

Shareholders' meeting of Latvian Shipping Company has determined remuneration for the members of the Supervisory Council; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

9. Remuneration of Supervisory Council members *(continued)*

9.2. When examining the Supervisory Council's report, it shall be recommended to assess also the work of the Supervisory Council at the current shareholders' meeting. Shareholders shall assess the work of the Supervisory Council based on the Supervisory Council's report and other information provided by the Supervisory Council available to shareholders and which allows assessing the quality and usefulness of the tasks performed by the Supervisory Council. If the work of the Supervisory Council is assessed, the assessment shall include an assessment on the Supervisory Council composition, its work organisation, and the ability to act as a united entity, as well as an assessment on the competence of every Supervisory Council member. Also the efficiency of the work of every Supervisory Council member and Supervisory Council committees, if any, shall be assessed. When deciding on the remuneration of Supervisory Council members, shareholders shall take into account the assessments made.

When examining the Supervisory Council's report, the annual general meeting of shareholders assesses also the work of the Supervisory Council; therefore, Latvian Shipping Company applies this best practice provision.

9.3. The total amount of the remuneration of Supervisory Council members shall be disclosed by the Issuer in the Report. The Issuer shall be obliged to disclose the total amount of the remuneration paid to Supervisory Council members, as well as specify separately the amount of the wage paid to Supervisory Council members and the variable part of the remuneration, if any, paid to Supervisory Council members. The variable part of remuneration shall mean any payments other than wage paid to Supervisory Council members, e.g.: remuneration paid depending on the financial results of the Issuer (premiums), share options that give the right to the Issuer's shares, participation in pension plans etc.

The total amount of remuneration paid to the members of the Supervisory Council is determined by the decision of Shareholders' meeting of Latvian Shipping Company and is disclosed in the Annual Report. Latvian Shipping company does not include in the remuneration of the Supervisory Council members any payments other than wage and has not issued any share options; therefore, Latvian Shipping Company applies this best practice provision.

9.4. When determining the remuneration of Supervisory Council members and planning the variable part in the remuneration structure, it usually should be pegged to the previously determined short- and long-term objectives.

The payment of the variable part of remuneration to the members of the Supervisory Council is related to the fulfillment of strategic goals of Latvian Shipping Company and the results of the commercial and financial activities for the respective period; therefore, Latvian Shipping Company applies this best practice provision.

9.5. When disclosing information on the total amount of remuneration paid to Supervisory Council members, the Issuer shall be asked, if possible, to disclose the information on previous reporting years too, if such information has not been disclosed previously. Disclosure of information on previous years is especially important in order for investors to be able to evaluate the policy of remuneration applied to the Supervisory Council members in the long-term and the linking of the development indices of the Issuer with the changes in the remuneration systems.

The total remuneration paid to the Supervisory Council for the current and previous reporting year is disclosed in the Annual Report; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

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

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

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

Latvian Shipping Company appeals when taking decisions, the Supervisory Council members to guide by the interests of the company and not use the cooperation offers proposed to the company to obtain personal benefit; therefore, Latvian Shipping Company applies this best practice provision.

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

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

On the occurrence of any interest conflict or even only on its possibility, the Supervisory Council member is notifying other Supervisory Council members without delay; therefore, Latvian Shipping Company applies this best practice provision.

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

A Supervisory Council member who is in a possible interest conflict is not participating in taking decisions that might be a cause of an interest conflict; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

D. DISCLOSURE OF INFORMATION

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

11. Transparency of the Issuer's business

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

> 11.1 The structure of corporate governance shall be established in a manner that ensures provision of timely and exhaustive information on all the substantial matters that concern the Issuer, including its financial situation, business results, and the structure of owners.

The structure of corporate governance of Latvian Shipping Company is established in a manner that ensures provision of timely and exhaustive information on all the substantial matters that concern the company, including its financial situation, business results, and the structure of owners; therefore, Latvian Shipping Company applies this best practice provision.

> 11.2 The information disclosed shall be checked, precise, and unambiguous and prepared in compliance with high-quality standards.

Latvian Shipping Company applies this best practice provision.

> 11.3 The Issuers should appoint a person who would be entitled to contact the press and other mass media on behalf on the Issuer, thus ensuring uniform distribution of information and evading publication of contradictory and untruthful information, and this person could be contacted, if necessary, by the Stock Exchange and investors.

Latvian Shipping Company has appointed the person who is entitled to contact the press and other mass media on behalf on the company, thus ensuring uniform distribution of information and evading publication of contradictory and untruthful information, and this person could be contacted, if necessary, by the Stock Exchange and investors; therefore, Latvian Shipping Company applies this best practice provision.

> 11.4 The Issuers should ensure timely and compliant with the existing requirements preparation and disclosure of financial reports and annual reports of the Issuer. The procedure for the preparation of reports should be stipulated in the internal procedures of the Issuer.

Latvian Shipping Company ensures timely preparation and disclosure of financial reports and annual reports of the company which are in compliance with the existing requirements. The procedure for the preparation of reports is stipulated in the internal procedures of the company; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

12. Investor relations

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

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

Latvian Shipping Company applies this best practice provision.

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

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

12.3 The basic principles that should be observed by the Issuers in preparing the IR section of their websites:

1) The IR section of website shall be perceived not only as a store of information or facts but also as one of the primary means of communication by means of which it is possible to inform the existing and potential shareholders;

2) all the visitors of the IR section of website shall have the possibility to obtain conveniently all the information published there. Information on websites shall be published in all the foreign languages in which the Issuer normally distributes information so that in no way would foreign investors be discriminated, however, it shall be taken into account that information must be disclosed at least in Latvian and English;

3) It shall be recommended to consider a solution that would allow the existing and potential investors to maintain ties with the Issuer by using the IR section of website – submit questions and receive answers thereto, order the most recent information, express their opinions etc.;

4) the information published on websites shall be updated on a regular basis, and the news in relation to the Issuer and its business shall be published in due time. It shall not be admissible that outdated information that could mislead investors is found on websites;

5) after the website is created the creators themselves should assess the IR section of the website from the point of view of users – whether the information of interest can be found easily, whether the information published provides answers to the most important questions etc.

Latvian Shipping Company observes above mentioned basic principles in preparing the IR section of its website; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

12. Investor relations *(continued)*

12.4 The Issuer shall ensure that at least the following information is contained in the IR section of website:

1) general information on the Issuer - history of its establishment and business, registration data, description of industry, main types of business;

2) Issuer's Report ("comply or explain) on the implementation of the principles of corporate governance;

3) Number of issued and paid financial instruments, specifying how many of them are included in a regulated market;

4) information on shareholders' meetings, draft decisions to be examined, decisions adopted – at least for the last year of report;

5) Issuer's statutes;

6) Issuer's Management Board or Supervisory Council regulation or a document equated thereto that regulates its work, as well as the Issuer's remuneration policy and the shareholders' meeting procedure regulation, if such has been adopted;

7) Description of the tasks of Supervisory Council committees, if such have been established, as well as information on the work performed by the committees;

8) information on present Issuer's Supervisory Council and Management Board members (on each individually): work experience, education, number of the Issuer's shares owned by the member (as at the beginning of year; the information shall be updated as required but at least annually), information on positions in other capital companies, and the term of office of Management Board and Supervisory Council members;

9) Issuer's shareholders which/who own at least 5% of the Issuer's shares; and information on changes of shareholders;

10) Financial reports and annual reports of the Issuer prepared in compliance with the procedure specified in legal acts and the Stock Exchange regulations;

11) Any other information to be disclosed by the Issuer, e.g. information on any substantial events, Issuer's press releases, archived information on Issuer's financial and annual reports on previous periods etc.

The Management Board and Supervisory Council regulations are available in the registered office of Latvian Shipping Company. Considering that the work of committees of the Supervisory Council was commenced recently, information about their performance is not included in the website yet; therefore, the Latvian Shipping Company partly applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

E. INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

Latvian Shipping Company has defined the procedure of internal control; therefore, Latvian Shipping Company applies this best practice provision.

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

Latvian Shipping Company has characterized the most essential potential and existing risks in relation to the business of the company; therefore, Latvian Shipping Company applies this best practice provision.

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

Latvian Shipping Company applies this best practice provision.

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

Latvian Shipping Company applies this best practice provision.

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

The internal audit department of Latvian Shipping Company constantly performs independent audits in order to evaluate activities of the Latvian Shipping Company Group, including compliance with approved procedures. Also the external auditor approved by the general meeting of shareholders performs independent audits in order to evaluate activities of the Latvian Shipping Company Group, including compliance with approved procedures; therefore, Latvian Shipping Company applies this best practice provision.

CORPORATE GOVERNANCE REPORT *(continued)*

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

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

Each year the general meeting of shareholders of Latvian Shipping Company approves the auditor for the audit for the next year's Annual report; therefore, Latvian Shipping Company applies this best practice provision.

F. REMUNERATION POLICY

14. Remuneration policy of the Issuer

The policy of the remuneration of Management Board and Supervisory Council members – type, structure and amount of remuneration - is one of the spheres where persons involved has a potentially greater risk to find themselves in an interest conflict situation. To avoid it, the Issuer should determine a clear remuneration policy.

14.1. The Issuers are called on to develop a remuneration policy in which the main principles for the determination of remuneration, possible remuneration schemes and other essential related issues are determined. The preparation of the remuneration policy should be made a responsibility of the Issuer's Supervisory Council, which during the preparation of a draft policy must consult with the Issuer's Management Board. The remuneration policy or its most significant parts shall be published like any other essential information the activity of the Issuer.

14.2. Schemes of variable remuneration that include Issuer's shares or share options as remuneration as well as any essential amendments thereto should be examined also at shareholders' meetings, adopting the relevant decisions, if necessary. Considering the aforementioned, shareholders should be provided with all the necessary information prior to the meeting.

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

14.4. When preparing the remuneration policy, the Issuer shall be obliged to disclose information on how the Issuer plans to ensure the amount of shares to be granted in compliance with the approved remuneration schemes – whether it is planned to obtain them by buying on a regulated market or by issuing new shares.

The remuneration to Latvian Shipping Company management bodies is determined in accordance with the Commercial Law, Articles of Association of Latvian Shipping Company and decisions of management bodies of Latvian Shipping Company. Latvian Shipping Company up to now has not issued share options; therefore, Latvian Shipping Company applies this best practice provision.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management of JSC Latvijas kuģniecība Group confirms that, based on the information available at the moment of report preparation the audited consolidated financial reports give a true and fair view of the state of the Group's financial situation as of December 31, 2008, its performance results and cash flow in all the most important issues. The above mentioned financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In preparing those financial statements, the management:

- has selected suitable accounting policies and applied them consistently;
- has provided judgments and estimates that are reasonable and prudent;
- has prepared the financial statements on the going concern basis.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the European Union.

On behalf of the Management Board

Imants Sarmulis
Chairman of the Management Board
JSC Latvian Shipping Company

Riga, Latvia

April 7, 2009

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas kuģniecība

Report on the Financial Statements

We have audited 2008 consolidated financial statements of AS Latvijas kuģniecība and its subsidiaries ("the Group"), which are set out on pages 46 through 111 of the accompanying 2008 Annual Report and which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

Report on Corporate Management Report

Furthermore, we have assured ourselves that the Group has prepared the corporate management report for the year 2008 (included on pages 24 through 43 of accompanying Annual Report) and verified information presented in the report according to the requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and in the section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 15 April 2009

CONSOLIDATED INCOME STATEMENT

	Note	2008 USD '000	2007 USD '000	2008 LVL'000	2007 LVL'000
Voyage income	7	252 031	239 864	120 915	123 207
Voyage costs	7,8	(32 221)	(30 167)	(15 458)	(15 496)
Net Voyage Result		**219 810**	**209 697**	**105 457**	**107 711**
Vessel operating costs	7,9	(126 134)	(114 642)	(60 516)	(58 886)
Vessel Operating Profit before Depreciation		**93 676**	**95 055**	**44 941**	**48 825**
Vessel depreciation	7,19	(30 319)	(25 291)	(14 546)	(12 991)
Vessel Operating Profit		**63 357**	**69 764**	**30 395**	**35 834**
Administration expenses	10,11	(32 884)	(25 417)	(15 776)	(13 055)
Other operational income	12	1 254	1 219	602	626
Other operational expenses	13	(2 964)	(2 418)	(1 422)	(1 242)
Gain on sale of assets	7,19	45 234	38 070	21 702	19 555
Operating Profit		**73 997**	**81 218**	**35 501**	**41 718**
Financial income	14	3 689	6 159	1 770	3 163
Financial expense	15	(19 304)	(20 335)	(9 261)	(10 445)
Profit before Taxation		**58 382**	**67 042**	**28 010**	**34 436**
Taxation	16	308	(33)	148	(17)
Net Profit for the Year		**58 690**	**67 009**	**28 158**	**34 419**
Earnings per share	17	**USD 0.29**	**USD 0.34**	**LVL 0.14**	**LVL 0.17**

