Public Joint Stock Company
Latvijas Kuģniecība

Financial Statements

31 December 2010

Content

General information

Name	Latvijas kuģniecība (hereinafter also referred to as "Company")
Legal status	Joint Stock Company
Registration number, place and date	Reg. No. 40003021108, Riga, 13 September 1991 Reregistered in the Commercial Register on 17 November 2004
Registered Office	Elizabetes iela 1, Riga, LV 1807, Latvia
Reporting period	1st January 2010 – 31st December 2010
Previous reporting period	1st January 2009 – 31st December 2009

Shareholders of the Company

The major Shareholders of the Company (above 5%) as at 31 December 2010 are as follows:

Name of the Shareholder	Share of interest	Registered office
JSC Ventspils nafta	49.94 %	Valnu iela 3-18, Riga, LV 1050, Latvia
JSC International Baltic Investments LTD	27.55 %	Blaumana iela 5A-1, Riga, LV 1011, Latvia
State Social Insurance Agency	10.00 %	Lacplesa iela 70a, Riga, LV 1011, Latvia

JSC Latvijas kuģniecība has no shareholders having control rights.

General information *(Continued)*
The Supervisory Council of the Company

Chairman of the Council	Simon Digby Boddy (from 17.12.2010.)
	Māris Gailis (until 17.12.2010.)
Deputy Chairpersons of the Council	Mikhail Dvorak (from 17.12.2010.)
	Andris Vilcmeiers (until 17.12.2010.)
	Vladimirs Solomatins (until 17.12.2010.)
Members of 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.)

General information *(Continued)*
The Management Board of the Company

Chairman of the Management Board	Paul Thomas (from 17.12.2010.) Imants Sarmulis (until 17.12.2010.)
Members of the Management Board	Michael Main King (from 17.12.2010.) Christopher James Kernon (from 05.01.2011.) Simon Richard Blaydes (from 01.06.2011.) 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.)

The Auditors of the Company

Name and address of the Auditors:	Diāna Krišjāne Sworn Auditor Certificate Nr. 124 SIA *Ernst & Young Baltic* Licence Nr. 17 1A Muitas iela, Riga, LV 1010, Latvia

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

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

Management report

Dear Shareholders and Business Partners!

JSC Latvijas kuģniecība (Latvian Shipping Company or LSC) is the parent company of LSC and its subsidiaries (Latvian Shipping Company Group, LSC Group or Group).

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

In 2010 Latvian Shipping Company (the parent company) suffered losses in the amount of LVL0.67 million, what is noticeably less than in 2009 when the losses were LVL17.59 million. However, 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 of the Group 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 of the Group 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 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.

Management report *(Continued)*

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.

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.

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 United Kingdom 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 and challenging 2010, we are now more than able to withstand the challenges of the year ahead.

Main post balance's 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 34 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 ship building programme and plans to receive two new ship buildings in 2011. Also, the Group plans to regain a control over LASCO Investment, the holding company of its non-core business operating and operations in the real estate segment, which is supported by numerous litigations initiated by the current management of the Group.

Proposal for the indemnity of losses

The Management Board of the Company proposes to cover the current year loss with the next year profit.

Statement of Management Board responsibilities

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

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

Management report *(Continued)*

Statement of Management Board responsibilities *(continued)*

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

Paul Thomas
Chairman of the Management Board
of JSC Latvijas kuģniecība
Riga, June 14, 2011

Income statement

for the year ended 31 December 2010

	Notes	2010 LVL	2009 LVL
Net sales	4	4 999 663	7 392 239
Cost of sales	5	(2 379 027)	(2 897 746)
Gross profit		**2 620 636**	**4 494 493**
Administrative expenses	6	(5 903 375)	(5 052 424)
Other operating income	7	-	127 023
Other operating expenses	8	(742 155)	(670 399)
Income from investments in subsidiaries	9	4 146 489	3 962 181
Interest and similar income	10	33 322	131 773
Impairment of non-current investments, net	11	(280 647)	(20 285 296)
Interest and similar expenses	12	(51 383)	(18 754)
Loss before taxation		**(177 113)**	**(17 311 403)**
Corporate income tax	13	(465 402)	(257 800)
Real estate tax	24	(26 548)	(25 092)
Net loss for the year		**(669 063)**	**(17 594 295)**

