

Public Joint Stock Company
Latvijas Kuģniecība

Consolidated Financial Statements

31 December 2009

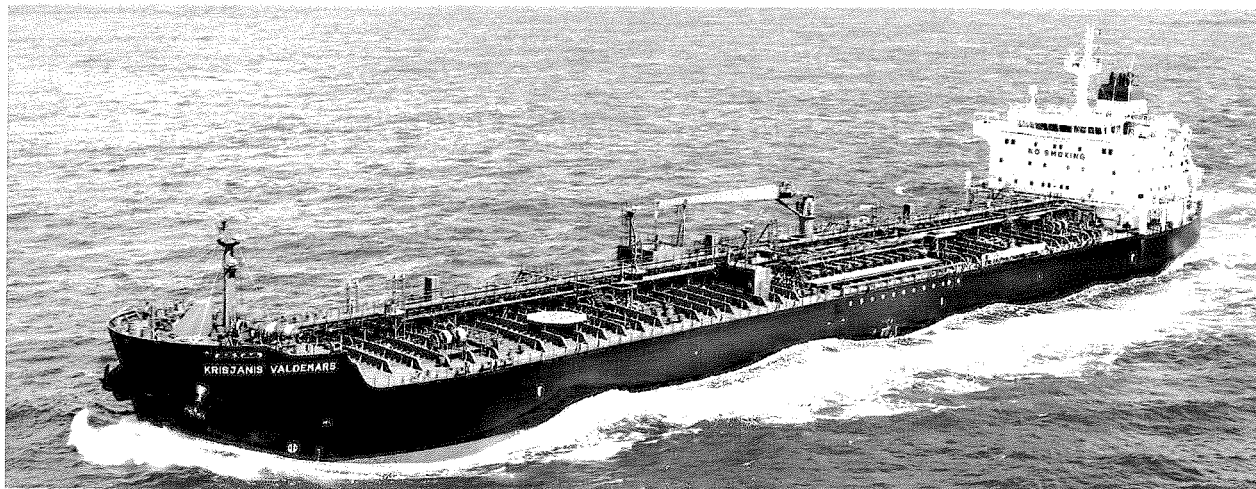
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Information about JSC Latvijas kuģniecība in brief

MISSION

JSC Latvijas kuģniecība (the Company) 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 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 twenty largest shipowners of medium range tanker fleet in the world. JSC Latvijas kuģniecība is a leader in the Northern Europe by the volumes of the transported oil products in the above mentioned fleet segment.

JSC Latvijas kuģniecība offers wide and diverse range of sea shipments and as such its vessels can be met in all 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 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.

In order to diversify the financial risks JSC Latvijas kuģniecība has invested in real estate assets administered by JSC Latvijas kuģniecība 100% daughter company LASCO Investment Ltd.

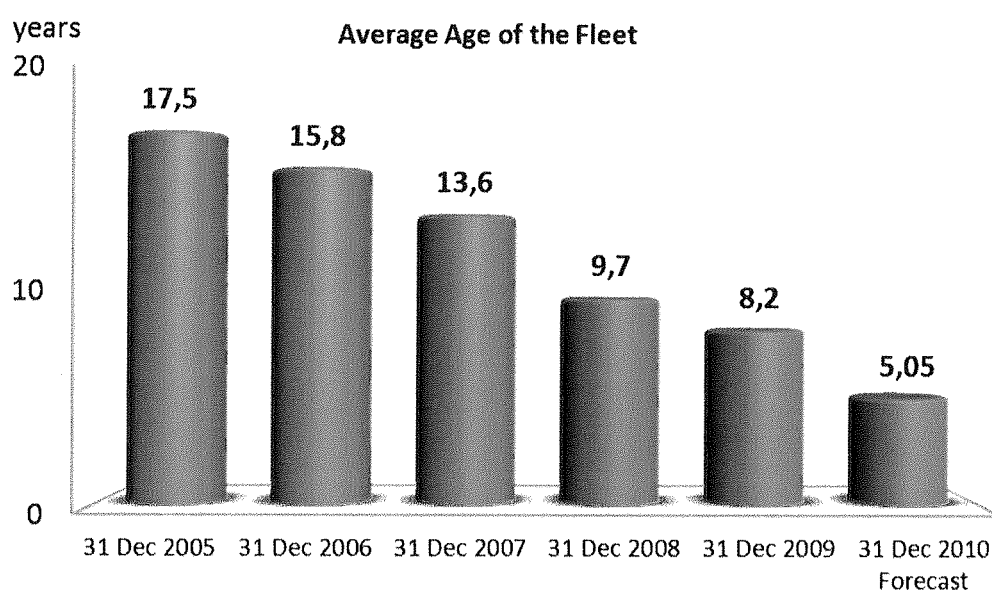
Management report

Dear shareholders and other stakeholders!

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.

During the course of 2009, Latvian Shipping Company continued a consistent programme of change at the company, seeking to ensure that the company is a flexible participant in the global logistics market, compete with effective governance, a modern fleet, considered investments and targeted marketing. A global economic crisis often is the best time for corporate changes. As the economic situation recovers, there will be new market opportunities for those players who have been able to change.

Intensive fleet renewal have allowed Latvian Shipping Company to reduce the average age of its ships from 17.5 years to 8.2 years over five years. It is forecasted that average age of the fleet at the end of 2010 will reach 5.05 years. Seven old ships were scrapped in 2009. Over the next years, these will be replaced with four new ships.



Financial Results

The global recession inevitably affected financial performance of Latvian Shipping Company. In 2009 Latvian Shipping Company suffered net loss in amount of US \$ 90.3 million. However, the largest part of the loss was a virtual figure, as the impairment of non-financial assets in amount of US \$ 88.8 million was made in accordance with International Financial Reporting Standards (IFRS). The impairment reflects conservative position of the company and can be regained when market recovers. The impairment made consists of the decrease of the shipping fleet value in amount of US \$ 6.2 million because of the unfavourable trends in the shipping markets and conservative evaluation of non-shipping assets, decreasing their value by US \$ 82.6 million. Without the impairments made, the financial result of Latvian Shipping Company would be close to zero, which is a satisfactory result in the dramatic market situation as it was in 2009. The financial stability of the company is acknowledged by the positive cash flow, as the amount of cash and cash equivalents at the end of 2009 reached US \$ 75.1 million in comparison to US \$ 36.7 million in prior year.

Unfavourable market trends during the reporting period inevitably led to a drop in voyage income – by 22% or US \$ 55.9 million during the reporting period in comparison to 2008. Low shipping rates and a slowdown in the global shipping business have had a fundamental influence on the gross profit – down by US \$ 41.6 million (64%) in the reporting period.

The value of Latvian Shipping Company's equity at the end of the reporting period was US \$ 454.8 million or 47% of all assets. The total value of the company's assets at the end of 2009 was US \$ 964.4 million.

During the reporting period, the company optimised administrative and operating costs for ships. The Group's overall liabilities have declined substantially by US \$ 98.4 million or 16% since the beginning of 2009, and the liabilities at this time are equal to 53% of the group's assets.

These are fundamentally important and successful steps toward ensuring in the long term that as the economic crisis comes to an end, Latvian Shipping Company will be able to demonstrate a new level of energy in winning ever more powerful positions in the market of medium-sized tankers. As economic growth recovers, we will have the newer fleet, the most effective governance system, and a very promising structure of assets.

Management report *(continued)*

Financial Results *(continued)*

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. On December 31, 2009, the capitalisation of Latvian Shipping Company shares at the NASDAQ OMX Riga exchange was LVL 80 million in comparison with carrying amount of equity LVL 222 million. The Group's Management opinion is that such a difference can be explained with low liquidity in the Latvian securities market. Although Latvian Shipping Company shares draw many investors' attention with 2,591 transactions at the exchange during the year involving 3.96 million shares worth LVL 1.91 million, these liquidity indicators do not show the real value of shares in Latvian Shipping Company as less than 100 transactions involved more than two-thirds of the total number and value of shares that were traded.

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. Despite 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.

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.

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.

Main post balance sheet 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 was the main 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 agreed 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.

Considering the significant difficulties in the printing industry in Latvia, the legal protection process for LASCO Investment Group's company JSC Preses nams was initiated in December 2009. However, given that some of the secured creditors did not support the legal protection plan, the company was forced to apply to the court for a status of insolvency, which was applied on January 2010.

In January 2010, Latvian Shipping Company's subsidiary SIA LASCO Investment made decision to sell 100% of SIA Mediju nams shares. SIA Mediju nams was sold to SIA MN Mediji, the company established by management representatives of SIA Mediju nams. The deal was economically favorable to LASCO Investment as SIA Mediju nams shares were purchased as a part of real estate and other investment package deal in 2008 and separately generated loss due to bad market situation.

The Group's subsidiary, Sagewood Trading Inc, acquired 100% of share capital of SIA Nafta Investment in May 2010 for the US \$ 27.6 million. In accordance with independent valuator's valuation report value of the company's share capital as at 31 October 2009 is US \$ 23.7 million. However, in this valuation report, the dividends paid at the end of 2009 are not considered and independent valuator's valuation report value of the company's share capital as at 31 December 2009 is US \$ 27.6 million. The acquisition was financed by short-term deposit held by Latmar Holdings Corporation as at 31 December 2009.

In July 2010, Latvian Shipping Company sold shares of SIA Jūras servisa centrs with the nominal value of LVL 140 000 to company Intertech Industries Limited registered in the United Kingdom. The sale was based on the consideration that in recent years the fleet of Latvian Shipping Company is mainly located in the regions around the world and the use of other geographically closer service providers is economically more favorable.

Management report (*continued*)

Main post balance sheet events (*continued*)

A substantial progress has been reached in the legal procedure of Latvian Shipping Company's Group companies (Antonio Gramsci Shipping Corporation and other.) claiming recovery of losses in amount of LVL 100 million that is being reviewed in the Supreme Court of Justice Queen's Bench Division Commercial court in London. The Court of Appeal has refused to bring an action upon the respondents' claim. Thus, as the next step a decision favourable to the claimant will be taken, where exact amount of the losses to collect shall be set out.

Stagnation in the Latvian real estate market has been the main reason for application of out-of-court legal protection process to Latvian Shipping Company's Group companies SIA LASCO Investment and SIA LASCO nekustamie īpašumi. On 7 October 2010 the court approved out-of-court legal protection process of SIA LASCO Investment with the term of 2 years, but on 1 October the court confirmed out-of-court legal protection process of SIA LASCO nekustamie īpašumi for 1 year. 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.

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.

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 Group's management 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 Group's management is confident that the agreement on required waivers will be successfully obtained.

The Group's Management plans to generate positive operating cash flow in short-term and long-term period. Existing loan agreement covenants 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.

The 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.

Future prospects

Unfavourable external factors remain in place, including substantially lower shipping rates and the fragile situation in global financial markets. The Group will continue its programme of change to satisfy shareholder goals even under these complicated circumstances. The focus will be on commercial and financial risk management, increase in the effectiveness of company staff, and further reductions in costs.

Latvian Shipping Company will put all the efforts to provide financing for 4 ship newbuildings ordered with "Hyundai Mipo Dockyard Co. Ltd." (Korea). The debt and also equity financing solutions will be considered.



Imants Sarmulis
Chairman of the Board
Joint Stock Company Latvian Shipping Company
Riga, 3 December 2010

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

Vladimirs Solomatins

Members of Council:

Ansis Sormulis

Guntis Ločmelis

Kārlis Boldiševics

Māris Gailis (from 15.02.2008 until 12.01.2009)

Miķs Ekbaums

Normunds Staņēvičs

Olga Pētersone

Svens Zālītis

Uldis Pumpurs (from 13.01.2009)

Vladimirs Koškuls

**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
2006 - 2009	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 2009	JSC Latvijas kuģniecība, Chairman of the Audit Committee
Since 2008	JSC Latvijas kuģniecība, Deputy Chairman of the Supervisory Council,
2008 - 2010	Ventspils nafta termināls Ltd., Member of the Supervisory Council
Since 2007	JSC ALA Investments, Chairman of the Supervisory Council
2007 - 2009	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
2007 - 2009	JSC Ventspils nafta, Chairman of the Supervisory Council
2007 - 2010	LatRosTrans Ltd., Member of the Supervisory Council
2003 - 2007	JSC Ventspils nafta, Member of the Supervisory Council
2002 - 2007	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

Ansis Sormulis – Member of the Supervisory Council

Since 2009	JSC Latvijas kuģniecība, Member of the Audit Committee
2006 - 2009	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

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

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

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

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
2008 - 2010	JSC Ventspils nafta, Member of the Management Board
2007 - 2010	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

Olga Pētersone – Member of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Member of the Supervisory Council
2008 - 2010	Ventspils nafta terminals Ltd., Chairperson of the Supervisory Council
2005 - 2008	JSC Latvijas kuģniecība, Deputy Chairperson of the Supervisory Council
2004 - 2010	LatRosTrans Ltd., Member of the Supervisory Council
2004 - 2009	JSC Ventspils nafta, Chairperson of the Management Board, President

Svens Zālītis – Member of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Member of the Supervisory Council
2008 - 2010	LatRosTrans Ltd., Member of the Supervisory Council
2006 - 2008	JSC Latvijas kuģniecība, Legal Advisor to the Management Board
Since 2005	Sworn advocate

Uldis Pumpurs – Member 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 termināls 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

Vladimirs Koškuls – Member of the Supervisory Council

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

Management Board



Chairman of the Management Board

Imants Sarmulis

Member of the Management Board,
First Vice President

Andris Linužs

Member of the Management Board,
Vice President

Raivis Veckāgans (until 22.10.2010)

Members of the Management Board

Pavel Semenyuta (from 30.11.2010)

Edvīns Bērziņš (from 27.09.2010)

Paul Thomas (from 20.07.2010)

Guntis Tīrmanis (until 06.10.2009)

Ilva Purēna (until 10.02.2010)

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

2009 - 2010	SIA LASCO Investment, Member of the Management Board
2008 - 2010	JSC Latvijas kuģniecība, Member of the Management Board, Vice-President
2009 - 2010	JSC Preses nams, Chairman of the Supervisory Council
2008 - 2009	LSC Shipmanagement Ltd., Member of the Management Board
2007 - 2008	Ventall Termināls Ltd., Member of the Supervisory Council
2006 - 2008	BIO-Venta Ltd., Member of the Management Board, Finance Director
2005 - 2008	VK Tranzīts Ltd., Member of the Management Board, Finance Director
2005 - 2006	JSC Baltic Coal terminal, Member of the Management Board

Pavel Semenyuta

Since 2010	JSC Latvijas kuģniecība, Member of the Management Board
Since 2010	Aladdin Oil & Gas Company ASA (Norway), Member of the Supervisory Board
Since 2009	Lakeshore International Management AG (Switzerland) Founding Partner, Chief Investment Officer, Head of Investment Committee
2004 - 2008	Russian Investment Club (Russia), Member of the Management Board

Edvīns Bērziņš

Since 2010	JSC Latvijas kuģniecība, Member of the Management Board
Since 2010	SIA LASCO Investment, Member of the Management Board
Since 2006	JSC Latvijas kuģniecība, Director of Legal department

Paul Thomas

Since 2010	JSC Latvijas kuģniecība, Member of the Management Board
2010 - 2010	Ventspils nafta, Member of the Supervisory Board
Since 2007	Finaval spa, Director
Since 1988	Vitol Group, Head of World Wide Shipping

Ilva Purēna

2005 - 2010	JSC Latvijas kuģniecība, Member of the Management Board
2004 - 2009	JSC Preses nams, Member of the Supervisory Council
2003 - 2010	JSC Ventspils nafta, Member of the Management Board
Since 2003	JSC Ventspils nafta, Legal Director

Guntis Tīrmanis

2005 - 2009	JSC Latvijas kuģniecība, Member of the Management Board
2003 - 2009	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 background of potential member of the Management Board in respective area is evaluated.

The members of the Supervisory Council of JSC Latvijas kuģniecība are nominated for 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.

According to the Financial instruments market law, Audit committee consisting of three members, from which one meets independence criteria defined by the law was established by the decision of the Annual shareholders meeting held on April 30, 2009. Andris Vilcmeiers, Ansis Sormulis and Juris Rendinieks were elected in the position of the member of the audit committee of joint stock company "Latvijas kuģniecība" for term of three years, determining the beginning of the term as of the 30 April, 2009. The audit committee elected Andris Vilcmeiers as the chairman of the Audit Committee.

