Public Joint Stock Company Latvijas Kuģniecība

Financial Statements

31 December 2009

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General information

Name	Latvijas kuģniecība (hereinafter also referred to as "Company")
Legal status	Joint Stock Company
Registration number, place and date	Reg. No. 40003021108, Riga, 13 September 1991 Reregistered in the Commercial Register on 17 November 2004
Registered Office	1 Elizabetes street, Riga, LV 1807, Latvia
Reporting period	1st January 2009 – 31st December 2009
Previous reporting period	1st January 2008 – 31st December 2008

Shareholders of the Company

The Shareholders of the Company that have announced notification about acquisition of significant shareholding (over 5%) as at 31 December 2009 are as follows:

Name of the Shareholder	Share of interest	Registered office
JSC Ventspils nafta	49.94 %	23 Ostas Street, Ventspils, LV 3601, Latvia
JSC International Baltic Investments LTD	27.55 %	5a Blaumana Street, Riga, LV-1011, Latvia
Ojay Limited	17.66 %	P.O.Box 175, Frances House, SLR William Place, St.Peter, Guernsey, Channel Islands GYI 4HQ
Eastgate Properties Limited	9.89 %	Frances House, SLR William Place, St.Peter, Guernsey, Channel Islands GYI 4HQ
SSC Valsts sociālās apdrošināšanas aģentūra	10.00 %	70a Lacplesa Street, Riga, LV-1011, Latvia

JSC Latvijas kuģniecība has no shareholders having control rights.

General information *(Continued)*

The Supervisory Council of the Company

Māris Gailis	Chairman of the Council (from 13.01.2009)
Uldis Pumpurs	Chairman of the Council (from 15.02.2008 until 12.01.2009)
Vladimirs Solomatins	Deputy Chairman of the Council
Andris Vilcmeiers	Deputy Chairman of the Council
Ansis Sormulis	Member of the Council
Guntis Ločmelis	Member of the Council
Kārlis Boldiševics	Member of the Council
Māris Gailis	Member of the Council (from 15.02.2008 until 12.01.2009)
Uldis Pumpurs	Member of the Council (from 13.01.2009)
Miks Ekbaums	Member of the Council
Normunds Staņēvičs	Member of the Council
Olga Pētersone	Member of the Council
Svens Zālītis	Member of the Council
Vladimirs Koškuls	Member of the Council

General information *(Continued)*

Imants Sarmulis	Chairman of the Management Board
Andris Linužs	Member of the Management Board – First Vice President
Raivis Veckāgans	Member of the Management Board – Vice President (until 22.10.2010)
Paul Thomas	Member of the Management Board (from 20.07.2010)
Edvīns Bērziņš	Member of the Management Board (from 27.09.2010)
Pavel Semenyuta	Member of the Management Board (from 30.11.2010)
Guntis Tīrmanis	Member of the Management Board (until 16.10.2009)
Ilva Purēna	Member of the Management Board (until 10.02.2010)

The Auditors of the Company

Name and address of the Auditors:

Diāna Krišjāne
Sworn Auditor
Certificate Nr. 124

SIA *Ernst & Young Baltic*
Licence Nr. 17
1 Muitas street
Riga, LV-1010
Latvia

Some of JSC Latvijas kuģniecība Supervisory Council and Management Board members hold a management position in other companies, as well as are shareholders of companies registered in the Commercial Register of the Republic of Latvia.

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

Management report

Dear Shareholders and Business Partners!

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

During the reporting period despite the very tense economic situation in shipping markets and the global economy, JSC Latvijas kuģniecība (Latvian Shipping Company - LASCO) group managed to maintain stable position among the world's leading operators of medium size tanker ships. In terms of delivery volumes, it remains one of the leaders among similar companies in Northern Europe.

At the end of 2009, Latvian Shipping Company had a fleet of 28 tankers (2 of them chartered from other ship owners). Older ships were sold off in order to increase the fleet's competitiveness in the international market for shipping. Two gas tankers were among the ships to be sold during the reporting period.

JSC Latvijas kuģniecība Performance during the Reporting Period

All Latvian Shipping Company shares are publicly traded on the Official list of the NASDAQ OMX Riga exchange. Negative macroeconomic trends in Baltic securities markets led to a drop in the price of Latvian Shipping Company shares from LVL 0.66 at the beginning of the year to LVL 0.40 at the end of the year, even though in mid-year, when the mood of the market improved a bit, the price rose to LVL 0.69. Latvian Shipping Company shares were the focus of much attention, with 2,591 transactions at the exchange during the year involving 3.96 million shares worth LVL 1.91 million. These liquidity indicators, however, do not show the real value of shares in Latvian Shipping Company due to low activity in the market as less than 100 transactions involved more than two-thirds of the total number and value of shares that were traded. On December 31, 2009, the capitalisation of Latvian Shipping Company shares at the NASDAQ OMX Riga exchange was LVL 80 million in comparison with equity LVL 222 million.

The Company - LASCO Group's Parent company closed the year 2009 with the net sales of LVL 7.4 million and net loss of LVL 17.6 million, because of the impairment made for non shipping assets in the amount of LVL 20.3 million.

Fleet Operations

2009 was marked by a particular slowdown in the market for ship charters, and rates in this area collapsed to the lowest level in the last five years. Logically, this affected the operating indicators of Latvian Shipping Company fleet. Dispite far-sighted policies and effective reductions in ship maintenance and administrative costs, the shipping segment's result for reporting period reached a negative result of US $ 18.8 million.

The modernisation of the fleet has ensured that Latvian Shipping Company has a modern and competitive tanker fleet with a total deadweight of 1.15 million tonnes. The tankers were mostly used during the reporting period to transport light and heavy oil products in the Baltic, Northern European, Black Sea, Mediterranean Sea, Transatlantic, Far East and Middle East markets. Contracts on the building of four new ships were signed in late 2007 in preparation for the group's further development. These ships are to be delivered in 2011 and 2012. These newbuildings combined with the company's experience, knowledge and wide range of clients, will be a favourable factor in terms of stabilising and increasing the group's long-term competitiveness.

Management of Assets Unrelated to Core Operations

During the reporting period Latvian Shipping Company's subsidiary SIA LASCO Investment focused on implementation of a five year strategy related to the group's real estate. The strategy has three main goals – maximum income from investments, maximum added value, and the sale of investments as profitably as possible once the situation in the real estate market recovers.