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

Paul Thomas
Chairman of the Management Board
of JSC Latvijas kuģniecība
Riga, June 14, 2011

Balance Sheet

as at 31 December 2010

	Notes	2010 LVL	2009 LVL
Assets			
Non-Current Assets			
Intangible Assets:			
Concessions, patents, licenses, trademarks and similar rights	14	269 157	372 947
Total Intangible Assets:		**269 157**	**372 947**
Tangible Assets:			
Land, buildings and constructions		1 783 434	2 639 521
Other fixed assets		262 798	378 519
Total Tangible Assets:	15	**2 046 232**	**3 018 040**
Investment properties	15	**1 678 948**	**1 397 000**
Non-Current Financial Assets:			
Investments in subsidiaries	16	111 650 938	111 870 026
Investments in associates	17	7 553	192 053
Total Non-Current Financial Assets:		**111 658 491**	**112 062 079**
Total Non-Current Assets		**115 652 828**	**116 850 066**
Current Assets			
Inventories	18	**9 860**	**11 449**
Accounts receivable and prepayments:			
Trade receivables	19	4 189	439
Amounts due from related companies	20	741 247	451 679
Other receivables	21	652 793	344 294
Deferred expenses		169 127	65 248
Deferred revenue		-	22
Total Accounts Receivable:		**1 567 356**	**861 682**
Cash and Cash Equivalents		**333 998**	**1 220 175**
Total Current Assets		**1 911 214**	**2 093 306**
Total Assets		**117 564 042**	**118 943 372**

Balance Sheet *(Continued)*

as at 31 December 2010

	Notes	2010 LVL	2009 LVL
Shareholders' Equity and Liabilities			
Shareholders' Equity			
Share capital		200 000 000	200 000 000
Accumulated deficit			
a) accumulated deficit for the prior years		(83 353 093)	(65 758 798)
b) loss for the reporting year		(669 063)	(17 594 295)
Total Shareholders' Equity		**115 977 844**	**116 646 907**
Liabilities:			
Non-current Liabilities:			
Deferred tax liabilities	13	110 709	104 690
Total Non-current Liabilities		**110 709**	**104 690**
Current Liabilities:			
Other loans	22	-	704 377
Trade payables		157 219	147 457
Amounts due to related companies	23	150 317	237 022
Taxes and social security contributions	24	519 512	167 394
Other accounts payable	25	52 247	167 438
Accrued liabilities	26	596 194	768 087
Total Current Liabilities		**1 475 489**	**2 191 775**
Total Liabilities		**1 586 198**	**2 296 465**
Total Shareholders' Equity and Liabilities		**117 564 042**	**118 943 372**

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

Paul Thomas
Chairman of the Management Board
of JSC Latvijas kuģniecība
Riga, June 14, 2011

Statement of Changes in Shareholders' Equity

for the year ended 31 December 2010

	Share Capital LVL	Accumulated deficit LVL	Total LVL
31 December 2008	**200 000 000**	**(65 758 798)**	**134 241 202**
Net loss for the year	-	(17 594 295)	(17 594 295)
31 December 2009	**200 000 000**	**(83 353 093)**	**116 646 907**
Net loss for the year	-	(669 063)	(669 063)
31 December 2010	**200 000 000**	**(84 022 156)**	**115 977 844**

As of 31 December 2010 the authorised, issued and fully paid share capital of the Company consists of 200 000 000 shares with nominal value of LVL 1 per share. All shares are publicly traded and listed on NASDAQ OMX Riga official list. All shares are ordinary shares with voting rights.