In order to ensure effective execution of their functions the Supervisory Council of JSC Latvijas kuģniecība has also established three supervisory committees from its members - Finance Committee, Strategic Development Committee, Fleet Supervision Committee. All the committees are comprised of three committee 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

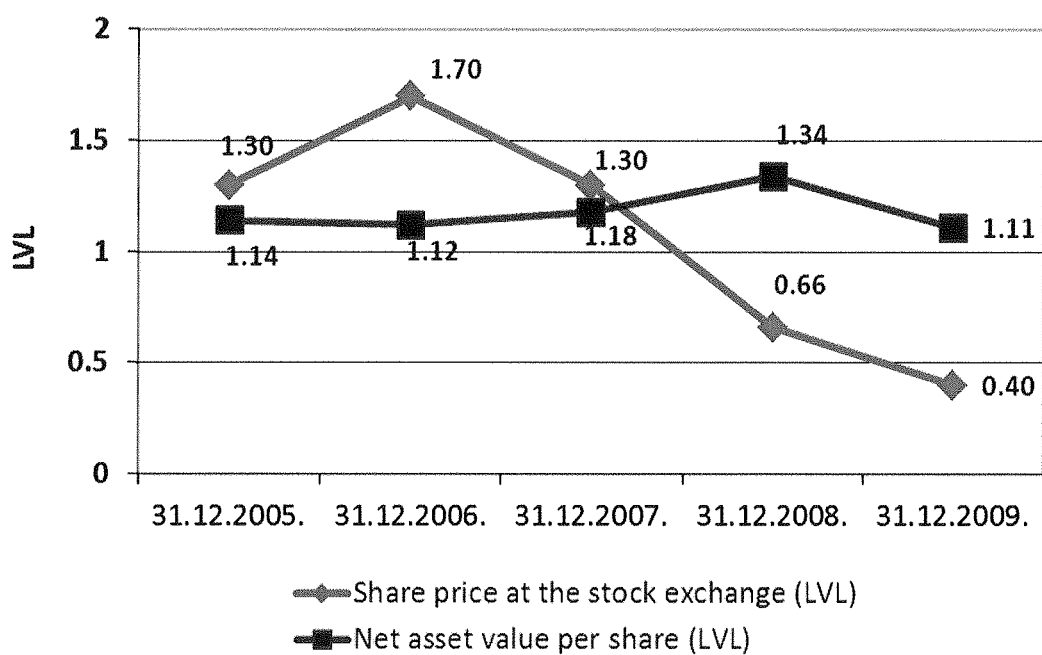
The major Shareholders as at December 31, 2009, having announced acquisition of significant share in JSC Latvijas kuģniecība (above 5%):

- JSC *Ventspils nafta* - 49.94%
- *International Baltic Investments* Ltd. - 27.55 %
- *Ojay* Ltd. - 17.66 %
- *Eastgate Properties* Ltd. - 9.89 %
- SSC *Valsts sociālās apdrošināšanas aģentūra* - 10.00 %

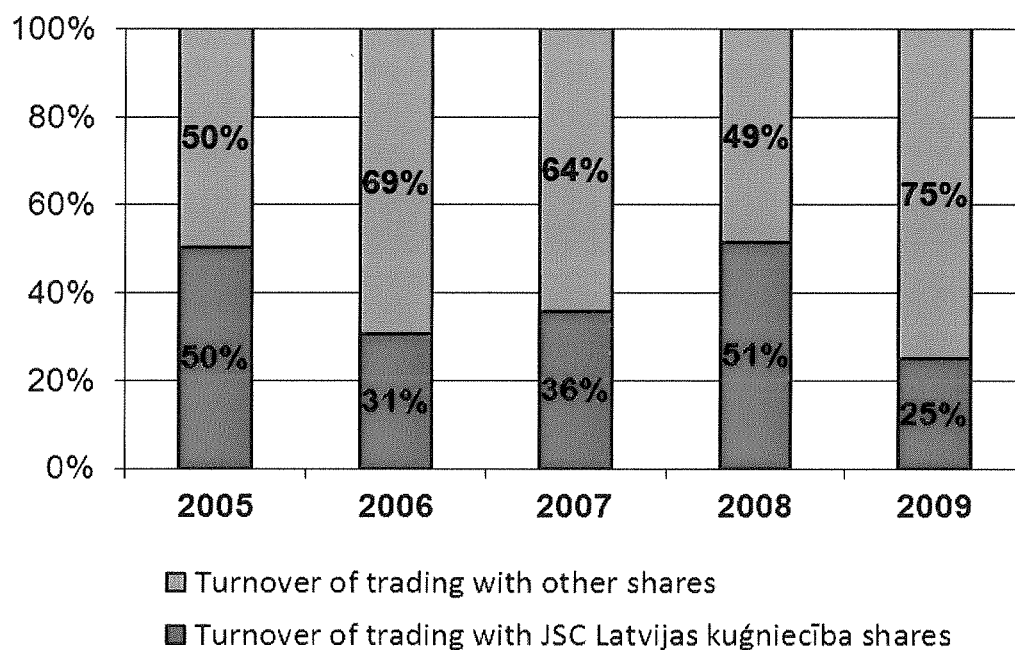
JSC Latvijas kuģniecība has no shareholders having control rights.

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 Riga
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	2009
Highest share price	1.42	1.31	1.57	1.37	0.69
Lowest share price	0.47	0.84	1.07	0.56	0.36
Last transaction price	1.30	1.07	1.30	0.66	0.40
Number of shares traded	13 477 984	12 850 514	16 355 655	8 277 028	3 961 245
Turnover, million LVL	11.06	13.33	20.64	8.62	1.91
Capitalisation, million LVL	260.00	214.00	260.00	132.00	80.00

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 lat). All 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 have no extraordinary mandate to issue or repurchase the shares, except for the cases provided in the Commercial Law.

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 profit 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 describing the procedures of all the significant 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 is supervised by the Audit Committee.

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 accordance 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.

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 in respect of 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 Safety 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, sport and social sphere for several years already.

Regardless of the events in the world's economy, in 2009 JSC Latvijas kuģniecība 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 sport 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.

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

Corporate governance report

I INTRODUCTION

Joint Stock Company Latvijas kuģniecība Corporate Governance Report for 2009 (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 on July, 2008. The Report has been prepared by Joint Stock Company Latvijas kuģniecība (hereinafter Latvian Shipping Company or Company) Board and reviewed by Latvian Shipping Company Council.

The Report discloses the information on the compliance with the corporate governance principles in 2009 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 2009 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 2009, as well as published on Latvian Shipping Company website www.lk.lv.



Imants Sarmulis
Chairman of the Board
Joint Stock Company Latvian Shipping Company
Riga, 3 December 2010

Corporate governance report (*continued*)

II PRINCIPLES OF GOOD CORPORATE GOVERNANCE

A. SHAREHOLDERS' MEETING

Shareholders realize 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 division of profit. 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 division 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 Report shall specify where the Issuer's profit distribution policy is made available.

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 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 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 Board with acceptance from the 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 organize 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.

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

Corporate governance report (continued)

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.

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 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 Board written request, the 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. If Latvian Shipping Company would decide to change the time and place of the announced shareholders meeting it would be published in due time (at least 14 days before the shareholders meeting); therefore, Latvian Shipping Company applies this best practice provision.

In order to ensure smooth process of shareholders' registration for the meeting and in due time solve possible problem situations, Latvian Shipping Company has determined that shareholders of Latvian Shipping Company shall inform the Management Board of Latvian Shipping Company about the representatives and authorised persons of shareholders who shall participate in the meeting, by submitting copies of the power of attorneys or the documents certifying the authorisation at least 5 (five) days before the day of shareholders' meeting.

In the future when convoking the shareholders meetings, Latvian Shipping Company will comply with amendments made in the Financial instruments market law regarding the introduction of Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies".

Corporate governance report (*continued*)

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 complete 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 arrangements for 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.

1.8. In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for Council elections. The candidates to the 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 Council member candidates and audit committee member candidates whose approval is planned at the meeting. When disclosing the said information, also a short personal biography of the candidates shall be published.

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 them 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 complete 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 organizational 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.

In order to ensure smooth process of shareholders' registration for the meeting and in due time solve possible problem situations, Latvian Shipping Company has determined that shareholders of Latvian Shipping Company shall inform the Management Board of Latvian Shipping Company about the representatives and authorised persons of shareholders who shall participate in the meeting, by submitting copies of the power of attorneys or the documents certifying the authorisation at least 5 (five) days before the day of shareholders' meeting.

Corporate governance report *(continued)*

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 of meeting is set, 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.

1.14. When entering the course and contents of discussions on the agenda issues to be dealt with at the shareholders' meeting in the minutes of shareholders' meeting, 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 proposal 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 Council, 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.

In the future when calling up the shareholders meetings Latvian Shipping Company will respect amendments made in the Financial instrument market law related to the introduction of "Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies".

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 Board members, auditors, and as possibly many Council members.

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 fulfill 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 at which issues connected with the finances of the Issuer are not dealt with. 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 Board, auditor as well as members of the Council participates in the shareholders meetings; therefore, Latvian Shipping Company applies this best practice provision.

Corporate governance report *(continued)*

- 2.1. Shareholders' meetings shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall in particular apply to Council members. If a 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.

Latvian Shipping Company invites to participate at the shareholders meetings official candidates whose election is planned at the meeting. If a 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.

- 2.2. 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. BOARD

The 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 committed to increase the value of the company; therefore, its obligations and responsibilities have to be clearly determined.

3. Obligations and responsibilities of the Board

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

- 3.1. The Board shall have the obligation to manage the business of the Issuer, which includes also the responsibility for the realization of the objectives and strategies determined by the Issuer and the responsibility for the results achieved. The Board shall be responsible for the said to the Council and the shareholders' meeting. In fulfillment of its obligations, the Board shall adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests.

According to the Articles of Association, the Board of Latvian Shipping Company consists of five members. The chairman of the Board has full representation rights and he can represent the company singly without special authorization an independently from other members of the Board. Other members of the Board have rights to represent the company only together with at least one other member of the Board. The decisions of the Board of Latvian Shipping Company are made at the meetings of the Board, by at least three of the members voting "for". Referring to the Commercial law, members of the Board of Latvian Shipping Company fulfill their duties as honest and careful master. Quarterly the Board in writing reports on its activities to 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 Board informs the Council also about other important aspects of activities of the Company; therefore, Latvian Shipping Company applies this best practice provision.

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

Corporate governance report (*continued*)

- 3.3. The 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 Board of Latvian Shipping Company is executive institution which manages and represents the company. The 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 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 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 fulfillment 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, in compliance with internal procedures (e.g. personnel policy adopted by the Issuer, remuneration policy etc.);
- 3) timely and qualitative submission of reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled.

The 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 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 Audit Committee; therefore, Latvian Shipping Company applies this best practice provision.

- 3.5. In annual reports, the 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 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.

- 3.6. It shall be preferable that the 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 Council for approval.

The Board of Latvian Shipping Company has developed and with the permission of the Council approved "Joint Stock Company "Latvian Shipping Company" Strategy till 2015"; therefore, Latvian Shipping Company applies this best practice provision.

4. Board composition and requirements for Board members

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

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

Corporate governance report (*continued*)

- 4.2. On the Issuer's website on the Internet, the following information on every Issuer's 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 fulfill their obligations successfully, Board members must have access in due time to accurate information on the activity of the Issuer. The Board must be capable of providing an objective evaluation on the activity of the Issuer. Board members must have enough time for the performance of their duties.

The Board of Latvian Shipping Company on an ongoing basis follows the commercial activities of the company. Quarterly the Board in writing reports about its activities to 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 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 Board member at the Issuer.

No one of the members of the Board of Latvian Shipping Company has been elected for more than four successive terms; therefore, Latvian Shipping Company applies this best practice provision.

5. Identification of interest conflicts in the work of Board members

Every Board member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances and willing 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.

- 5.1. It shall be the obligation of every Board member to avoid any, even only supposed, interest conflicts in his/her work. In taking decisions, 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 Board of Latvian Shipping Company are guided by the interests of the company and they do not use the cooperation offers proposed to Latvian Shipping Company to obtain personal benefit; therefore, Latvian Shipping Company applies this best practice provision.

- 5.2. On the occurrence of any interest conflict or even only on its possibility, a Board member shall notify other Board members without delay. 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 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 Board member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the 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 Board member: legal persons where the Board member or a closely related to him/her person is a Board or 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 Board member of Latvian Shipping Company is notifying other Board members without delay. Board members of 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 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.

- 5.3. Board members should not participate in taking decisions that could cause an interest conflict.

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. COUNCIL

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

6. Obligations and responsibilities of the Council

The objective of the Issuer's 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 Council and the responsibility of the Council members, as well as ensure that individual Council members or groups thereof do not have a dominating role in decision making.

6.1. The functions of the Council shall be set forth in the Council regulation or a document equated thereto that regulates the work of the 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 Council of Latvian Shipping Company consists of twelve members, who are elected for the three year term of the Council. The functions of the Council are stipulated in the Council Regulations, which are elaborated on the basis of Articles of Association of Latvian Shipping Company and rules of the Commercial Law. The Council Regulations are available in the registered office of Latvian Shipping Company; therefore, Latvian Shipping Company applies this best practice provision.

6.2. The supervision carried out by the Council over the work of the 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, 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 Council should discuss every of the said matters and express its opinion at least annually, complying with frequency of calling Council meetings as laid down in regulatory acts, and the results of discussions shall be reflected in the minutes of the Council's meetings.

The Council of Latvian Shipping Company on the ongoing basis carries out supervision of the Board including supervision over the achievement of the objectives set by the company, the corporate strategy and risk management, the process of financial accounting, 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. The Council discusses every of the said matters and express its opinion, complying with frequency of calling Council meetings as laid down in regulatory acts, and the results of discussions is reflected in the minutes of the Council's meetings; therefore, Latvian Shipping Company applies this best practice provision.

6.3. The Council and every its member shall be responsible that they have all the information required for them to fulfill their duties, obtaining it from Board members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the Council chairperson shall contact the Issuer's Board, inter alia the 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 Council of Latvian Shipping Company has all the information required for it to fulfill its duties. The chairman of the Council of Latvian Shipping Company at least once a week meets chairman of the 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 Council of Latvian Shipping Company is also provided by Internal Audit department on regular basis; therefore, Latvian Shipping Company applies this best practice provision.

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

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

Corporate governance report (*continued*)

7. Council composition and requirements for Council members

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

7.1. The Issuer shall require every Council member as well as 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 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 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 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.

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

Latvian Shipping Company applies this best practice provision.

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

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

7.4. Every 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.

Referring to the Commercial law, members of the Council of Latvian Shipping Company fulfill their duties as honest and careful master, Latvian Shipping Company appeals the 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.

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

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

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

See explanation for Clause 7.5.

7.7. As independent shall be considered persons that conform to the independence criteria specified in the Annex hereto. If a Council member does not conform to any of to the independence criteria specified in the Annex hereto but the Issuer does consider the 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 7.5.

Corporate governance report *(continued)*

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

See explanation for Clause 7.5.

8. Identification of interest conflicts in the work of Council members

Every Council member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances. 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.

8.1. It shall be the obligation of every Council member to avoid any, even only supposed, interest conflicts in his/her work. When taking decisions, 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 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.

8.2. On the occurrence of any interest conflict or even only on its possibility, a Council member shall notify other Council members without delay. 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 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 Council member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the 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 Council member: legal persons where the Council member or a closely related to him/her person is a Board or 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 Council member is notifying other Council members without delay; therefore, Latvian Shipping Company applies this best practice provision.

8.3. A 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 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.

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.

9. 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.

Corporate governance report (*continued*)

- 9.1. 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.

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

Latvian Shipping Company applies this best practice provision.

- 9.3. 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.

- 9.4. 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.

10. Investor relations

Considering that financial instruments 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.

- 10.1. 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 realization 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.

