LATVIJAS KUĢNIECĪBA

Public Joint Stock Company
Latvian Shipping Company and its Subsidiaries

Condensed Consolidated Financial Statements

31 December 2010

CONTENTS

Supervisory Council

Chairman of the Supervisory Council	Simon Digby Boddy (from 17.12.2010.)
	Māris Gailis (until 17.12.2010.)
Deputy Chairpersons of the Supervisory Council	Mikhail Dvorak (from 17.12.2010.)
	Andris Vilcmeiers (until 17.12.2010.)
	Vladimirs Solomatins (until 17.12.2010.)
Members of the Supervisory Council:	Vladimir Egger (from 17.12.2010.)
	Javed Ahmed (from 17.12.2010.)
	Rubil Yilmaz (from 17.12.2010.)
	Mark Morrell Ware (from 17.12.2010.)
	Christophe Theophanis Matsacos (from 17.12.2010.)
	Oļegs Stepanovs (from 28.01.2011.)
	Mārtiņš Kvēps (from 28.01.2011.)
	Serguei Choutov (from 28.01.2011.)
	Olga Pētersone (until 17.12.2010. and from 28.01.2011.)
	Ansis Sormulis (until 17.12.2010.)
	Guntis Ločmelis (until 17.12.2010.)
	Kārlis Boldiševics (until 17.12.2010.)
	Miks Ekbaums (until 17.12.2010.)
	Normunds Staņēvičs (until 17.12.2010.)
	Svens Zālītis (until 17.12.2010.)
	Uldis Pumpurs (until 17.12.2010.)
	Vladimir Koshkhul (until 17.12.2010.)

Management Board

Chairman of the Management Board	Paul Thomas (from 17.12.2010)
	Imants Sarmulis (until 17.12.2010)
Members of the Management Board	Simon Richard Blaydes (from 01.06.2011)
	Christopher James Kernon (from 05.01.2011)
	Michael Main King (from 17.12.2010)
	Ashley John Neale (from 17.12.2010 until 01.06.2011)
	Andris Linužs (until 17.12.2010)
	Raivis Veckāgans (until 22.10.2010)
	Pavel Semenyuta (from 30.11.2010 until 17.12.2010)
	Edvīns Bērziņš (from 27.09.2010 until 17.12.2010)
	Paul Thomas (from 20.07.2010 until 17.12.2010)
	Ilva Purēna (until 10.02.2010)

Management Report

Dear shareholders and other stakeholders!

2010 was a turbulent year for the Latvian Shipping Company Group.

In 2010 the Latvian Shipping Company Group suffered losses in the amount of USD142.44 million, considerably higher than the losses of USD90.26 million suffered in 2009. The largest losses relate to a series of impairments, which are required to be made according to the International Financial Reporting Standards. These impairments are as follows:

(1) the debt owed by the SIA LASCO Investment Group companies, in the amount of USD79.64 million,
(2) the four new ship buildings with Hyundai Mipo Dockyard Ltd., in the amount of USD45.56 million,
(3) the investment in SIA NAFTA Invest in the amount of USD5.00 million and
(4) the vessel Indra in the amount of USD4.92 million.

Due to additional impairments Latvian Shipping Company Group's non-audited results for 2010 differ from the audited results by more than 10%.

Whilst administration expenses decreased from USD28.49 million in 2009 to USD20.34 million in 2010, and despite some improvements in world shipping markets in the second half of the year, the income from shipping activities in 2010 was insufficient to cover the administrative expenses of LSC Group for the period.

The total value of the LSC Group assets has decreased from USD964.41 million in 2009 to USD680.47 million in 2010. There are a number of reasons for this significant decrease. In addition to the impairments mentioned in the paragraph above, the shipping assets were depreciated by USD26.70 million. More significantly, daughter company SIA LASCO Investment was deconsolidated, resulting in a loss of USD114.91 million. This was a consequence of steps taken by the then management to have SIA LASCO Investment declared insolvent, which was endorsed by a decision of the Latvian court on January 3, 2011. The legitimacy of these actions is being challenged by the current management.