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

Paul Thomas
Chairman of the Management Board
of JSC Latvijas kuģniecība
Riga, June 14, 2011

Cash Flow Statement

	2010 LVL	2009 LVL
Cash Flow from Operating Activities		
Loss before taxation	(177 113)	(17 311 403)
Adjustments for:		
Depreciation	249 906	309 143
Intangible assets amortisation	201 180	178 567
Accrued expenses increase	1 712 562	503 759
Impairment of investment properties	742 082	270 009
Foreign exchange loss	8 229	33 782
Income from investments in subsidiaries and associates	(4 129 383)	(3 216 000)
Other interest income	(359)	(5 877)
Other interest expenses	15 955	14 344
Impairment of non-current investments	263 541	19 539 115
Loss/(gain) from disposal of fixed assets	73	(126 078)
(Loss)/ profit before adjustments for movements in net working capital	**(1 113 327)**	**189 361**
Adjustments for:		
Decrease in inventories	1 589	2 943
(Increase)/decrease in trade and other receivables	(2 418 234)	144 446
Decrease in trade and other payables	(327 742)	(1 374 381)
Gross Cash Flow from Operating Activities	**(3 857 714)**	**(1 037 631)**
Real estate tax	(26 511)	(25 092)
Net Cash Flow from Operating Activities	**(3 884 225)**	**(1 062 723)**
Cash Flow from Investing Activities		
Acquisition of tangible and intangible assets, assets under construction	(410 781)	(375 987)
Investments in investment property	-	(1 339 609)
Investments in subsidiaries	-	(1 500 000)
Investments in associates	-	(184 500)
Proceeds from sale of fixed and intangible assets	11 190	250 069
Proceeds from disposal of subsidiaries	690 741	1 359 558
Interest received	359	3 167
Dividends received	3 433 615	3 216 000
Net Cash Flow from Investing Activities	**3 725 124**	**1 428 698**
Cash Flow from Financial Activities		
Loans received	-	702 804
Repayment of loans	(702 804)	-
Interest paid	(16 043)	-
Net Cash Flow from Financial Activities	**(718 847)**	**702 804**
Currency Translation Difference	(8 229)	(33 782)
Net (Decrease)/Increase in Cash and Cash Equivalents	**(886 177)**	**1 034 997**
Cash and Cash Equivalents at the beginning of the year	1 220 175	185 178
Cash and Cash Equivalents at the end of the year	**333 998**	**1 220 175**

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

Paul Thomas
Chairman of the Management Board
of JSC Latvijas kuģniecība
Riga, June 14, 2011

Notes

1. General information

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

The financial statements of the Company were authorized for issue in accordance with resolution of the Management Board as of 14 June 2011. The Company's shareholders have the power to amend the financial statements after they have been issued.

2. General principles

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

2.1. Statement of Compliance

The financial statements have been prepared in accordance with the Law of the Republic of Latvia On Annual Accounts and Latvian Accounting Standards (LAS) applicable in the reporting year. The financial statements have been prepared on a historical cost basis. The reporting period for the annual report is from 1 January 2010 till 31 December 2010 and financial statements are prepared in Latvian lats (LVL). The income statement is prepared in accordance with the turnover method. Cash flow statement is prepared using the indirect cash flow method.

2.2. Changes in accounting policy and disclosures

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

3. Accounting policies and measurement basis

a) Related parties

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

b) Net sales and income recognition

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

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

Notes *(Continued)*

Accounting policies and measurement basis *(continued)*

c) Foreign currency conversion into Lats

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

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

	31.12.2010. LVL	31.12.2009. LVL
1 USD	0.535	0.489
1 EUR	0.702804	0.702804

d) Intangible assets

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

e) Tangible fixed assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the tangible fixed asset is put into operation or engaged in commercial activity.

Each part of an item of fixed asset with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of fixed asset, it also depreciates separately the remainder of the item. Remainder of the item consists of the parts that are not separately significant.

When tangible fixed assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statements.

The following depreciation rates were established and applied:

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

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

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

Assets under construction in progress are not depreciated as long as the respective assets are not completed and put into operation.

Notes *(Continued)*

Accounting policies and measurement basis *(continued)*

f) Investment property

Investment properties consist of investments in land and building held to earn rentals or for capital appreciation purposes. Investment properties are measured at cost, representing purchase price and related transaction costs. Depreciation is calculated on a straight line basis over the useful life of the asset using the rates of 3.45% per annum. Land is not depreciated.