- 10.2. The Issuer shall provide all investors with equal and easily accessible important information related to the Issuer's business, including financial position, ownership structure and management. The Issuer shall present the information in a clear and understandable manner, disclosing both positive and negative facts, thus providing the investors with a complete and comprehensive information on the Issuer, allowing the investor to assess all information available before the decision making

Latvian Shipping Company applies this best practice provision.

- 10.3. 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.

Corporate governance report (*continued*)

10.4. 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.

10.5. 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 compliance with 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 Board or Council regulation or a document equated thereto that regulates its work, as well as the Issuer's remuneration policy (or a reference where it is made available) and the shareholders' meeting procedure regulation, if such has been adopted;
- 7) Information on the performance of the Issuer's Audit Committee;
- 8) information on present Issuer's Council and 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 Board and 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 Board and Council regulations are available in the registered office of Latvian Shipping Company. Considering that the work of the Audit Committee was commenced recently, information about their performance is not included in the website yet; therefore, Latvian Shipping Company partly applies this best practice provision.

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 Board to identify the shortcomings and risks in the management of the Issuer as well as facilitates that the Council's task - to supervise the work of the Board - is fulfilled efficiently.

Corporate governance report (*continued*)

11. 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.

11.1. 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.

11.2. 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 characterize 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.

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

Latvian Shipping Company applies this best practice provision.

11.4. 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.

11.5. 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 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 Latvian Shipping Company Group, including compliance with approved procedures; therefore, Latvian Shipping Company applies this best practice provision.

11.6. 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 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.

12. Audit Committee

The Audit Committee shall be established by a resolution of the Issuer's shareholders' meeting, and its operations and scope of responsibilities shall be set as guided by the legislation.

12.1. The functions and responsibility of the Audit Committee should be specified in the regulation of the committee or a comparable document.

The functions and responsibility of the Audit Committee of Latvian Shipping Company is specified in the regulations of the Audit Committee; therefore, Latvian Shipping Company applies this best practice provision.

12.2. To assure an efficient functioning of the Audit Committee, it is recommended that at least three of its members have adequate knowledge in accounting and financial reporting, because issues related to the Issuer's financial reports and control are in the focus of the Audit Committee's operations.

The Audit Committee of Latvian Shipping Company consists of three members who have adequate knowledge in accounting and financial reporting; therefore, Latvian Shipping Company applies this best practice provision.

Corporate governance report (*continued*)

- 12.3. All Audit Committee members shall have access to the information about the accounting principles practiced by the Issuer. Board shall advise the audit Committee as to the approaches to significant and unusual transactions, where alternative evaluations are possible, and shall ensure that the Audit Committee has access to all information that has been specified in the legislation.

All Audit Committee members have access to the information about the accounting principles practiced by Latvian Shipping Company. The Board advises the audit Committee as to the approaches to significant and unusual transactions, where alternative evaluations are possible, and ensures that the Audit Committee has access to all information that has been specified in the legislation; therefore, Latvian Shipping Company applies this best practice provision.

- 12.4. The Issuer shall ensure that its officials, Board members and staff release the information to the Audit Committee that is necessary for its operations. The Audit Committee should also be entitled to carry out an independent investigation in order to identify, within its scope, any violations in the Issuer's activities.

Latvian Shipping Company ensures that its officials, the Board members and staff release the information to the Audit Committee that is necessary for its operations. The Audit Committee is also entitled to carry out an independent investigation in order to identify, within its scope, any violations in Latvian Shipping Company's activities; therefore, Latvian Shipping Company applies this best practice provision.

- 12.5. Within its scope, the Audit Committee shall adopt resolutions, and is accountable to the shareholders' meeting for its operations.

Latvian Shipping Company applies this best practice provision.

F. REMUNERATION POLICY

13. General principles, types and criteria for setting remuneration

The policy of the remuneration of Board and 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 shall develop a clear remuneration policy, specifying general principles, types and criteria for the remuneration to be awarded to the Board or Council members.

- 13.1. The Issuers are called on to develop a remuneration policy in which the main principles for setting the remuneration, possible remuneration schemes and other essential related issues are determined. Without limiting the role and operations of the Issuer's management bodies responsible for setting remuneration to the Board and Council members, the drafting of the remuneration policy should be made a responsibility of the Issuer's Board, which during the preparation of a draft policy should consult with the Issuer's Council.

The Board of Latvian Shipping Company has developed and approved motivation and remuneration policy and has submitted it to the Council; therefore, Latvian Shipping Company applies this best practice provision.

- 13.2. Should the remuneration policy contain a remuneration structure with a variable part in the form of the Issuer's shares or share options, it should be linked to previously defined short-term and long-term goals. If remuneration depends on fulfillment of short-term goals only, it is not likely to encourage an interest in the company's growth and improved performance in the long-term. The scope and structure of the remuneration should depend on the business performance of the company, share price and other Issuer's events.

The motivation and remuneration policy of Latvian Shipping Company does not prescribe remuneration in the form of Latvian Shipping Company's shares or share options. The motivation and remuneration policy of Latvian Shipping Company does prescribe that motivation and remuneration system of Latvian Shipping Company consists of monetary and non-monetary components, in its turn, monetary component includes fixed part and variable part, payment of which depends on the execution of the certain plans and achievement of the goals; therefore, Latvian Shipping Company partly applies this best practice provision.

- 13.3. Remuneration schemes that include Issuer's shares as remuneration may theoretically cause loss to the Issuer's existing 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.

The motivation and remuneration policy of Latvian Shipping Company does not prescribe remuneration in the form of Latvian Shipping Company's shares or share options.

Corporate governance report (*continued*)

- 13.4. When preparing the remuneration policy where a variable part is in the form of the Issuer's shares or share options, 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 motivation and remuneration policy of Latvian Shipping Company does not prescribe remuneration in the form of Latvian Shipping Company's shares or share options.

- 13.5. While drafting the remuneration policy and envisaging awarding options entitling to the Issuer's shares, the Stock Exchange rules regarding distribution of share options should be taken into account.

The motivation and remuneration policy of Latvian Shipping Company does not prescribe remuneration in the form of Latvian Shipping Company's shares or share options.

- 13.6. While setting remuneration principles with regard to Board and Council members, they should include general approach as to compensations, if any, in cases when contracts with the said officials are terminated.

The remuneration for the management and supervisory institutions of Latvian Shipping Company is determined according to the articles of association of Latvian Shipping Company and decisions of the management and supervisory institutions of Latvian Shipping Company.

14. Remuneration Report

A clear and complete report on the remuneration policy with regard to the management body members of the Issuer should be made available to the shareholders. Public disclosure of the said information would allow the existing and potential shareholders to carry out a comprehensive evaluation of the Issuer's approach the remuneration issues; consequently, the Issuer's responsible body shall draft and made public the Remuneration Report.

- 14.1. The Issuer is obliged to make public the Remuneration Report – a complete report on the remuneration policy applied to the members of the Issuer's management bodies. Remuneration Report may be a separate document, or may integrated in a special chapter of the Report prepared by the Issuer as recommended by Item 9 of the Introduction of the present Recommendations. The Remuneration Report should be posted on the Issuers website.

- 14.2. Remuneration Report should contain at least the following information:

- 1) Information as to the application of the remuneration policy to Board and Council members in the previous financial year, specifying the material changes to the Issuer's remuneration policy compared to the previous reporting period;
- 2) The proportion between the fixed and variable part of the remuneration for the respective category of officials;
- 3) Sufficient information as to linking the remuneration with performance;
- 4) Information about the Issuer's policy with regard to the contracts with the members of the Issuer's management bodies, the terms and conditions of the contracts (duration, notice deadlines about termination, including payments due in case of termination);
- 5) Information about the incentive schemes and the specifications and reasons for awarding any other benefits;
- 6) A description of any pension or early retirement schemes;
- 7) An overview of the remuneration paid to or any benefits received by each individual that has been Board or Council member in the reporting period – disclosing at least the information required in Items 14.5, 14.5 and 14.7 below.

The motivation and remuneration policy of Latvian Shipping Company does prescribes that motivation and remuneration system of Latvian Shipping Company consists of monetary and non-monetary components, in its turn, monetary component includes fixed part and variable part, payment of which depends on the execution of the certain plans and achievement of the goals; therefore, Latvian Shipping Company partly applies this best practice provision.

The information about the remuneration of the members of the Board and Council is included in the Annual report of Latvian Shipping Company. Latvian Shipping Company does not disclose information mentioned in the Clause 14.2 regarding social and economic situation in Latvia, as well as considering fact that this information is commercially sensitive.

- 14.3. To avoid overlapping of information, the Issuer, while preparing its Remuneration Report, may omit the information required in Items 14.2 1) to 7) above, provided it is a part of the Issuer's Remuneration Policy document. In such case, Remuneration Report should have a reference to the Remuneration Policy, together with an indication where it is made available.

The motivation and remuneration policy of Latvian Shipping Company is available at the office of Latvian Shipping Company.

- 14.4. If the Issuer believes that, as a result of following the provisions of Item 14.2 of these Recommendations sensitive business information might become public to the detriment of the Issuer's strategic position, the Issuer may not disclose such information and give the reasons.

See explanation for Clause 14.2.

Corporate governance report (*continued*)

- 14.5. The following remuneration and other benefits related information about each Board and Council member should be disclosed:
- 1) Total amount paid or outstanding (salary) for the year;
 - 2) Remuneration and other benefits received from any company associated with the Issuer. For the understanding of this Item, "associated undertaking" is a company according to the definition in Paragraph 1 of the Law on the Financial Instruments Market;
 - 3) Remuneration paid as profit distribution or bonus, and the reasons for awarding such remuneration;
 - 4) Compensation for fulfillment of duties in addition to the regular job responsibilities;
 - 5) Compensations and any other payments received by or to be received by Board or Council member who has left the position during the accounting period;
 - 6) Total value of any other benefits apart from those listed under Items 1) to 5) received as remuneration.

See explanation for Clause 14.2.

- 14.6. The following information should be disclosed with regard to the shares and/or share options or any other incentive schemes resulting in ownership of the Issuer's shares:
- 1) the number and holding conditions of shares or share options entitling to the Issuer's shares granted over the reporting period to the members of Issuer's management bodies;
 - 2) The number of options exercised during the reporting period, entitling to the Issuer's shares, specifying the price and the number of shares obtained, or the unit value held by the member of the Issuer's management Board in a share-related incentive scheme as at the end of the reporting year;
 - 3) The number of non-exercised options entitling to the Issuer's shares as at the end of the reporting year, the share price in the contract, expiry date and the key rules for exercising the option;
 - 4) Information changes, if any, introduced during the reporting period with regard to the provisions of the contracts on options entitling to the Issuer's shares (such as changes in the option exercising rules, change of expiry date etc.).

The motivation and remuneration policy of Latvian Shipping Company does not prescribe remuneration in the form of Latvian Shipping Company's shares or share options.

- 14.7. The following information should be disclosed with regard to savings or contributions to pension schemes of private pension funds:
- 1) the amount of contributions made by the Issuer, to the benefit of individuals, to a pension scheme or schemes, and the rules for disbursement of the pension capital;
 - 2) the participation rules, including termination of participation, to the respective pension scheme, applicable the concrete individual.

The motivation and remuneration policy of Latvian Shipping Company does not prescribe remuneration in the form of Latvian Shipping Company's shares or share options.

- 14.8. Remuneration schemes involving awarding with the Issuer's shares, share options or any other tools resulting in ownership of the Issuer's shares shall be approved by the annual general meeting of shareholders. Shareholders' meeting, while resolving on approval of the remuneration scheme, need not resolve on its application to concrete individuals.

The motivation and remuneration policy of Latvian Shipping Company does not prescribe remuneration in the form of Latvian Shipping Company's shares or share options.

Statement of Management responsibility

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, 2009, 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 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.

For and on the behalf of Management Board



Imants Sarmulis
Chairman of the Board
Joint Stock Company Latvian Shipping Company
Riga, 3 December 2010

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas kuģniecība

Report on the Financial Statements

We have audited 2009 consolidated financial statements of AS Latvijas kuģniecība and its subsidiaries ("the Group"), which are set out on pages 38 through 98 of the accompanying 2009 Annual Report and which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement and statement of comprehensive income, 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 2009, 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.

Emphasis of Matter

- (a) As described in Note 46 of the accompanying consolidated financial statements, the Group has disposed and acquired significant assets subsequent to 31 December 2009. Without qualifying our opinion we draw attention that there is uncertainty how these transactions might impact net asset value of the Group.
- (b) As at 31 December 2009 the Group's assets under construction (fleet new-builds) balance is USD 79 167 thousands. Without qualifying our opinion we draw attention that as disclosed in Note 23 to the accompanying consolidated financial statements, this balance has been tested for impairment under value-in-use method assuming that the construction will be completed under plan agreed with shipyards. As disclosed in Note 46 on subsequent events in 2010, the Group has faced difficulties to attract required financing to complete construction under initial plan. As at the date of our auditors' report the financing source has not yet been established. These circumstances indicate the existence of a material uncertainty whether the assumptions as applied in value-in-use calculation as at 31 December 2009 will come true and consequently, whether the value of assets under construction might be impaired as at or subsequent to 31 December 2009.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the shareholders of AS Latvijas Kuģniecība

Report on the Financial Statements (cont'd)


Emphasis of Matter (cont'd)

- (c) The accompanying consolidated financial statements have been prepared on a going concern basis. Without qualifying our opinion we draw attention to Note 48 of the accompanying consolidated financial statements, which indicates uncertainties regarding the conditions under significant interest bearing loan agreement entered by the Latvian Shipping Company Group. In addition, the Note depicts uncertainties in relation to the Group's real estate segment operations under out-of-court protection process. These conditions, along with the other matters as depicted in Note 48, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements do not contain any adjustments which might arise as a result of this uncertainty.

Report on Corporate Management Report

Furthermore, we have assured ourselves that the Group has prepared the corporate management report for the year 2009 (included on pages 18 through 34 of accompanying Annual Report) and verified information presented in the report according to the requirements listed in the section 56¹, Paragraph one, clauses 3, 4, 6, 8 and 9 and in the section 56² 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 Certified Auditor
Certificate No. 124

Riga, 3 December 2010

Consolidated income statement

for the year ended 31 December 2009

	Notes	2009 USD'000	2008 USD'000	2009 LVL'000	2008 LVL'000
Voyage income		196 120	252 031	99 097	120 915
Income from printing and publishing		16 823	-	8 501	-
Income from management of real estate		821	-	415	-
Rendering of services		1 504	1 254	759	602
Revenue	7	215 268	253 285	108 772	121 517
Voyage costs	8	(47 205)	(32 221)	(23 852)	(15 458)
Cost of sales	9	(145 064)	(156 453)	(73 299)	(75 062)
Gross Profit		22 999	64 611	11 621	30 997
Selling costs	10	(3 408)	-	(1 722)	-
Administrative expenses	11	(28 494)	(32 884)	(14 398)	(15 776)
Result from disposal of non-financial assets	12	1 124	45 234	568	21 702
Impairment of non-financial assets	13	(88 801)	(2 964)	(44 871)	(1 422)
Other operating income	14	576	-	291	-
Other operating expenses	15	(10 737)	-	(5 425)	-
Operating (loss)/profit		(106 741)	73 997	(53 936)	35 501
Deconsolidation of net financial liabilities	20	39 311	-	19 863	-
Finance income	17	1 506	3 689	761	1 770
Finance costs	18	(24 793)	(19 304)	(12 527)	(9 261)
(Loss)/profit before tax		(90 717)	58 382	(45 839)	28 010
Income tax	19	458	308	232	148
(Loss)/profit for the year		(90 259)	58 690	(45 607)	28 158
Attributable to:					
Equity holders of the parent		(90 259)	58 690	(45 607)	28 158
Non-controlling interests		-	-	-	-
		(90 259)	58 690	(45 607)	28 158
(Loss) or earnings per share	21	USD (0.45)	USD 0.29	USD (0.23)	USD 0.14

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

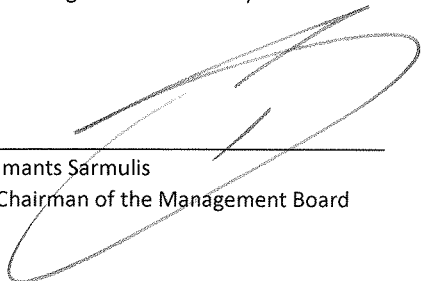
Imants Sarmulis
Chairman of the Management Board