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

CONSOLIDATED BALANCE SHEET

	Note	31.12.2008 USD '000	31.12.2007 USD '000	31.12.2008 LVL'000	31.12.2007 LVL'000
ASSETS					
Non-current assets					
Goodwill	18	16 646	-	8 240	-
Intangible assets	18	3 721	638	1 842	309
Total intangible assets		**20 367**	**638**	**10 082**	**309**
Fleet	19	693 126	636 565	343 097	308 097
Other property, plant and equipment	20	53 006	10 403	26 238	5 035
Assets under construction	19,20	102 421	71 446	50 698	34 580
Total property, plant and equipment		**848 553**	**718 414**	**420 033**	**347 712**
Investment properties	21	**149 212**	**1 542**	**73 860**	**746**
Investments in associates accounted for using the equity method	22	26	27	13	13
Other financial assets	23	-	1 523	-	737
Total non-current financial assets		**26**	**1 550**	**13**	**750**
Total non-current assets		**1 018 158**	**722 144**	**503 988**	**349 517**
Current assets					
Inventories	24	6 707	6 698	3 320	3 242
Trade accounts receivable	25	14 565	9 799	7 210	4 743
Prepayments and other receivables	26	8 605	10 563	4 259	5 112
Accounts receivable from related party		142	-	70	-
Deposits with maturity more than three months	27(a)	62 101	47 966	30 740	23 216
Financial assets designated at fair value through profit or loss	27(b)	4 028	5 760	1 994	2 788
Cash and cash equivalents	28	35 849	54 097	17 745	26 183
Total current assets		**131 997**	**134 883**	**65 338**	**65 284**
TOTAL ASSETS		**1 150 155**	**857 027**	**569 326**	**414 801**
Total cash and cash equivalents including deposits and similar		**101 978**	**107 823**	**50 479**	**52 187**

CONSOLIDATED BALANCE SHEET *(continued)*

	Note	31.12.2008 USD '000	31.12.2007 USD '000	31.12.2008 LVL'000	31.12.2007 LVL'000
EQUITY AND LIABILITIES					
Equity					
Share capital	29	362 319	362 319	200 000	200 000
Cash flow hedge reserve	29,32	(4 777)	-	(2 365)	-
Translation reserve		(11 673)	(11 503)	(31 241)	(37 413)
Retained earnings		195 464	136 774	101 565	73 407
		541 333	**487 590**	**267 959**	**235 994**
Minority interest		***753***	-	***373***	-
Total equity		**542 086**	**487 590**	**268 332**	**235 994**
Non-current liabilities					
Non-current portion of bank loans	30	352 078	298 954	174 279	144 694
Finance lease	31	21 314	-	10 550	-
Accounts payable to related party	38	83 954	-	41 557	-
Derivative financial instruments	32	3 492	-	1 729	-
Deferred tax liabilities	33	17 563	37	8 694	18
Deferred revenue	34	1 062	-	526	-
Total non-current liabilities		**479 463**	**298 991**	**237 335**	**144 712**
Current liabilities					
Current portion of bank loans	30	39 295	41 775	19 451	20 219
Finance lease	31	7 532	-	3 728	-
Accounts payable to related party	38	46 487	-	23 011	-
Trade accounts payable		9 429	3 569	4 667	1 727
Derivative financial instruments	32	1 285	-	636	-
Deferred revenue	34	7 534	7 483	3 729	3 622
Other liabilities	35	17 044	17 619	8 437	8 527
Total current liabilities		**128 606**	**70 446**	**63 659**	**34 095**
Total liabilities		**608 069**	**369 437**	**300 994**	**178 807**
Total equity & liabilities		**1 150 155**	**857 027**	**569 326**	**414 801**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital		Cash flow hedge reserve		Translation Reserve		Retained earning		Total before Minority interest		Minority interest		Total	
	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000
At 31 December 2006	362 319	200 000	-	-	(13 079)	(14 402)	69 765	38 988	**419 005**	**224 586**	-	-	419 005	224 586
Currency translation differences	-	-	-	-	1 576	(23 011)	-	-	**1 576**	**(23 011)**	-	-	1 576	(23 011)
Net income and expense for the year recognised directly in equity	**-**	**-**	**-**	**-**	**1 576**	**(23 011)**	**-**	**-**	**1 576**	**(23 011)**	**-**	**-**	**1 576**	**(23 011)**
Net profit for the year	-	-	-	-	-	-	67 009	34 419	**67 009**	**34 419**	-	-	67 009	34 419
Total income and expense for the year	**-**	**-**	**-**	**-**	**1 576**	**(23 011)**	**67 009**	**34 419**	**68 585**	**11 408**	**-**	**-**	**68 585**	**11 408**
At 31 December 2007	**362 319**	**200 000**	**-**	**-**	**(11 503)**	**(37 413)**	**136 774**	**73 407**	**487 590**	**235 994**	**-**	**-**	**487 590**	**235 994**
Currency translation differences and other reserves	-	-	(4 777)	(2 365)	(170)	6 172	-	-	(4 947)	3 807	-	-	(4 947)	3 807
Net income and expense for the year recognised directly in equity	**-**	**-**	**(4 777)**	**(2 365)**	**(170)**	**6 172**	**-**	**-**	**(4 947)**	**3 807**	**-**	**-**	**(4 947)**	**3 807**
Net profit for the year	-	-	-	-	-	-	58 690	28 158	58 690	28 158	-	-	58 690	28 158
Total income and expense for the year	**-**	**-**	**(4 777)**	**(2 365)**	**(170)**	**6 172**	**58 690**	**28 158**	**53 743**	**31 965**	**-**	**-**	**53 743**	**31 965**
Minority interest	-	-	-	-	-	-	-	-	-	-	753	373	753	373
At 31 December 2008	**362 319**	**200 000**	**(4 777)**	**(2 365)**	**(11 673)**	**(31 241)**	**195 464**	**101 565**	**541 333**	**267 959**	**753**	**373**	**542 086**	**268 332**

CONSOLIDATED CASH FLOW STATEMENT

	2008	2007	2008	2007
	USD '000	USD '000	LVL'000	LVL'000
Profit before taxation	**58 382**	**67 042**	**28 010**	**34 436**
Adjustments for :				
Depreciation	31 599	26 332	15 160	13 525
Profit on sale of fleet and other property, plant and equipment	(45 234)	(38 070)	(21 702)	(19 555)
Fair value amortisation	2 964	-	1 422	-
Dry-docking deferred expenditure depreciation	6 836	6 924	3 280	3 557
Currency translation difference	(1 115)	1 981	(218)	(1 328)
Interest expenses	17 979	19 354	8 626	9 941
Interest income	(3 850)	(5 981)	(1 847)	(3 072)
	67 561	**77 582**	**32 731**	**37 504**
Movement in net working capital – net of provisions				
Inventories	(9)	(1 151)	(4)	(591)
Trade accounts receivable, prepayments and other receivables	(2 599)	380	(1 247)	195
Trade accounts payable and other liabilities	3 448	(628)	1 644	(322)
	840	**(1 399)**	**393**	**(718)**
Cash inflow from operations	**68 401**	**76 183**	**33 124**	**36 786**
Corporate income taxes paid	(8)	(18)	(4)	(10)
Net cash inflow from operating activities	**68 393**	**76 165**	**33 120**	**36 776**
Investing activities				
Payments for fleet newbuildings	(85 417)	(199 132)	(40 980)	(102 285)
Payments for assets under construction	(31 920)	(71 354)	(15 314)	(36 651)
Dry-dock deferred expenditure	(3 899)	(4 934)	(1 871)	(2 534)
Purchase of other property, plant and equipment	(448)	(5 116)	(215)	(2 628)
Business combinations (net of cash acquired) (Note 5)	(39 480)	-	(18 931)	-
Proceeds on sale of fleet, other property, plant and equipment	69 615	106 281	33 399	54 594
Purchase of financial assets designated at fair value through profit or loss	-	(46 856)	-	(24 068)
Settlement of financial assets designated at fair value through profit or loss	1 370	52 761	657	27 102
Placement of deposits with maturity more than three months	(14 300)	-	(6 861)	-
Interest received	3 816	6 824	1 831	3 505
Net cash outflow from investing activities	**(100 663)**	**(161 526)**	**(48 285)**	**(82 965)**

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

	2008 USD '000	2007 USD '000	2008 LVL'000	2007 LVL'000
Cash outflow before financing activities	**(32 270)**	**(85 361)**	**(15 165)**	**(46 189)**
Financing activities				
Bank loans received	93 330	219 962	44 776	112 984
Bank loans repaid	(61 533)	(92 177)	(29 521)	(47 347)
Prepaid financing expenses	(522)	(1 941)	(250)	(997)
Interest paid on loans	(17 253)	(19 478)	(8 278)	(10 005)
Net cash inflow from financing activities	**14 022**	**106 366**	**6 727**	**54 635**
(Decrease) / increase in cash and cash equivalents	**(18 248)**	**21 005**	**(8 438)**	**8 446**
Cash and cash equivalents at 1 January:	**54 097**	**33 092**	**26 183**	**17 737**
Cash and cash equivalents at 31 December:	**35 849**	**54 097**	**17 745**	**26 183**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

JSC Latvian Shipping Company (hereinafter the Company or the Parent company or the Parent) is a joint stock company organised under the laws of the Republic of Latvia. The Company was first registered in the Enterprise Register on 13 September 1991, and then re-registered in the Commercial Register on 17 November 2004 (under the number 40003021108).

The core activities of the Company are commercial management of the fleet owned by Latvian Shipping Company Group (the Group) and the management of the investments in subsidiary undertakings.

The Group is a participant in the global shipping market, therefore it has commercial activities all over the world and it is not dependant on one particular country's economy only. The shipping market segment – medium-sized tankers, in which the Group operates, is more stable against freight rate turbulences than other market segments. The market data provides confidence that the Group will successfully manage the slowdown in world's economy through prudently chosen chartering strategy based on long term time charters.

Additionally, at the end of 2008 the Group took decision to diversify business risks by investing the company's free resources in projects which are not related to its basic area of operations – shipping. Investments were made in liquid and exclusive real estate projects in the most valuable developmental territories in Latvia, as well as in the publishing and printing industries. This decision will help to preserve the free resources of the Group at the time when the placement of financial resources in financial institutions is seen as a risky, given the substantial decline in the global financial market and the doubts which exist about the ability of those institutions to guarantee safe deposits during a global economic crisis.

The consolidated financial statements of the Group for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Management Board on April 7, 2009.

The shareholders have power to amend these financial statements after issue.

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets designated at fair value through profit and loss that have been measured at fair value. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand ($ 000) except when otherwise indicated.

In order to improve the comparability of the prepared income statement and the balance sheet, certain reclassifications have been made to several items of the income statement and the balance sheet for the year 2007.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

Basis of consolidation

The consolidated income and cash flow statements and balance sheet include the financial statements of the Company and its subsidiaries.

The results of subsidiaries sold or acquired are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated till the date that such control ceases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Basis of consolidation *(continued)*

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies. All intra-group transactions, including chartering of vessels, commercial and technical management, have been eliminated on consolidation.

The Group's share of profits less losses of associated undertakings is included in the consolidated income statement, and the Group's share of their net assets is included in the consolidated balance sheet.

The functional and presentation currency of the Group companies is U.S. Dollar, except for the Parent Company and subsidiary undertakings SIA LSC Shipmanagement, SIA Marine Training, SIA Jūras Servisa Centrs, SIA Karavella Property, SIA LASCO Investment (before – SIA Kuģu menedžments), JSC Preses nams, SIA Mediju nams, SIA Rīgas līcis, SIA LASCO Housing Service, SIA LASCO nekustamie īpašumi and other insignificant entities incorporated in Latvia, the functional currency of which is Latvian Lats.

Assets and liabilities of entities in the group denominated in foreign currencies are translated into U.S. dollars at rates of exchange ruling at the end of the financial year and the results of foreign entities are translated at the average rate of exchange during the financial year. Differences on exchange rates arising from retranslating the opening net investment in subsidiary undertakings, and from the translation of the results of those undertakings at the average rate of exchange, are taken to the "Translation reserve in shareholders' equity. On disposal of the foreign entity, such translation differences are recognised in the consolidated income statement as part of the gain or loss on disposal.

On acquisition, the assets and liabilities of the subsidiary are measured at their fair values at the date of acquisition. Any excess (deficit) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognised as goodwill (negative goodwill).

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

2.2 Changes in accounting policy

Adoption of new and/or changed IFRSs and IFRIC interpretations

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

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

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets;
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions.

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets
Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group did not have financial instruments caught by these amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The Group has early adopted the following amendments to standards:

- IAS 39 Financial Instruments: Recognition and Measurement. Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 Investment Property. Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group has not issued instruments caught by this interpretation.

2.3 Summary of significant accounting policies

Foreign currency translation

The financial statements are prepared in U.S. dollars which is the functional currency of the Group and Latvian Lats (LVL) which is the presentation currency of the Group in accordance with legislation of the Republic of Latvia.

Monetary assets and liabilities of the Group denominated in other currencies are translated into U.S. dollars (US $) at the rate of exchange prevailing at the end of the financial year. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transactions are accounted in U.S. dollars at the exchange rate prevailing at the date of the transaction.

Presentation of financial statements in LVL is done using exchange rate set by the Bank of Latvia (the "LB) in the following way: assets and liabilities are translated at the closing rate at the end of reporting year, income and expenses for income statement are translated at weighted average exchange rates for the reporting year, whilst resulting exchange differences are recognised as separate component of equity.
LB rate of exchange as at 31.12.2008 US $/LVL - 0.495 (average – 0.479762)
LB rate of exchange as at 31.12.2007 US $/LVL - 0.484 (average – 0.513652)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Goodwill arising on business combination due to deferred tax liability recognised on the difference between fair value and book value of assets acquired is not tested for impairment on individual bases but instead is impaired together with deferred tax liability it relates to. This is the only kind of goodwill in the Group.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

The policies applied to the Group's intangible assets are as follows:

Licences
Licences for the use of software programmes are granted for periods ranging between 1 and 3 years. Therefore the licences are assessed as having finite useful life and are amortised on a straight line basis over the licence period.

Other intangible assets
Other intangible assets include customer base and long term usage rights of land, both tested for impairment on individual bases. Customer base was acquired on acquisition of a subsidiary. It is assessed as having a finite useful life and is amortised on a straight line basis over a period of 10 years. The impairment test for the asset is based on a comparable market data. The recoverable amount is most sensitive to the sample of market participants chosen as operating in most similar industry segment used for extrapolation purposes. Long term usage rights of land also were acquired on acquisition of a subsidiary and were assessed as having finite useful life and are amortised on a straight line basis over the remaining usage period for next 43 years and 10 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Property, plant, equipment and depreciation

Fleet

The Group's fleet is recorded at historical cost less accumulated depreciation. Such cost includes the cost of replacing part of the asset when that cost is incurred, if the recognition criteria are met.