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

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

g) Investments in subsidiaries

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

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

h) Investments in associates

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

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

i) Other securities and investments

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

j) Inventories

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

k) Trade receivables

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

Notes *(Continued)*

Accounting policies and measurement basis *(continued)*

l) Cash and cash equivalents

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

m) Provisions

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

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

n) Loans and borrowings

All loans and borrowings are initially recognised at cost.

o) Accruals for employee vacation expenses

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

p) Corporate income tax

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

q) Operating lease

Lease of the assets where the lessor retains substantially all risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Contingent liabilities are recognized as off balance sheet items.

r) Use of estimates

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

s) Post balance sheet events

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

Notes *(Continued)*

4. Net sales

	LVL			
	2010		2009	
	World-wide	Latvia	World-wide	Latvia
Income from commercial and management services	4 804 501	-	7 093 647	
Income from IT and other services	-	142 354	-	214 496
Rental income	-	52 808	-	84 096
Total	**4 804 501**	**195 162**	**7 093 647**	**298 592**

5. Cost of sales

	LVL	
	2010	2009
Salaries, training and other social costs	(765 779)	(1 109 647)
Social security contributions	(181 765)	(262 544)
Professional charges and legal costs	(779 776)	(903 277)
IT and communication	(280 163)	(192 179)
Depreciation and amortisation	(264 610)	(270 521)
Repairs and maintenance expenditure	(35 698)	(58 405)
Transport and travelling expenses	(32 412)	(73 877)
incl. social security contributions	-	*(6 661)*
Advertising and marketing	-	(3 553)
Other costs	(38 824)	(23 743)
Total	**(2 379 027)**	**(2 897 746)**

6. Administrative expenses

	LVL	
	2010	2009
Salaries, training, health insurance and other social costs	(2 041 959)	(2 535 434)
Social security contributions	(472 732)	(476 062)
Movements in doubtful debts and other provisions	(1 712 912)	(106 120)
Occupation and repairs	(274 919)	(364 062)
Transport and travelling expenses	(192 231)	(280 231)
incl. social security contributions	-	*(12 851)*
Depreciation and amortisation	(186 476)	(217 189)
Professional fees	(174 813)	(165 139)
Advertising and marketing	(47 088)	(269 435)
IT and communication	(14 433)	(15 009)
Other expenses	(785 812)	(623 743)
Total	**(5 903 375)**	**(5 052 424)**

7. Other operating income

	LVL	
	2010	2009
Income from sale of investment properties	-	127 023
Total	**-**	**127 023**

Notes *(Continued)*

8. Other operating expenses

	LVL	
	2010	2009
Impairment of investment properties *(See Note 15)*	(742 082)	(270 009)
Loss on disposal of fixed assets	(73)	(945)
Accruals for compensation on tax losses carried forward within the Group	-	(399 445)
Total	**(742 155)**	**(670 399)**

9. Income from investments in subsidiaries

	LVL	
	2010	2009
Dividends received from Latmar Holdings Corporation	3 433 615	2 472 000
Income from sale of SIA LSC Shipmanagement share	470 000	-
Dividends received from SIA LSC Marine Training	145 074	-
Income from liquidation of Kritaps Insurance Ltd.	97 800	-
Dividends received from Kritaps Insurance Ltd.	-	744 000
Income from sale of SIA Karavella Property share	-	736 623
Income from liquidation of SIA Ostas serviss	-	9 558
Total	**4 146 489**	**3 962 181**

10. Interest and similar income

	LVL	
	2010	2009
Net gain from foreign currency translation	32 963	-
Interest income	359	2 496
Interest income from short term loans advanced to subsidiaries	-	3 381
Net gain from foreign currency rate fluctuations	-	125 896
Total	**33 322**	**131 773**

11. Impairment of non-current investments, net

	LVL	
	2010	2009
SIA Futbola klubs Ventspils	(184 500)	-
SIA Marine Training	(79 041)	-
Loss from sale of SIA Jūras servisa centrs share	(17 106)	-
Reorganization reserve	-	(1 285 296)
SIA LASCO Investment	-	(19 000 000)
Total	**(280 647)**	**(20 285 296)**

(See also Notes 16 and 17).