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	2009 USD'000	2008 USD'000	2009 LVL'000	2008 LVL'000
(Loss)/profit for the year	(90 259)	58 690	(45 607)	28 158
Other comprehensive income/(expense)				
Exchange differences on translation				
of foreign operations	2 766	(170)	(453)	6 172
Net movement on cash flow hedges	932	(4 777)	485	(2 365)
Income tax effect	-	-	-	-
Other comprehensive income/(expense) for the year, net of tax	3 698	(4 947)	32	3 807
Total comprehensive (loss)/income for the year, net of tax	(86 561)	53 743	(45 575)	31 965
Attributable to:				
Equity holders of the parent	(86 561)	53 743	(45 575)	31 965
Non-controlling interests	-	-	-	-
	(86 561)	53 743	(45 575)	31 965

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

Consolidated statement of financial position

as at 31 December 2009

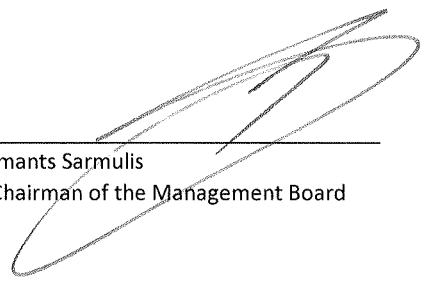
		2009	2008	2009	2008
	Notes	USD'000	USD'000	LVL'000	LVL'000
Assets					
Non-current assets					
Goodwill	22	-	16 646	-	8 240
Other intangible assets	22	863	3 721	422	1 842
Fleet	23	651 063	767 492	318 370	379 908
Other property, plant and equipment	24	11 340	81 061	5 545	40 125
Investment properties	25	123 111	149 212	60 201	73 860
Investment in associates	26	388	26	190	13
Other non-current financial assets		2 201	-	1 076	-
Total non-current assets		788 966	1 018 158	385 804	503 988
Current assets					
Inventories	29	6 194	6 707	3 029	3 320
Trade and other receivables	30	9 081	18 856	4 440	9 333
Prepayments	31	3 475	4 456	1 699	2 206
Deposits with maturity more than three months	32a	55 987	62 101	27 378	30 740
Financial assets designated at fair value through profit or loss	32b	1 319	4 028	645	1 994
Cash and short-term deposits	33	75 095	35 849	36 722	17 745
Total current assets		151 151	131 997	73 913	65 338
Assets classified as held for sale	28	24 297	-	11 881	-
Total assets		964 414	1 150 155	471 598	569 326

Consolidated statement of financial position *(continued)*

as at 31 December 2009

	Notes	2009 USD'000	2008 USD'000	2009 LVL'000	2008 LVL'000
Equity and liabilities					
Equity					
Issued capital	34	362 319	362 319	200 000	200 000
Retained earnings		105 205	195 464	55 958	101 565
Other components of equity		(12 752)	(16 450)	(33 574)	(33 606)
Equity attributable to equity holders of the parent		454 772	541 333	222 384	267 959
Non-controlling interests		-	753	-	373
Total equity		454 772	542 086	222 384	268 332
Non-current liabilities					
Interest bearing loans	35	345 912	352 078	169 151	174 279
Finance lease	36	28 571	21 314	13 971	10 550
Other non-current financial liabilities	37	706	3 492	345	1 729
Trade and other payables	40	2 534	83 954	1 239	41 557
Deferred revenue	39	-	1 062	-	526
Deferred tax liability	38	14 863	17 563	7 268	8 694
Total non-current liabilities		392 586	479 463	191 974	237 335
Current liabilities					
Trade and other payables	40	79 750	72 960	38 998	36 115
Interest bearing loans	35	29 551	39 295	14 450	19 451
Finance lease	36	1 051	7 532	514	3 728
Other current financial liabilities	37	3 139	1 285	1 535	636
Deferred revenue	39	3 565	7 534	1 743	3 729
Total current liabilities		117 056	128 606	57 240	63 659
Total equity and liabilities		964 414	1 150 155	471 598	569 326

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

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Attributable to the equity holders of the parent												Non-controlling interests	Total equity
	Issued capital		Retained earnings		Cash flow hedge reserve		Foreign currency translation reserve		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		
As at 1 January 2009	362 319	200 000	195 464	101 565	(4 777)	(2 365)	(11 673)	(31 241)	541 333	267 959	753	373	542 086	268 332
Loss for the period	-	-	(90 259)	(45 607)	-	-	-	-	(90 259)	(45 607)	-	-	(90 259)	(45 607)
Other comprehensive income/(expense)	-	-	-	-	932	485	2 766	(453)	3 698	32	-	-	3 698	32
Total comprehensive income/(expense)	-	-	(90 259)	(45 607)	932	485	2 766	(453)	(86 561)	(45 575)	-	-	(86 561)	(45 575)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(753)	(373)	(753)	(373)
At 31 December 2009	362 319	200 000	105 205	55 958	(3 845)	(1 880)	(8 907)	(31 694)	454 772	222 384	-	-	454 772	222 384

for the year ended 31 December 2008

	Attributable to the equity holders of the parent										Non-controlling interests	Total equity	
	Issued capital (Note 34)		Retained earnings		Cash flow hedge reserve		Foreign currency translation reserve		Total				
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000			
As at 1 January 2008	362 319	200 000	136 774	73 407	-	-	(11 503)	(37 413)	487 590	235 994	-	487 590	235 994
Profit for the period	-	-	58 690	28 158	-	-	-	-	58 690	28 158	-	58 690	28 158
Other comprehensive income/(expense)	-	-	-	-	(4 777)	(2 365)	(170)	6 172	(4 947)	3 807	-	(4 947)	3 807
Total comprehensive income/(expense)	-	-	58 690	28 158	(4 777)	(2 365)	(170)	6 172	53 743	31 965	-	53 743	31 965
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	753	373	753
At 31 December 2008	362 319	200 000	195 464	101 565	(4 777)	(2 365)	(11 673)	(31 241)	541 333	267 959	753	373	542 086

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

Consolidated statement of cash flows

for the year ended 31 December 2009

	2009 USD'000	2008 USD'000	2009 LVL'000	2008 LVL'000
Operating activities				
(Loss)/profit before tax	(90 717)	58 382	(45 839)	28 010
Non-cash adjustment to reconcile (loss)/profit before tax to net cash flows:				
Depreciation and impairment of other property, plant and equipment and fleet	87 221	31 599	44 072	15 160
Amortisation and impairment of intangible assets	14 542	2 964	7 348	1 422
Depreciation and impairment of investment properties	21 577	-	10 903	-
Decrease in financial instruments	(1 946)	-	(983)	-
Loss/(gain) on disposal of non-financial assets	261	(45 234)	132	(21 702)
Dry-docking deferred expenditure depreciation	3 827	6 836	1 934	3 280
Currency translation difference	(3 171)	(1 115)	(2 458)	(218)
Finance income	(1 506)	(3 850)	(761)	(1 847)
Finance costs	23 596	17 979	11 923	8 626
Movements in provisions	(673)	-	(340)	-
Working capital adjustments:				
Increase/(decrease) in trade and other receivables and prepayments	3 297	(2 599)	1 666	(1 247)
Decrease/(increase) in inventories	513	(9)	259	(4)
(Decrease)/increase in trade and other payables	(13 512)	3 448	(6 827)	1 644
Income tax paid	(4)	(8)	(2)	(4)
Net cash flows from operating activities	43 305	68 393	21 027	33 120
Investing activities				
Proceeds from sale of non-current assets	93 815	69 615	47 404	33 399
Purchase of non-current assets	(4 313)	(121 684)	(2 179)	(58 380)
Purchase of investment properties	(17 454)	-	(8 819)	-
Disposal of investment properties	2 691	-	1 360	-
Acquisition of subsidiaries	(59 544)	-	(30 088)	-
Investments in associates	(365)	-	(184)	-
Proceeds from sale of financial instruments	2 709	1 370	1 369	657
Business combinations, net of cash acquired	-	(39 480)	-	(18 931)
Placement of deposits with maturity more than three months	(887)	(14 300)	(448)	(6 861)
Interest received	2 553	3 816	1 290	1 831
Net cash flows from/(used in) investing activities	19 205	(100 663)	9 705	(48 285)
Financing activities				
Payment of finance lease liabilities	(1 110)	-	(561)	-
Proceeds from borrowings	55 567	93 330	28 077	44 776
Repayment of borrowings	(57 894)	(61 533)	(29 253)	(29 521)
Interest paid	(19 621)	(17 253)	(9 914)	(8 278)
Prepaid financing expenses	(206)	(522)	(104)	(250)
Net cash flows (used in)/from financing activities	(23 264)	14 022	(11 755)	6 727
Net increase/(decrease) in cash and cash equivalents	39 246	(18 248)	18 977	(8 438)
Cash and cash equivalents at 1 January	35 849	54 097	17 745	26 183
Cash and cash equivalents at 31 December	75 095	35 849	36 722	17 745

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 to the consolidated financial statement

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.

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 real estate projects, as well as in the publishing and printing industries.

Starting from 2010 the Group ceased its investments in the publishing and printing industries. On 18 December 2009 the insolvency procedure of JSC „Preses nams” was initiated; therefore, it is considered that the Group has lost a control over the company, and it is not consolidated as at 31 December 2009. In addition, on 8 January 2010 the Group sold its investment in SIA “Mediju nams”, investment being derecognised in 2010.

The consolidated financial statements of the Group for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Management Board on 3 December 2010.

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

2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The consolidated financial statements are presented in US dollars and Latvian lats, all values are rounded to the nearest thousand (USD'000) and (LVL'000) except when otherwise indicated.

In order to improve the comparability of the statement of comprehensive income and the statement of financial position, certain reclassifications have been made to several items of the income statement and the balance sheet for the year 2008.

2.1. 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).

2.2. Basis of consolidation

Basis of consolidation from 1 January 2009

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2009.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Notes to the consolidated financial statement (*continued*)

Basis of consolidation from 1 January 2009 (continued)

If the Group loses control over a subsidiary, it:

- ▶ Derecognises the assets (including goodwill) and liabilities of the subsidiary
- ▶ Derecognises the carrying amount of any non-controlling interest
- ▶ Derecognises the cumulative translation differences, recorded in equity
- ▶ Recognises the fair value of the consideration received
- ▶ Recognises the fair value of any investment retained
- ▶ Recognises any surplus or deficit in profit or loss
- ▶ Reclassifies the Parent's share of components previously recognised in other comprehensive income to profit or loss.

Basis of consolidation prior to 1 January 2009

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- ▶ Non-controlling interests represented the portion of profit or loss and net assets that were not held by the Group and were presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity. Acquisitions of non-controlling interests were 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 were recognised in goodwill.
- ▶ Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the Parent, unless the non-controlling interest had a binding obligation to cover these.
- ▶ Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

2.3. Changes in accounting policy and disclosures

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 as of 1 January 2009:

- ▶ IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations* effective 1 January 2009
- ▶ IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010 (early adopted)
- ▶ IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- ▶ IFRS 7 *Financial Instruments: Disclosures* effective 1 January 2009
- ▶ IFRS 8 *Operating Segments* effective 1 January 2009
- ▶ IAS 1 *Presentation of Financial Statements* effective 1 January 2009
- ▶ IAS 23 *Borrowing Costs (Revised)* effective 1 January 2009
- ▶ IAS 32 *Financial Instruments: Presentation* and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation* effective 1 January 2009
- ▶ IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- ▶ (IFRIC 9 *Remeasurement of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* effective for periods ending on or after 30 June 2009)
- ▶ IFRIC 13 *Customer Loyalty Programmes* effective 1 July 2008
- ▶ IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* effective 1 October 2008
- ▶ IFRIC 18 *Transfers of Assets from Customers* effective 1 July 2009 (early adopted)
- ▶ IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction effective 1 January 2009
- ▶ IFRIC 15 – Agreement for the construction of Real Estate effective 1 January 2009
- ▶ Improvements to IFRSs (May 2008)
- ▶ Improvements to IFRSs (April 2009 (early adopted))

Notes to the consolidated financial statement (*continued*)

Changes in accounting policy and disclosures (*continued*)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)*

The Group adopted the revised IFRS 3 from 1 January 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. 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. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IFRS 7 *Financial Instruments: Disclosures*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 27. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 45.

IFRS 8 *Operating Segments*

IFRS 8 replaced IAS 14 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 7, including the related revised comparative information.

IAS 1 *Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 *Borrowing Costs*

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. During the 12 months to 31 December 2009, no borrowing costs have been capitalised because there were no qualifying assets.

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued 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 adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Notes to the consolidated financial statement (*continued*)

Changes in accounting policy and disclosures (*continued*)

► **IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*:** clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

► **IFRS 8 *Operating Segment Information*:** clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 7.

► **IAS 1 *Presentation of Financial Statements*:** Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

► **IAS 7 *Statement of Cash Flows*:** Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

► **IAS 16 *Property, Plant and Equipment*:** Replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

► **IAS 18 *Revenue*:** The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

- Has primary responsibility for providing the goods or service
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

► **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. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

► **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'. This amendment had no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its material cash generating units is currently estimated using 'value in use'.

The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

► **IAS 38 *Intangible Assets*:** Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

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. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

The Group has made voluntary change in accounting policies regarding and presentation of consolidated income statement and related notes. The adjusted presentation is due to new facts and circumstances as a result of business combinations in the end of 2008.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

► **IFRS 2 *Share-based Payment***

Notes to the consolidated financial statement *(continued)*

Changes in accounting policy and disclosures *(continued)*

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Error*
- IAS 10 *Events after the Reporting Period*
- IAS 19 *Employee Benefits*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 28 *Investments in Associates*
- IAS 31 *Interest in Joint Ventures*
- IAS 34 *Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IAS 40 *Investment Properties*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

2.4. Summary of significant accounting policies

a) Foreign currency translation

The financial statements are prepared in U.S. dollars which is the functional currency of the primary (shipping) business and the Group and Latvian Lats (LVL) which is the presentation currency of the Group in accordance with legislation of the Republic of Latvia. Functional currency of non-primary businesses is Latvian Lats (LVL), which is translated to the Group's functional currency as described below.

Monetary assets and liabilities of the Group entities 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.

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 other comprehensive income. 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.

Presentation of financial statements in LVL is done using exchange rate set by the Bank of Latvia (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 other comprehensive income statement.

LB rate of exchange as at 31.12.2009 US \$/LVL - 0.489 (average – 0.505290)

LB rate of exchange as at 31.12.2008 US \$/LVL - 0.495 (average – 0.479762)

b) Business combinations and goodwill

Business combinations from 1 January 2009

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Notes to the consolidated financial statement (*continued*)

Business combinations and goodwill (*continued*)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 31 December 2008

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

c) Investment in an associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

Notes to the consolidated financial statement (*continued*)

d) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

e) Revenue recognition

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. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

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.

Rendering of services

Revenue from the rendering of services is recognized when service is provided.

Interest income

For all financial instruments measured at amortised cost interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Dividends

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

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

f) 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.

Notes to the consolidated financial statement (*continued*)

g) 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 reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ▶ Where the deferred 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
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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 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 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
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries and associates and deferred 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 tax assets is reviewed at each reporting 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred 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 sales tax except:

- ▶ Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales 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 sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Notes to the consolidated financial statement (*continued*)

h) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in the income statement.

The Group evaluated its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

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, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Notes to the consolidated financial statement (*continued*)

Financial assets (*continued*)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

i) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When 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.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 27.

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 foreign 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.

Notes to the consolidated financial statement (*continued*)

Financial liabilities (*continued*)

Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- ▶ Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk);
- ▶ Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment;
- ▶ Hedges of a net investment in a foreign operation.

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 effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or 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.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in finance costs.

Amounts recognised as other comprehensive income 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 recognised as other comprehensive income 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, the cumulative gain or loss 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, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

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.

j) 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 (2008: 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.