Environment Protection Initiatives

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

Management report *(Continued)*

Main post balance's events

Necessity to revise the conditions of the real estate and other investment package deal, concluded on 2008 between Latvian Shipping Company and its largest shareholder JSC Ventspils nafta is one of the reason for late finalization of Latvian Shipping Company Group financial statements for 2009. Due to dramatically bad market situation, Latvian Shipping Company's subsidiary SIA LASCO Investment was not able to settle remaining payment to JSC Ventspils nafta in the amount of 39 million EUR which was due in February 2010; therefore, SIA LASCO Investment asked JSC Ventspils nafta to consider the actual economical situation and to revise conditions of the deal. Although it is not satisfactory solution for SIA LASCO Investment, JSC Ventspils nafta has offered to prolong the repayment term till the end of 2011. SIA LASCO Investment will continue to work with JSC Ventspils nafta to restructurize the deal.

In 2010 the Company's subsidiaries LASCO Investment SIA and LASCO nekustamie īpašumi SIA have filed for out-of-court protection procedure. As at the financial statements approval date the entities have not complied with out-of-court protection plan payment plan, which indicate existence of material uncertainty that may cast doubt that the respective entities would be able to continue as a going concern.

The Company's indirect subsidiary, Sagewood Trading Inc, acquired 100% of share capital of SIA Nafta Investment in May 2010 for the USD 27.6 million. In accordance with independent valuators valuation report value of the company's share capital as at 31 October 2009 is USD 23.7 million. The acquisition was financed by short-term deposit held by Latmar Holding Corporation as at 31 December 2009.

As at the financial year end specific covenants set under Banking syndicate were not met. Still, in general the Group considers that it has complied with conditions and covenants set by Banking syndicate as at 31 December 2009 and financial statements approval date or side letters with waiver of covenants have been signed. The management of JSC Latvijas Kuģniecība expects that certain breaches of the bank loan covenants might continue as at 31 December 2010 and in 2011 and therefore is currently negotiating extension of waiver of these covenants and additionally included conditions till end of 2011. The management of JSC Latvian Shipping Company is confident that the agreement on required waivers will be successfully obtained.

Group's Management plans to generate positive operating cash flow in short-term and long-term period. Existing loan agreement conditions are expected to be met by using both, generated operating cash flow and accrued financial resources from previous periods, as well as income from sale of assets.

In November 2010, the Group sold shares of SIA LSC Shipmanagement considering expected risk reduction related to fleet operation and economy in fleet operating costs including the reduction of fee for technical management services obtaining them from external supplier. Additionally Group reduces risk related to fleet impact to the environment and risk on impact of possible negative financial results of SIA LSC Shipmanagement operations in future on Group's results. It is planned to continue receiving technical management services from SIA LSC Shipmanagement for fixed price in period which exceeds 12 month after the financial statements approval date.

Group's Management continues to implement development programs in accordance with the Group's objectives and operating profile, including new-building development program. According to project plan, outstanding capital commitments are around US $ 120 million. In 2010 the negotiations are performed on attraction financing the new-buildings program in the way of the equity partners and/or structured finance transaction. The Group's Management is convinced that the financing will be attracted. The Group's Management has assessed that the recoverable value of new-buildings under development has not decreased due to subsequent events in 2010 and is close to its carrying value as at 31 December 2009.

Proposal for the indemnity of losses

The Management Board of the Company proposes to transfer the current year loss to the accumulated loss.

Statement of Management Board responsibilities

The Management Board of JSC Latvijas Kuģniecība is responsible for preparing the financial statements of JSC Latvijas Kuģniecība from the books of prime entry of the Company for each financial period that present fairly the state of affairs of the Company as at the end of each financial period and the results of its operations and cash flows.

The Management Board of JSC Latvijas Kuģniecība confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in preparation of these financial statements.

Management report *(Continued)*

Statement of Management Board responsibilities *(continued)*

The Management Board of JSC Latvijas Kuģniecība is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of JSC Latvijas Kuģniecība and to prevent and detect fraud and other irregularities. The Management Board of JSC Latvijas Kuģniecība also confirms that the financial statements have been prepared on a going concern basis.

Imants Sarmulis
Chairman of the Management Board

Riga, 3 December 2010

Income statement
for the year ended 31 December 2009

	Notes	2009 LVL	2008 LVL
Net sales	4	7 392 239	9 479 083
Cost of sales	5	(2 897 746)	(3 388 750)
Gross profit		**4 494 493**	**6 090 333**
Administrative expenses	6	(5 052 424)	(8 134 776)
Other operating income	7	127 023	3 983
Other operating expenses	8	(670 399)	-
Income from investments in subsidiaries	9	3 962 181	20 938 312
Interest and similar income	10	131 773	333 348
Impairment of non-current investments, net	11	(20 285 296)	(16 618)
Interest and similar expenses	12	(18 754)	(824 576)
(Loss)/profit before taxation		**(17 311 403)**	**18 390 006**
Corporate income tax	13	(257 800)	153 110
Real estate tax		(25 092)	(23 784)
Net (loss)/profit for the year		**(17 594 295)**	**18 519 332**

These Financial Statements were approved by the Management Board on December 3, 2010 and signed on its behalf by

Imants Sarmulis
Chairman of the Management Board

Balance Sheet

as at 31 December 2009

	Notes	2009 LVL	2008 LVL
Assets			
Non-Current Assets			
Intangible Assets:			
Concessions, patents, licenses, trademarks and similar rights	14	372 947	253 707
Total Intangible Assets:		**372 947**	**253 707**
Tangible Assets:			
Land, buildings and constructions		2 639 521	2 722 687
Machinery and equipment		-	10 124
Other fixed assets		378 519	548 887
Assets under construction		-	6 131
Total Tangible Assets:	15	**3 018 040**	**3 287 829**
Investment properties	15	**1 397 000**	**1 759 977**
Non-Current Financial Assets:			
Investments in subsidiaries	16	111 870 026	131 268 699
Investments in associates	17	192 053	7 553
Total Non-Current Financial Assets:		**112 062 079**	**131 276 252**
Total Non-Current Assets		**116 850 066**	**136 577 765**
Current Assets			
Inventories:			
Raw materials	18	11 449	14 407
Total Inventories:		**11 449**	**14 407**
Accounts receivable and prepayments:			
Trade receivables	19	439	3 204
Amounts due from related companies	20	451 679	421 028
Other receivables	21	344 294	465 338
Deferred expenses		65 248	183 567
Deferred revenue		22	-
Total Accounts Receivable:		**861 682**	**1 073 137**
Current Investments:			
Deferred tax asset	13	-	153 110
Total Current Investments:		**-**	**153 110**
Cash and Cash Equivalents		**1 220 175**	**185 178**
Total Current Assets		**2 093 306**	**1 425 832**
Total Assets		**118 943 372**	**138 003 597**