Notes *(Continued)*

12. Interest and similar expenses

	LVL 2010	LVL 2009
Net loss from foreign currency rate fluctuations	(32 802)	-
Interest expenses	(15 955)	(14 344)
Financial institutions charges	(2 626)	(2 068)
Net loss from foreign currency translation	-	(2 342)
Total	**(51 383)**	**(18 754)**

13. Corporate income tax

	LVL 2010	LVL 2009
Current income tax charge	(459 383)	-
Deferred income tax	(6 019)	(257 800)
Income tax expense reported in the income statement	**(465 402)**	**(257 800)**

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

	LVL 2010	LVL 2009
Loss before taxes	(177 113)	(17 311 403)
Tax calculated at tax rate of 15%	(26 567)	(2 596 710)
Expenses not deductible for tax purposes	814 637	3 257 719
Income not subject to corporate income tax	(318 686)	-
Expenses reducing taxable income	(3 982)	(3 764)
Tax losses carried forward within the Group	-	(399 445)
Income tax expense	**465 402**	**257 800**

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

	LVL 31.12.2010.	LVL 31.12.2009.
Excess of tax allowances over depreciation	137 457	152 074
Other temporary differences	(26 748)	(47 384)
Deferred tax liabilities	**110 709**	**104 690**

Notes *(Continued)*

14. Intangible assets

	Licences	Total
	LVL	LVL
Historical cost		
At 1 January 2009	546 576	546 576
Additions	297 807	297 807
Disposals	(38 025)	(38 025)
At 31 december 2009	**806 358**	**806 358**
Additions	97 411	97 411
Disposals	(102 985)	(102 985)
At 31 december 2010	**800 784**	**800 784**
Accumulated amortisation		
At 1 January 2009	292 869	292 869
Amortisation	178 567	178 567
Disposals	(38 025)	(38 025)
At 31 december 2010	**433 411**	**433 411**
Amortisation	201 180	201 180
Disposals	(102 964)	(102 964)
At 31 december 2010	**531 627**	**531 627**
Net book value:		
At 31 december 2009	**372 947**	**372 947**
At 31 december 2010	**269 157**	**269 157**

Notes *(Continued)*

15. Tangible Assets and Investment Property

	Land, buildings and construction	Machinery and equipment	Other fixed assets	Assets under construction	Investment properties	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Historical cost						
At 1 January 2009	2 971 476	19 175	1 686 602	6 131	1 759 977	6 443 361
Additions	-	-	78 180	-	30 009	108 189
Reclassification	-	-	5 294	(5 279)	-	15
Disposals	-	(19 175)	(213 927)	(852)	(122 977)	(356 931)
At 31 december 2009	**2 971 476**	**-**	**1 556 149**	**-**	**1 667 009**	**6 194 634**
Additions	247 326	-	61 096	-	4 948	313 370
Reclassification*	(1 100 733)	-	(12 209)	-	1 112 942	-
Disposals	-	-	(263 264)	-	-	(263 264)
At 31 december 2010	**2 118 069**	**-**	**1 341 772**	**-**	**2 784 899**	**6 244 740**
Accumulated depreciation and impairment						
At 1 January 2009	248 789	9 051	1 137 715	-	-	1 395 555
Depreciation	83 166	1 240	224 737	-	-	309 143
Impairment	-	-	-	-	270 009	270 009
Disposals	-	(10 291)	(184 822)	-	-	(195 113)
At 31 december 2009	**331 955**	**-**	**1 177 630**	**-**	**270 009**	**1 779 594**
Depreciation	84 331	-	165 575	-	-	249 906
Impairment	-	-	-	-	742 082	742 082
Reclassification*	(81 651)	-	(12 209)		93 860	-
Disposals	-	-	(252 022)	-	-	(252 022)
At 31 december 2010	**334 635**	**-**	**1 078 974**	**-**	**1 105 951**	**2 519 560**
Net book value						
At 31 december 2009	**2 639 521**	**-**	**378 519**	**-**	**1 397 000**	**4 415 040**
At 31 december 2010	**1 783 434**	**-**	**262 798**	**-**	**1 678 948**	**3 725 180**

The carrying value of the Company's real estate as at 31 December 2010 amounted to LVL 3 457 434 (31 December 2009: LVL 4 036 521). The cadastral value of the real estate as at 31 December 2010 amounted to LVL 1 854 764 (31 December 2009: LVL 1 729 338).