In addition, there was a considerable decrease in cash and deposits (USD88.61 million). These were used to repay a loan from Bank of Cyprus and to finance the Group's operations and to acquire SIA NAFTA Invest. The circumstances surrounding this acquisition are part of an ongoing investigation into the activities of the previous management and related legal proceedings.

Due to the losses incurred in 2010, the LSC Group's equity capital has reduced significantly from USD454.77 million to USD313.18 million. This is the first time since 2004 that Group's equity has been less than the share capital.

At the end of the year, the fleet under commercial management of the LSC Group consisted of 21 tankers, 18 of which are owned by the Group, with the remaining 3 vessels belonging to third party shipowners. During 2010 LSC Group sold seven old product tankers and returned one chartered vessel to its owner. As of the 31 December, 2010, the total deadweight of the fleet was 0.96 million DWT, with an average age of 5 years.

Throughout 2010, the tankers of the LSC Group fleet were mainly employed on time charter. Even though the result from vessel operation was positive reaching USD12.69 million, the Group's net voyage result during 2010 fell to USD88.31 million, substantially behind the previous year's result (USD148.91 million). These results are largely attributable to the overall decline in global shipping markets.

The Latvian Shipping Company's shares were among the most actively traded on the NASDAQ OMX Rīga during the reporting period – 2 462 transactions involving 5.06 million shares worth 2.03 LVL million were carried out, representing 48% of all share transactions on the NASDAQ OMX Rīga Official list during the reporting period. On December 31, 2010 the market capitalisation of Latvian Shipping Company was 75.8 million LVL.

Starting in January 2010, shareholders lead by the largest shareholder, joint stock company Ventspils nafta, repeatedly requested the holding of an extraordinary shareholders meeting. The purpose was to make changes to the supervisory council and replace the management board in order to ensure that these bodies acted in the best interests of all shareholders of the Latvian Shipping Company.

After many requests, and after several scheduled meetings were cancelled, a shareholders meeting finally took place on December 17, 2010. This was the first shareholders meeting of Latvian Shipping Company to take place since the Annual General Shareholders Meeting which took place on 30th April, 2009. The meeting in December was promptly followed by a further shareholders meeting on January 28, 2011. As a consequence of these two shareholders' meetings, the supervisory council now represents all of the shareholders of Latvian Shipping Company and consists of eleven members: chairman Simon Boddy, deputy chairman Mikhail Dvorak and members Christophe Theophanis Matsacos, Rubil Yilmaz, Vladimir Egger, Javed Ahmed, Mark Morrell Ware, Olga Pētersone, Oļegs Stepanovs, Mārtiņš Kvēps and Serguei Choutov.

The newly elected supervisory board has also made substantial changes in the management board of Latvian Shipping Company, which now consists of four members: Chairman Paul Thomas and members Michael Main King, Ashley John Neale (until 1 June 2011), Simon Richard Blaydes (from 1 June 2011) and Christopher James Kernon.

Management Report *(continued)*

The new management is committed to achieving greater efficiencies as demonstrated by the decision of both the Supervisory Council and Management Board to decline salaries at this time. It will continue to strive to maintain the integrity of the current fleet and expand it when economically viable. In 2011 LSC Group sold two unbuilt liquefied petroleum gas carriers with the intention to utilize the equity raised to finance two new build product tankers to be delivered in 2011. This transaction will enable the Group to grow the fleet without a negative impact on its cash position. In this respect there have been productive discussions with our lending banks over recent months and they have been fully supportive of our actions so far to stabilize the Group in what is a difficult environment.

In its normal course of business the Group uses financial assets and financial liabilities which are further described in the financial statement note 27.

The new management is committed to raising standards of corporate governance to bring Latvian Shipping Company Group into line with accepted international standards.