Notes to the consolidated financial statement (*continued*)

Fleet (*continued*)

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.

k) Other property, plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

Land and buildings are measured at cost less accumulated depreciation on buildings and impairment losses recognised.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

▶ Buildings	1,25 to 20 % per annum
▶ Machinery and equipment	5 to 33,33% per annum
▶ Other assets	14,29 to 50% per annum

An item of property, plant and equipment and any significant part initially recognised 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 when the asset is derecognised.

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

l) 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.

Notes to the consolidated financial statement (*continued*)

Intangible assets (*continued*)

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 from acquisition date.

m) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether 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.

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 commencement 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 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 recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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.

n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

o) Investment properties

Investment properties are measured initially 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. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment. 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.

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.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

p) Inventories

Inventories are valued at the lower of cost and net realisable value.

Raw material costs incurred in bringing each product to its present location and condition are accounted at purchase cost on a first in, first out basis.

Notes to the consolidated financial statement (*continued*)

Inventories (*continued*)

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

q) 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 (CGU) 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 CGU 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, quoted share prices for publicly traded subsidiaries 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. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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

Goodwill

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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 basis 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 valuers 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: for 2010 the Group has used its budgeted time charter rates; for 2011 and 2012 the Group has used time charter rates from DnB NOR Markets forecasts, which have also been used for the following years without any changes; operating costs are planned at the current level; discount rate applied is 6.6%; and the scrap value applied is US \$ 300 per light weight ton.

r) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Notes to the consolidated financial statement (*continued*)

s) Provisions

General

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, for example under an insurance contract, 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 of 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. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of:

- ▶ the amount that would be recognised in accordance with the general guidance for provisions above (IAS 37); or
- ▶ the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition (IAS 18).

3. Significant accounting judgments, estimates and assumptions

Judgments

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

On 18 December 2009, the insolvency procedure of JSC „Preses nams" was initiated; therefore, it is considered that the Group has lost a control over the company, and it is not consolidated.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 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 valuers 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.

Notes to the consolidated financial statement (*continued*)

Significant accounting judgments, estimates and assumptions (*continued*)

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Notes 23 and 24.

Determination of recoverable value of investment property

For identification of recoverable value of investment properties the Group engaged independent certified valuation specialists. The valuer used a weighted proportion of valuation technique based on a discounted cash flow model and a comparable market data. The determined recoverable value of the investment properties is the most sensitive to the estimated rent rates, discount rates as well as other assumptions applied. The key assumptions used to determine recoverable value of the investment property, including a sensitivity analysis, are further explained in Note 25.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below.

Amendment to IFRS 2 Share-based Payment

Effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. 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. 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 27R 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 9 Financial Instruments

Effective for financial years beginning on or after 1 January 2013, once adopted by the EU. IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 24 Related Party Disclosures

Effective for financial years beginning on or after 1 January 2011, once adopted by the EU. The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

Notes to the consolidated financial statement (*continued*)

Standards issued but not yet effective (*continued*)

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

Effective for financial years beginning on or after 1 February 2010. The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have 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.

Other amendments resulting from Improvements to IFRSs to the following standards will not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 Share-based Payment;
- IAS 1 Presentation of Financial Statements;
- IAS 17 Leases;
- IAS 38 Intangible Assets;
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRIC 9 Reassessment of Embedded Derivatives;
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

IFRIC 12 Service Concession Arrangements

Effective for financial years beginning on or after 29 March 2009. 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.

Amendment to 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 2011, once adopted by the EU. The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

IFRIC 17 Distributions of Non-cash Assets to Owners

Effective for financial years beginning on or after 31 October 2009. 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.

IFRIC 18 Transfers of Assets from Customers

Effective for financial years beginning on or after 31 October 2009. The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the consolidated financial statements because the Group does not have such agreements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Effective for financial years beginning on or after 1 April 2010, once adopted by the EU. The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

5. Business combinations

Acquisition of asset group in 2008

On 17 December 2008 the Group signed purchase agreements to acquire assets from related party (*see also Note 43*) 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.

Notes to the consolidated financial statement (*continued*)

5. Business combinations (*continued*)

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 year 2008 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 25.

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.

Acquisition of asset group in 2010

The Group acquired 100% of share capital of SIA Nafta Investment on 21 May 2010 for the US \$ 27.6 million. In accordance with independent valuator's valuation report value of the company's share capital as at 31 December 2009 is US \$ 27.6 million. There is no goodwill arising from the transaction.

Notes to the consolidated financial statement *(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 24)	70 255	34 776	69 131	34 220
Investment property (Note 25)	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 22)	182	90	182	90
Intangibles arising on acquisition (Note 22)	3 024	1 497	-	-
Goodwill arising on acquisition (Note 22)	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 38)	(1 192)	(591)	(1 192)	(591)
Deferred income tax liability arising on acquisition (Note 38)	(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 assets 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 15 and Note 22)	2 873	1 422		
Total consideration	167 668	82 995		
Cash outflow on acquisition				
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 43)	128 769	63 740		
Consolidation stage adjustment (exchange difference)	(1 237)	-		

Notes to the consolidated financial statement *(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	Intermediate Holding company
Latgale Shipping Co. Ltd.	Malta	Dormant
Latmar Shipping Co. Ltd.	Cyprus	Dormant
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Lattanker Holdings Corporation	Liberia	Intermediate 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	Intermediate holding company
Renda Maritime Co. Ltd.	Cyprus	Dormant
Rhodos Shipping Co. Ltd.	Cyprus	Dormant
Rundale Shipping Co.	Cyprus	Dormant
Sagewood Trading Inc.	Liberia	Dormant
Samburga Shipping Co.	Cyprus	Dormant
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 statement *(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	Dormant
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 Shipping 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 statement (*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	Dormant
Griva Maritime Corporation	Liberia	Dormant
Kasira Shipping Company Ltd.	Cyprus	Dormant
Kemeri Navigation Corporation	Liberia	Dormant
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	Dormant
Ringmare Shipping Company Ltd.	Cyprus	In liquidation
Rosewood Shipping Corporation	Liberia	Dormant
Ventspils Shipping Company Ltd.	Cyprus	Dormant
Crown Navigation Inc.	Marshall Islands	Holding company in liquidation process
LSC Holdings Ltd	Isle of Man	Holding company

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 Marshall Islands) to LSC Holdings Ltd during 2008. 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

Notes to the consolidated financial statement *(continued)*

6. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
Latvian Shipping Corporation	Liberia	Holding company
Razna Shipping Corporation	Liberia	Dormant
Taganroga Shipping Corporation	Liberia	Dormant
Michelle Finance Corporation	Liberia	Investment company (dormant)
Kristaps Insurance Ltd.	Bermuda	Insurance
Santomar Holdings Co. Ltd.	Cyprus	Investment Holding Company (dormant)
SIA LSC Marine Training	Latvia	Seafarers Training Services
SIA LSC Shipmanagement	Latvia	Ship management
SIA Jūras Servisa Centrs	Latvia	Consulting
SIA Ostas Serviss ⁴	Latvia	In liquidation
SIA Karavella Property ²	Latvia	Real estate maintenance
SIA LASCO investment (former SIA Kuģu menedžments)	Latvia	Holding company
<i>Subsidiaries of SIA LASCO Investment</i>		
A/s Preses nams (95.39%) ³	Latvia	Printing services
SIA Mediju nams ¹	Latvia	Publishing services
SIA LASCO Nekustamie īpašumi (former SIA Nekustamie īpašumi VN)	Latvia	Holding company
SIA Rīgas līcis (former SIA Rīgas līcis VN)	Latvia	Real estate management
<i>Subsidiary of JSC Preses nams</i>		
OOO Preses nams	Russia	Printing services
<i>Subsidiaries of SIA Mediju nams</i>		
SIA 4.vara (50.05%)	Latvia	Internet portal administration
SIA F/64 Photo agency (51.05%)	Latvia	Foto and video services
<i>Subsidiaries of SIA LASCO Nekustamie īpašumi</i>		
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 Lejastiežumi	Latvija	Real estate

On 14 December 2009 SIA Latvian – Finnish Maritime Agency was liquidated.

Note:

1) SIA LASCO investment acquired 4.37% of SIA Mediju nams in 9 April 2009 from A/s Preses nams. As such, The Group's ownership share is 100% of SIA Mediju nams as at the end of the reporting year. On 8 January 2010 all SIA Mediju nams shares were sold.

2) On 13 August 2009 Group's parent company sold shares of SIA Karavella Property.

3) On 18 December 2009 the insolvency procedure of A/s Preses nams was initiated. Loss of control was recognised in 2009 and investment was deconsolidated as at 31 December 2009.

4) In February 2010 SIA Ostas serviss was liquidated.

Notes to the consolidated financial statement (*continued*)

7. Segment information

For management purposes the Group is organised into business units based on their business activities and has two reportable operating segments.

As a result of business combinations at the end of 2008 the Group has acquired (in addition to the fleet segment) another segment in alternative non-shipping related investment sectors. Thus, at 31 December 2009 the Group had two reportable operating segments: *Shipping* and *Other*. Other reportable segment aggregates real estate and media and publishing operating segments.

The Group carries out its shipping operations in global markets. However, given the known difficulties in identifying the geographical distribution of exact Group's activities, detailed business geographic segmentation is not presented.

The Group's revenue from primary operations are mainly generated world-wide, while revenue from non-primary operations mainly are generated in Latvia.

The Group's assets are allocated to geographical segment based on legal ownership. Shipping operating segment assets and liabilities are allocated world-wide while Other operating segment assets and liabilities are allocated to Latvia.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following tables present the breakdown of income statement items, as well as assets and liabilities by operating segments :

Notes to the consolidated financial statement (continued)

7. Segment information (continued)

Year ended 31 December 2009

	Shipping		Other		Adjustments and eliminations		Total	
	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000
External customers	197 257	99 671	18 011	9 101	-	-	215 268	108 772
Inter-segment	281	143	1 416	715	(1 697)	(858)	-	-
Revenue	197 538	99 814	19 427	9 816	(1 697)	(858)	215 268	108 772
Cost of sales	(137 252)	(69 352)	(18 939)	(9 570)	516	261	(155 675)	(78 661)
Selling costs	(1)	-	(3 357)	(1 697)	6	3	(3 352)	(1 694)
Administrative expenses	(19 080)	(9 641)	(8 082)	(4 082)	385	194	(26 777)	(13 529)
Result from disposal of non-financial assets	2 256	1 140	(1 132)	(572)	-	-	1 124	568
Depreciation and amortisation	(33 754)	(17 056)	(4 613)	(2 331)	-	-	(38 367)	(19 387)
Impairment of non-financial assets	(7 485)	(3 782)	(81 316)	(41 089)	-	-	(88 801)	(44 871)
Other operating income	576	291	-	-	-	-	576	291
Other operating expenses	(10 883)	(5 500)	(644)	(325)	790	400	(10 737)	(5 425)
Result before financial items	(8 085)	(4 086)	(98 656)	(49 850)	-	-	(106 741)	(53 936)
Financial income	2 405	1 215	47	24	(946)	(478)	1 506	761
Financial expense	(12 596)	(6 364)	(8 776)	(4 434)	(3 421)	(1 729)	(24 793)	(12 527)
Deconsolidation of net financial liabilities	-	-	39 311	19 863	-	-	39 311	19 863
Income tax	(510)	(258)	968	490	-	-	458	232
Segment Result	(18 786)	(9 493)	(67 106)	(33 907)	(4 367)	(2 207)	(90 259)	(45 607)
Segment assets	890 847	435 624	129 998	63 569	(56 431)	(27 595)	964 414	471 598
Segment liabilities	404 454	197 778	161 619	79 031	(56 431)	(27 595)	509 642	249 214

Adjustments and eliminations represent consolidation entries (intercompany equity holdings, outstanding balances and transactions).

Notes to the consolidated financial statement (continued)

7. Segment information (continued)

Year ended 31 December 2008

	Shipping		Other		Total	
	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000
External customers						
Revenue	252 031	120 915	-	-	252 031	120 915
Cost of sales	252 031	120 915	-	-	252 031	120 915
Administrative expenses	(158 355)	(75 974)	-	-	(158 355)	(75 974)
Result from disposal of non-financial assets	(32 884)	(15 776)	-	-	(32 884)	(15 776)
	45 234	21 702	-	-	45 234	21 702
Depreciation and amortisation	(30 319)	(14 546)	-	-	(30 319)	(14 546)
Other operating income	1 254	602	-	-	1 254	602
Other operating expenses	(2 964)	(1 422)	-	-	(2 964)	(1 422)
Result before financial items	73 997	35 501	-	-	73 997	35 501
Financial income	3 689	1 770	-	-	3 689	1 770
Financial expense	(19 304)	(9 261)	-	-	(19 304)	(9 261)
Income tax	308	148	-	-	308	148
Segment Result	58 690	28 158	-	-	58 690	28 158
Segment assets	900 793	445 892	249 362	123 434	1 150 155	569 326
Segment liabilities	398 082	197 050	209 987	103 944	608 069	300 994

Notes to the consolidated financial statement *(continued)*

8. Voyage costs

	USD '000		LVL '000	
	2009	2008	2009	2008
Bunkering	(28 782)	(20 467)	(14 543)	(9 819)
Port expenses	(10 926)	(5 463)	(5 521)	(2 621)
Commission	(5 671)	(6 291)	(2 865)	(3 018)
Allowance for doubtful debts	(1 826)	-	(923)	-
Total	(47 205)	(32 221)	(23 852)	(15 458)

Significant increase in bunkering and port costs accounts for change in type of vessels' employment.

9. Cost of sales

	USD '000		LVL '000	
	2009	2008	2009	2008
Crew expenses (See Note 16)	(32 848)	(38 665)	(16 598)	(18 550)
Fleet depreciation	(28 863)	(30 319)	(14 584)	(14 546)
Chartering expenses	(25 453)	(22 413)	(12 861)	(10 753)
Staff costs (See Note 16)	(10 182)	-	(5 146)	-
Materials and services	(8 901)	-	(4 497)	-
Repairs and spares	(8 392)	(25 966)	(4 240)	(12 458)
Insurance	(8 101)	(9 663)	(4 093)	(4 636)
Equipment maintenance expenses	(4 847)	(7 984)	(2 449)	(3 830)
Luboil	(4 136)	(4 564)	(2 090)	(2 190)
Depreciation and amortisation of other assets	(3 903)	-	(1 972)	-
Dry-docking	(3 827)	(6 836)	(1 934)	(3 280)
Occupation and repairs	(2 656)	-	(1 342)	-
Provisions	(2 067)	(2 194)	(1 044)	(1 053)
Other operating expenses	(244)	(7 780)	(123)	(3 733)
Travel and transport	(212)	-	(107)	-
Communication	(145)	-	(73)	-
Management fee	-	(69)	-	(33)
Other costs of sales	(287)	-	(146)	-
Total	(145 064)	(156 453)	(73 299)	(75 062)

10. Selling costs

	USD '000		LVL '000	
	2009	2008	2009	2008
Staff costs (See Note 16)	(1 211)	-	(612)	-
Delivery expenses	(1 148)	-	(580)	-
Advertising and marketing	(538)	-	(272)	-
Occupation expenses	(148)	-	(74)	-
Depreciation of other non-financial assets	(56)	-	(28)	-
Other selling costs	(307)	-	(156)	-
Total	(3 408)	-	(1 722)	-

Notes to the consolidated financial statement *(continued)*

11. Administrative expenses

	USD '000		LVL '000	
	2009	2008	2009	2008
Staff costs <i>(see Note 16)</i>	(11 444)	(19 167)	(5 783)	(9 196)
Professional fees	(6 745)	(6 026)	(3 408)	(2 891)
Other administration expenses	(5 486)	(2 271)	(2 771)	(1 089)
Depreciation	(1 718)	(1 280)	(868)	(614)
Travel and transport	(857)	(1 012)	(433)	(486)
Occupation and repairs	(824)	(1 199)	(417)	(575)
Advertising and marketing	(568)	(1 944)	(287)	(933)
IT and communication	(463)	(484)	(234)	(232)
Real estate tax	(389)	(96)	(197)	(46)
Movements in provisions	-	595	-	286
Total	(28 494)	(32 884)	(14 398)	(15 776)

12. Result from disposal of non-financial assets

	USD '000		LVL '000	
	2009	2008	2009	2008
Result from disposal of fleet <i>(See also Note 23)</i>	557	45 234	281	21 702
Result from disposal of other property, plant and equipment	(818)	-	(413)	-
Result from disposal of investment properties	1 385	-	700	-
Total	1 124	45 234	568	21 702

13. Impairment of non-financial assets

	USD '000		LVL '000	
	2009	2008	2009	2008
Impairment of property, plant and equipment <i>(See Note 24)</i>	(41 654)	-	(21 047)	-
Impairment of investment property <i>(See also Note 25)</i>	(23 958)	-	(12 106)	-
Goodwill impairment, net <i>(See also Note 22)</i>	(13 977)	(2 964)	(7 063)	(1 422)
Impairment of assets clasified as held for sale <i>(See Note 23)</i>	(6 243)	-	(3 155)	-
Other intangible asset impairment <i>(See also Note 22)</i>	(2 785)	-	(1 407)	-
Impairment of stock	(184)	-	(93)	-
Total	(88 801)	(2 964)	(44 871)	(1 422)

14. Other operating income

	USD '000		LVL '000	
	2009	2008	2009	2008
Result from liquidation of subsidiaries	576	-	291	-
Total	576	-	291	-

Notes to the consolidated financial statement *(continued)*

15. Other operating expenses

	USD '000		LVL '000	
	2009	2008	2009	2008
Impairment of loans and receivables	(10 478)	-	(5 294)	-
Other operating expenses	(259)	-	(131)	-
Total	(10 737)	-	(5 425)	-

Impairment of loans and receivables in 2009 mainly relates to impairment of loan issued to AS Preses nams.