Depreciation has been provided on the basis that the carrying value of the vessels, less an estimated scrap value of US $ 300 per lightweight ton (2007: US $ 300), is written off on a straight line basis over the remainder of their anticipated useful lives, taken to be between 23 - 26 years from the date of building.

The part of the cost of a new vessel or newly acquired vessel representing that element which will be utilised over the period to the next dry-docking is depreciated over the remaining period to the expected next dry-docking.

The fleet's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Tonnage under construction until the moment of the vessel's delivery is stated in the balance sheet as assets under construction.

Other Property, Plant and Equipment

Other property, plant and equipment are recorded at historical cost less accumulated depreciation. Other property, plant and equipment are depreciated on a straight-line basis using the following rates:

Buildings	1.25 - 20% per annum
Machinery and equipment	5 - 33.33% per annum
Other assets	14.29 - 50% per annum

Maintenance and repairs on other property, plant and equipment are expensed in the year they are incurred. Improvements to other property, plant and equipment are capitalised only if they are considered to extend the assets originally assessed useful life or capacity.

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

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

Investment properties

Investment properties initially are measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. The investment properties consist of land, buildings, investment properties under construction and other assets being directly linked and viewed as not separable from the investment property, generating cash flows largely independently of other assets held by the Group.

Depreciation is calculated on a straight line basis over the useful life of the asset using the rates from 1.25% to 5% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property 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.

Impairment of non-financial assets

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

In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

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

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

The following criteria are also applied in assessing impairment of specific assets:

Goodwill
Goodwill arising on business combination due to deferred tax liability recognised on the difference between fair value and book value of assets acquired is not tested for impairment on individual bases but instead is impaired together with deferred tax liability it relates to.
Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.
Fleet
Fleet is tested for impairment annually, by using both, fleet valuation on single vessel basis performed by at least two independent professional valuators and impairment test based on discounted cash flow forecasts prepared by the Group's management where each type of vessels operated is treated as a separate cash generating unit. Major assumptions used for the impairment test as at 31 December 2009 are: time charter rates at the actual level for 2009 – 2011, 10% increase in 2012, constant afterwards; operating costs at the current level, discount rate of 11.5% and scrap value US $ 300 per lightweight ton in 2009, US $ 400 per lightweight ton in 2010, constant afterwards at US $ 500 per lightweight ton.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Associates

The Group's investment in its associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Financial assets designated at fair value through profit or loss
Financial assets at fair value through profit and loss include financials assets designated upon initial recognition as at fair value through profit and loss. Financial assets may be designated at initial recognition as at fair value through profit and loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. The Group meets requirements of the criteria (ii) above.

All regular way purchases and sales are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement day refers to the recognition of an asset on the day it is transferred to the Group and to derecognition of an asset, on the day that it is transferred by the Group.

Financial assets designated at fair value through profit or loss are initially recognised at cost and subsequently remeasured at fair value based on available market prices. Unrealised and realised gains and losses arising from changes in the fair value are included in the consolidated income statement in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment determined on individual bases.
Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand, cash on board of the vessels/on hand, and short term deposits, which do not exceed three months maturity on the date of placement.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Interest bearing loans

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

In cases when transaction costs are incurred prior to first disbursement of the related borrowing, the costs are disclosed as prepaid financing expense under other financial assets. Interest expense items are recognised on an accrual basis using the effective interest rate. Borrowings are derecognised when the obligation under the liability is settled or cancelled or expired.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement
The Group uses derivative financial instruments such as interest rate swaps to hedge its interest rate risks.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Cash Flow Hedges which meet the strict criteria for hedge accounting are accounted for as follows:
The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.
Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Current versus non-current classification
Derivative instruments that are designated as, and are effective hedging instruments are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Such reversal is recognised in income statement.

Derecognition of financial assets and liabilities

Financial assets
A financial asset is derecognised when:
- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is settled or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value, where the cost is calculated on a first in first out basis. Net realisable value is estimated selling price in the ordinary course of business, less applicable variable selling expenses. Where necessary, provision is made for obsolete, slow moving and defective stock.

Provisions

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) there is a change in the determination of whether fulfilment is dependant on a specified asset; or
d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

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

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

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Contingencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Fair Values

The Group's financial assets and liabilities are stated at fair value except for loans and receivables. Fair value represents the amount at which an asset could be exchanged or liability settled on an arms length basis.

Revenue recognition

Voyage income includes gross income from freight and hire and demurrage. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, less discounts. The following specific recognition criteria must also be met before revenue is recognised:

Voyages in progress
Credit is made in the consolidated income statement for voyage revenues by reference to the stage of the completion of voyage.

The pro-rata share of expenses in respect of voyages in progress that relate to the reporting year is also included in the consolidated income statement while expenses that relate to the next reporting period are deferred. Full provision is made for any losses known or expected on voyages in progress at the balance sheet date.

Chartering pools
Income from the participation in chartering pools is recognised based on monthly reports provided by pool operator.

Demurrage
Demurrage is recognised at the best estimated amount if a claim is considered certain.

Interest income
Revenue is recognised as interest accrued (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividends
Revenue is recognised when the Group's right to receive the payment is established.

Voyage costs/ Vessel operating costs

Voyage costs include the costs related to the vessels that operate in the spot market, where the owner carries costs like bunkers and port expenses. For vessels operating on a time charter, these costs are carried by the charterer. Vessel operating costs are costs related to the running of the vessels like crew, repairs, equipment, insurance and dry-docking costs.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Taxes

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Deferred income tax

Deferred income tax is provided in full, using other liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fleet, other property, plant and equipment, tax non-deductible accruals and tax losses carried forward.

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

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

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

Value added tax

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

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

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of other receivables or other liabilities in the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Subsequent events

Post balance sheet events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

3. Estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. Future events occur which may 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.

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

Fleet depreciation
Fleet is depreciated over the expected useful life using the straight line method down to the expected scrap value, typically over a useful life of 23-26 years estimated at US $ 300 per lightweight ton of a respective vessel. Estimates of useful life and scrap value are reassessed annually in view of long-term perspective and in order to disregard temporary market fluctuations which may be significant. Changes in estimates of useful life and scrap value may significantly affect the depreciation charge and thereby the net profit for the year.

Dry-docking and special surveys
The cost of dry-dockings are capitalised as a part of fleet and then written off over the following 30 months representing the estimated time between dry-dockings.

Impairment
Where the carrying amount of an asset is greater than its estimated recoverable amount at the balance sheet date, the impairment loss is recognised in the consolidated income statement to write down the carrying value to its recoverable amount, being the higher of its fair value less cost to sell and value in use. Fair values are estimated by professional independent certified valuators and value in use calculations are prepared by management.

Where the indicators supporting the recognition of the previously recognised impairment loss no longer exist at the balance sheet date, the impairment loss is reversed and recognised as income in the income statement.

Determiniation of fair value of investment property at initial recognition
For initial recognition purposes the Group engaged independent certified valuation specialists to determine fair values of acquired assets in order to determine purchase price allocation. The valuer used a weighted proportion of valuation technique based on a discounted cash flow model and a comparable market data. The determined initial cost of the investment properties is most sensitive to the estimated rent rates, discount rates as well as other assumptions applied. The key assumptions used to determine the initial cost of the investment property, including a sensitivity analysis, are further explained in Note 5 and Note 21. After initial recognition, the Group applies cost method in accounting for investment properties.

Impairment of Non-financial Assets
The Group's impairment test for intangible assets with indefinite useful lives is based on a comparable market data. The recoverable amount is most sensitive to the sample of market participants chosen as operating in most similar industry segment used for extrapolation purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

4. Future changes in accounting policies

Standards issued but not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).
The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2009).
The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).
Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27A requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

IFRS 8 Operating Segments (effective for financial years beginning on or after 1 January 2009).
The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 Segment Reporting. The Group expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

Amendment to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009).
This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Amendment to IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009).
The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).
The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009).
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs

As stated in Note 2.2 the Group has early adopted some of the amendments to standards following the "Improvements to IFRS's project. The Group has not yet adopted the following amendments and most of the changes are effective for financial years beginning on or after 1 January 2009. The Group anticipates that these amendments to standards will have no material effect on the financial statements.

- IFRS 7 Financial Instruments: Disclosures. Removal of the reference to 'total interest income' as a component of finance costs.
- IAS 1 Presentation of Financial Statements. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors. Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period. Clarifications that dividends declared after the end of the reporting period are not obligations.
- IAS 16 Property, Plant and Equipment. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price with "fair value less costs to sell.
- IAS 18 Revenue. Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 Employee Benefits. Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance. Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- IAS 23 Borrowing Costs. The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- IAS 27 Consolidated and Separate Financial Statements. When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 28 Investment in Associates. If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- IAS 29 Financial Reporting in Hyperinflationary Economies. Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- IAS 34 Interim Financial Reporting. Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- IAS 36 Impairment of Assets. When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38 Intangible Assets. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- IAS 41Agriculture. Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

IFRIC 12 Service Concession Arrangements (effective once adopted by the EU).
This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

IFRIC 13 Customer Loyalty Programmes (effective for financial years beginning on or after 1 July 2008).
This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Group does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2008).
This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Group.

IFRIC 15 Agreement for the Construction of Real Estate (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).
The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group does not conduct such activity, therefore, this interpretation will not have an impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

FRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group is currently assessing which accounting policy to adopt for the recycling on disposal of the net investment.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).
The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group does not distribute non-cash assets to owners.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Business combinations

On 17 December 2008 the Group signed purchase agreements to acquire assets from related party *(see also Note 38)* in alternative non-shipping related investment sectors. Due to the structure of the deal the Group within one purchase transaction acquired several real estate properties as well as shares in companies operating in real estate, printing and publishing industry.

Besides real estate properties, the shares in following companies were acquired: 100% of a real estate company SIA Rīgas līcis VN, 100% of a real estate holding company SIA Nekustamie īpašumi VN, 99.8% of a publishing company SIA Mediju nams and 95.39% of voting shares in a joint stock company Preses nams – the company operating in printing industry.

The Group engaged independent accredited valuation specialists to determine fair value of assets acquired as at 30 December 2008, being the acquisition date when all risks and awards passed over to the Group. For a period between the acquisition date and an end of the reporting period none of income or expense items of the companies acquired were included within the Group's consolidated Income statement as were considered to be not material.

The revenue of the combined entity for the reporting period would be US $ 285 million if the business combination took place at the beginning of the reporting period, and profit and loss for the year for the combined entity - US $ 39 million respectively.

Major difference between previous carrying value and fair value of net assets recognised on acquisition arises on real estate properties owned by the companies acquired and recognised on their balance sheets at historical costs. For valuation purposes the valuer used a weighted proportion of valuation technique based on a discounted cash flow model and a comparable market data. The determined values of the real estate properties are most sensitive to the estimated rent, occupancy, discounting and capitalisation rates applied. The key assumptions used and a sensitivity analysis are further explained in Note 21.

Intangibles arising on acquisition include customer base in media business with fair value of US $ 1.46 million and long term usage rights of land with fair value of USD $ 1.56 million, both not recognised before of acquisition on the balance sheets of the companies acquired. Customer base is assessed as having a finite useful life and is amortised on a straight line basis over a period of 10 years. Long term usage rights of land are assessed to have finite useful life equal to the usage period of these rights.

US $ 3.1 million as a difference between the consideration for acquisition and fair value of acquired net assets (including intangibles arising on acquisition) was simultaneously recognised and written down as an impairment loss to income statement of the Group.

Goodwill of US $ 16.6 million arising on acquisition and recognised on the balance sheet of the Group represents increase in a deferred tax liability due to difference between the fair value of the acquired net assets of the companies and their book value. The increase in a deferred tax liability is calculated by applying current corporate income tax rate of 15% effective in tax legislation applicable to the Parent company of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Business combinations *(continued)*

The fair value of the identifiable assets and liabilities recognised in a result of business combination as at the date of acquisition were:

	Fair value recognised on acquisition		Previous carrying value	
	USD'000	**LVL'000**	**USD'000**	**LVL'000**
Property, plant, equipment (Note 20)	70 255	34 776	69 131	34 220
Investment property (Note 21)	147 404	72 965	40 356	19 976
Cash and cash equivalents	655	324	655	324
Trade receivables	6 308	3 122	6 308	3 122
Inventories	931	462	931	462
Intangibles (Note 18)	182	90	182	90
Intangibles arising on acquisition (Note 18)	3 024	1 497	-	-
Goodwill arising on acquisition (Note 18)	16 646	8 240	-	-
	245 405	**121 476**	**117 563**	**58 194**
Trade payables	(62 019)	(30 699)	(62 019)	(30 699)
Deferred income tax liability acquired on acquisition (Note 33)	(1 192)	(591)	(1 192)	(591)
Deferred income tax liability arising on acquisition (Note 33)	(16 646)	(8 240)	-	-
	(79 857)	**(39 530)**	**(63 211)**	**(31 290)**
Net assets	165 548	81 946	54 352	26 904
Minority interest of subsidiaries			(533)	(264)
Net asssets acquired, 100%	**165 548**	**81 946**	**53 819**	**26 640**
Minority interest	(753)	(373)		
Total net assets acquired	**164 795**	**81 573**		
Impairment loss of goodwill arising on acquisition and written down to the income statement as fair value amortisation (Note 13 and Note 18)	2 873	1 422		
Total consideration	**167 668**	**82 995**		

Cash outflow on acquisition	**USD'000**	**LVL'000**
Net cash acquired with the subsidiary	655	324
Cash paid in 2008	(40 135)	(19 255)
Net cash outflow	**(39 480)**	**(18 931)**
Consideration outstanding as at 31.12.2008 (Note 38)	128 769	63 740
Consolidation stage adjustment (exchange difference)	(1 237)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

6. Corporate Structure

The subsidiary undertakings, all of which are effectively controlled by the Company, are stated below. All are wholly-owned at the balance sheet date if not stated otherwise.