As part of this process, the new management are working to mitigate, and where possible to reverse, the impact of the actions of the previous management. The extraordinary shareholders' meeting of December 17, 2010 and the extraordinary shareholders' meeting of January 28, 2011 adopted resolutions to pursue claims against the former members of the Supervisory Council of Latvian Shipping Company Māris Gailis, Kārlis Boldiševics, Guntis Ločmelis, Uldis Pumpurs, Olga Pētersone, Vladimirs Solomatins, Ansis Sormulis, Normunds Staņēvičs, Andris Vilcmeiers, Svens Zālītis, Miks Ekbaums and Volodymyr Koshkul for compensation for losses caused to Latvian Shipping Company, as well as resolutions on pursuing claims against the former members of the Management Board of Latvian Shipping Company Imants Sarmulis, Edvīns Bērziņš, Andris Linužs and Raivis Veckāgans for compensation of losses caused to Latvian Shipping Company. These claims have already been submitted to Riga District Court.

The dissipation of funds and other assets during 2010, and before, is the subject of continuing investigation. A number of transactions are being challenged through the courts. Significant litigation is continuing in the UK Courts with regard to substantial losses suffered in previous years. These proceedings will be continued. Where additional legal actions are justified, they will be pursued and expanded.

Although in recent years the shipping industry has been adversely affected by the general worldwide economic situation there is now some cause for optimism with some signs of a slow recovery in shipping rates. Latvian Shipping Company Group believes that, in spite of a turbulent 2010, we are now more than able to withstand the challenges of the year ahead.

Main post balance sheet events

In March 2011 the Group sold two unbuilt liquefied petroleum gas carriers for USD52 million each. The equity raised from these sales will be used to partially finance the two new build product tankers to be delivered from Hyundai Mipo Dockyard Ltd (Korea).

In April 2011, the Group completed legal restructuring of m.t. Riga sale and leaseback transaction with a view to optimize the structure of the deal.

In June 2011, the Group has reached an agreement with the lenders under its existing loan facilities to redefine certain financial covenants in order to achieve terms and conditions more reliable to the current state of the Group (refer to the note 48 of the financial statements).

Future prospects

The Group plans to continue its operations in the core business, shipping, which is supported by the commitment to the new building programme and plans to receive two new buildings in 2011. Also, the Group plans to regain a control over LASCO Investment, the holding company of its non-core business operating in the real estate segment, which is supported by numerous litigations initiated by the current management of the Group.

Paul Thomas
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

Statement of Management's Responsibilities

The Management Board of Latvian Shipping Company prepares consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the JSC Latvian Shipping Company and its subsidiaries (hereinafter also – the Group) as of 31 December 2010, changes in shareholders' equity, cash flows and the results of the Group for the year ended 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the European Union. In preparing those consolidated financial statements, they:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the JSC Latvian Shipping Company (hereinafter also – the Parent company) and 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.

Paul Thomas
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

Consolidated income statement

for the year ended 31 December 2010

	2010 EUR'000	2009 EUR'000
Voyage income	81 959	136 457
Income from printing and publishing	23	11 705
Income from management of real estate	933	571
Rendering of services	807	1 046
Revenue	**83 722**	**149 779**
Voyage costs	(15 700)	(32 844)
Cost of sales	(63 102)	(100 933)
Gross profit	**4 920**	**16 002**
Selling costs	(8)	(2 371)
Administrative expenses	(15 368)	(19 826)
Result from disposal of non-financial assets	(1 653)	782
Impairment of non-financial assets	(73 544)	(61 786)
Other operating income	697	401
Other operating expenses	(67 652)	(7 471)
Operating loss	**(152 608)**	**(74 269)**
Deconsolidation of net financial liabilities	62 229	27 352
Finance income	1 702	1 048
Finance costs	(22 144)	(17 251)
Loss before tax	**(110 821)**	**(63 120)**
Income tax	(662)	319
Loss for the year	**(111 483)**	**(62 801)**
Attributable to:		
Equity holders of the parent	(111 439)	(62 801)
Non-controlling interests	(44)	-
	(111 483)	**(62 801)**
Loss per share	EUR (0.56)	EUR (0.31)