16. Employment costs and staff numbers

	USD '000		LVL '000	
	2009	2008	2009	2008
Wages and salaries, included in				
- cost of sales	35 711	36 093	18 044	17 316
- selling costs	900	-	455	-
- administrative expenses	9 150	13 217	4 624	6 341
Social security costs, included in				
- cost of sales	1 792	861	905	413
- selling costs	216	-	109	-
- administrative expenses	2 166	1 165	1 094	559
Other staff costs				
- cost of sales	5 527	1 711	2 795	821
- selling costs	95	-	48	-
- administrative expenses	128	4 785	65	2 296
Total	55 685	57 832	28 139	27 746

The number of the Group's employees as at 31 December 2009 was 898 (2008 – 1 680).

17. Finance income

	USD '000		LVL '000	
	2009	2008	2009	2008
Interest income from bank account balances and deposits	1 264	3 511	639	1 685
Fair value changes in financial assets designated at fair value through profit or loss, net	242	178	122	85
Total financial income	1 506	3 689	761	1 770
Of which: from financial instruments relating to financial instrument categories (according to IAS 39):				
Loans and receivables	1 264	3 511	639	1 685
Financial assets designated at fair value through profit or loss	242	178	122	85
Total	1 506	3 689	761	1 770

Notes to the consolidated financial statement *(continued)*

18. Finance costs

	USD '000		LVL '000	
	2009	2008	2009	2008
Interest expense	(23 596)	(17 979)	(11 923)	(8 626)
Bank charges	(802)	(692)	(405)	(332)
Mortgage insurance fees	(143)	(167)	(72)	(80)
Currency exchange transactions/difference, net	(252)	(466)	(127)	(223)
Total financial costs	(24 793)	(19 304)	(12 527)	(9 261)
Of which: from financial instruments relating to financial instrument categories:				
Financial liabilities measured at amortised cost	(23 596)	(17 979)	(11 923)	(8 626)
Total	(23 596)	(17 979)	(11 923)	(8 626)

19. Corporate income tax

The major components of income tax expense for the years ended 31 December 2009 and 2008 are:

	USD '000		LVL '000	
	2009	2008	2009	2008
Current income tax:				
Current income tax charge	-	(4)	-	(6)
Deferred tax:				
Relating to origination and reversal of temporary differences	458	312	232	154
Income tax expense reported in the income statement	458	308	232	148

Reconciliation between tax expense and accounting (loss)/profit multiplied by the statutory income tax rate for the years ended 31 December 2009 and 2008 is as follows:

	USD '000		LVL '000	
	2009	2008	2009	2008
Accounting (loss)/profit before income tax	(90 717)	58 382	(45 839)	28 010
At statutory income tax rate of 15%	(13 608)	8 757	(6 876)	4 202
Non-deductible income/expense for tax purposes	8 088	(2 924)	4 086	(1 403)
Changes in not recognised deferred tax asset	5 062	(6 141)	2 558	(2 947)
Income tax expense	(458)	(308)	(232)	(148)

Corporate income tax is payable in Latvia at a rate of 15% on the results of Latvian companies for the year, as adjusted in accordance with local fiscal regulations.

Notes to the consolidated financial statement *(continued)*

20. Deconsolidation of net financial liabilities

On 18 December 2009 the insolvency procedure of JSC Preses nams was initiated; therefore, it is considered that the Group has lost a control over the company, and it is deconsolidated as at 31 December 2009.

On deconsolidation assets and liabilities of JSC Preses nams were derecognised as presented below, resulting in recognition of gain from deconsolidation of net financial liabilities of US \$ 39.31 million (LVL 19.86 million).

	USD '000		LVL '000	
	2009	2008	2009	2008
Goodwill	604	-	305	-
Non-current assets excluding goodwill	15 811	-	7 989	-
Current assets	1 811	-	915	-
Total deconsolidated assets	18 226	-	9 209	-
Non-controlling interest	(735)	-	(371)	-
Deferred corporate income tax	(604)	-	(305)	-
Liabilities	(56 198)	-	(28 396)	-
Total deconsolidated liabilities	(57 537)	-	(29 072)	-
Gain on deconsolidation of net financial liabilities	39 311	-	19 863	-

2009 results of JSC Preses nams operations until loss of control are consolidated line by line within the Group's income statement as presented below:

	USD '000		LVL '000	
	2009	2008	2009	2008
Net sales	13 760	-	6 953	-
Cost of sales	(16 782)	-	(8 480)	-
Gross profit	(3 022)	-	(1 527)	-
Selling costs	(817)	-	(413)	-
Administrative expenses	(5 595)	-	(2 827)	-
Result from disposal of non-financial assets	(1 106)	-	(559)	-
Impairment of non-financial assets	(37 450)	-	(18 923)	-
Other operating expenses	(693)	-	(350)	-
Operating profit	(48 683)	-	(24 599)	-
Finance income	65	-	33	-
Finance costs	(2 256)	-	(1 140)	-
Profit before tax	(50 874)	-	(25 706)	-
Deffred income tax	968	-	489	-
Net loss for the reporting period until loss of control	(49 906)	-	(25 217)	-

21. Earnings per share

Basic earnings per share 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.

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

	2009	2008	2009	2008
Net (loss)/profit for the year attributable to shareholders (USD'000/LVL'000)	(90 259)	58 690	(45 607)	28 158
Weighted average number of ordinary shares in issue (thousands)	200 000	200 000	200 000	200 000
Basic (loss)/earnings per share (USD/LVL)	(0.45)	0.29	(0.23)	0.14

Notes to the consolidated financial statement (continued)

22. 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 2008	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
Additions	593	300	-	-	-	-	-	-	593	300
Disposals	(80)	(41)	(55)	(28)	-	-	(2 963)	(1 497)	(3 098)	(1 566)
Reclassification	15	7	(15)	(7)	-	-	-	-	-	-
Exchange differences	33	-	(1)	-	239	-	(61)	-	210	-
At 31 December 2009	1 862	910	-	-	19 758	9 662	65	32	21 685	10 604
Amortisation and impairment										
At 1 January 2008	480	232	-	-	-	-	-	-	480	232
Amortisation	187	90	-	-	-	-	-	-	390	187
Disposals	(110)	(53)	-	-	-	-	-	-	(110)	(53)
Impairment (Note 13)	-	-	-	-	2 964	1 422	-	-	2 964	1 422
Exchange differences	(20)	-	-	-	(91)	-	-	-	(111)	-
At 31 December 2008	740	366	-	-	2 873	1 422	-	-	3 613	1 788
Amortisation	386	195	-	-	-	-	178	90	564	285
Impairment	-	-	-	-	16 307	8 240	2 785	1 407	19 092	9 647
Disposals	(81)	(41)	-	-	-	-	(2 963)	(1 497)	(3 044)	(1 538)
Exchange differences	19	-	-	-	578	-	-	-	597	-
At 31 December 2009	1 064	520	-	-	19 758	9 662	-	-	20 822	10 182
Net book value:										
At 31 December 2008	561	278	71	35	16 646	8 240	3 089	1 529	20 367	10 082
At 31 December 2009	798	390	-	-	-	-	65	32	863	422

Net impairment of goodwill represented in Note 13 in the amount of US \$ 13.977 million (LVL7.063 million) as at 31 December 2009 includes deferred tax impact in the amount of US \$ 2.33 million (LVL 1.177 million).

At the financial year end the Group assessed recoverable values of cash generating units and recognized impairment that was primarily attributed to goodwill net of deferred tax that was generated as a result of business combinations in 2008. *Please see also Notes 24 and 25.*

Disposals in 2009 include effect of deconsolidation of JSC Preses nams due to loss of control. *Please see also Note 20.*

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Notes to the consolidated financial statement (continued)

23. Fleet

Cost	Vessels		Capitalised dry dock expenses		Total fleet in use		Newbuildings under construction		Total fleet	
	USD'000	LVI'000	USD'000	LVI'000	USD'000	LVI'000	USD'000	LVI'000	USD'000	LVI'000
At 1 January 2008	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	-	10 657	-	29	-	10 686	-	831	-	11 517
At 31 December 2008	958 622	474 516	19 767	9 785	978 389	484 301	74 366	36 812	1 052 755	521 113
Additions	-	-	2 857	1 444	2 857	1 444	4 801	2 425	7 658	3 869
Disposals	(150 406)	(75 998)	(12 154)	(6 141)	(162 560)	(82 139)	-	-	(162 560)	(82 139)
Reclassification	(119 102)	(60 181)	(3 261)	(1 648)	(122 363)	(61 829)	-	-	(122 363)	(61 829)
Exchange differences	-	(1 362)	(39)	67	(39)	(1 295)	-	(523)	(39)	(1 818)
At 31 December 2009	689 114	336 975	7 170	3 507	696 284	340 482	79 167	38 714	775 451	379 196
Depreciation										
At 1 January 2008	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	-	(26)	-	2 823	-	-	-	2 823
At 31 December 2008	271 503	134 394	13 760	6 811	285 263	141 205	-	-	285 263	141 205
Depreciation	28 863	14 584	3 827	1 934	32 690	16 518	-	-	32 690	16 518
Disposals	(89 520)	(45 234)	(11 754)	(5 939)	(101 274)	(51 173)	-	-	(101 274)	(51 173)
Reclassification to assets held for sale	(91 131)	(46 048)	(1 107)	(559)	(92 238)	(46 607)	-	-	(92 238)	(46 607)
Exchange differences	-	844	(53)	39	(53)	883	-	-	(53)	883
At 31 December 2009	119 715	58 540	4 673	2 286	124 388	60 826	-	-	124 388	60 826
Net book value:										
At 31 December 2008	687 119	340 122	6 007	2 974	693 126	343 096	74 366	36 812	767 492	379 908
At 31 December 2009	569 399	278 435	2 497	1 221	571 896	279 656	79 167	38 714	651 063	318 370

As at 31 December 2009 the net book value of vessels under the finance lease was US \$ 29.3 million (31.12.2008: 0). The finance lease is secured by pledges on vessels acquired.

Notes to the consolidated financial statement (*continued*)

23. Fleet (*continued*)

In year 2009 the Group sold 8 vessels with total deadweight 139,5 thousand tons, i.e. 5 tankers: m.t. Samburga - built 1976 (17 200 DWT), m.t. Rundale – 1977 (17 025 DWT), m.t. Z.Griva – 1985 (17 585 DWT), m.t. Kemerī – 1985 (17 610 DWT), m.t. Dzintari – 1985 (17 585 DWT), 2 gas carriers: m.t. Kurzeme – 1997 (23 469 DWT) and m.t. Vidzeme – 1997 (23 479 DWT) and one dry cargo vessel Telo – 1983 (5 500 DWT) resulting in gain of US \$ 556.8 thousands.

Part of the fleet with the net book value of US \$ 569.5 million (2008 – US \$ 549.4 million) has been used as security for long term bank loans. See Note 35 for details.

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

	<u>2009</u>	<u>2008</u>
Tankers	26	31
LPG carriers	-	2
Dry cargo vessel	-	1
Total	<u>26</u>	<u>34</u>

The Group operates also 3 tankers chartered in from other ship owners, at the end of reporting year - 2. As a result total number of vessels operated by the Group as at 31 December 2009 is 28.

At 31 December 2009 the Group's own fleet comprises:

	<u>Year of Building</u>	<u>DWT</u>
Product Tankers:		
1 Ainaži	2008	52 606
2 Ance	2006	52 622
3 Estere*	1989	28 557
4 Indra	1994	33 115
5 Inga*	1990	28 637
6 Jurkalne	2006	52 622
7 Kaltene	2003	37 261
8 Kandava	2007	37 258
9 Kazdanga	2007	37 312
10 Kolka	2003	37 211
11 Kraslava	2007	37 258
12 Kr.Valdemars	2007	37 266
13 Kuldīga	2003	37 237
14 Mar*	1990	28 637
15 Ojars Vacietis	1985	16 341
16 Piltene	2007	52 648
17 Pumpuri*	1987	28 537
18 Puze	2006	52 622
19 Rīga	2001	68 467
20 Salacgrīva	2008	52 620
21 Targale	2007	52 622
22 Ugale	2007	52 642
23 Usma	2007	52 684
24 Uža va	2008	52 650
25 Zoja 1*	1988	28 557
26 Zoja 2*	1989	28 557
Total DWT		<u>1 076 546</u>

*reclassified as assets held for sale. See Note 28.

Notes to the consolidated financial statement *(continued)*

23. Fleet *(continued)*

As at 31 December 2009 assets held for sale are stated at market value which comprises US \$ 24.3 million. In 2009, impairment of assets held for sale is charged to profit and loss in amount of US \$ 6.2 million (*See Note 13*).

The remaining fleet is recognised in the balance sheet in the amount of US \$ 571.9 million (2008: US \$ 693 million). The fleet is tested for impairment annually.

The recoverable value of fleet is determined by using different approaches for two segments of vessels:

- fleet held for sale, for which recoverable amount constitutes fair value less cost to sell, and
- operating fleet, for which recoverable amount constitutes the value in use.

Fair value less cost to sell is determined for each vessel individually based on valuations carried out by two independent valuers.

Value in use is determined for each vessel individually based on discounted cash flow projections. The key assumptions used as of 31 December 2009 are as follows: for 2010 the Group has used its budgeted time charter rates; for 2011 and 2012 the Group has used time charter rates from DnB NOR Markets forecasts, which have also been used for the following years without any changes; operating costs are planned at the current level; discount rate applied is 6.6%; and the scrap value applied is US \$ 300 per light weight ton.

Sensitivity to changes in assumptions

With regard to the assessment of recoverable value of total fleet in use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of total fleet in use to materially exceed its recoverable value.

For the newbuildings under construction, the estimated recoverable value is close to its carrying value and, consequently, any adverse change in a key assumption would result in impairment loss.

The following individual change in key assumptions would make recoverable amount approximate its carrying amount as at 31 December 2009:

- Decrease in time charter rates by US \$ 1000 per day.
- Increase in operating costs by 10 % compared to current level.
- Increase of discount rate by 1 %.
- Decrease of scrap value to US \$ 150 per light weight ton.