Name	Country of Incorporation	Activity /Vessels
Latmar Holdings Corporation	Liberia	Holding company
Abava Shipping Co. Ltd.	Malta	Dormant
Amata Shipping Co. Ltd.	Malta	Dormant
Apollo Holdings Corporation	Cayman Islands	m.t. Mar
Cape Wind Trading Company	Liberia	m.t. Indra
Clipstone Navigation S. A.	Liberia	m.t. Inga
Dawnlight Shipping Co. Ltd.	Cyprus	Dormant
Juris Avots Shipping Co.	Cyprus	Dormant
Kriti Sea Shipping Co. Ltd.	Cyprus	Dormant
Latalpha Holding Corporation	Liberia	Holding company
Latgale Shipping Co. Ltd.	Malta	Dormant
Latmar Shipping Co. Ltd.	Cyprus	Dormant
Latstrand Holdings Corporation	Liberia	Holding company
Lattanker Holdings Corporation	Liberia	Holding company
Limetree Shipping Co. Ltd.	Malta	m.t. Riga
New Spring Shipping Co. Ltd.	Cyprus	Dormant
Noella Maritime Co. Ltd.	Cyprus	Dormant
Radar Shipping Ltd.	Liberia	m.t. Zoja I
Reeferlat Holdings Corporation	Liberia	Holding company
Renda Maritime Co. Ltd.	Cyprus	Dormant
Rhodos Shipping Co. Ltd.	Cyprus	Dormant
Rundale Shipping Co.	Cyprus	m.t. Rundale
Sagewood Trading Inc.	Liberia	Dormant
Samburga Shipping Co.	Cyprus	m.t. Samburga
Saturn Trading Corporation	Liberia	Dormant
Scanreefer Navigation Co. Ltd.	Cyprus	In liquidation
Scanreefer Marine Co. Ltd.	Cyprus	In liquidation
S. Tomskis Shipping Co. Ltd.	Malta	Dormant
S. Tomskis Shipping Co. Ltd.	Cyprus	in liquidation
Viktorio Shipping Corporation	Liberia	m.t. Estere
Zemgale Shipping Co. Ltd.	Malta	Dormant
Wilcox Holdings Ltd.	Liberia	Dormant
World Reefer Corporation	Liberia	m.t. Ojars Vacietis

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

6. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
Lattanker Holdings Corporation	Liberia	Intermediate holding company
Antonio Gramsi Shipping Corporation	Liberia	m.t. Pumpuri
Davids Sikeiross Shipping Corporation	Liberia	m.t. Maria M
Dzons Rids Shipping Corporation	Liberia	m.t. Blue Star
Hose Marti Shipping Corporation	Liberia	m.t. Green Star
Imanta Shipping Company Ltd.	Malta	Dormant
Klements Gotvalds Shipping Corporation	Liberia	m.v. Telo
Majori Shipping Company Ltd.	Malta	Dormant
Pablo Neruda Shipping Company Ltd.	Cyprus	Dormant
Talava Shipping Company Ltd.	Malta	Dormant
Reeferlat Holdings Corporation	Liberia	Intermediate holding company
Akademikis Artobolevskis Shipping Co. Ltd.	Cyprus	In liquidation
Akademikis Artobolevskis Shipping Co. Ltd.	Malta	Dormant
Akademikis Bocvars Shipping Co. Ltd.	Cyprus	In liquidation
Akademikis Bocvars Shippng Co. Ltd.	Malta	m.t. Zoja II
Akademikis Celomejs Shipping Co. Ltd.	Cyprus	in liquidation
Akademikis Celomejs Shipping Co. Ltd.	Malta	Dormant
Akademikis Hohlovs Shipping Co. Ltd.	Cyprus	In liquidation
Ventlines Shipping Limited	Malta	Dormant
Juris Avots Shipping Co. Ltd.	Malta	Dormant
Belgoroda Shipping Co. Ltd.	Cyprus	In liquidation
Belgoroda Shipping Co. Ltd.	Malta	Dormant
Kamilo Sjenfuegoss Shipping Co. Ltd.	Cyprus	In liquidation
Kamilo Sjenfuegoss Shipping Co. Ltd.	Malta	Dormant
Kurska Shipping Co. Ltd.	Cyprus	In liquidation
Kurska Shipping Co. Ltd.	Malta	Dormant
Pure Shipping Co. Ltd.	Cyprus	In liquidation
Pure Shipping Co. Ltd.	Malta	Dormant
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Arctic Seal Shipping Company Ltd.	Cyprus	Dormant
Atlantic Leader Shipping Company Ltd.	Cyprus	Dormant
Faroship Navigation Company Ltd.	Cyprus	Dormant
Gaida Shipping Corporation	Liberia	Dormant
Gevostar Shipping Company Ltd.	Cyprus	Dormant
Tangent Shipping Company Ltd.	Cyprus	Dormant
Zoja Shipping Company Ltd.	Cyprus	Dormant

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

6. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
Latalpha Holdings Corporation	Liberia	Intermediate holding company
Ak. Vavilovs Shipping Co. Ltd.	Malta	Dormant
Ak. Zavarickis Shipping Co. Ltd.	Malta	Dormant
Delacroix Shipping Company Ltd.	Cyprus	In liquidation
Dzintari Shipping Corporation	Liberia	m.t. Dzintari
Griva Maritime Corporation	Liberia	m.t. Zanis Griva
Kasira Shipping Company Ltd.	Cyprus	Dormant
Kemeri Navigation Corporation	Liberia	m.t. Kemeri
Mahoe Shipping Company Ltd.	Cyprus	In liquidation
O. Vacietis Shipping Company Ltd.	Cyprus	Dormant
Perle Reefer Shipping Company Ltd.	Malta	Dormant
Pinewood Shipping Corporation	Liberia	Gas Carrier – m.t. Kurzeme
Ringmare Shipping Company Ltd.	Cyprus	In liquidation
Rosewood Shipping Corporation	Liberia	Gas Carrier – m.t. Vidzeme
Ventspils Shipping Company Ltd.	Cyprus	Dormant
Crown Navigation Inc.	Marshall Islands	Holding company
LSC Holdings Ltd	Isle of Man	Holding company

LSC Holdings Ltd. was incorporated in Isle of Man as a private limited company on 30 October 2008. According to the Agreement between Crown Navigation Inc. and LSC Holdings Ltd, Crown Navigation Inc. has transferred its shares in 17 single vessel companies (registered in Marshal Islands) to LSC Holdings Ltd. The transaction was accounted for by using a pooling of interests method.

Kabile Navigation Inc.	Marshall Islands	m.t. Krisjanis Valdemars
Kaltene Navigation Inc.	Marshall Islands	m.t. Kaltene
Kandava Navigation Inc.	Marshall Islands	m.t. Kandava
Kazdanga Navigation Inc.	Marshall Islands	m.t. Kazdanga
Kolka Navigation Inc.	Marshall Islands	m.t. Kolka
Kuldiga Navigation Inc.	Marshall Islands	m.t. Kuldiga
Kursa Navigation Inc.	Marshall Islands	m.t. Kraslava
Sabile Navigation Inc.	Marshall Islands	m.t. Ugale
Salacgriva Navigation Inc.	Marshall Islands	m.t. Jurkalne
Saldus Navigation Inc.	Marshall Islands	m.t. Ainazi
Saulkrasti Navigation Inc.	Marshall Islands	m.t. Puze
Sigulda Navigation Inc.	Marshall Islands	m.t. Uzava
Skrunda Navigation Inc.	Marshall Islands	m.t Piltene
Sloka Navigation Inc.	Marshall Islands	m.t Ance
Smiltene Navigation Inc.	Marshall Islands	m.t Usma
Stende Navigation Inc.	Marshall Islands	m.t Targale
Straupe Navigation Inc.	Marshall Islands	m.t. Salacgriva
Latvian Shipping Corporation	Liberia	Holding company
Razna Shipping Corporation	Liberia	Dormant
Taganroga Shipping Corporation	Liberia	Dormant

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

6. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
Kristaps Insurance Ltd.	Bermuda	Insurance
Michelle Finance Corporation	Liberia	Investment company *(dormant)*
SIA Latvian - Finnish Maritime Agency	Latvia	In liquidation
SIA LSC Marine Training	Latvia	Seafarers Training Services
SIA LSC Shipmanagement	Latvia	Ship management
SIA Jūras Servisa Centrs	Latvia	Consulting
SIA Ostas Serviss	Latvia	Rent Service
Santomar Holdings Co. Ltd.	Cyprus	Investment Holding Company *(dormant)*
SIA Karavella Property	Latvia	Real estate maintenance
SIA LASCO investment (former SIA Kuģu menedžments)	Latvia	Holding company
Subsidiaries of SIA LASCO Investment		
JSC Preses nams (95.39%)	Latvia	Printing services
SIA Mediju nams (99.8%) [1]	Latvia	Publishing services
SIA LASCO Nekustamie īpašumi[2] (former SIA Nekustamie īpašumi VN)	Latvia	Holding company
SIA Rīgas līcis (former SIA Rīgas līcis VN)	Latvia	Real estate management
Subsidiary of JSC Preses nams		Printing services
OOO Preses nams	Russia	
Subsidiaries of SIA Mediju nams [3]		
SIA 4.vara (50.05%)	Latvia	Internet portal administration
SIA F/64 Photo agency (51.05%)	Latvia	Foto and video services
Subsidiaries of SIA LASCO Nekustamie īpašumi		
SIA LASCO Housing Service (former SIA Namserviss VN)	Latvia	Real estate management
SIA Darījumu centrs Daugava	Latvia	Real estate
SIA Ventspils biznesa centrs	Latvia	Real estate
SIA Pārventas sporta centrs	Latvija	Real estate
SIA Lejastiezumi	Latvija	Real estate

Note:
1) SIA LASCO investment has a 95.63% shareholding of SIA Mediju nams. At the same time, JSC Preses nams owns 4.37% of the share capital of SIA Mediju nams. As such, The Group's ownership share is 99.8%
2) SIA LASCO Nekustamie īpašumi is a parent company controlling five 100% owned subsidiaries. SIA LASCO Nekustamie īpašumi has prepared a consolidated annual report, which was further incorporated in the Group's consolidated accounts
3) In June 2008 SIA Mediju nams has acquired a new subsidiary SIA F/64 Photo Agency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Segment information

The primary segment reporting format is determined to be business segments.

Up to year 2008 segment information was presented on bases of the businesses organised and managed separately according to the types of vessels, with each segment representing a strategic business unit that offers different services and serves different markets. These types were as follows: tankers, reefers, gas carriers (LPG) and dry cargo vessels.

As a result of business combinations at the end of the reporting period the Group has acquired (in addition to the fleet segment) two further segments in alternative non-shipping related investment sectors. Thus, at 31 December 2008 the Group had three reportable operating segments*: Shipping, Real estate management and Publishing & printing*. In addition, consistently with prior year, for the fleet segment further segmentation on bases of the types of vessels is presented.

The Group is operating on worldwide basis. However, because of difficulty to determine the geographical segment in shipping industry, no such information is reasonably available and provided.

The following tables present the breakdown of income statement items, as well as assets and liabilities by primary business segments and more detailed segmentation for the fleet:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Segment information *(continued)*

Year ended 31 December 2008

	Shipping *		Real estate management		Publishing and printing		Total	
	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000
Voyage income	252 031	120 915					252 031	120 915
Voyage costs	(32 221)	(15 458)					(32 221)	(15 458)
Net voyage result	**219 810**	**105 457**	**-**	**-**	**-**	**-**	**219 810**	**105 457**
Vessel operating costs	(126 134)	(60 516)					(126 134)	(60 516)
Vessel depreciation	(30 319)	(14 546)					(30 319)	(14 546)
Vessel operating profit	**63 357**	**30 395**	**-**	**-**	**-**	**-**	**63 357**	**30 395**
Gain on sale of assets	45 227	21 698					45 227	21 698
Segment result	**108 584**	**52 093**	**-**	**-**	**-**	**-**	**108 584**	**52 093**
Unallocated sale of assets							7	4
Unallocated administration expenses							(32 884)	(15 776)
Unallocated other operational income							1 254	602
Unallocated other operational expenses							(2 964)	(1 422)
Operating Profit							**73 997**	**35 501**
Financial income							3 689	1 770
Financial expense							(19 304)	(9 261)
Profit before taxation							**58 382**	**28 010**
Taxation							308	148
Net profit for the year							**58 690**	**28 158**
Segment assets	**900 793**	**445 892**	**199 107**	**98 558**	**50 255**	**24 876**	**1 150 155**	**569 326**
Segment liabilities	**398 082**	**197 050**	**149 499**	**74 002**	**60 488**	**29 942**	**608 069**	**300 994**

*- more detailed information for the shipping segment is presented on page 79 - 81.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Segment information *(continued)*