These Financial Statements were approved by the Management Board on June 14, 2011 and singed on its behalf by

Paul Thomas
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	2010 EUR'000	2009 EUR'000
Loss for the year	**(111 483)**	**(62 801)**
Exchange differences on translation of foreign operations	30 766	9 103
Net movement on cash flow hedges	(528)	586
Other comprehensive income for the year, net of tax	**30 238**	**9 689**
Total comprehensive loss for the year, net of tax	**(81 245)**	**(53 112)**
Attributable to:		
Equity holders of the parent	(81 201)	(53 112)
Non-controlling interests	(44)	-
	(81 245)	**(53 112)**

These Financial Statements were approved by the Management Board on June 14, 2011 and singed on its behalf by

Paul Thomas
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

Consolidated statement of financial position

as at 31 December 2010

	2010 EUR'000	2009 EUR'000
Assets		
Non-current assets		
Intangible assets	411	600
Fleet	434 288	452 999
Property, plant and equipment	3 082	7 890
Investment properties	2 389	85 659
Investment in associates	18	270
Other non-current financial assets	5 876	1 531
Total non-current assets	**446 064**	**548 949**
Current assets		
Inventories	1 544	4 310
Trade and other receivables	7 738	6 318
Prepayments	1 678	2 418
Other current financial items	25 839	39 873
Cash and short-term deposits	32 330	52 250
Total current assets	**69 129**	**105 169**
Assets classified as held for sale	4 385	16 905
Total assets	**519 578**	**671 023**

Consolidated statement of financial position *(continued)*

as at 31 December 2010

	2010 EUR'000	2009 EUR'000
Equity and liabilities		
Equity		
Issued capital	284 574	284 574
(Accumulated deficit)/retained earnings	(31 900)	79 539
Other components of equity	(17 451)	(47 689)
Equity attributable to equity holders of the parrent	**235 223**	**316 424**
Non-controlling interests	4 758	-
Total equity	**239 981**	**316 424**
Non-current liabilities		
Interest bearing loans	214 630	240 680
Finance lease	20 625	19 879
Other non-current financial liabilities	1 077	491
Trade and other payables	229	1 763
Deffered tax liability	158	10 341
Total non-current liabilities	**236 719**	**273 154**
Current liabilities		
Trade and other payables	12 130	55 489
Interest bearing loans	23 773	20 561
Finance lease	841	731
Other current financial liabilities	2 126	2 184
Deferred revenue	4 008	2 480
Total current liabilities	**42 878**	**81 445**
Total equity and liabilities	**519 578**	**671 023**

These Financial Statements were approved by the Management Board on June 14, 2011 and singed on its behalf by

Paul Thomas
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

Consolidated statement of changes in equity

for the year ended 31 December 2010

	Attributable to the equity holders of the parent						
	Issued capital	Retained earnings/ (accumulated deficit)	Cash flow hedge reserve	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 1 January 2010	**284 574**	**79 539**	**(2 675)**	**(45 014)**	**316 424**	**-**	**316 424**
Loss for the period	-	(111 439)	-	-	**(111 439)**	**(44)**	**(111 483)**
Other comprehensive income/(expense)	-	-	(528)	30 766	**30 238**	-	**30 238**
Total comprehensive income/(expense)	**-**	**(111 439)**	**(528)**	**30 766**	**(81 201)**	**(44)**	**(81 245)**
Non-controlling interests	-	-	-	-	-	4 802	**4 802**
As at 31 December 2010	**284 574**	**(31 900)**	**(3 203)**	**(14 248)**	**235 223**	**4 758**	**239 981**