Balance Sheet *(Continued)*

as at 31 December 2009

	Notes	2009 LVL	2008 LVL
Shareholders' Equity and Liabilities			
Shareholders' Equity			
Share capital		200 000 000	200 000 000
Accumulated deficit			
a) accumulated deficit for the prior years		(65 758 798)	(84 278 130)
b) (loss)/profit for the reporting year		(17 594 295)	18 519 332
Total Shareholders' Equity		**116 646 907**	**134 241 202**
Liabilities:			
Non-current Liabilities:			
Deferred tax liabilities	13	104 690	-
Total Non-current Liabilities		**104 690**	-
Current Liabilities:			
Other loans	22	704 377	-
Trade payables		147 457	434 793
Amounts due to related companies	23	237 022	1 794 455
Taxes and social security contributions	24	167 394	549 168
Other accounts payable	25	167 438	343 720
Accrued liabilities	26	768 087	640 259
Total Current Liabilities		**2 191 775**	**3 762 395**
Total Liabilities		**2 296 465**	**3 762 395**
Total Shareholders' Equity and Liabilities		**118 943 372**	**138 003 597**

These Financial Statements were approved by the Management Board on December 3, 2010 and signed on its behalf by

Imants Sarmulis
Chairman of the Management Board

Statement of Changes in Shareholders' Equity

	Share Capital	Accumulated (deficit)/ undistributed profit	Total
	LVL	LVL	LVL
31 December 2007	**200 000 000**	**(84 278 130)**	**115 721 870**
Net profit for the year	-	18 519 332	18 519 332
31 December 2008	**200 000 000**	**(65 758 798)**	**134 241 202**
Net loss for the year	-	(17 594 295)	(17 594 295)
31 December 2009	**200 000 000**	**(83 353 093)**	**116 646 907**

As at 31 December 2009 the authorised, issued and fully paid share capital of the Company consists of 200 000 000 shares with nominal value of LVL 1 per share. All shares are publicly traded and listed on NASDAQ OMX Riga official list. All shares are ordinary shares with voting rights.

These Financial Statements were approved by the Management Board on December 3, 2010 and signed on its behalf by

Imants Sarmulis
Chairman of the Management Board

Cash Flow Statement

	2009 LVL	2008 LVL
Cash Flow from Operating Activities		
(Loss)/profit before taxation	(17 311 403)	18 390 006
Adjustments for:		
Depreciation	309 143	331 685
Intangible assets amortisation	178 567	183 665
Accrued expenses increase /(decrease)	503 759	(1 392 863)
Impairment of investment properties	270 009	-
Foreign exchange loss/(gain)	33 782	(4 803)
Income from investments in subsidiaries and associates	(3 216 000)	(20 938 312)
Other interest income	(5 877)	(53 206)
Other interest expenses	14 344	-
Impairment of non-current investments	19 539 115	16 618
Impairment of current securities value	-	25 529
Gain from disposal of fixed assets	(126 078)	(3 983)
Profit/(loss) before adjustments for movements in net working capital	**189 361**	**(3 445 664)**
Adjustments for:		
Decrease in inventories	2 943	2 344
Decrease in trade and other receivables	144 446	1 358 828
Decrease in trade and other payables	(1 374 381)	(1 066 077)
Gross Cash Flow from Operating Activities	**(1 037 631)**	**(3 150 569)**
Real estate tax	(25 092)	(20 938)
Net Cash Flow from Operating Activities	**(1 062 723)**	**(3 171 507)**
Cash Flow from Investing Activities		
Acquisition of tangible and intangible assets, assets under construction	(375 987)	(221 721)
Investments in investment property	(1 339 609)	(327 400)
Investments in subsidiaries	(1 500 000)	(16 510 920)
Investments in associates	(184 500)	-
Proceeds from sale of fixed and intangible assets	250 069	22 712
Proceeds from disposal of subsidiaries	1 359 558	-
Income from securities	-	251
Interest received	3 167	48 593
Dividends received	3 216 000	20 938 312
Net Cash Flow from Investing Activities	**1 428 698**	**3 949 827**
Cash Flow from Financial Activities		
Loans received	702 804	-
Repayment of borrowings received from subsidiaries	-	(828 574)
Net Cash Flow from Financial Activities	**702 804**	**(828 574)**
Currency Translation Difference	(33 782)	**4 803**
Net Increase/(Decrease) in Cash and Cash Equivalents	**1 034 997**	**(45 451)**
Cash and Cash Equivalents at the beginning of the year	185 178	230 629
Cash and Cash Equivalents at the end of the year	**1 220 175**	**185 178**

These Financial Statements were approved by the Management Board on December 3, 2010 and signed on its behalf by

Imants Sarmulis
Chairman of the Management Board

Notes

1. General information

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

The financial statements of the Company were authorized for issue in accordance with resolution of the Management Board as of 3 December 2010 and resolution of the Supervisory Board as of 3 December 2010. The Company's shareholders have the power to amend the financial statements after they have been issued.

2. General principles

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

2.1. Statement of Compliance

The financial statements have been prepared in accordance with the Law of the Republic of Latvia On Annual Accounts and Latvian Accounting Standards (LAS) applicable in the reporting year. The financial statements have been prepared on a historical cost basis. The reporting period for the annual report is from 1 January 2009 till 31 December 2009 and financial statements are prepared in Latvian lats (LVL). The income statement is prepared in accordance with the turnover method. Cash flow statement is prepared using the indirect cash flow method.

2.2. Changes in accounting policy and disclosures

The accounting policies applied are consistent with those of the previous financial year.