Year ended 31 December 2008 **Fleet segment breakdown**

	Tankers		Reefers		LPG		Dry		Total	
	USD'000	LVL '000	USD'000	LVL '000	USD'000	LVL '000	USD'000	LVL '000	USD'000	LVL '000
Voyage income	221 207	106 127	8 578	4 115	18 865	9 051	3 381	1 622	252 031	120 915
Voyage costs	(30 197)	(14 487)	(1 787)	(858)	(63)	(30)	(174)	(83)	(32 221)	(15 458)
Net voyage result	**191 010**	**91 640**	**6 791**	**3 257**	**18 802**	**9 021**	**3 207**	**1 539**	**219 810**	**105 457**
Vessel operating costs	(114 047)	(54 716)	(4 582)	(2 198)	(5 076)	(2 436)	(2 429)	(1 166)	(126 134)	(60 516)
Vessel depreciation	(26 042)	(12 494)	(819)	(393)	(3 458)	(1 659)			(30 319)	(14 546)
Vessel operating profit	**50 921**	**24 430**	**1 390**	**666**	**10 268**	**4 926**	**778**	**373**	**63 357**	**30 395**
Gain on sale of assets	21 134	10 139	24 093	11 559					45 227	21 698
Segment result	**72 055**	**34 569**	**25 483**	**12 225**	**10 268**	**4 926**	**778**	**373**	**108 584**	**52 093**
Segment assets	740 823	366 707	885	438	60 803	30 097	1 338	663	803 849	397 905
Unallocated assets									96 944	47 987
									900 793	**445 892**
Segment liabilities	392 092	194 086	81	40	1 571	778	269	132	394 013	195 036
Unallocated assets									4 069	2 014
									398 082	**197 050**
Investments in vessels	122 311	58 680	-	-	-	-	-	-	122 311	58 680
Depreciation	26 042	12 495	819	393	3 458	1 658	-	-	30 319	14 546
Dry-docking deferred expenditure depreciation	5 730	2 749	757	363	190	91	159	76	6 836	3 279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Segment information *(continued)*

Year ended 31 December 2007

	Tankers		Reefers		LPG		Dry		Total	
	USD'000	LVL '000	USD'000	LVL '000	USD'000	LVL '000	USD'000	LVL '000	USD'000	LVL '000
Voyage income	208 704	107 201	11 645	5 981	16 347	8 397	3 168	1 627	239 864	123 207
Voyage costs	(29 289)	(15 044)	(902)	(463)	(89)	(46)	113	58	(30 167)	(15 496)
Net voyage result	**179 415**	**92 157**	**10 743**	**5 518**	**16 258**	**8 351**	**3 281**	**1 685**	**209 697**	**107 711**
Vessel operating costs	(97 172)	(49 911)	(10 004)	(5 139)	(5 282)	(2 714)	(2 184)	(1 122)	(114 642)	(58 886)
Vessel depreciation	(20 316)	(10 436)	(1 517)	(779)	(3 458)	(1 776)	-	-	(25 291)	(12 991)
Vessel operating profit	**61 927**	**31 810**	**(778)**	**(400)**	**7 518**	**3 861**	**1 097**	**563**	**69 764**	**35 834**
Gain on sale of assets	37 905	19 470	-	-	-	-	-	-	37 905	19 470
Segment result	**99 832**	**51 280**	**(778)**	**(400)**	**7 518**	**3 861**	**1 097**	**563**	**107 669**	**55 304**
Unallocated sale of assets									165	85
Unallocated administration expenses									(25 417)	(13 055)
Other operational income									1 219	626
Other operational expenses									(2 418)	(1 242)
Operating profit									**81 218**	**41 718**
Financial income									6 159	3 163
Financial expense									(20 335)	(10 445)
Profit before taxation									**67 042**	**34 436**
Taxation									(33)	(17)
Net profit for the year									**67 009**	**34 419**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Segment information *(continued)*

Year ended 31 December 2007

	Tankers		Reefers		LPG		Dry Cargo		Total	
	USD'000	LVL '000	USD'000	LVL '000	USD'000	LVL '000	USD'000	LVL '000	USD'000	LVL '000
Segment assets	656 081	317 543	21 214	10 268	62 692	30 343	1 647	797	741 634	358 951
Unallocated assets									115 393	55 850
Total assets									**857 027**	**414 801**
Segment liabilities	361 211	174 826	1 698	822	659	319	303	147	363 871	176 114
Unallocated liabilities									5 566	2 693
Total liabilities									**369 437**	**178 807**
Other segment items										
Investments in vessels	274 319	140 905	615	316	433	222	-	-	275 367	141 443
Depreciation	20 316	10 436	1 517	779	3 458	1 776	-	-	25 291	12 991
Dry-docking deferred expenditure depreciation	5 928	3 045	535	275	288	148	173	89	6 924	3 557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

8. Voyage costs

	USD '000		LVL '000	
	2008	2007	2008	2007
Bunkering	(20 467)	(15 419)	(9 819)	(7 920)
Commission	(6 291)	(7 559)	(3 018)	(3 883)
Port expenses	(5 463)	(7 020)	(2 621)	(3 606)
Allowance for debts of doubtfull recovery	-	(169)	-	(87)
Total	**(32 221)**	**(30 167)**	**(15 458)**	**(15 496)**

9. Vessel operating costs

	USD '000		LVL '000	
	2008	2007	2008	2007
Crew expenses	(38 665)	(31 839)	(18 550)	(16 354)
Repairs and spares	(25 966)	(27 638)	(12 458)	(14 196)
Chartering expenses	(22 413)	(22 245)	(10 753)	(11 426)
Insurance	(9 663)	(8 733)	(4 636)	(4 486)
Equipment maintenance expenses	(7 984)	(7 434)	(3 830)	(3 818)
Dry-docking	(6 836)	(6 924)	(3 733)	(3 557)
Luboil	(4 564)	(4 877)	(3 280)	(2 505)
Other operating expenses	(7 780)	(2 634)	(2 190)	(1 353)
Provisions	(2 194)	(2 227)	(1 053)	(1 144)
Management fee	(69)	(91)	(33)	(47)
Total	**(126 134)**	**(114 642)**	**(60 516)**	**(58 886)**

10. Administration expenses

	USD '000		LVL '000	
	2008	2007	2008	2007
Staff costs *(see also Note 13)*	(19 167)	(15 878)	(9 196)	(8 156)
Professional fees	(6 026)	(2 487)	(2 891)	(1 277)
Advertising and marketing	(1 944)	(1 888)	(933)	(970)
Other administration expenses	(2 271)	(1 529)	(1 089)	(784)
Depreciation	(1 280)	(1 040)	(614)	(534)
Occupation and repairs	(1 199)	(1 029)	(575)	(529)
Travel and transport	(1 012)	(785)	(486)	(403)
IT and communication	(484)	(457)	(232)	(235)
Movements in provision of claims and other	595	(235)	286	(121)
Real estate tax	(96)	(89)	(46)	(46)
Total	**(32 884)**	**(25 417)**	**(15 776)**	**(13 055)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11. Employment costs and staff numbers

	2008			2007		
	USD '000	LVL '000	Number	USD '000	LVL '000	Number
Seamen*	38 665	18 550	682	31 839	16 354	863
Shore based staff	19 167	9 196	222	15 743	8 086	237
	57 832	**27 746**	**904**	**47 582**	**24 440**	**1 100**
Additions as a result of business combination			720			
Total	**57 832**	**27 746**	**1 624**	**47 582**	**24 440**	**1 100**

The average number and employment costs of shore based staff include employees of the Parent company and 100% owned subsidiaries.

* The number of seamen is those employed as at the end of the year.

12. Other operational income

Under this income statement position included revenues other than voyage income, like seamen training services and other shipping related services provided by the Group companies to the clients outside the Group.

13. Other operational expenses

	USD '000		LVL '000	
	2008	2007	2008	2007
Accrued bonuses	-	2 418	-	1 242
Fair value amortisation	2 964	-	1 422	-
Total	**2 964**	**2 418**	**1 422**	**1 242**

Under this income statement position in year 2007 were included accrued and not yet paid bonuses to administration staff for that period. Bonuses for year 2008 are both, calculated and paid until the end of the reporting period, and included in the income statement position Administration expenses within sub-position Staff costs.

Within sub-position Fair value amortisation is included loss from impairment of goodwill arising on acquisition of subsidiaries in December 2008 *(See also Note 5)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14. Financial income

	USD '000		LVL '000	
	2008	2007	2008	2007
Interest income from bank account balances and deposits	3 511	6 028	1 685	3 096
Fair value changes in Financial assets designated at fair value through profit or loss, net	178	117	85	60
Foreign currency exchange gain, net	-	14	-	7
Total financial income	**3 689**	**6 159**	**1 770**	**3 163**
Of which: from financial instruments relating to financial instrument categories (according to IAS 39):				
Loans and receivables	3 511	6 028	1 685	3 096
Financial assets designated at fair value through profit or loss	178	117	85	60
Total	**3 689**	**6 145**	**1 770**	**3 156**

15. Financial expense

	USD '000		LVL '000	
	2008	2007	2008	2007
Interest expense	(17 979)	(19 354)	(8 626)	(9 941)
Bank charges	(692)	(843)	(332)	(433)
Mortgage insurance fees	(167)	(138)	(80)	(71)
Currency exchange difference	(466)	-	(223)	-
Total financial expense	**(19 304)**	**(20 335)**	**(9 261)**	**(10 445)**
Of which: from financial instruments relating to financial instrument categories:				
Financial liabilities measured at amortised cost	(17 979)	(19 354)	(8 626)	(9 941)
Total	**(17 979)**	**(19 354)**	**(8 626)**	**(9 941)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

16. Taxation

	USD '000		LVL '000	
	2008	2007	2008	2007
Deferred income tax of current year (see Note 33)	312	(15)	154	(6)
Corporate income tax of current year	(4)	(18)	(6)	(11)
Total	**308**	**(33)**	**148**	**(17)**
Profit before tax	58 382	67 042	28 010	34 436
Tax calculated at tax rate of 15%	8 757	10 056	4 201	5 165
Income and expenses not subject to corporate income tax	(2 924)	(11 287)	(1 403)	(5 435)
Increase in unrecognised deferred tax asset, net	(6 141)	1 264	(2 946)	287
Tax charge for the year	**(308)**	**33**	**(148)**	**17**

Corporate income tax is payable in Latvia at a rate of 15% on the profits of Latvian companies for the year, as adjusted in accordance with local fiscal regulations. The only foreign Group's company directly subject to corporate income tax is Santomar Holdings Company Ltd. (Cyprus).

17. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit or loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2008		2007	
	USD '000	LVL '000	USD '000	LVL '000
Net profit for the year attributable to shareholders	58 690	28 158	67 009	34 419
Weighted average number of ordinary shares in issue (thousands)	200 000	200 000	200 000	200 000
Basic earnings per share	**USD 0.29**	**LVL 0.14**	**USD 0.34**	**LVL 0.17**

Diluted earnings per share equal basic earnings per share as there no factors leading to the dilution effect.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18. Intangible assets

	Patents and licences		Prepayments for patents and licences		Goodwill		Other intangibles		Total	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost										
At 1 January 2007	599	321	-	-	-	-	-	-	599	321
Additions	547	281	10	5	-	-	-	-	557	286
Disposals	(129)	(66)	-	-	-	-	-	-	(129)	(66)
Exchange differences	90	-	1	-	-	-	-	-	91	-
At 31 December 2007	**1 107**	**536**	**11**	**5**	**-**	**-**	**-**	**-**	**1 118**	**541**
Additions	235	113	42	20	-	-	-	-	277	133
Acquired as a result of business combinations (Note 5)	48	23	73	35	-	-	66	32	187	90
Arising on acquisition of subsidiaries (Note 5)	-	-	-	-	20 139	9 662	3 120	1 497	23 259	11 159
Disposals	(110)	(53)	-	-	-	-	-	-	(110)	(53)
Reclassification	53	25	(53)	(25)	-	-	-	-	-	-
Exchange differences	(32)	-	(2)	-	(620)	-	(97)	-	(751)	-
At 31 December 2008	**1 301**	**644**	**71**	**35**	**19 519**	**9 662**	**3 089**	**1 529**	**23 980**	**11 870**
Amortisation and impairment										
At 1 January 2007	364	195	-	-	-	-	-		364	195
Amortisation	200	103	-	-	-	-	-		200	103
Disposals	(129)	(66)	-	-	-	-	-		(129)	(66)
Exchange differences	45	-	-	-	-	-	-		45	-
At 31 December 2007	**480**	**232**	**-**	**-**	**-**	**-**	**-**	**-**	**480**	**232**
Amortisation	390	187	-	-	-	-	-	-	390	187
Disposals	(110)	(53)	-	-	-	-	-	-	(110)	(53)
Fair value amortisation (Note 13)	-	-	-	-	2 964	1 422	-	-	2 964	1 422
Exchange differences	(21)	-	-	-	(91)	-	-	-	(111)	-
At 31 December 2008	**740**	**366**	**-**	**-**	**2 873**	**1 422**	**-**	**-**	**3 613**	**1 788**
Net book value:										
At 31 December 2007	**627**	**304**	**11**	**5**	**-**	**-**	**-**	**-**	**638**	**309**
At 31 December 2008	**561**	**278**	**71**	**35**	**16 646**	**8 240**	**3 089**	**1 529**	**20 367**	**10 082**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19. Fleet