for the year ended 31 December 2009

	Attributable to the equity holders of the parent						
	Issued capital	Retained earnings/ (accumulated deficit)	Cash flow hedge reserve	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 1 January 2009	**284 574**	**142 340**	**(3 261)**	**(54 117)**	**369 536**	**514**	**370 050**
Loss for the period	-	(62 801)	-	-	**(62 801)**	-	**(62 801)**
Other comprehensive income/(expense)	-	-	586	9 103	**9 689**	-	**9 689**
Total comprehensive income/(expense)	**-**	**(62 801)**	**586**	**9 103**	**(53 112)**	**-**	**(53 112)**
Non controlling interests	-	-	-	-	-	(514)	**(514)**
As at 31 December 2009	**284 574**	**79 539**	**(2 675)**	**(45 014)**	**316 424**	**-**	**316 424**

These Financial Statements were approved by the Management Board on June 14, 2011 and singed on its behalf by

Paul Thomas
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

Consolidated statement of cash flows

for the year ended 31 December 2010

	2010 EUR'000	2009 EUR'000
Operating activities		
Loss before tax	**(110 821)**	**(63 120)**
Non-cash adjustment to reconcile loss before tax to net cash flows:		
Depreciation of other property, plant and equipment and fleet	19 075	23 075
Amortisation of intangible assets	287	393
Depreciation of investment properties	455	564
Decrease in financial instruments	(14)	(1 354)
Loss on disposal of non-financial assets	1 653	182
Dry-docking deffered expenditure depreciation	1 863	2 663
Currency translation difference	9 176	(1 736)
Finance income	(1 584)	(1 048)
Finance costs	18 166	16 418
Recognized impairment	141 196	61 318
Deconsolidation of net financial liabilities	(62 229)	(27 352)
Working capital adjustments:		
(Increase)/decrease in trade and other receivables and prepayments	(986)	2 294
Decrease in inventories	3 146	357
(Decrease)/increase in trade and other payables	(6 000)	17 951
Income tax paid	-	(3)
Net cash flows from operating activities	**13 383**	**30 602**
Investing activities		
Proceeds from sale of non-current assets	19 748	65 275
Purchase of non-current assets	(3 441)	(3 001)
Purchase of investment properties	(632)	(12 144)
Disposal of investment properties	-	1 872
Investments in associates	-	(254)
Net cash flow from business combinations	(22 143)	(41 430)
Acquisition of other financial instruments	(1 907)	-
Net cash flow from deconsolidation of net financial liabilities	(519)	-
Proceeds from sale of financial instruments	142	1 885
Proceeds from disposal of subsidiaries	81	-
Placement of deposits with maturity more than three months	41 394	(617)
Loans issued	(1 116)	-
Interest received	1 384	1 776
Net cash flows from investing activities	**32 991**	**13 362**
Financing activities		
Payment of finance lease liabilities	(794)	(772)
Proceeds from borrowings	20 846	38 663
Repayment of borrowings	(69 341)	(40 282)
Interest paid	(15 481)	(13 652)
Prepaid financing expenses	(1 524)	(143)
Net cash flows used in financing activities	**(66 294)**	**(16 186)**
Net increase/(decrease) in cash and cash equivalents	**(19 920)**	**27 778**
Cash and cash equivalents at 1 January	**52 250**	**24 472**
Cash and cash equivalents at 31 December	**32 330**	**52 250**

These Financial Statements were approved by the Management Board on June 14, 2011 and singed on its behalf by

Paul Thomas
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

Notes to the financial statements

1. Accounting policies

These unaudited condensed consolidated financial statements are prepared in accordance with and comply with accounting policies applied in preparation of the consolidated financial statements of Latvian Shipping Company & its Subsidiaries for the year ended 31 December 2010, which were prepared in accordance with International Financial Reporting Standards.

The Financial Statements are prepared in U.S. dollars which is the functional currency of the Group and Latvian lats which is the presentation currency of the Group in accordance with legislation of the Republic of Latvia.