Notes to the consolidated financial statement (continued)

24. Other property, plant and equipment

	Land and 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
Cost										
At 1 January 2008	9 953	4 817	5 409	2 618	15 362	7 435	39	19	15 401	7 454
Additions	575	276	250	120	825	396	57	28	882	424
Acquired as a result of business combinations (Note 5)	23 220	11 140	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	(946)	4	(576)	78	(1 522)	82	(890)	(1)	(2 412)	81
At 31 December 2008	32 802	16 237	24 727	12 240	57 529	28 477	28 055	13 887	85 584	42 364
Additions	-	-	439	222	439	222	-	-	439	222
Disposals	(17 109)	(8 644)	(19 630)	(9 919)	(36 739)	(18 563)	(27 471)	(13 881)	(64 210)	(32 444)
Reclassification	124	63	9	4	133	67	(11)	(6)	122	61
Exchange differences	(165)	(2)	(336)	-	(501)	(2)	(572)	-	(1 073)	(2)
At 31 December 2009	15 652	7 654	5 209	2 547	20 861	10 201	1	-	20 862	10 201
Depreciation and impairment										
At 1 January 2008	809	391	3 682	1 782	4 491	2 173	-	-	4 491	2 173
Depreciation	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
Depreciation	1 017	514	3 284	1 660	4 301	2 174	-	-	4 301	2 174
Impairment	11 027	5 571	6 854	3 464	17 881	9 035	18 745	9 472	36 626	18 507
Disposals	(12 050)	(6 088)	(10 375)	(5 243)	(22 425)	(11 331)	(18 745)	(9 472)	(41 170)	(20 803)
Exchange differences	179	36	36	-	215	-	-	-	215	-
At 31 December 2009	1 187	499	3 306	1 617	4 494	2 116	-	-	4 494	2 116
Accumulated impairment										
At 31 December 2008	-	-	1	1	1	1	-	-	1	1
At 31 December 2009	5 028	2 540	-	-	5 028	2 540	-	-	5 028	2 540
Net book value:										
At 31 December 2008	31 788	15 735	21 219	10 503	53 006	26 239	28 055	13 887	81 061	40 125
At 31 December 2009	9 437	4 615	1 903	950	11 339	5 545	1	-	11 340	5 545

There are no fixed assets and other property, plant and equipment under finance lease contracts as at 31 December 2009 (31.12.2008: US \$ 33.2 million). Disposals include effect of deconsolidation of JSC Preses nams due to loss of control (see also Note 20).

Impairment of Other property, plant and equipment mainly relates to assets of JSC Preses nams, recoverable amount of which was defined based on valuations performed by independent certified valuers at the end of the year. Since JSC Preses nams was deconsolidated as at 31 December 2009 (see Note 20), no sensitivity analysis in respect of impaired assets is presented.

Notes to the consolidated financial statement (continued)

25. 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
Cost						
At 1 January 2008	1 597	773	-	-	1 597	773
Additions	338	162	-	-	338	162
Acquired as a result of business combinations (Note 5)	144 434	69 294	7 652	3 671	152 086	72 965
Exchange differences	(4 492)	-	(236)	-	(4 728)	-
At 31 December 2008	141 877	70 229	7 416	3 671	149 293	73 900
Additions	1 732	875	131	66	1 863	941
Disposals	(7 285)	(3 681)	-	-	(7 285)	(3 681)
Reclassification	(126)	(64)	-	-	(126)	(64)
Exchange differences	1 551	-	95	-	1 646	-
At 31 December 2009	137 749	67 359	7 642	3 737	145 391	71 096
Depreciation						
At 1 January 2008	55	27	-	-	55	27
Depreciation	27	13	-	-	27	13
Exchange differences	(1)	-	-	-	(1)	-
At 31 December 2008	81	40	-	-	81	40
Depreciation	811	410	-	-	811	410
Impairment	3 192	1 613	-	-	3 192	1 613
Disposals	(3 286)	(1 661)	-	-	(3 286)	(1 661)
Exchange differences	584	-	132	-	716	-
At 31 December 2009	1 382	402	132	-	1 514	402
Impairment						
At 31 December 2008	-	-	-	-	-	-
At 31 December 2009	16 773	8 476	3 993	2 017	20 766	10 493
Net book value:						
At 31 December 2008	141 796	70 189	7 416	3 671	149 212	73 860
At 31 December 2009	119 594	58 481	3 517	1 720	123 111	60 201

At the end of 2009 the Group engaged independent certified valuation specialists to determine fair value of assets acquired at the end of 2008 (see also Note 5).

For valuation purposes the valuer used a discounted cash flow model. 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.

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 \$ 2 – US \$ 29 per square meter;
- Occupancy rates: 20% - 100% of total area for rent;
- Discounting rates (pre-tax): 11.8% - 14.0%;
- Capitalisation rates: 8.0% - 11.8%.

In respect of the major investment property acquired amounting to US \$ 78.1 million (LVL 38 million), the current plans foresee total building capacity of approximately 300 000 sq. m. planned to be absorbed by Riga real estate market over 10-15 year period. 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 \$ 2 – US \$ 29 per square meter;
- Occupancy rates: 80% - 100% of total area;
- Discounting rates(pre tax): 12.8%;
- Capitalisation rates: 8.0% - 8.5%.

Notes to the consolidated financial statement (*continued*)

25. Investment properties (*continued*)

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.

Recoverables values of investment property are determined based on valuations and impairment is recognized. The following changes in key assumptions would change the amount of recognized impairment, thus having an effect on the income statement:

		Effect on fair value investment properties as at 31 December 2009	
		USD'000	LVL'000
Change in rent rates per 1 sq.m.	+5%	14 714	7 195
	-5%	(14 701)	(7 189)
Change in occupancy rate	+5%	13 589	6 645
	-5%	(13 577)	(6 639)
Change in discounting rate applied	+1%	(14 098)	(6 894)
	-1%	15 753	7 703
Change in rate of capitalisation	+1%	(12 172)	(5 952)
	-1%	15 294	7 479

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

Name of the Company	Share	Country of registration
Lord World Travel Ltd. (dormant)	50%	Gibraltar
Via Una SIA	45,45%	Latvia
Futbola klubs "Ventspils" SIA	23,06%	Latvia

27. Other financial assets and liabilities

Fair value hierarchy

As at 31 December 2009, the Group held the following financial instruments measured at fair value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Notes to the consolidated financial statement (*continued*)

27. Other financial assets and liabilities (*continued*)

	31.12.2009.		Level 1		Level 2		Level 3	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Assets measured at fair value	1 319	645	-	-	1 319	645	-	-
Short term securities	1 319	645	-	-	1 319	645	-	-
 Liabilities measured at fair value	 3 845	 1 880	 -	 -	 3 845	 1 880	 -	 -
Non-current swap transactions	706	345	-	-	706	345	-	-
Current swap transactions	3 139	1 535	-	-	3 139	1 535	-	-

	31.12.2008.		Level 1		Level 2		Level 3	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Assets measured at fair value	4 028	1 994	-	-	4 028	1 994	-	-
Short term securities	4 028	1 994	-	-	4 028	1 994	-	-
 Liabilities measured at fair value	 4 777	 2 365	 -	 -	 4 777	 2 365	 -	 -
Non-current swap transactions	3 492	1 729	-	-	3 492	1 729	-	-
Current swap transactions	1 285	636	-	-	1 285	636	-	-

28. Assets classified as held for sale

According to the fleet renewal program during 2009 the decision was made to sell 6 tankers and they were re-classified to assets classified as held for sale (*See also Note 23*).

29. Inventories

	USD '000		LVL '000	
	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.
Bunkers (at cost)	3 131	1 508	1 530	747
Luboil and provisions (at cost)	2 714	4 998	1 327	2 474
Ship and shore spares (at net realisable value)	179	201	88	99
Other (at cost)	114	-	56	-
Prepayments for goods	56	-	28	-
Total	6 194	6 707	3 029	3 320

The total amount of inventories recognised as an expense is included in Cost of sales (*see Note 9*).

Notes to the consolidated financial statement *(continued)*

30. Trade and other receivables

	USD '000		LVL '000	
	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.
Trade receivables	18 708	19 860	9 149	9 831
Provision for doubtful debts	(11 717)	(5 295)	(5 730)	(2 621)
Other debtors	875	2 340	428	1 158
Deferred expenses	891	1 569	435	777
Claims receivable	270	240	132	118
Receivables from related parties	54	142	26	70
Total	9 081	18 856	4 440	9 333

Trade accounts receivable are non-interest bearing and are generally on 30-90 days' terms.
For terms and conditions relating to related party receivable, refer to Note 43.

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

	Past due not impaired						
		Neither past due					
	Total	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 2009	6 991	6 644	165	42	42	42	56
At 31 December 2008	14 565	12 039	1 239	243	439	273	332

	Past due not impaired						
		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
	<u>Total</u>	<u>LVL '000</u>	<u>LVL '000</u>	<u>LVL '000</u>	<u>LVL '000</u>	<u>LVL '000</u>	<u>LVL '000</u>
At 31 December 2009	3 419	3 249	81	21	21	20	27
At 31 December 2008	7 210	5 959	613	120	217	136	165

Change in allowances for impairment of receivables were as follows:

	USD '000		LVL '000	
	2009	2008	2009	2008
At 1 January	5 295	6 622	2 621	3 205
Additions	11 594	3	5 858	1
Settlements	(5 122)	(1 258)	(2 588)	(604)
Currency translation difference	(50)	(72)	(161)	19
At 31 December	11 717	5 295	5 730	2 621

Notes to the consolidated financial statement *(continued)*

31. Prepayments

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

32 (a) Deposits with maturity more than three months

	USD '000		LVL '000	
	2009	2008	2009	2008
At 1 January	62 101	47 966	30 740	23 216
Deposits settled at maturity	(56 000)	(46 500)	(28 296)	(22 309)
Bank deposits maturing more than 3 months from the date of placement	50 826	60 800	25 682	29 170
Previous accrual reversal	(1 301)	(1 466)	(657)	(703)
Interest accrued	361	1 301	182	624
Exchange differences	-	-	(273)	742
At 31 December	55 987	62 101	27 378	30 740

During the reporting period an effective interest rate on deposits with maturity more than three months amounted to 3.03% (2008 – 3.97%).

For subsequent developments in 2010, please, also see Note 46.

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

	USD '000		LVL '000	
	2009	2008	2009	2008
At 1 January	4 028	5 760	1 994	2 788
Settlements	(2 785)	(1 370)	(1 407)	(657)
Change in fair value	93	(131)	47	(63)
Exchange differences	(17)	(231)	11	(74)
At 31 December	1 319	4 028	645	1 994

The financial assets in 2008 designated at fair value through profit or loss are principally units in single bond funds and Bonds of Latvian Government, which are all listed, held by subsidiaries Kristaps Insurance Ltd. and Latmar Holdings Corporation. As at the end of reporting period investments in listed funds are managed by Latmar Holdings Corporation. *(See also Note 27).*

33. Cash and short-term deposits

	USD '000		LVL '000	
	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.
Bank deposits with maturity less than 3 months from the date of placement	46 437	7 500	22 707	3 713
Cash in banks and on hand	28 658	28 349	14 015	14 032
Cash and cash equivalents total	75 095	35 849	36 722	17 745

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 statement *(continued)*

34. Share capital and reserves

Share 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 shares since 1991.

Other components of equity

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. No additional hedges acquired in 2009 (See also Note 37).

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.

35. Interest bearing loans

	USD '000		LVL '000	
	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.
Repayments due within next twelve months	30 584	36 180	14 955	17 909
Overdraft received	6	4 029	3	1 994
Unamortised prepaid financing expenses *	(1 039)	(914)	(508)	(452)
Net current portion	29 551	39 295	14 450	19 451
Non-current portion	351 713	358 624	171 988	177 519
Unamortised prepaid financing expenses *	(5 801)	(6 546)	(2 837)	(3 240)
Net non-current portion	345 912	352 078	169 151	174 279
Total loans outstanding	382 303	398 833	186 946	197 422
Total unamortised prepaid financing expenses *	(6 840)	(7 460)	(3 345)	(3 692)
Total loans, net of unamortised financing costs	375 463	391 373	183 601	193 730

* 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.

The loans are repayable in quarterly instalments and carry interest at a margin linked to US \$ LIBOR.

In 2009 the Group entered in to the two long term loan agreements in amount of US \$ 32.5 million and US \$ 4 million.

One of the loans has been received by the Group's company SIA "LASCO Investment" for financing asset acquisition; the loan is secured by investment property pledges. The loan is repayable in lump sum at the end of 2011. The interest rate is set at LIBOR plus the bank's margin.

The second long-term loan has been received by the Group's company „Latmar Holdings Corporation"; the loan is secured by vessels pledges. The loan is repayable in monthly instalments which include fixed interest payments. According to the agreement terms, the loan matures in January 2013 with the remaining loan balance of US \$ 0.9 million.

Notes to the consolidated financial statement *(continued)*

35. Interest bearing loans *(continued)*

The loans are scheduled to be repaid as follows:

Year	USD million	LVL million
2010	30.4	14.9
2011	62.9	30.8
2012	30.4	14.9
2013	30.3	14.8
2014	29.4	14.4
2015 - 2017	198.6	97.1
Total	382.0	186.9

As a result of business combination, the Group has obtained interest bearing bank loans for US \$ 19.9 million. 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. As at 31 december 2009 these loan agreements are not recognised in the consolidated financial statement due to the loss of control over subsidiary.

In 2009 the Group repaid overdraft in amount of US \$ 20 million received under agreement from year 2007.

36. Finance lease

In 2008 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 in euro with interest linked to 6 month EURIBOR. As at 31 december 2009 these finance lease agreements are not recognised in the consolidated financial statement due to the loss of control over subsidiary.

In August 2009 one of the Group's company entered into a agreement for the m.t. "Riga" sale and leaseback transaction in amount of US \$ 30 million with the final payment deadline year 2014. As at the end of reporting year finance lease liabilities amounted to US \$ 29.622 million.

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	
	2009	2008	2009	2008	2009	2008	2009	2008
Within one year	5 000	9 085	1 051	7 532	2 445	4 497	514	3 728
After one year but not more than five years	41 393	24 692	28 571	21 314	20 241	12 222	13 971	10 550
Minimum lease payments	46 393	33 777	29 622	28 846	22 686	16 719	14 485	14 278
Less amounts representing finance charges*	(16 771)	(4 931)	-	-	(8 201)	(2 441)	-	-
Present value of minimum lease payments	29 622	28 846	29 622	28 846	14 485	14 278	14 485	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%. The finance lease payments for year 2009 are calculated on constant payments basis.

Notes to the consolidated financial statement *(continued)*

37. 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 transaction	29.12.2008	28.12.2011	91 000	2.9975%
Interest rate swap transaction	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 2009 the negative fair value of the swaps amounting to US \$ 3.8 million (2008 – US \$ 4.8 million) has been recognised in equity within Cash flow hedge reserve (change during the period is US \$ 0.9 million).

In 2009 and 2008 no loss was recognised in the income statement due to hedge ineffectiveness from cash flow hedges.

Notes to the consolidated financial statement (continued)

38. Deferred tax liabilities

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

	USD '000				LVL '000			
	2009		2008		2009		2008	
	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	(275)	1 192	16 646	17 563	(136)	590	8 240	8 694
Charge to income statement	510	(968)	-	(458)	258	(490)	-	(232)
Deferred income tax changes due to acquisition / liquidation	(20)	(20)	(2 202)	(2 242)	(17)	-	(1 177)	(1 194)
Deferred tax liabilities at 31 December	215	204	14 444	14 863	105	100	7 063	7 268
Excess of tax allowances over depreciation	325	624	14 444	15 393	159	305	7 063	7 527
Other temporary differences	-	-	-	-	-	-	-	-
Tax losses	(1 100)	(2 898)	-	(3 998)	(538)	(1 417)	-	(1 955)
Allowance for deferred tax liability	(170)	(27)	-	(197)	(83)	(13)	-	(96)
Unrecognised deferred tax asset	1 160	2 505	-	3 665	567	1 225	-	1 792
Deferred income tax liability arising on acquisition	-	-	-	-	-	-	-	-
Deferred tax liabilities at 31 December	215	204	14 444	14 863	105	100	7 063	7 268
				16 646				8 240
				17 563				8 694

Notes to the consolidated financial statement *(continued)*

38. Deferred tax liabilities *(continued)*

The Group has a total tax loss for US \$ 26.7 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
2005	2 134	1 043	2013
2006	6 109	2 988	2014
2007	2 436	1 191	2015
2008	6 802	3 326	2016
2009	9 172	4 485	2017
Total	26 653	13 033	

39. Deferred revenue

	USD '000		LVL '000	
	2 009	2 008	2 009	2 008
At 1 January	8 596	7 483	4 255	3 622
Deferred during the year	3 541	6 524	1 789	3 130
Released to the income statement	(8 553)	(7 483)	(4 322)	(3 590)
Acquired as a result of business combination	-	2 138	-	1 026
Currency exchange differences	(19)	(66)	21	67
At 31 December	3 565	8 596	1 743	4 255
Current	3 565	7 534	1 743	3 729
Non-current	-	1 062	-	526
Total	3 565	8 596	1 743	4 255

40. Trade and other payables

	USD '000		LVL '000	
	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.
Non-current liabilities				
Due from related parties	-	83 954	-	41 557
Other payables	2 534	-	1 239	-
Total non-current liabilities	2 534	83 954	1 239	41 557
Current liabilities				
Due from related parties	57 141	46 487	27 942	23 011
Accrued expenses	9 848	9 065	4 815	4 487
Trade payables	7 966	9 429	3 896	4 667
Other payables	4 795	7 979	2 345	3 950
Total current liabilities	79 750	72 960	38 998	36 115

Terms and conditions on the above financial liabilities:

- For terms and conditions relating to related parties, refer to Note 43;
- For explanations on the Group's credit risk management processes, refer to Note 45;
- Trade and other payables are non-interest bearing and have an average term of six months.