	Vessels		Capitalised dry dock expenses		Total fleet in use		Newbuildings under construction		Total fleet	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost										
At 1 January 2007	745 798	399 748	10 934	5 860	756 732	405 608	71 335	38 236	828 067	443 844
Additions	-	-	4 934	2 534	4 934	2 534	270 505	138 945	275 439	141 479
Disposals	(84 602)	(43 456)	-	-	(84 602)	(43 456)	-	-	(84 602)	(43 456)
Reclassification	270 433	138 909	-	-	270 433	138 909	(270 433)	(138 909)	-	-
Exchange differences	-	(44 292)	-	(509)	-	(44 801)	-	(3 711)	-	(48 512)
At 31 December 2007	**931 629**	**450 909**	**15 868**	**7 885**	**947 497**	**458 794**	**71 407**	**34 561**	**1 018 904**	**493 355**
Additions	-	-	3 899	1 871	3 899	1 871	117 337	56 294	121 236	58 165
Disposals	(87 174)	(41 823)	-	-	(87 174)	(41 823)	(211)	(101)	(87 385)	(41 924)
Reclassification	114 167	54 773	-	-	114 167	54 773	(114 167)	(54 773)	-	-
Exchange differences	-	10 659	-	54	-	10 713	-	831	-	11 544
At 31 December 2008	**958 622**	**474 518**	**19 767**	**9 810**	**978 389**	**484 328**	**74 366**	**36 811**	**1 052 755**	**521 140**
Depreciation and impairment										
At 1 January 2007	295 765	158 530	-	-	295 765	158 530	-	-	295 765	158 530
Depreciation	25 291	12 991	6 924	3 557	32 215	16 548	-	-	32 215	16 548
Disposals	(17 048)	(8 757)	-	-	(17 048)	(8 757)	-	-	(17 048)	(8 757)
Exchange differences	-	(15 624)	-	-	-	(15 624)	-		-	(15 624)
At 31 December 2007	**304 008**	**147 140**	**6 924**	**3 557**	**310 932**	**150 697**	**-**	**-**	**310 932**	**150 697**
Depreciation	30 319	14 546	6 836	3 280	37 155	17 826	-	-	37 155	17 826
Disposals	(62 824)	(30 141)	-	-	(62 824)	(30 141)	-	-	(62 824)	(30 141)
Exchange differences	-	2 849	-	-	-	2 849	-	-	-	2 849
At 31 December 2008	**271 503**	**134 394**	**13 760**	**6 837**	**285 263**	**141 231**	**-**	**-**	**285 263**	**141 231**
Net book value:										
At 31 December 2007	**627 621**	**303 769**	**8 944**	**4 328**	**636 565**	**308 097**	**71 407**	**34 561**	**707 972**	**342 658**
At 31 December 2008	**687 119**	**340 124**	**6 007**	**2 973**	**693 126**	**343 097**	**74 366**	**36 811**	**767 492**	**379 909**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19. Fleet (*continued*)

In year 2008 the Group sold 11 vessels with total deadweight 140.1 thousand tons, i.e. 6 tankers: m.t. Dubulti - built 1982 (29 610 DWT), m.t. Bulduri – 1983 (28 647 DWT), m.t. Ropaži – 1985 (17 610 DWT), m.t. Razna – 1984 (6 269 DWT), m.t. Taganroga – 1983 (6 297 DWT), m.t. Asari – 1984 (28 656 DWT) and 5 reefers Akadēmiķis Vavilovs – 1985 (7 673 DWT), Akadēmiķis Zavarickis – 1986 (7 673 DWT), Skulptors Tomskis – 1986 (7 673 DWT), Amata – 1991 (6 232 DWT) un Abava – 1991 (6 366 DWT), resulting in gain of USD 45 234 thousands.

Part of the fleet with the net book value of US $ 549.4 million (2007 – US $ 454.8 million) has been used as security for bank loans. See Note 30 for details.

Part of the fleet having net carrying amount US $ 9.6 million (2007– US $ 6.7 million) is fully depreciated down to scrap value and is still in active use.

The number of vessels in the fleet, at the year end is:

	2008	2007	2006
Tankers	31	34	30
Reefers	0	5	5
LPG carriers	2	2	2
Dry cargo vessel	1	1	1
Total	**34**	**42**	**38**

The Group operates also 3 tankers chartered in from other ship owners. As a result total number of vessels operated by the Group as at 31 December 2008 is 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19. Fleet (*continued*)

At 31 December 2008 the Group own fleet comprises

	Year of Building	DWT
Product Tankers:		
1 Ainaži	2008	52 606
2 Ance	2006	52 622
3 Dzintari	1985	17 585
4 Estere	1989	28 557
5 Indra	1994	33 115
6 Inga	1990	28 637
7 Jurkalne	2006	52 620
8 Kaltene	2003	37 261
9 Kandava	2007	37 258
10 Kazdanga	2007	37 312
11 Kemeri	1985	17 610
12 Kolka	2003	37 211
13 Kraslava	2007	37 258
14 Kr.Valdemars	2007	37 266
15 Kuldiga	2003	37 237
16 Mar	1990	28 637
17 Ojars Vacietis	1985	16 341
18 Piltene	2007	52 648
19 Pumpuri	1987	28 537
20 Puze	2006	52 622
21 Riga	2001	68 467
22 Rundale	1977	17 025
23 Salacgrīva	2008	52 620
24 Samburga	1976	17 125
25 Targale	2007	52 660
26 Ugale	2007	52 642
27 Usma	2007	52 684
28 Užava	2008	52 650
29 Zanis Griva	1985	17 585
30 Zoja1	1988	28 557
31 Zoja2	1989	28 557
		1 163 512
LPG carriers		
1 Kurzeme	1997	23 469
2 Vidzeme	1997	23 479
		46 948
Dry cargo vessel		
1 Telo	1983	5 500
		5 500
Total DWT		**1 215 960**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20.Other property, plant and equipment, assets under construction

	Land		Building		Other fixed assets		Other property, plant and equipment total		Assets under construction (fleet excluded)		Total	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost												
At 1 January 2007	1 267	679	3 850	2 064	5 413	2 901	10 530	5 644	58	31	10 588	5 675
Additions	2 709	1 392	1 603	823	293	151	4 605	2 366	3	1	4 608	2 367
Disposals	-	-	-	-	(844)	(434)	(844)	(434)	-	-	(844)	(434)
Reclassification	(239)	(123)	-	-	-	-	(239)	(123)	(27)	(14)	(266)	(137)
Exchange differences	288	-	475	(18)	547	-	1 310	(18)	5		1 315	(18)
At 31 December 2007	**4 025**	**1 948**	**5 928**	**2 869**	**5 409**	**2 618**	**15 362**	**7 435**	**39**	**19**	**15 401**	**7 454**
Additions			575	276	250	120	825	396	57	28	883	424
Acquired as a result of business combinations (Note 5)	3 952	1 896	19 268	9 244	20 411	9 792	43 631	20 932	28 855	13 844	72 486	34 776
Disposals	-	-	-	-	(767)	(368)	(767)	(368)	-	-	(767)	(368)
Reclassification	-	-	-	-	-	-	-	-	(6)	(3)	(6)	(3)
Exchange differences	(211)	-	(735)	4	(576)	78	(1 522)	82	(890)	-	(2 411)	82
At 31 December 2008	**7 766**	**3 844**	**25 036**	**12 393**	**24 727**	**12 240**	**57 529**	**28 477**	**28 055**	**13 887**	**85 584**	**42 364**
Amortisation and impairment												
At 1 January 2007	-	-	605	324	3 503	1 877	4 108	2 201	-	-	4 108	2 201
Amortisation	-	-	173	89	613	315	786	404	-	-	786	404
Disposals	-	-	-	-	(800)	(411)	(800)	(411)	-	-	(800)	(411)
Exchange differences	-	-	31	(22)	366	1	397	(21)	-	-	397	(21)
At 31 December 2007	**-**	**-**	**809**	**391**	**3 682**	**1 782**	**4 491**	**2 173**	**-**	**-**	**4 491**	**2 173**
Amortisation	-	-	221	106	642	308	863	414	-	-	863	414
Disposals	-	-	-	-	(738)	(354)	(738)	(354)	-	-	(738)	(354)
Exchange differences	-	-	(16)	5	(79)		(94)	5	-	-	(94)	5
At 31 December 2008	**-**	**-**	**1 014**	**502**	**3 507**	**1 736**	**4 522**	**2 238**	**-**	**-**	**4 522**	**2 238**
Accumulated impairment												
At 31 December 2007	-	-	468	227	1	1	469	228	-	-	469	228
At 31 December 2008	-	-	-	-	1	1	1	1	-	-	1	1
Net book value:												
At 31 December 2007	**4 025**	**1 948**	**4 651**	**2 251**	**1 726**	**835**	**10 403**	**5 035**	**39**	**19**	**10 441**	**5 053**
At 31 December 2008	**7 766**	**3 844**	**24 022**	**11 891**	**21 219**	**10 503**	**53 006**	**26 238**	**28 055**	**13 887**	**81 061**	**40 125**

The carrying value of other fixed assets held under finance leases contracts at 31 December 2008 was US $ 33.2 million (LVL 16.4 million).
All these assets were acquired through business combination during the reporting period. All these assets are pledged as a security for the related finance lease contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

21. Investment properties

	Land		Buildings and other property, plant and equipment		Assets under construction		Total	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost								
At 1 January 2007	-	-	2 265	1 214	-	-	2 265	1 214
Disposals	-	-	(1 098)	(564)	-	-	(1 098)	(564)
Reclassification	239	123	-	-	-	-	239	123
Exchange differences	15	-	176	-	-	-	191	-
At 31 December 2007	**254**	**123**	**1 343**	**650**	**-**	**-**	**1 597**	**773**
Additions	-	-	338	162	-	-	338	162
Acquired as a result of business combinations (Note 5)	123 353	59 180	21 081	10 114	7 652	3 671	152 086	72 965
Exchange differences	(3 803)	-	(689)	-	(236)	-	(4 728)	-
At 31 December 2008	**119 804**	**59 303**	**22 073**	**10 926**	**7 416**	**3 671**	**149 293**	**73 900**
Amortisation and impairment								
At 1 January 2007	-	-	463	248	-	-	463	248
Amortisation	-	-	53	27	-	-	53	27
Disposals	-	-	(483)	(248)	-	-	(483)	(248)
Exchange differences	-	-	22	-	-	-	22	-
At 31 December 2007	**-**	**-**	**55**	**27**	**-**	**-**	**55**	**27**
Amortisation	-	-	27	13	-	-	27	13
Exchange differences	-	-	(1)	-	-	-	(1)	-
At 31 December 2008	**-**	**-**	**81**	**40**	**-**	**-**	**81**	**40**
Net book value:								
At 31 December 2007	**254**	**123**	**1 288**	**623**	**-**	**-**	**1 542**	**746**
At 31 December 2008	**119 804**	**59 303**	**21 992**	**10 886**	**7 416**	**3 671**	**149 212**	**73 860**

The Group engaged independent certified valuation specialists to determine fair value of assets acquired as at acquisition date – 30 December 2008 *(see also Note 5).* Major difference between previous carrying value and fair value of net assets recognised on acquisition arises on real estate properties owned by the companies acquired and recognised on their balance sheets at historical costs. Most of real estate properties acquired qualify as an investment property.

At the end of the reporting period fair value of investment property apart from those acquired by business combinations amounted to US $ 4.6 million (2007 – USD $ 6.1 million).

For valuation purposes the valuer used a weighted proportion of valuation technique based on a discounted cash flow model and a comparable market data. The valuations were done for each of investment properties on individual bases by applying key assumptions tailored for each property considering the future strategy for particular cash generating unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The determined values of the real estate properties were most sensitive to the estimated rent, occupancy, discounting and capitalisation rates applied. These rates were applied within the following range:

Rent rates: US $ 7 – US $ 28 per square meter
Occupancy rates: 30% - 90% of total area for rent
Discounting rates: 10.75% - 12.25%
Capitalisation rates: 11.6% - 12.2%

In respect of the major investment property acquired amounting to US $ 90.9 million (LVL 45 million), the current plans foresee total building capacity of approximately 300 000 sq. m. planned to be absorbed by Riga real estate market over 5-6 year period after 3-4 year period needed for property development in stages. The valuation of the respective investment property has been based on significant assumptions, including rent rates, timing of building to be constructed and rented out, occupancy rates of the investment property to be constructed, discounting and capitalisation rates applied which are the following:

Rent rates: US $ 28 per square meter
Occupancy rates: 80% - 90% of total area
Discounting rates: 11.25%
Capitalisation rates: 11.9%

Considering recent changes in the real estate market in Latvia and the fact that the project is not started yet, there is an uncertainty regarding whether these assumptions will come true during the course of the project that in turn may result in the impairment of this property.

The following sensitivity analysis illustrates possible effect of changes in key assumptions to the income statement of the Group due to fair value impairment gain or loss of investment properties:

		Effect on fair value investment properties as at 31 December 2008	
		USD'000	**LVL'000**
Change in rent rates per 1 sq.m.	+5%	35 840	17 741
	-5%	(35 840)	(17 741)
Change in ocupancy rate	+5%	41 277	20 432
	-5%	(41 277)	(20 432)
Change in discounting rate applied	+1%	(28 871)	(14 291)
	-1%	30 412	15 054
Change in rate of capitalisation	+1%	(34 705)	(17 179)
	-1%	41 077	20 333

22. Investments in associates accounted for using the equity method, comprises:

Name	Percentage Holding	Country of Incorporation
Lord World Travel Ltd. (dormant)	50%	Gibraltara
Via Una	45%	Latvia

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

23. Other financial assets

	USD '000		LVL '000	
	2008	2007	2008	2007
Prepaid financial expenses				
Book value as at 1 January	1 320	4 132	639	2 215
Additions	522	1 941	250	997
Transferred to borrowings	(1 842)	(4 753)	(884)	(2 440)
Exchange differences	-	-	(5)	(133)
At 31 December	**-**	**1 320**	**-**	**639**
Non-current receivables				
Book value as at 1 January	203	203	98	109
Reclassify to accounts receivable	(203)	-	(98)	-
Exchange differences	-	-	-	(11)
At 31 December	**-**	**203**	**-**	**98**
Total as at 31 December	**-**	**1 523**	**-**	**737**

24. Inventories

	USD '000		LVL '000	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Luboil and provisions (at cost)	4 998	3 931	2 474	1 902
Bunkers (at cost)	1 508	2 524	747	1 222
Ship and shore spares (at net realisible value)	201	243	99	118
Total	**6 707**	**6 698**	**3 320**	**3 242**

The total amount of inventories recognised as an expense is included in Voyage costs *(see Note 8)* and Vessel operating costs *(see Note 9)*.