3. Accounting policies and measurement basis

a) Related parties

Parties are considered to be related if one party can influence another party's financial and operating decisions. The related parties include the Company, its subsidiaries, Company's management and shareholders which own significant portion of the Company's share capital. Services received and rendered with related parties are carried out on the arm's length terms and conditions.

b) Net sales and income recognition

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

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

Notes (Continued)

c) Foreign currency conversion into Lats

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

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

	31.12.2009 LVL	31.12.2008 LVL
1 USD	0.489	0.495
1 EUR	0.702804	0.702804

d) Intangible assets

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

e) Tangible fixed assets

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

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

The following depreciation rates were established and applied:

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

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

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

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

Notes (Continued)

f) Investment property

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

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

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

g) Investments in subsidiaries

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

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

h) Investments in associates

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

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

i) Other securities and investments

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

j) Inventories

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

k) Trade receivables

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

l) Cash and cash equivalents

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

Notes *(Continued)*

m) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

n) Loans and borrowings

All loans and borrowings are initially recognised at cost.

o) Accruals for employee vacation expenses

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

p) Corporate income tax

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

q) Operating lease

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

r) Post balance sheet events

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

s) Use of estimates

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

Notes (Continued)

4. Net sales

	LVL 2009	LVL 2008
Income from commercial and management services	7 093 647	8 892 813
Income from IT, accounting and other services	214 496	426 696
Rental income	84 096	159 574
	7 392 239	**9 479 083**

5. Cost of sales

	LVL 2009	LVL 2008
Salaries, training and other social costs	(1 109 647)	(1 533 956)
Social security contributions	(262 544)	(236 636)
Professional charges and legal costs	(903 277)	(917 550)
Depreciation and amortisation	(270 521)	(281 592)
IT and communication	(192 179)	(127 992)
Repairs and maintenance expenditure	(58 405)	(120 168)
Transport and travelling expenses	(73 877)	(117 554)
incl. social security contributions	*(6 661)*	*(5 068)*
Advertising and marketing	(3 553)	(10 173)
Other costs	(23 743)	(43 129)
	(2 897 746)	**(3 388 750)**

6. Administrative expenses

	LVL 2009	LVL 2008
Salaries, training, health insurance and other social costs	(2 535 434)	(4 695 607)
Social security contributions	(476 062)	(283 069)
Advertising and marketing	(269 435)	(907 726)
Professional fees	(165 139)	(653 450)
Occupation and repairs	(364 062)	(338 395)
Transport and travelling expenses	(280 231)	(307 775)
incl. social security contributions	*(12 851)*	*(4 252)*
Depreciation and amortisation	(217 189)	(233 758)
IT and communication	(15 009)	(25 789)
Other expenses	(623 743)	(802 865)
Movements in doubtful debts and other provisions	(106 120)	113 658
	(5 052 424)	**(8 134 776)**

7. Other operating income

	LVL 2009	LVL 2008
Gain on disposal of fixed assets	-	3 983
Income from sale of investment properties	127 023	-
	127 023	**3 983**

Notes (Continued)

8. Other operating expenses

	LVL 2009	2008
Accruals for compensation on tax losses carried forward within the Group	(399 445)	-
Impairment of investment properties	(270 009)	-
Loss on disposal of fixed assets	(945)	-
	(670 399)	**-**

9. Income from investments in subsidiaries

	LVL 2009	2008
Dividends received from Latmar Holdings Corporation	2 472 000	20 000 000
Dividends received from Kritaps Insurance Ltd.	744 000	-
Income from sale of SIA Karavella property share	736 623	-
Income from liquidation of SIA Ostas serviss	9 558	-
Dividends received from SIA LSC Marine Training	-	869 099
Dividends received from SIA Karavella Property	-	69 213
	3 962 181	**20 938 312**

10. Interest and similar income

	LVL 2009	2008
Interest income from short term loans advanced to subsidiaries	3 381	45 582
Interest income	2 496	7 624
Net gain from foreign currency rate fluctuations	125 896	-
Net gain from foreign currency translation	-	280 142
	131 773	**333 348**

11. Impairment of non-current investments, net

	2009	2008
SIA Jūras servisa centrs	-	(33 241)
Reorganization reserve	(1 285 296)	-
SIA LASCO Investment	(19 000 000)	16 623
	(20 285 296)	**(16 618)**

As a result of developments on the real estate market, the fair value of the investment property held by the Company's subsidiary, SIA LASCO Investment, has significantly decreased. This lead to significant impairment recognized by the subsidiary in the current reporting period. The impairment of investment in the subsidiary corresponds to the impairment on investment property recognized by the subsidiary. *(See Note 16).*

Notes (Continued)

12. Interest and similar expenses

	LVL 2009	LVL 2008
Interest expenses	(14 344)	(119 154)
Net loss from foreign currency translation	(2 342)	-
Financial institutions charges	(2 068)	(3 277)
Net loss from foreign currency rate fluctuations	-	(676 616)
Loss on sale of JSC Morbank shares	-	(25 529)
	(18 754)	(824 576)

13. Corporate income tax

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

	LVL 2009	LVL 2008
(Loss)/profit before taxes	(17 311 403)	18 390 006
Tax calculated at tax rate of 15%	(2 596 710)	2 758 501
Expenses not deductible for tax purposes	3 257 719	202 147
Income not subject to corporate income tax	-	(140 748)
Expenses reducing taxable income	(3 764)	(3 568)
Tax losses carried forward within the Group	(399 445)	-
Changes in unrecognised deferred tax asset	-	(2 969 442)
Deferred income tax	**257 800**	**(153 110)**

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

	LVL 31.12.2009	LVL 31.12.2008
Excess of tax allowances over depreciation	152 074	149 681
Other temporary differences	(47 384)	(92 774)
Tax losses carried forward for the corporate income tax purposes	-	(210 017)
Deferred tax liabilities/(asset)	**104 690**	**(153 110)**

In 2009 accruals were made for compensation on tax losses carried forward within the Group applying the tax rate of 15% on losses carried forward in amount of LVL 399 445.