As at 31 December 2010 the fair value of real estate owned by Company was estimated based on independent valuator's valuation, where the market value of the real estate was determined to be LVL 3 796 000 (31 December 2009: LVL 4 319 500).

*Due to change in type of use of the real estate in December 2010, part of real estate in value of LVL 1 019 082 is reclassified to investment properties.

Fully depreciated fixed assets

Part of the fully depreciated fixed assets still used in operating activities of the Company. Total cost value of those assets as at 31 December 2010 is LVL 0.750 million (31 December 2009: LVL 0.640 million).

Notes *(Continued)*

16. Information on the subsidiaries and investments in those

(a) Investments in subsidiaries

Name and address	**Percentage holding %**	**31.12.2010.**	**Acquisition**	**Impairment**	**31.12.2009.**
Latmar Holdings Corporation 80 Broad Street, City of Monrovia,Liberia	100	111 417 849	-	-	111 417 849
Kristaps Insurance Ltd.* 11 Victoria Street P.O. Box HM 392 Hamilton HM PX, Bermudas	100	-	-	(79 542)	79 542
LSC Holdings Limited Manning House, 21 Bucks Road, Douglas, Isle of Man	100	10 920	-	-	10 920
Arctic Holdings Corporation* Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	100	-	-	-	-
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3rd floor, 32 flat, Limassol, Cyprus	100	1 210	-	-	1 210
Crown Navigation Inc.* Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands	100	-	-	-	-
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-	-
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-	-
SIA LASCO Investment Berzaunes iela 11A, Riga, LV 1039, Latvia	100	-	-	-	-
SIA LSC Marine Training Ganibu dambis 24D, Riga, LV 1045, Latvia	100	220 959	-	(79 041)	300 000
SIA Jūras servisa centrs* Andrejostas iela 4a, Riga, LV 1045, Latvia	100	-	-	(60 505)	60 505
SIA LSC Shipmanagement* Ganibu dambis 10A, Riga, LV 1045, Latvia	100	-	-	-	-
SIA Ostas serviss* Elizabetes iela 1, Riga, LV 1807, Latvia	100	-	-	-	-
Reorganization reserve		-		-	-
		111 650 938	**-**	**(219 088)**	**111 870 026**

*Notes:

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

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

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

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

Holding company Arctic Holding Corporation was incorporated in July 2010.

The shares of the SIA LSC Shipmanagement owned by the Company were sold in September 2010 within the Group.

Notes *(Continued)*

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

(a) Investments in subsidiaries *(continued)*

Name and address	Percentage holding %	31.12.2009.	Acquisition	Impairment	31.12.2008.
Latmar Holdings Corporation					
80 Broad Street,					
City of Monrovia, Liberia	100	111 417 849	-	-	111 417 849
Kristaps Insurance Ltd.					
11 Victoria Street P.O. Box HM 392					
Hamilton HM PX , Bermudas	100	79 542	-	-	79 542
LSC Holdings Limited					
Manning House, 21 Bucks Road,					
Douglas, Isle of Man	100	10 920	-	-	10 920
Santomar Holdings Company Ltd.					
284 AR CH Makarios III AVE., Fortuna Court					
block 13, 3rd floor, 32 flat, Limassol, Cyprus	100	1 210	-	-	1 210
Crown Navigation Inc.					
Ajeltake Road, Ajeltake Island,					
Majuro, Marshall Islands	100	-	-	-	-
Razna Shipping Corporation					
80 Broad Street,					
City of Monrovia, Liberia	100	-	-	-	-
Taganroga Shipping Corporation					
80 Broad Street,					
City of Monrovia, Liberia	100	-	-	-	-
SIA LASCO Investment					
Berzaunes iela 11A,					
Riga, LV 1039, Latvia	100	-	1 500 000	(19 000 000)	17 500 000
SIA Karavella Property*					
Elizabetes iela 1,					
Riga, LV 1807, Latvia	100	-	-	(613 377)	613 377
SIA LSC Marine Training					
Ganibu dambis 24D,					
Riga, LV 1045, Latvia	100	300 000	-	-	300 000
SIA Jūras servisa centrs					
Andrejostas iela 4a,					
Riga, LV 1045, Latvia	100	60 505	-	-	60 505
LSIA Latvian - Finnish Maritime Agency*					
Elizabetes iela 1,					
Riga, LV 1010, Latvia	100	-	-	-	-
SIA LSC Shipmanagement*					
Ganibu dambis 10A,					
Riga, LV 1045, Latvia	100	-	-	-	-
SIA Ostas serviss*					
Elizabetes iela 1,					
Riga, LV 1807, Latvia	100	-	-	-	-
Reorganization reserve		-	-	(1 285 296)	1 285 296
		111 870 026	**1 500 000**	**(20 898 673)**	**131 268 699**