25. Trade accounts receivable

	USD '000		LVL '000	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Trade accounts receivable	19 860	16 421	9 831	7 948
Provision for doubtful debts	(5 295)	(6 622)	(2 621)	(3 205)
Total	**14 565**	**9 799**	**7 210**	**4 743**

Trade accounts receivable are non-interest bearing and are generally on 30-90 days' terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

25. Trade accounts receivable *(continued)*

As at 31 December, the ageing analysis of trade accounts receivable is as follows:

			Past due not impaired				
	Total	Neither past due nor impaired	up to 45 days	46 to 90 days	91 to 180 days	181 to 365 days	More than 365 days
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
At 31 December 2008	14 565	12 039	1 239	243	439	273	332
At 31 December 2007	9 799	8 519	438	68	114	435	225

			Past due not impaired				
	Total	Neither past due nor impaired	up to 45 days	46 to 90 days	91 to 180 days	181 to 365 days	More than 365 days
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
At 31 December 2008	7 210	5 959	613	120	217	136	165
At 31 December 2007	4 743	4 123	213	33	55	210	109

Change in allowances for impairment of receivables were as follows:

	USD '000		LVL '000	
	2008	2007	2008	2007
At 1 January	6 622	6 569	3 205	3 521
Additions	3	1 062	1	545
Settlements	(1 258)	(1 009)	(604)	(518)
Currency translation difference	(72)	-	19	(343)
At 31 December	**5 295**	**6 622**	**2 621**	**3 205**

26. Prepayments and other receivables

	USD '000		LVL '000	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Prepayments	4 456	4 940	2 206	2 391
Other debtors	2 340	2 809	1 158	1 359
Deferred expenses	1 569	1 478	777	715
Claims receivable	240	1 336	118	647
Total	**8 605**	**10 563**	**4 259**	**5 112**

Prepayments and other receivables are non-interest bearing and are generally on 30-90 days' terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7 (a) Deposits with maturity more than three months

	USD '000		LVL '000	
	2008	2007	2008	2007
At 1 January	47 966	47 995	23 216	25 725
Deposits settled at maturity	(46 500)	-	(22 309)	-
Bank deposits maturing more than 3 months from the date of placement	60 800	-	29 170	-
Previous accrual reversal	(1 466)	(1 495)	(703)	(768)
Interest accrued	1 301	1 466	624	710
Exchange differences	-	-	742	(2 451)
At 31 December	**62 101**	**47 966**	**30 740**	**23 216**

During the reporting period an effective interest rate on deposits with maturity more than three months amounted to 3.97% (2007 – 4.2%).

27 (b) Financial assets designated at fair value through profit or loss

	USD '000		LVL '000	
	2008	2007	2008	2007
At 1 January	5 760	11 948	2 788	6 404
Additions	-	46 856	-	24 068
Settlements	(1 370)	(52 762)	(657)	(27 101)
Change in fair value	(131)	(795)	(63)	(409)
Exchange differences	(231)	513	(74)	(174)
At 31 December	**4 028**	**5 760**	**1 994**	**2 788**

The financial assets designated at fair value though profit or loss are principally units in single bond funds, which are all listed, held by subsidiaries Kristaps Insurance Ltd. and Latmar Holdings Corporation.

28. Cash and cash equivalents

	USD '000		LVL '000	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Bank deposits maturing less than 3 months from the date of placement	7 500	42 189	3 713	20 419
Cash in banks and on hand	28 349	11 908	14 032	5 764
Cash and cash equivalents total	**35 849**	**54 097**	**17 745**	**26 183**

Cash in banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

29. Issued capital and reserves

Issued capital

The authorised, issued and fully paid share capital of the parent company consists of 200 million ordinary fully paid shares with nominal value of 1 Lat each, which are publicly traded on NASDAQ OMX Nordic Exchange. There have been no changes in the share capital and nominal value of the shares since 1991.

Nature and purpose of reserves

Cash flow hedge reserve
This reserve records the effective portion of the gain or loss on hedging instruments in cash flow hedges. The loss on cash flow hedges recognised in equity stands for a negative value of interest rate swaps acquired in 2008.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the parent company and subsidiaries with reporting currency other than Group's reporting currency.

30. Interest bearing bank loans

	USD '000		LVL '000	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Repayments due within next twelve months	36 180	24 484	17 909	11 850
Overdraft received	4 029	18 076	1 994	8 749
Unamortised prepaid financing expenses *	(914)	(785)	(452)	(380)
Net current portion	**39 295**	**41 775**	**19 451**	**20 219**
Non-current portion	358 624	304 608	177 519	147 430
Unamortised prepaid financing expenses *	(6 546)	(5 654)	(3 240)	(2 736)
Net non-current portion	**352 078**	**298 954**	**174 279**	**144 694**
Total loans outstanding	398 833	347 168	197 422	168 029
Total unamortised prepaid financing expenses*	(7 460)	(6 439)	(3 692)	(3 116)
Total loans, net of unamortised financing costs	**391 373**	**340 729**	**193 730**	**164 913**

* Prepaid financing expenses are amortised within loan repayment period.

In 2004, for the purpose of financing the new-building program for new vessels the Group signed a long term loan agreement with the maximum loan amount of US $ 360 million and another long term loan with the maximum loan amount of US $ 75 million to finance purchase of vessels.

Both loans are denominated in US $ and are advanced to the Group's single vessel companies. The Parent Company has issued a corporate guarantee to secure these loans, guarantees being given in the normal course of business. As a security the lenders have mortgages of vessels together with common assignments and pledges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

30. Interest bearing bank loans *(continued)*

The loans are repayable in quarterly instalments and carry interest at a margin linked to US $ LIBOR. The loans are scheduled to be repaid as follows:

Year	USD million	LVL million
2009	29.3	14.5
2010	29.3	14.5
2011	29.3	14.5
2012	29.3	14.5
2013	29.3	14.5
2014 till 2017	228.4	113.1
Total	**374.9**	**185.6**

As a result of business combination, the Group has obtained interest bearing bank loans for US $ 19.9 million in total. The loans are denominated in Latvian lats and euro with interest linked to 3, 12 months RIGIBOR and 6 months LIBOR. Loans are repayable on both, monthly and quarterly basis with current portion of US $ 6.8 millions and non-current portion of US $ 13.1 million with maturity in 2018. As a security for the loans are pledged assets for US $ 20.7 million in total.

In 2007 the Group signed a short term overdraft agreement. The overdraft facility was prolonged in 2008. According to agreement the overdraft limit is US $ 20 million. Overdraft is repayable in full in March 2009 with interest at margin linked to US $ 3 month LIBOR. The Parent Company has issued a corporate guarantee to secure the overdraft.

31. Finance lease

As a result of business combination, the Group has obtained finance lease obligations for various items of printing equipment amounting to US $ 28.8 million in total. The finance lease agreements are denominated ir euro with interest linked to 6 month EURIBOR.

Future minimum payments under finance lease together with the present value of the net minimum lease payments are as follows:

	Minimum payments		**Present value of payments**		**Minimum payments**		**Present value of payments**	
	USD '000		USD '000		LVL '000		LVL '000	
	2008	2007	2008	2007	2008	2007	2008	2007
Within one year	9 085	-	7 532	-	4 497	-	3 728	-
After one year but not more than five years	24 692	-	21 314	-	12 222	-	10 550	-
Minimum lease payments	33 777	-	28 846	-	16 719	-	14 278	-
Less amounts representing finance charges*	(4 931)	-	-	-	(2 441)	-	-	-
Present value of minimum lease payments	**28 846**	**-**	**28 846**	**-**	**14 278**	**-**	**14 278**	**-**

* - for finance charge calculation purposes year end effective rates applied. Actual floating rates used during the year were between 6 months Euribor + 1% and 6 months Euribor + 2%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

32. Derivative financial instruments

In 2008 LSC Holdings Ltd. has entered into 2 interest rate swap agreements:

	Start date	Maturity date	Notional amount, USD'000	Rate receivable
Interest rate swap	29.12.2008	28.12.2011	91 000	2.9975%
Interest rate swap	29.12.2008	28.12.2012	91 000	2.395%

The swap is being used to provide hedge against the Group`s exposure to the interest rate market risk, in particular fluctuation of the LIBOR rates, while reducing to the minimum exposure of the Group`s profit or loss to the risk of the fluctuations on the interest rate swap market that may materially and unpredictably affect the result of the respective reporting period.

As at 31 December 2008 the negative fair value of the swaps amounting to USD 4.8 million has been recognised in equity within Cash flow hedge reserve.

33. Deferred tax liabilities

For Deferred tax calculation purposes the Group applies the Parent's domestic tax rate of 15%.

In 2008 as a result of business combination the Group's deferred tax liability has increased by US $ 17.8 million. Part of the increase amounting to US $ 1.2 million represents net deferred tax liability acquired on acquisition while US $ 16.6 million increase stands for deferred tax liability calculated on the difference between the fair value of the acquired net assets and the book value of those *(also see Note 5).*

Deferred tax assets have not be recognised in respect of tax losses of US $ 25 million or US $ 3.7 million at 15% tax rate as they may not be used to offset taxable profits for the Group's companies in which these losses arose.

During 2008 there was a significant decrease in unrecognised deferred tax assets of the Group amounting to US $ 12.4 million. It was mostly due to the Parent's prior years' taxable loss being used to offset taxable income for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

33. Deferred tax liabilities *(continued)*

	USD '000					LVL '000				
	2008				2007	2008				2007
	Recognised in income statement	Acquired on acquisition	Arising on acquisition	Total		Recognised in income statement	Acquired on acquisition	Arising on acquisition	Total	
Deferred tax liabilities at 1 January	37	-	-	37	22	18	-	-	18	12
Charge to income statement	(312)	-	-	(312)	15	(154)	-	-	(154)	6
Deferred income tax liability increase due to acquisition	-	1 192	16 646	17 838	-	-	590	8 240	8 830	-
Deferred tax liabilities at 31 December	**(275)**	**1 192**	**16 646**	**17 563**	**37**	**(136)**	**590**	**8 240**	**8 694**	**18**
Excess of tax allowances over depreciation	424	2 796	-	3 220	401	210	1 384	-	1 594	194
Other temporary differences	(390)	(768)	-	(1 158)	(818)	(193)	(380)	-	(573)	(396)
Tax losses	(1 687)	(3 141)	-	(4 828)	(7 040)	(835)	(1 555)	-	(2 390)	(3 407)
Allowance for deferred tax liability	-	2 305	-	2 304	-	-	1 141	-	1 141	-
Unrecognised deferred tax asset	1 378	-	-	1 378	7 494	682	-	-	682	3 627
Deferred income tax liability arising on acquisition	-	-	16 646	16 646	-	-	-	8 240	8 240	-
Deferred tax liabilities at 31 December	**(275)**	**1 192**	**16 646**	**17 563**	**37**	**(136)**	**590**	**8 240**	**8 694**	**18**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

33. Deferred tax liabilities *(continued)*

The Group has a total tax loss for US $ 32.2 million in total available for the offset against future taxable profits of the Group companies in which the losses arose.

Total tax losses carried forward from the previous years are as follows:

Year	USD '000	LVL'000	Expires
2003	14	7	2011
2004	11	5	2012
2005	2 451	1 213	2013
2006	9 570	4 737	2014
2007	17 703	8 763	2015
2008	2 444	1 210	2016
Total	**32 193**	**15 935**	

34. Deferred revenue

	USD '000		LVL '000	
	2 008	2 007	2 008	2 007
At 1 January	7 483	7 753	3 622	4 156
Deferred during the year	6 524	7 483	3 130	3 844
Released to the income statement	(7 483)	(7 753)	(3 590)	(3 982)
Acquired as a result of business combination	2 138	-	1 026	-
Currency exchange differences	(66)	-	67	(395)
At 31 December	**8 596**	**7 483**	**4 255**	**3 622**
Current	7 534	7 483	3 729	3 622
Non-current	1 062	-	526	-
	8 596	**7 483**	**4 255**	**3 622**

35. Other liabilities

	USD '000		LVL '000	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Accrued expenses	9 065	13 945	4 487	6 749
Other payables	7 979	3 674	3 950	1 778
Total	**17 044**	**17 619**	**8 437**	**8 527**

Other liabilities are non-interest bearing and have an average term of six months.

36. Contingent liabilities

During the normal course of business, the Group had claims outstanding with suppliers and insurance companies at the year-end. However, based on experience, Management has no reason to believe that these amounts will not be recoverable. In the normal course of business the Group also receives claims for underperformances, however Management is of the opinion that there is no unprovided material liability at the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

One of the companies acquired in a result of the business combination *(see also Note 5)* is involved in several court cases. In 2008 against this company were filed claims with regards to the guarantees in respect of the construction works carried out by plaintiff during 2005 – 2007. The company is involved in all the above litigations as the defendant. The plaintiff has filed claims against a bank and the company asking the court to recognise as null and void the guarantees issued on 2007 providing a guarantees in respect to the fulfilment of the plaintiff warranty liabilities against the company. In October 2008 the bank paid the company the guaranteed amount of US $ 1 million in respect of the warranty liabilities.

The Company does not recognise any of the claims raised by plaintiff and considers them to be rejected. Moreover, in relation to the construction works carried out by plaintiff it was identified that due to caused damage for at least US $ 4.5 million the company has filed a counter-claim against the plaintiff for the indemnification of the losses.

37. Commitments

a) Capital commitments

In November 2007 the Group signed contracts with Hyundai Mipo Dockyard Co., Ltd. (HMD) on building of four middle-range (MR) ice-classed tankers of 52 000 DWT each with the expected time of delivery 2011 - 2012. The total value of contract is around US $ 200 million.

b) Operating lease commitments – Group as a lessor

During the normal course of business the Group concludes the time charter agreements ranging from 3 months to 2 years.

c) Operating lease commitments – Group as a lessee

The Group has time chartered in 3 tankers from the other shipowners for three and five years.