Notes (Continued)

14. Intangible assets

	Licences	Total
	LVL	LVL
Historical cost		
At 1 January 2008	462 133	462 133
Additions	109 445	109 445
Reclassification	25 347	25 347
Disposals	(50 349)	(50 349)
At 31 december 2008	**546 576**	**546 576**
Additions	297 807	297 807
Disposals	(38 025)	(38 025)
At 31 december 2009	**806 358**	**806 358**
Accumulated amortisation		
At 1 January 2008	159 553	159 553
Amortisation	183 665	183 665
Disposals	(50 349)	(50 349)
At 31 december 2008	**292 869**	**292 869**
Amortisation	178 567	178 567
Disposals	(38 025)	(38 025)
At 31 december 2009	**433 411**	**433 411**
Net book value:		
At 31 december 2008	**253 707**	**253 707**
At 31 december 2009	**372 947**	**372 947**

Notes (Continued)

15. Tangible Assets and Investment Property

	Land, buildings and construction	Machinery and equipment	Other fixed assets	Assets under construction	Investment properties	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Historical cost						
At 1 January 2008	2 970 996	19 175	1 745 706	18 733	122 977	4 877 587
Additions	-	-	64 753	27 583	1 637 000	1 729 336
Reclassification	480	-	33 592	(34 072)	-	-
Disposals	-	-	(157 449)	(6 113)	-	(163 562)
At 31 december 2008	**2 971 476**	**19 175**	**1 686 602**	**6 131**	**1 759 977**	**6 443 361**
Additions	-	-	78 180	-	30 009	108 189
Reclassification	-	-	5 294	(5 279)	-	15
Disposals	-	(19 175)	(213 927)	(852)	(122 977)	(356 931)
At 31 december 2009	**2 971 476**	**-**	**1 556 149**	**-**	**1 667 009**	**6 194 634**
Accumulated depreciation and impairment						-
At 1 January 2008	165 644	6 570	1 036 488	-	-	1 208 702
Depreciation	83 145	2 481	246 059	-	-	331 685
Disposals	-	-	(144 832)	-	-	(144 832)
At 31 december 2008	**248 789**	**9 051**	**1 137 715**	**-**	**-**	**1 395 555**
Depreciation	83 166	1 240	224 737	-	-	309 143
Impairment	-	-	-	-	270 009	270 009
Disposals	-	(10 291)	(184 822)	-	-	(195 113)
At 31 december 2009	**331 955**	**-**	**1 177 630**	**-**	**270 009**	**1 779 594**
Net book value						
At 31 december 2008	**2 722 687**	**10 124**	**548 887**	**6 131**	**1 759 977**	**5 047 806**
At 31 december 2009	**2 639 521**	**-**	**378 519**	**-**	**1 397 000**	**4 415 040**

The carrying value of the Company's real estate as at 31 December 2009 amounted to LVL 2 639 521 (31 December 2008: LVL 2 722 687). The cadastral value of the real estate as at 31 December 2009 amounted to LVL 1 726 171 (31 December 2008: LVL 2 541 649).

As at 31 December 2009 the fair value of real estate owned by Company was estimated based on independent valuator's valuation, where the market value of the real estate was determined to be LVL 2 922 500 (31 December 2008: LVL 4 507 000).

The carrying value of the investment property as at 31 December 2009 amounted to LVL 1 397 000 (31 December 2008: LVL 1 637 000), value based on the market price determined by independent valuators.

Notes (Continued)

16. Information on the subsidiaries and investments in those

(a) Investments in subsidiaries

Name and address	Percentage holding %	31.12.2009	Acquisition	Impairment	31.12.2008
Latmar Holdings Corporation 80 Broad Street, City of Monrovia, Liberia	100	111 417 849	-	-	111 417 849
Kristaps Insurance Ltd. 11 Victoria Street P.O. Box HM 392 Hamilton HM PX Bermudas	100	79 542	-	-	79 542
LSC Holdings Limited 21 Bucks Road, Douglas, Isle of Man	100	10 920	-	-	10 920
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3rd floor, 32 flat, Limassol, Cyprus	100	1 210	-	-	1 210
Crown Navigation Inc. Ajeltake Road, Ajeltake Island, Majuro Marshall Islands	100	-	-	-	-
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-	-
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-	-
SIA LASCO Investment Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	-	1 500 000	(19 000 000)	17 500 000
SIA Karavella Property* Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	-		(613 377)	613 377
SIA LSC Marine Training Andrejostas ielā 6, Rīga, LV 1045, Latvija	100	300 000	-	-	300 000
SIA Jūras servisa centrs Andrejostas 4a, Rīga, LV 1045, Latvija	100	60 505	-	-	60 505
LSIA Latvian - Finnish Maritime Agency** Elizabetes iela 1, Rīga, LV 1010, Latvija	100	-	-	-	-
SIA LSC Shipmanagement Andrejostas 4a, Rīga, LV 1045, Latvija	100	-	-	-	-
SIA Ostas serviss*** Elizabetes iela 1, Rīga, LV 1807, Latvija	100	-	-	-	-
Reorganization reserve related to acquisitions		-		(1 285 296)	1 285 296
		111 870 026	**1 500 000**	**(20 898 676)**	**131 268 699**

* entity sold in August 2009;
** entity liquidated in December 2009;
*** entity liquidated in February 2010.

Notes (Continued)

16. Information on the subsidiaries and investments in those *(continued)*

(a) Investments in subsidiaries *(continued)*

Name and address	Percentage holding %	31.12.2008	Acquisition	Impairment	31.12.2007
Latmar Holdings Corporation 80 Broad Street, City of Monrovia, Liberia	100	111 417 849	-	-	111 417 849
Kristaps Insurance Ltd. 11 Victoria Street P.O. Box HM 392 Hamilton HM PX Bermudas	100	79 542	-	-	79 542
LSC Holdings Limited* 21 Bucks Road, Douglas, Isle of Man	100	10 920	10 920	-	-
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3rd floor, 32 flat, Limassol, Cyprus	100	1 210	-	-	1 210
Crown Navigation Inc.* Ajeltake Road, Ajeltake Island, Majuro Marshall Islands	100	-	-	-	-
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-	-
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-	-
SIA LASCO Investment Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	17 500 000	16 500 000	16 623	983 377
SIA Karavella Property Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	613 377	-	-	613 377
SIA LSC Marine Training Andrejostas ielā 6, Rīga, LV 1045, Latvija	100	300 000	-	-	300 000
SIA Jūras servisa centrs Andrejostas 4a, Rīga, LV 1045, Latvija	100	60 505	-	(33 241)	93 746
SIA Kuģu remonta bāze* Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	-	-	(893 318)	893 318
SIA Jūrnieku mācību centrs* Elizabetes ielā 1, Rīga, LV 1807, Latvija	100	-	-	(391 978)	391 978
LSIA Latvian - Finnish Maritime Agency Elizabetes iela 1, Rīga, LV 1010, Latvija	100	-	-	-	-
SIA LSC Shipmanagement Andrejostas 4a, Rīga, LV 1045, Latvija	100	-	-	-	-
SIA Ostas serviss Elizabetes iela 1, Rīga, LV 1807, Latvija	100	-	-	-	-
**Reorganization reserve related to acquisitions ** **		1 285 296	-	1 285 296	-
		131 268 699	**16 510 920**	**(16 618)**	**114 774 397**

*LSC Holdings Ltd. was incorporated in Isle of Man as a private limited company on 9 April 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 during 2008. The transaction was accounted for by using a pooling of interests method.