Notes to the consolidated financial statement *(continued)*

41. 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.

42. Commitments

a) Capital commitments

In November 2007 the 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. The total value of contract is around US \$ 200 million.

In accordance with ammendment 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.

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.

	USD '000		LVL '000	
	2009	2008	2009	2008
Receivables within one year	226	-	110	-
Receivables after one year	739	-	361	-
Total	965	-	471	-

c) Operating lease commitments – Group as a lessee

The Group has time chartered 2 tankers from the other shipowners for five years, with planned termination in the middle of 2011. The Group has entered into several transport operating lease agreements, which have the following payment schedule:

	USD '000		LVL '000	
	2009	2008	2009	2008
Payments within one year	14 511	21 651	7 096	11 637
Payments after one year	9 564	23 945	4 677	23 421
Total	24 075	45 596	11 773	35 058

43. Related party transactions

The major Shareholders as at December 31, 2009, 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.* - 17.66 %
- *Eastgate Properties Ltd.* - 9.89 %
- *SSC Valsts sociālās apdrošināšanas aģentūra* - 10.00 %

JSC Latvijas kuģniecība has no shareholders having control rights.

Notes to the consolidated financial statement *(continued)*

Related party transactions *(continued)*

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

	USD '000		LVL '000	
	2009	2008	2009	2008
Salary and bonuses	4 410	6 653	2 228	3 192
Social insurance	1 041	389	526	187
Total	5 451	7 042	2 754	3 379

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.

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

Normunds Staņēvičs, Member of the Supervisory Council, owns 50 shares of JSC Latvijas kuģniecība. There is no information reported that other members of the Supervisory Council or Management Board own shares of the Parent company or its subsidiaries. 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 the 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 million.

The outstanding consideration was subject to US \$ 4 million interest during 2009, out of which US \$ 3.3 million was paid as at 31 December 2009. Principal amount of consideration paid during 2009 is US \$ 69.325 million. Consequently, the outstanding consideration as at 31 December 2009 amounted to US \$ 56.4 million, all current.

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. In 2009 Group repaid short term loan and related interest payments to related party.

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

	USD '000		LVL '000	
	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.
Deferred consideration for business combination	56 427	128 769	27 593	63 740
Loan from related party	-	1 105	-	547
Interest accrued on loan from related party	710	179	347	89
Amount due for other assets purchased and services received	4	388	2	192
Total	57 141	130 441	27 942	64 568
Current	57 141	46 487	27 942	23 011
Non-current	-	83 954	-	41 557
	57 141	130 441	27 942	64 568

Real estate management services were rendered to the related party in 2009 in amount of US \$ 589.2 thousand and outstanding balance for the services rendered at the year end was US \$ 54.1 thousands.

Notes to the consolidated financial statement *(continued)*

Related party transactions *(continued)*

d) Collaterals

The outstanding consideration to the related party (see Note 43c) is secured by pledges on the real estate and part of the shares of the Group's companies acquired from related party in December 2008 (see also Note 5).

44. Fees paid to external auditors

	USD '000		LVL '000	
	2009	2008	2009	2008
Audit of the financial statements	210	223	106	107
Other consulting services	34	70	17	34
Total	244	293	123	141

45. Financial instruments and financial risk management

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 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 the Group's 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.

The Group's main exposure to U.S. dollars / Euro is presented in Note 43 (c).

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 15% of total trade accounts receivable as of 31 December 2009 (2008- 45%).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold any collateral as security.

The Group's maximum exposure for financial guarantees and financial derivative instruments are noted in the Liquidity and cash management risk section below.

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.

Notes to the consolidated financial statement *(continued)*

Financial instruments and financial risk management *(continued)*

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 2009, after taking into account the effect of interest rate swaps (US \$ 168 million), approximately 46% of the Group's borrowings are at a fixed rate of interest. A general rise in the interest rate by one percentage point would, all other things being equal, have no effect on the financial result. The effect on equity excluding tax effect on an increase in the interest rate as mentioned above is estimated to be positive with approximately US \$ 3.3 million.

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.

	2009		2008	
	Increase/decrease in basic points	Effect on profit before tax (USD'000)	Increase/decrease in basic points	Effect on profit before tax (USD'000)
US \$ - LIBOR	2%	(3 783)	3%	(5 909)
	-0,2%	378	-0,3%	591
EUR - LIBOR	2%	(1 634)	2,5%	(3 164)
	-0,2%	163	-1,0%	1 265
EUR - EURIBOR	-	-	2,5%	(1 057)
	-	-	-1,0%	422
LVL - RIGIBOR	-	-	6,6%	(404)
	-	-	-2,3%	143

	2009		2008	
	Increase/decrease in basic points	Effect on profit before tax (LVL'000)	Increase/decrease in basic points	Effect on profit before tax (LVL'000)
US \$- LIBOR	2%	(1 907)	3%	(2 925)
	-0,2%	191	-0,3%	293
EUR - LIBOR	2%	(826)	2,5%	(1 566)
	-0,2%	83	-1,0%	626
EUR - EURIBOR	-	-	2,5%	(523)
	-	-	-1,0%	209
LVL - RIGIBOR	-	-	6,6%	(200)
	-	-	-2,3%	71

Notes to the consolidated financial statement (*continued*)

Financial instruments and financial risk management (*continued*)

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.

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.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Notes to the consolidated financial statement *(continued)*

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

Liquidity and cash management risk (continued)

USD '000

As at 31 December 2009	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans	-	10 456	31 282	193 215	185 897	420 850
Finance lease	-	1 233	3 768	41 393	-	46 394
Derivative financial instruments	-	-	3 139	706	-	3 845
Accounts payable to related party	-	-	57 141	-	-	57 141
Trade accounts payable and other liabilities	-	7 272	15 338	2 533	-	25 143
Total	-	18 961	110 668	237 847	185 897	553 373

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
Derivative financial instruments	-	-	1 285	3 492	-	4 777
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	52 117	288 970	255 125	688 338

LVL '000

As at 31 December 2009	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans	-	5 113	15 297	94 482	90 904	205 796
Finance lease	-	603	1 842	20 241	-	22 686
Derivative financial instruments	-	-	1 535	345	-	1 880
Accounts payable to related party	-	-	27 942	-	-	27 942
Trade accounts payable and other liabilities	-	3 556	7 500	1 239	-	12 295
Total	-	9 272	54 116	116 307	90 904	270 599

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
Derivative financial instruments	-	-	636	1 729	-	2 365
Accounts payable to related party	635	23 011	1 871	39 051	-	64 568
Trade accounts payable and other liabilities	-	13 103	-	-	-	13 103
Total	635	44 968	25 798	140 178	126 286	337 865

Fair values

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

Notes to the consolidated financial statement *(continued)*

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

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 valuation of fleet based on discounted cash flow projections for the remaining useful life of the fleet at the end of the reporting period.

	USD '000		LVL '000	
	2009	2008	2009	2008
Market adjusted equity	454 772	761 959	222 384	377 170
Market adjusted total assets	964 414	1 370 028	471 598	678 164
Ratio	47%	56%	47%	56%

According to the corporate guarantee issued by the Parent Company (*see also Note 35*) the Group should maintain the following capital requirements:

- Market Adjusted Net Worth – at least US \$ 150 million;
- Value Adjusted Equity to Value Adjusted Total Assets – 30% or more;
- Current Assets to Current Liabilities (excluding the short term portion of any long term debt) – not less than 1.4 to 1.

For EBITDA/Debt Service covenant waiver period (01.07.2009 – 31.12.2010) the Group shall maintain cash reserves at the level stipulated in respective Side Letters.

All capital requirements are tested on quarterly basis.

46. Post balance sheet events

As of the last day of the reporting period until the date of signing these financial statements there were the following events:

Disposal of capital shares:

- 100% share in SIA „Mediju nams” owned by the Group was sold in January 2010.
- 100% share in SIA „Jūras servisa centrs” owned by the Group was sold in July 2010
- 100% share in SIA „LASCO Housing Service” owned by the Group was sold in October 2010.
- 100% share in SIA „LSC Shipmanagement” owned by the Group was sold in November 2010.

The group incurred losses on disposal of capital shares up to US \$ 900 thousand.

Liquidation of subsidiaries:

- Four foreign companies owned by the Group was liquidated in January 2010 - Delacroix Shipping Company Limited, Ringmare Shipping Company Limited, Kamilo Sjenfuegos Shipping Company Limited, S. Tomskis Shipping Company Limited.
- SIA „Ostas serviss” owned by the Group was liquidated in February 2010.
- Crown Navigation Inc. owned by the Group was liquidated in March 2010.
- Kristaps Insurance Ltd. owned by the Group was liquidated in July 2010.

Insolvencies and off-court protection processes:

- On 4 February 2010 the insolvency of JSC „Preses nams” was announced by the Court.
- On 29 April 2010 the out-of-court restructuring legal protection process of SIA “Darījumu centrs Daugava” owned by the Group was announced by the Court. The out-of-court restructuring legal protection process action plan for one year was approved and the plan foresees all liabilities to be covered within one year.
- On 21 May 2010 the out-of-court restructuring legal protection process of SIA “Ventpils biznesa centrs” owned by the Group was announced by the Court. The out-of-court restructuring legal protection process action plan for one year was approved and the plan foresees all liabilities to be covered within one year.
- On 21 May 2010 the out-of-court restructuring legal protection process of SIA “Rīgas līcis” owned by the Group was announced by the Court. The out-of-court restructuring legal protection process action plan for one year was approved and the plan foresees all liabilities to be covered within one year.

Notes to the consolidated financial statement (*continued*)

46. Post balance sheet events (*continued*)

Insolvencies and off-court protection processes (*continued*):

- On 1 October 2010 the out-of-court restructuring legal protection process of SIA "LASCO nekustamie īpašumi" owned by the Group was announced by the Court. The out-of-court restructuring legal protection process action plan for one year was approved and the plan foresees all liabilities to be covered within one year.
- On 7 October 2010 the out-of-court restructuring legal protection process of SIA "LASCO Investment" owned by the Group was announced by the Court. The out-of-court restructuring legal protection process action plan for two years was approved and the plan foresees all liabilities to be covered within two years.

Disposals of assets:

- Tanker m.t. „O.Vacietis” (built in 1985, 16 341 DWT) was sold in February 2010.
- Tanker m.t. „Zoja II” (built in 1989, 18 625 DWT) was sold in March 2010.
- Tanker m.t. „Zoja I” (built in 1988, 18 625 DWT) was sold in May 2010.
- Tanker m.t. „Inga” (built in 1990, 28 637 DWT) was sold in June 2010.
- Tanker m.t. „Mar” (built in 1990, 28 637 DWT) was sold in June 2010. In June 2010 legal case related to m.t. „Mar” started for non compliance of agreement terms by buyer.
- Tanker m.t. „Estere” (built in 1989, 28 557 DWT) was sold in July 2010.
- Tanker m.t. „Pumpuri” (built in 1987, 28 537 DWT) was sold in October 2010.

The Group recognised loss of USD 1.5 million as a result of selling ships mentioned above. The financial result was affected by costs directly attributable to sales transactions.

- Real estate was sold in October 2010. Transaction resulted in loss of approximately USD 350 thousands.

Acquisitions and establishments:

- 100% in SIA „Nafta Invest” was acquired in May 2010. See Note 5.
- In June 2010 Holding company Arctic Holding Corporation and four it's subsidiaries - Brasla Shipping Corporation, Ritupe Shipping Corporation, Misa Shipping Corporation, Imula Shipping Corporation was incorporated.
- 747 088 shares of JSC "Ventspils nafta" were acquired in September 2010, out of which 50 000 shares were subsequently sold in October 2010.

Changes in capital structure:

- The Group repaid long term loan before maturity in amount of USD 32.5 million in October 2010. The loan was settled against maturing deposit.
- The Group obtained loan in amount of USD 27.6 mil in April 2010. The loan was settled against maturing deposit in November 2010.
- The Group repaid long-term loan of EUR 1 mil. in June 2010.
- The Group issued loan of USD 4 mil in May 2010. The loan was partially repaid.

Other events:

- The Group paid fees for legal service in relation to "Banka Baltija" case in amount of LVL 847 thousands.
- As at end of the current reporting period the Group had liability toward AS "Ventspils Nafta". The liability is collateralized by the pledge on investment property of the Group and capital shares in Groups's subsidiaries. After the reporting date the payments became overdue and in order to protect the collateral from being realized, out-of-court protection processes for Group's subsidiaries were initiated and approved. In November 2010 the Group received proposal from AS "Ventspils Nafta" on extension of term of loan settlement until the end of 2011.
- The Group's Management continues to implement development programs in accordance with the Group's objectives and operating profile, including new-building development program. Based on agreement concluded with shipyard on new-building development, next progress payments amounting to 122.5 USD million will be due in 2011 and the Group currently does not possess sufficient available funds to complete new-buildings without additional external financing. 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.

Notes to the consolidated financial statement *(continued)*

47. Legal cases

The Group has 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. Please also see Note 46.

48. Going Concern

The global financial crisis, slow-down of the local economy and economies of countries, where the Group is operating were the main factors that affected the development and stability of the Group during 2009 resulting in decrease of equity and liquidity.

However Group's liquidity as of 31 December 2009 is sufficient to cover short term liabilities as well as liquidity as of 31 October 2010 (latest available unaudited financial data before financial statement reporting date), excluding debt to JSC Ventspils nafta, supports ability to settle the payments with creditors. As of the date of approval financial statements the main short-term liabilities represent the debt to JSC Ventspils nafta and there is no expectation to repay this debt in next 12 month. Considering the economic situation in Latvian market and to maintain the liquidity Group's Management is negotiating debt restructuring with JSC Ventspils Nafta. In November 2010 the Group's Management received a letter from JSC Ventspils Nafta to prolong the repayment terms until 31 December 2011. Additionally Group's Management continues discussions and plans to achieve revision of the deal terms and conditions.

The Groups'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.

During 2010 shipping market moved slightly upwards wherewith Group's Management plans to generate positive operating cash flow in short-term and long-term period. Existing loan agreement covenants 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.

As disclosed in Note 35, the Group has significant balance 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 meet. Particularly, as at 31 December 2009 LSC Holdings Ltd. did not meet Value Maintenance Covenant as set under the loan agreement. During 2010 compliance with the Value Maintenance Covenant was restored and formal agreement was reached with the bank on temporary breach. Besides, in 2009 Latvian Shipping Company Group was not in compliance with financial covenant RATIO of EBITDA/Outstanding debt service. The waiver on this covenant was obtained and is valid through 31 December 2010. 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 comply 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 fulfillment 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 fulfill waiver conditions.

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 reporting date or side letters with waiver of covenants have been signed.

The management of the Group expects that certain breaches of the bank loan covenants will 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 Latvian Shipping Company Group is confident that the agreement on required waivers will be successfully obtained.

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

On the grounds of the mentioned above, the activities taken by Group's Management are aimed at continuation of activities of the Group in the foreseeable future, i.e. in period which is not less than 12 months after the financial statements approval date.