*Notes:

The shares of the SIA Karavella Property owned by the Company were sold in August 2009.

LSIA Latvian - Finnish Maritime Agency owned by the Company was liquidated in December 2009.

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

Notes *(Continued)*

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

(b) Information on subsidiaries

Name and address	Shareholders' Equity of the subsidiaries, LVL		Profit/(Loss) of the subsidiaries, LVL	
	31.12.2010.	**31.12.2009.**	**2010**	**2009**
Latmar Holdings Corporation 80 Broad Street, City of Monrovia, Liberia	130 514 737	186 782 397	(74 873 375)	(26 551 208)
LSC Holdings Limited Manning House, 21 Bucks Road, Douglas, Isle of Man	33 721 999	37 093 511	(6 589 187)	2 136 338
Arctic Holdings Corporation Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	-	-	-	-
Kristaps Insurance Ltd. 11 Victoria Street P.O. Box HM 392 Hamilton HM PX , Bermudas	-	170 640	-	54 746
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3rd floor, 32 flat, Limassol, Cyprus	18 739	19 014	(1 984)	(692)
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	-	-	-	3 063 360
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	-	-	-	2 675 573
SIA LASCO Investment Berzaunes iela 11A, Riga, LV 1039, Latvia	-	(15 462 791)	-	(33 924 951)
SIA LSC Marine Training Ganibu dambis 24D, Riga, LV 1045, Latvia	220 959	445 074	(79 041)	18 190
SIA Jūras servisa centrs Andrejostas iela 4a, Riga, LV 1045, Latvia	-	51 724	-	(7 504)
SIA LSC Shipmanagement Ganibu dambis 10A, Riga, LV 1045, Latvia	-	647 512	-	1 922 228

The Group of Latmar Holdings Corporation has of 72 subsidiaries 100% owned by the Latmar Holdings Corporation from which 21 company is registered in Malta, 26 in Cyprus, 23 in Liberia, one in Caymans Islands and one in Latvia.

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

Arctic Holding Corporation has four foreign companies Brasla Shipping Corporation, Imula Shipping Corporation, Misa Shipping Corporation and Ritupe Shiping Corporation.

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

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

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

100% share in SIA LASCO Housing Service owned by the Group was sold in October 2010.

Notes *(Continued)*

17. Investments in associated undertakings

Name and address	Percentage holding % 31.12.2010.	Investment Value net LVL 31.12.2010.	Shareholders' Equity LVL 31.12.2010.
SIA Via Una			
Katrinas dambis 10,Riga, LV 1045, Latvia	45.45 %	7 553	46 138
SIA Futbola klubs Ventspils			
Dzintaru iela 54, Ventspils, LV 3602, Latvia	23.06 %	-	493 120

The loss for the associated company SIA Via Una for 2010 was LVL 51 797 (2009: profit LVL 37 078).

The loss for the associated company SIA Futbola klubs Ventspils for 2010 was LVL 573 029.

Assessment of recoverability of investment in SIA Futbola klubs Ventspils was performed at the end of 2010. Based on the planned future cash flows by the company, impairment of the investment is recognised in amount of LVL 184 500. *(See also Note 11)*.