**As a result of reorganisation, the subsidiaries SIA „Kuģu remonta bāze" and SIA „Jūrnieku mācību centrs" have been mearged with SIA „LASCO Investment". The net book value of investment in these subsidiaries have been moved to the restructuring reserve.

Notes *(Continued)*

16. Information on the subsidiaries and investments in those *(continued)*

(b) Information on subsidiaries

Name and address	Shareholders' Equity of the subsidiaries, LVL		Profit/(Loss) of the subsidiaries, LVL	
	31.12.2009	**31.12.2008**	**2009**	**2008**
Latmar Holdings Corporation 80 Broad Street, City of Monrovia, Liberia	186 782 397	217 312 211	(26 551 208)	16 357 320
LSC Holdings Limited 21 Bucks Road, Douglas, Isle of Man	37 093 511	34 994 195	2 136 338	13 642 687
Kristaps Insurance Ltd. 11 Victoria Street P.O. Box HM 392 Hamilton HM PX Bermudas	170 640	893 683	54 746	(40 774)
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3rd floor, 32 flat, Limassol, Cyprus	19 014	19 924	(692)	(821)
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	-	(3 000 976)	3 063 360	377 805
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	-	(2 621 086)	2 675 573	343 520
SIA LASCO Investment Elizabetes iela 1, Rīga, LV 1807, Latvija	(15 462 791)	18 462 160	(33 924 951)	(1 875 640)
SIA Karavella Property Elizabetes iela 1, Rīga, LV 1807, Latvija	-	665 075	(72 802)	15 075
SIA LSC Marine Training Andrejostas ielā 6, Rīga, LV 1045, Latvija	445 074	426 884	18 190	59 102
SIA Ostas serviss Elizabetes iela 1, Rīga, LV 1807, Latvija	-	235 206	89 936	(110 424)
SIA Jūras servisa centrs Andrejostas 4a, Rīga, LV 1045, Latvija	51 724	59 228	(7 504)	(41 615)
SIA LSC Shipmanagement Andrejostas 4a, Rīga, LV 1045, Latvija	647 512	(1 274 715)	1 922 228	831 863
LSIA Latvian-Finnish Maritime Agency Elizabetes iela 1, Rīga, LV-1010, Latvija	-	(194 218)	(16 922)	-

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

LSC Holdings Limited has 17 subsidiaries 100% owned by the LSC Holdings Limited and all of them are registered in Marshall Islands.

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

100% share in SIA „Mediju nams" owned by the Group was sold in January 2010.

On 4 February 2010 the insolvency of JSC „Preses nams" was announced by the Court.

Notes (Continued)

17. Investments in associated undertakings

Name and address	Percentage holding % 31.12.2009	Investment Value LVL 31.12.2009	Shareholders' Equity LVL 31.12.2009
SIA Via Una Rīgā, Katrīnas dambis 10, Latvija	45.45 %	7 553	97 935
SIA Futbola klubs „Ventspils" Ventspilī, Dzintaru iela 54, Latvija	23.06 %	184 500	1 067 205
	-	**192 053**	-

The profit for the associated company SIA Via Una for 2009 was LVL 37 078 (2008: LVL 6 188).
The Company acquired shares of SIA Futbola klubs „Ventspils" which corresponds to 23.06 % from company's share capital in amount of LVL 184 500.

18. Raw materials

	LVL	
	2009	2008
Fuel	25	97
Advances for spare parts	-	98
Other materials and inventories	11 424	14 212
	11 449	**14 407**

19. Accounts receivable

	LVL	
	2009	2008
Trade receivables, gross	46 923	1 493 331
Provision for doubtful debts	(46 484)	(1 490 127)
	439	**3 204**

During 2009 the doubtful trade receivables where written off in amount of LVL 1 486 019 which were fully provided for.

20. Amounts due from related companies

	LVL	
	2009	2008
LSC Holdings Limited	248 587	74 883
Latmar Holdings Corporation	138 249	313 020
SIA LASCO Investment	27 185	-
SIA LSC Shipmanagement	18 031	27 417
A/S Preses nams	11 216	-
SIA LASCO Housing Service	3 917	-
Santomar Holdings Company Ltd.	3 732	3 778
SIA Mediju nams	762	-
SIA LSC Marine Training	-	1 029
SIA Jūras servisa centrs	-	901
	451 679	**421 028**

(See also Notes 16 and 31)

Notes (Continued)

21. Other receivables

	LVL	
	2009	2008
Overpaid value added tax *(see Note 24)*	87 210	132 536
Deductable value added tax	-	58 266
Overpaid non-resident income tax	3 379	3 379
Other receivables, net	253 705	271 157
	344 294	**465 338**

22. Other loans

	LVL	
	2009	2008
SIA Rīgas tirdzniecības osta	704 377	-
	704 377	**-**

As at 31 December 2009 other loans consist of a loan from SIA Rīgas tirdzniecības osta with a nominal value of EUR 1 000 000 (LVL 702 804) and accrued interest payable in amount of EUR 2 238 (LVL 1 573). Interest rate on the loan is 4.5% per annum.