	USD ’000		LVL ’000	
	2008	2007	2008	2007
Payments within one year	21 651	22 656	10 717	11 637
Payments after one year	23 945	45 596	11 853	23 421
Total	**45 596**	**68 252**	**22 570**	**35 058**

38. Related party transactions

a) Compensation of the Management Board and the Supervisory Council members of the Group

	USD ’000		LVL ’000	
	2008	2007	2008	2007
Salary and bonuses	6 653	7 364	3 192	3 782
Social insurance	389	224	187	115
Total	**7 042**	**7 588**	**3 379**	**3 897**

The remuneration paid to the members of the Supervisory Council is approved by the decision made by the General Shareholders’ Meeting. The remuneration paid to the members of the Management Board is approved by the decision made by the Supervisory Council meeting. No other special significant benefits to the members of the Supervisory Council and Management Board apart from salaries and bonuses are paid or made available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

b) Interests of the members of the Supervisory Council and the Management Board

Neither members of the Supervisory Council nor the Management Board have acquired shares of the Parent company or it's subsidiaries during the current reporting period. Detailed information about shareholdings of the members of the Supervisory Council and the Management Board as well as on their positions in other companies is available in the Parent company's office upon request.

c) Other related party transaction

In December 2008, for risk diversification purposes the Group acquired from related party assets in non-shipping related investment sectors *(see Note 5)*. The purchase price was denominated in euro currency. The total purchase price amounted to EUR 118 million and was set in accordance with the market value determined by independent certified valuator's valuation. In accordance with the terms and conditions of the transaction, the outstanding consideration for assets acquired as at 31 December 2008 amounted to US $ 128.8 million, including current portion of US $ 44.8 million and non-current portion of US $ 84.0 million.

As a result of business combination, the Group has obtained interest bearing short term loans received from related party for US $ 1.1 million in total. The loans are denominated in Latvian lats with annual interest rate of 6%. Loans are repayable on demand. Accrued interest as at 31 December 2008 amounts to US $ 0.2 million.

During 2008 there were some other transactions done with the related party. All there transactions were carried at market rates and conditions. The nature of these transactions was as follows: legal advice services received for US $ 0.354 million and other assets purchased for US $ 0.386 million. The amount outstanding in respect of these transactions as at 31 December 2008 was US $ 0.388 million.

Thereby total amounts due to the related party were as follows:

	USD '000		LVL '000	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Deferred consideration for business combination	128 769	-	63 740	-
Loan from related party	1 105	-	547	-
Interest accrued on loan from related party	179	-	89	-
Amount due for other assets purchased and services received	388	-	192	-
Total	**130 441**	**-**	**64 568**	**-**
Current	46 487	-	23 011	-
Non-current	83 954	-	41 557	-
	130 441	**-**	**64 568**	**-**

39. Fees paid to external auditors

	USD '000		LVL '000	
	2008	2007	2008	2007
Audit of the financial statements	223	148	107	76
Other consultations	70	56	34	29
Total	**293**	**204**	**141**	**105**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

40. Financial instruments and financial risk management

Financial instruments

As at 31 December 2008

	Loans and receivables		Financial assets and liabilities at fair value		Financial liabilities at amortised cost		Total	
	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000
Trade accounts receivable	14 565	7 210	-	-	-	-	14 565	7 210
Other receivables	2 580	1 277	-	-	-	-	2 580	1 277
Accounts receivable from related party	142	70	-	-	-	-	142	70
Deposits with maturity more than 3 months	62 101	30 740	-	-	-	-	62 101	30 740
Financial assets designated at fair value through profit or loss	-	-	4 028	1 994	-	-	4 028	1 994
Cash and cash equivalents	35 849	17 745	-	-	-	-	35 849	17 745
Total financial assets:	**115 237**	**57 042**	**4 028**	**1 994**	**-**	**-**	**119 265**	**59 036**
Bank loans	-	-	-	-	391 373	193 730	391 373	193 730
Finance lease	-	-	-	-	28 846	14 279	28 846	14 279
Accounts payable to related party	-	-	-	-	130 441	64 568	130 441	64 568
Trade accounts payable and other liabilities	-	-	-	-	26 473	13 104	26 473	13 104
Total financial liabilities:	**-**	**-**	**-**	**-**	**577 133**	**285 681**	**577 133**	**285 681**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

40. Financial instruments and financial risk management *(continued)*

Financial instruments

As at 31 December 2007

	Loans and receivables		Financial assets and liabilities at fair value		Financial liabilities at amortised cost		Total	
	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000
Other financial assets	1 523	737	-	-	-	-	1 523	737
Trade accounts receivable	9 799	4 743	-	-	-	-	9 799	4 743
Other receivables	4 145	2 006	-	-	-	-	4 145	2 006
Deposits with maturity more than 3 months	47 966	23 216	-	-	-	-	47 966	23 216
Financial assets designated at fair value through profit or loss	-	-	5 760	2 788	-	-	5 760	2 788
Cash and cash equivalents	54 097	26 183	-	-	-	-	54 097	26 183
Total financial assets:	**117 530**	**56 885**	**5 760**	**2 788**	**-**	**-**	**123 290**	**59 673**
Bank loans	-	-	-	-	340 729	164 913	340 729	164 913
Trade accounts payable and other liabilities	-	-	-	-	21 188	10 255	21 188	10 255
Total financial liabilities:	**-**	**-**	**-**	**-**	**361 917**	**175 168**	**361 917**	**175 168**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

40. Financial instruments and financial risk management *(continued)*

The Group's principal financial instruments comprise cash, deposits, trade accounts receivable, bank loans and trade accounts payables. The main purpose of these financial instruments which mainly arise directly from operations is to raise finance for the Group's operations.

The Group has a policy of regularly reviewing its approach to risk management. The main financial risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Foreign currency risk
The Group operates both in Europe and in the Americas and is thus exposed to foreign exchange risk. The majority of the Group's income and expenses are denominated in U.S. dollars as this is the universally accepted trading currency in the shipping business.

The principal foreign exchange risk exposure for the Group is against the Latvian Lat and European Euro. It is Group policy to keep some free cash in Latvian Lats or European Euros placed on term deposits and financial assets designated at fair value through profit or loss to monitor the currency position regularly.

Credit risk
The Group is exposed to credit risk through its trade accounts receivable, deposits with maturity more than 3 months and cash and cash equivalents. The Group's cash equivalents have been invested in secure financial institutions. The Group manages its credit risk by continuously assessing the credit history of customers. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised. The Group's policy is to trade only with well recognised, creditworthy third parties. Two largest debtors comprise 45% of total trade accounts receivable as of 31 December 2008 (2007- 38%).

Interest rate risk
The interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the risk of changes in market interest rates primarily through its received loans and placed short-term deposits. Interest rate risk is related mainly to the floating interest rate of the loans advanced to the Group. Interest on borrowings is fixed every 3, 6 or 12 months.

During year 2008 the Group started to manage its interest rate risk by having a balanced portfolio of fixed and variable rate loans. The Group's policy is to keep between 25% and 50% of its borrowings at the fixed rates of interest as well as monitor market trends and fix the interest rates for loans and deposits for the subsequent period based on the market expectations. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2008, after taking into account the effect of interest rate swaps (USD 182 million), approximately 46% of the Group's borrowings are at a fixed rate of interest (US $ LIBOR 2.4%; 3.0%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

40. Financial instruments and financial risk management *(continued)*

Interest rate sensitivity

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

USD '000	2008		2007	
	Increase/decrease in basic points	Effect on profit before tax	Increase/decrease in basic points	Effect on profit before tax
US $ - LIBOR	3%	(5 909)	0%	-
	-0.3%	591	-3%	5 118
EUR - LIBOR	2.5%	(3 164)	-	-
	-1.0%	1 265	-	-
EUR - EURIBOR	2.5%	(1 057)	-	-
	-1.0%	422	-	-
LVL - RIGIBOR	6.6%	(404)	-	-
	-2.3%	143	-	-

Note: the swapped amount (USD 182.0 million) of credit portfolio (USD 379.4 million) was deducted from US dollar LIBOR interest rate sensitivity analysis.

LVL '000	2008		2007	
	Increase/decrease in basic points	Effect on profit before tax	Increase/decrease in basic points	Effect on profit before tax
US $- LIBOR	3%	(2 925)	0%	-
	-0.3%	293	-3%	2 629
EUR - LIBOR	2.5%	(1 566)	-	-
	-1.0%	626	-	-
EUR - EURIBOR	2.5%	(523)	-	-
	-1.0%	209	-	-
LVL - RIGIBOR	6.6%	(200)	-	-
	-2.3%	71	-	-

Liquidity and cash management risk

Based on the Group's cash management principle, the Group's cash is accumulated in dedicated bank accounts and managed on a Group level. To ensure daily liquidity requirements, the Group's management determines minimum cash balances to be maintained on Group's bank accounts.

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

The Group's liquidity risk and cash management policy is based on a conservative approach whose main objective is to secure the safeguarding of the cash flows generated from the operations to ensure sufficient liquidity enabling timely settlement of the liabilities undertaken as well as providing sufficient Group's own funds in realisation of the new projects related to further development of the Group. In addition, by controlling the interest rate risk that mainly arises from the loans received and short term deposits the management of the Group evaluates the optimal utilisation of the accumulated cash balances by means of investing in a short term deposits, deposits with maturity more than 3 months or considering the possibility to repay the received loans in advance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

40. Financial instruments and financial risk management *(continued)*

Reviewing the current situation on a money market which is characterised by an increase in a price and a limited availability of credit resources on a banking market the Group's management policy is to accumulate free cash on deposits with maturity more than 3 months thus fixing the interest income at the same time, if necessary, ensuring the availability of the cash resources to invest in the development of the new projects rather than repaying the outstanding loans balances in advance.

USD '000

As at 31 December 2008	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans	-	16 005	41 421	176 111	255 125	488 662
Finance lease	-	1 881	5 630	24 693	-	32 204
Accounts payable to related party	1 283	46 484	3 781	84 674	-	136 222
Trade accounts payable and other liabilities	-	26 473	-	-	-	26 473
Total	**1 283**	**90 843**	**50 832**	**285 478**	**255 125**	**683 561**

As at 31 December 2007	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans	-	29 526	33 146	162 046	247 158	471 876
Trade accounts payable and other liabilities	-	3 569	-	-	-	3 569
Total	**-**	**33 095**	**33 146**	**162 046**	**247 158**	**475 445**

LVL '000

As at 31 December 2008	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans	-	7 923	20 504	87 175	126 286	241 888
Finance lease	-	931	2 787	12 223	-	15 941
Accounts payable to related party	635	23 010	1 872	41 913	-	67 430
Trade accounts payable	-	13 103	-	-	-	13 103
Total	**635**	**44 967**	**25 163**	**141 311**	**126 286**	**338 362**

As at 31 December 2007	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans	-	14 290	16 043	78 430	119 624	228 387
Trade accounts payable	-	1 727	-	-	-	1 727
Total	**-**	**16 017**	**16 043**	**78 430**	**119 624**	**230 114**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

40. Financial instruments and financial risk management *(continued)*

Fair values

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

	Carrying amount USD '000		Fair value USD '000	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Financial assets				
Other financial assets	-	1 523	-	1 523
Trade accounts receivable	14 565	9 799	14 565	9 799
Other receivables	2 580	4 145	2 580	4 145
Accounts receivable from related party	142	-	142	-
Deposits with maturity more than 3 months	62 101	47 966	62 101	47 966
Financial assets designated at fair value through profit or loss	4 028	5 760	4 028	5 760
Cash and cash equivalents	35 849	54 097	35 849	54 097
Total	**119 265**	**123 290**	**119 265**	**123 290**
Financial liabilities				
Interest bearing loans	391 373	340 729	391 373	340 729
Finance lease	28 846	-	28 846	-
Accounts payable to related party	130 441	-	130 441	-
Derivative financial instruments	4 777	-	4 777	-
Trade accounts payable	9 429	3 569	9 429	3 569
Other liabilities	17 044	17 619	17 044	17 619
Total	**581 910**	**361 917**	**581 910**	**361 917**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

40. Financial instruments and financial risk management *(continued)*

	Carrying amount LVL '000		Fair value LVL '000	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Financial assets				
Other financial assets	-	737	-	737
Trade accounts receivable	7 210	4 743	7 210	4743
Other receivables	1 276	2 006	1 276	2 006
Accouunts receivable from related party	70	-	70	-
Deposits with maturity more than 3 months	30 740	23 216	30 740	23 216
Financial assets designated at fair value through profit or loss	1 994	2 788	1 994	2 788
Cash and cash equivalents	17 745	26 183	17 745	26 183
Total	**59 035**	**59 673**	**59 035**	**59 673**
Financial liabilities				
Interest bearing loans	193 730	164 913	193 730	164 913
Finance lease	14 278	-	14 278	-
Accounts payable to related party	64 568	-	64 568	-
Derivative financial instruments	2 365	-	2 365	-
Trade accounts payable	4 667	1 727	4 667	1 727
Other liabilities	8 437	8 527	8 437	8 527
Total	**288 045**	**175 167**	**288 045**	**175 167**

Capital management

The primary objective of the Group'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 Group monitors capital using the market adjusted equity / market adjusted total assets ratio above 30%. The Group calculates market adjusted equity and market adjusted total assets increasing the equity and total assets by the difference between net book value of the fleet at the end of the reporting period and the average fleet market valuation performed at the end of the reporting period by at least two independent professional valuators.

	USD '000		LVL '000	
	2008	2007	2008	2007
Market adjusted equity	761 959	951 000	377 170	460 284
Market adjusted total assets	1 370 028	1 320 437	678 164	639 092
Ratio	**56%**	**72%**	**56%**	**72%**

41. Post balance sheet events

In 2009 the Group sold 2 tankers: in January - mt Samburga and in February - mt Rundāle.

In March 2009 the existing overdraft facility of US $ 20 million was prolonged until 30 April 2009.

As of the last day of the reporting period 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.