Monetary assets and liabilities of the Group denominated in other currencies are translated into U.S. dollars at the rate of exchange prevailing at the end of the reporting period.

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

Presentation of financial statements in Latvian lats is done using the exchange rate set by the Bank of Latvia in the following way: assets and liabilities are translated at the closing rate at the end of the reporting year, income and expenses for income statement are translated at the actual rates at the date of transaction, whilst resulting exchange differences are recognised as a separate component of equity.

LB rate of exchange as at 31.12.2010 USD/LVL - 0.535 (average – 0.530847)
LB rate of exchange as at 31.12.2009 USD/LVL - 0.489 (average – 0.505290)

These financial statements are translated into Euros using the rate of exchange set by the Bank of Latvia prevailing at the 31.12.2010: 1 EUR = 0.702804 LVL, 31.12.2009: 1 USD = 0.695784 EUR.

Notes to the financial statements *(continued)*

2. Segment information

for the year ended 31 December 2010

	Shipping	Other	Adjustments and eliminations	Total
	EUR '000	EUR '000	EUR '000	EUR '000
External customers	82 761	961	-	83 722
Inter-segment	104	256	(360)	-
Revenue	**82 865**	**1 217**	**(360)**	**83 722**
Cost of sales	(57 017)	(891)	144	(57 764)
Selling costs	(3)	(5)	-	(8)
Administrative expenses	(13 957)	(985)	216	(14 726)
Result from disposal of non-financial assets	(1 413)	(240)	-	(1 653)
Depreciation and amortisation	(20 967)	(713)	-	(21 680)
Impairment of non-financial assets	(38 425)	(35 119)	-	(73 544)
Other operating income	297	400	-	697
Other operating expenses	-	(67 652)	-	(67 652)
Result before financial items	**(48 620)**	**(103 988)**	**-**	**(152 608)**
Finance income	2 308	-	(606)	1 702
Finance expense	(17 865)	(4 885)	606	(22 144)
Deconsolidation of net financial liabilities	-	62 229	-	62 229
Income tax	(662)	-	-	(662)
Segment result	**(64 839)**	**(46 644)**	-	**(111 483)**
Segment assets	**489 746**	**29 832**	**-**	**519 578**
Segment liabilities	**279 597**	**-**	**-**	**279 597**

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

Notes to the financial statements *(continued)*

2. Segment information *(continued)*

for the year ended 31 December 2009

	Shipping	Other	Adjustments and eliminations	Total
	EUR '000	EUR '000	EUR '000	EUR '000
External customers	137 248	12 531	-	149 779
Inter-segment	196	985	(1 181)	-
Revenue	**137 444**	**13 516**	**(1 181)**	**149 779**
Cost of sales	(95 498)	(13 176)	359	(108 315)
Selling costs	(1)	(2 336)	4	(2 333)
Administrative expenses	(13 276)	(5 623)	268	(18 631)
Result from disposal of non-financial assets	1 570	(788)	-	782
Depreciation and amortisation	(23 485)	(3 210)	-	(26 695)
Impairment of non-financial assets	(4 315)	(57 471)	-	(61 786)
Other operating income	401	-	-	401
Other operating expenses	-	(8 021)	550	(7 471)
Result before financial items	**2 840**	**(77 109)**	**-**	**(74 269)**
Finance income	1 673	33	(658)	1 048
Finance expense	(8 764)	(6 107)	(2 380)	(17 251)
Deconsolidation of net financial liabilities	-	27 352	-	27 352
Income tax	(355)	674	-	319
Segment result	**(4 606)**	**(46 691)**	**(3 038)**	**(62 801)**
Segment assets	**619 837**	**90 450**	**(39 264)**	**671 023**
Segment liabilities	**281 412**	**112 451**	**(39 264)**	**354 599**

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

Notes to the financial statements *(continued)*

Contact person with respect to information presented in these financial statements

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