23. Amounts due to related parties

	LVL	
	2009	2008
SIA LSC Marine Training *	223 648	241 949
SIA Jūras servisa centrs *	9 616	20 275
SIA LSC Shipmanagement	3 685	1 862
SIA LASCO Housing service	73	-
A/S Ventspils nafta	-	1 310 758
SIA LASCO Investment	-	207 884
SIA Karavella Property	-	10 717
LSC Holdings Limited	-	643
Latmar Holdings Corporation	-	367
	237 022	**1 794 455**

*The amounts due to related parties include loans from subsidiaries in accordance with agreements on financial resource management. The interest rates applied are linked to the LIBOR rate at the date the loan amount is transferred into the bank account of the borrower, but not less than 1% per annum. *(See also Notes 16 and 31)*

Notes (Continued)

24. Taxes and social security contributions

	Value added tax	Real estate tax	Social security contribution	Personal income tax	State business risk duty	Total
	LVL	LVL	LVL	LVL	LVL	LVL
(Payable) 31.12.2008	**-**	**-**	**(69 152)**	**(479 987)**	**(29)**	**(549 168)**
Overpaid 31.12.2008	**132 536**	**-**	**-**	**-**	**-**	**132 536**
Charge	470 721	(25 092)	(1 264 855)	(805 083)	(248)	(1 624 557)
Reclassification	(267 182)	-	267 182	-	-	-
Reimbursed	(248 864)	-	-	-	-	(248 864)
Penalties	(1)	-	-	-	-	(1)
Reduced	-	-	111 872	-	-	111 872
Paid	-	25 092	853 477	1 219 170	259	2 097 998
(Payable) 31.12.2009	**-**	**-**	**(101 476)**	**(65 900)**	**(18)**	**(167 394)**
Overpaid 31.12.2009	**87 210**	**-**	**-**	**-**	**-**	**87 210**

25. Other accounts payable

	LVL 2009	LVL 2008
Salaries	164 624	305 500
Deductions from salaries	22	231
Other payables	2 792	37 989
	167 438	**343 720**

26. Accrued liabilities

	Accruals for employee vacations	Accruals for employee bonuses and salaries	Accruals for other expenses	Other accruals	Total
	LVL	LVL	LVL	LVL	LVL
31.12.2008	**509 947**	**-**	**108 546**	**21 766**	**640 259**
Increase	-	2 747	82 318	399 445	484 510
Decrease	(226 369)	-	(108 547)	(21 766)	(356 682)
31.12.2009	**283 578**	**2 747**	**82 317**	**399 445**	**768 087**

27. Fees paid to external auditors

	LVL 2009	LVL 2008
Audit of the financial statements	32 287	36 546
Management consulting	17 120	33 813
	49 407	**70 359**

Notes (Continued)

28. Contingent liabilities

Operating lease liabilities

At the year end the Company as a lessee has entered into two vehicles operating lease agreements. In 2009 the total amount of the annual operating lease expense was LVL 40 958 (2008: LVL 28 760).

As at 31 December 2009, the future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	LVL	
	2009	2008
Less than one year	30 136	44 647
Between one and three years	9 687	40 957
	39 823	**85 604**

Minimum lease payments are calculated based on floating rates 4.56% and 4.97% respectively which were effective at the date of the agreement. Actual floating rates as at 31 December 2009 where between 1.44% and 4.56%. (31 December 2008: 4.56% - 5.98 %)

Guaranteed issued

In 2004, for the purpose of financing the new-building program for new vessels the JSC Latvian Shipping Company 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 JSC Latvian Shipping Company Group's single vessel companies. As a security the lenders have mortgages of vessels together with common assignments and pledges. JSC Latvian Shipping Company has issued a corporate guarantees to secure these loans, guarantees being given in the normal course of business.

Please see also Note 34 in respect of uncertainties on Banking syndicate loan.

Capital commitments

In November 2007 the JSC Latvian Shipping Company Group signed contracts with Hyundai Mipo Dockyard Co., Ltd. (HMD) on building of four medium-range (MR) ice-classed tankers of 52 000 DWT each with the expected time of delivery 2011 - 2012. In accordance with amendments dated 4 December 2009 with Hyundai Mipo Dockyard Co., Ltd. two of ordered four ice-classed tankers where converted to two gas carriers, where each of them has a capacity of 20 600 CBM. The total value of contract is around US $ 200 million.

Legal cases

The entities within JSC Latvian Shipping Company have been involved in several court cases. Based on Management's opinion of positive outcome of the legal cases, no provisions have been established in relation to the legal cases as at 31 December 2009.

29. Average number of employees

The average number of the Company's employees during 2009 and 2008 was 79 and 115, respectively.

30. Key management remuneration

Management Board remuneration for 2009 was LVL 737 082 (2008: LVL 1 363 773), social security contributions amounted to LVL 169 592 (2008: LVL 41 206). The remuneration of Supervisory Council members for 2009 was LVL 1 100 746 (2008: LVL 1 659 941), and social security contributions amounted to LVL 262 319 (2008: LVL 116 880).

During 2009 no loans or guarantees were issued to the members of Supervisory Council and Management Board.

Notes (Continued)

31. Transactions with related parties

Transactions with subsidiaries

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

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

	LVL	
	2009	2008
Income from commercial management services	7 093 647	9 385 409
Income from the goods sold and services rendered	335 894	352 836
Interest income on borrowings to subsidiaries	3 381	45 582
	7 432 922	**9 783 827**
Interest expense	(12 771)	(119 073)
Cost of goods and services received	(129 882)	(33 789)
	(142 653)	**(152 862)**

(See also Notes 20 and 23)

32. Financial risk management

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

Financial risks

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

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

	LVL	
	2009	2008
Financial assets USD	796 666	794 880
Financial liabilities USD	(480 010)	(538 451)
Net balance sheet position, USD	**316 656**	**256 429**
Net balance sheet position, LVL	**154 845**	**126 932**

Liquidity risk
The Company's liquidity risk policy is based on a conservative approach whose main objective is to ensure the safeguarding of cash flows generated from operations and investments. At the end of the reporting period current liabilities of the Company exceed current assets by LVL 98 469. Due to the fact that cash flow management is carried out at the Group level, management of the Company is strongly confident that the Company will be able to generate a positive cash flow by coordinated operating and investment activities in order to set all liabilities when those are due.

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

Notes (Continued)

Financial risks *(continued)*

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

Fair value

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

Capital management

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

33. Events after the reporting period

During the period from 31 December 2009 till the date these financial statements are issued the Company has received intermediate dividends from Latmar Holdings Corporation in amount of USD 5 800 000.

SIA Ostas serviss owned by the Company was liquidated in February 2010.

Crown Navigation Inc. owned by the Company was liquidated in March 2010.

Company's indirect subsidiary, Sagewood Trading Inc, acquired 100% of share capital of SIA Nafta Investment in May 2010 for the USD 27.6 million. In accordance with independent valuators valuation report value of the company's share capital as at 31 October 2009 is USD 23.7 million. The acquisition was financed by short-term deposit held by Latmar Holding Corporation as at 31 December 2009.

The Company repaid long term loan before maturity in amount of EUR 1 million in June 2010.

Kristaps Insurance Ltd. owned by the Company was liquidated in July 2010.

The shares of the SIA Jūras servisa centrs owned by the Company was sold in July 2010.

The shares of the SIA LSC Shipmanagement owned by the Company was sold in September 2010.

As at end of the current reporting period SIA LASCO Investments had liability toward AS "Ventspils Nafta". The liability is collateralized by the pledge on investment property of the JSC Latvian Shipping Company Group and capital shares in JSC Latvian Shipping Company subsidiaries (see also Note 36). After the reporting date the payments became overdue and in order to protect the collateral from being realized, out-of-court protection processes for JSC Latvian Shipping Company Group's subsidiaries were initiated and approved. The out-of-court legal protection action plan foresees all liabilities to be covered within two years in respect of SIA LASCO Investment and within one year for SIA LASCO nekustamie īpašumi. In November 2010 the Group received proposal from AS "Ventspils Nafta" on extension of term of loan settlement until the end of 2011. Please see also Note 34.

At the reporting date a subsidiary of the Company, Latmar Holding Corporation, had significant fleet under construction balance. The balance has been tested for impairment under value-in-use method. In 2010 the subsidiary faced difficulties in attracting required financing to continue implementation of vessel newbuldings' construction programme as initially planned. This raises uncertainty whether the assumptions as applied in value-in-use calculation as at 31 December 2009 will fully come true and consequently, whether the value of assets under construction might be impaired as at or subsequent to 31 December 2009.

Except for the events disclosed in this note and note 34, as of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

Notes (Continued)

34. Going Concern

JSC Latvian Shipping Company completed year 2009 with a net loss of LVL 17 594 thousands, mainly due to impairment recognized in respect of its investment in LASCO Investment group. The carrying value of the Company's investment in subsidiaries as at 31 December 2009 is LVL 111 870 thousands (please see Note 16 on further details).

Significant changes have occurred in 2010 in respect of major JSC Latvian Shipping Company investments in subsidiaries as follows.

The Company's subsidiary Latmar Holding Corporation has disposed and acquired significant assets subsequent to 31 December 2009.

The Company's subsidiary LASCO Investment SIA and LASCO nekustamie īpašumi SIA have filed for out-of-court protection procedure. As at the financial statements approval date the entities have not complied with out-of-court protection plan payment plan, which indicate existence of material uncertainty that may cast doubt that the respective entities would be able to continue as a going concern.

JSC Latvian Shipping Company subsidiary, LSC Holding Ltd. Group has significant interest bearing loans as at 31 December 2009. The loans are advanced to the Group's single vessel companies. As security the lenders have mortgages of vessels together with common assignments and pledges. LSC Holdings Ltd. and JSC Latvian Shipping Company are guarantors of these secured debts.

As at the financial year end specific covenants set under the loan agreements were not met. JSC Latvian Shipping Company Group has complied with conditions and covenants set by Banking syndicate as at 31 December 2009 since side letters with waiver of covenants were properly and timely obtained. Based on these conditions JSC Latvian Shipping Company Group classified respective loans as non-current as at 31 December 2009.

During 2010 the JSC Latvian Shipping Company Group did not complied with the Banking syndicate loan covenant on submission of audited annual financial statements (Security Documents) which is considered as Event of Default. Upon request of JSC Latvian Shipping Company Group the waiver on this covenant have been provided by the Banking syndicate subject to fulfilment of certain conditions. One of the main conditions is cash credit of USD 30 million into Collateral Operating Account, subsequently to be pledged in favor of the Banking syndicate. As at the date of approval of these financial statements the JSC Latvian Shipping Company Group has initiated, not yet completed, steps to fulfil waiver conditions.

The management of JSC Latvian Shipping Company expects that certain breaches of the Banking syndicate loan covenants might continue as at 31 December 2010 and in 2011 and therefore is currently negotiating extension of waiver of these covenants and additionally included conditions till end of 2011. The management of JSC Latvian Shipping Company is confident that the agreement on required waivers will be successfully obtained.

On the grounds of the mentioned above, the activities taken by the management of JSC Latvian Shipping Company are aimed at continuation of activities of the Company in the foreseeable future, i.e. in period which is not less than 12 months after the financial statements approval date.

The financial statements have been prepared on a going concern basis. The validity of this assumption will mainly depend on successful negotiations on the Banking syndicate loan terms and covenants as depicted above.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas Kuģniecība

Report on the Financial Statements

We have audited 2009 financial statements of AS Latvijas Kuģniecība (the "Company"), which are set out on pages 9 through 32 of the accompanying 2009 Annual Report and which comprise the balance sheet as at 31 December 2009, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS Latvijas Kuģniecība as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Emphasis of Matter

(a) As at 31 December 2009 the Company has LVL 111 870 thousands investment in subsidiaries. As disclosed in Note 34 to the accompanying financial statements, the subsidiaries of the Company have disposed and acquired significant assets subsequent to 31 December 2009 and their financial statements indicate existence of material uncertainty that may cast doubt that the respective entities would be able to continue as a going concern. Without qualifying our opinion we draw attention that these conditions indicate uncertainty on whether the value of investment in subsidiaries might be impaired subsequent to 31 December 2009 and how these conditions might impact net asset value of JSC Latvian Shipping Company.

(b) The accompanying financial statements have been prepared on a going concern basis. Without qualifying our opinion we draw attention to Note 34, which indicates uncertainties regarding the conditions under significant interest bearing loan agreement entered by the Latvian Shipping Company Group. These conditions, along with the other matters as depicted in Note 34, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not contain any adjustments which might arise as a result of this uncertainty.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the shareholders of AS Latvijas Kuģniecība

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2009 (included on pages 6 through 8 of the accompanying 2009 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2009.

SIA Ernst & Young Baltic
Licence No. 17

Iveta Vimba
Member of the Board
Latvian Sworn Auditor
Certificate No. 153

Riga, 3 December 2010