18. Inventories

	LVL	
	31.12.2010.	31.12.2009.
Other materials and inventories	9 763	11 424
Fuel	97	25
Total	**9 860**	**11 449**

19. Accounts receivable

	LVL	
	2010	2009
Trade receivables, gross	50 673	46 923
Provision for doubtful debts	(46 484)	(46 484)
Total	**4 189**	**439**

Notes *(Continued)*

20. Amounts due from related companies

	31.12.2010.	31.12.2009.
Latmar Holdings Corporation	334 046	138 249
SIA LSC Shipmanagement	26 880	18 031
Sloka Navigation Inc.	21 348	-
Limetree Shipping Co. Ltd.	20 260	-
Sabile Navigation Inc.	19 294	-
Kolka Navigation Inc.	17 662	-
Saulkrasti Navigation Inc.	17 576	-
Smiltene Navigation Inc.	17 578	-
Skrunda Navigation Inc.	17 564	-
Stende Navigation Inc.	17 514	-
Salacgriva Navigation Inc.	17 264	-
Straupe Navigation Inc.	17 264	-
Saldus navigation Inc.	17 062	-
Kazdanga navigation Inc.	16 726	-
Kabile Navigation Inc.	16 237	-
LSC Holdings Limited	16 230	248 587
Kaltene Navigation Inc.	16 198	-
Kandava navigation Inc.	15 530	-
Hose Marti Shipping Corporation	15 347	-
Sigulda Navigation Inc.	15 293	-
Cape Wind Traiding Company	15 220	-
Kursa Navigation Inc.	14 460	-
Kuldiga Navigation Inc.	13 783	-
Dzons Rids Shipping Corporation	10 043	-
World Reefer Corporation	10 465	-
Santomar Holdings Company Ltd.	4 083	3 732
SIA Skonto Nafta	160	-
SIA Nafta Invest	160	-
SIA LASCO Investment	-	27 185
JSC Preses nams	-	11 216
SIA LASCO Housing Service	-	3 917
SIA Mediju nams	-	762
Total	**741 247**	**451 679**

The receivables are stated at their net value. *(See also Notes 16 and 31).*

Notes *(Continued)*

21. Other receivables

	31.12.2010. LVL	31.12.2009. LVL
Overpaid value added tax *(see Note 24)*	528 675	87 210
Overpaid non-resident income tax	-	3 379
Other receivables, net*	124 118	253 705
Total	**652 793**	**344 294**

*Additions in allowances for impairment of receivables were recognised in 2010 in amount of LVL 1.7 million. *(See also Note 6).*

22. Other loans

	31.12.2010. LVL	31.12.2009. LVL
SIA "Rīgas tirdzniecības osta"	-	704 377
Total	**-**	**704 377**

The Company repaid long term loan before maturity in amount of EUR 1 million (LVL 0.704 million) in June 2010.

23. Amounts due to related parties

	31.12.2010. LVL	31.12.2009. LVL
SIA LSC Marine Training *	88 524	223 648
Latmar Holdings Corporation	44 329	-
SIA LSC Shipmanagement	11 713	3 685
SIA LASCO Investment	4 808	-
LSC Holdings Limited	943	-
SIA Jūras servisa centrs *	-	9 616
SIA LASCO Housing service	-	73
Total	**150 317**	**237 022**

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

Notes *(Continued)*

24. Taxes and social security contributions

	Income tax	Value added tax	Real estate tax	Social security contribution	Personal income tax	State business risk duty	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
(Payable) 31.12.2009.	**-**	**-**	**-**	**(101 476)**	**(65 900)**	**(18)**	**(167 394)**
Overpaid 31.12.2009.	**3 379**	**87 210**	**-**	**-**	**-**	**-**	**90 589**
Charge	(459 383)	441 465	(26 548)	(960 962)	(741 383)	(196)	(1 747 007)
Reimbursed	-	-	-	1 053	-	-	1 053
Reduced	-	-	-	58	-	-	58
Paid	-	-	26 511	1 022 499	782 655	199	1 831 864
(Payable) 31.12.2010.	**(456 004)**	**-**	**(37)**	**(38 828)**	**(24 628)**	**(15)**	**(519 512)**
Overpaid 31.12.2010.		**528 675**	**-**	**-**	**-**	**-**	**528 675**

25. Other accounts payable

	LVL	
	31.12.2010.	31.12.2009.
Salaries	50 436	164 624
Deductions from salaries	18	22
Other payables	1 793	2 792
Total	**52 247**	**167 438**

26. Accrued liabilities

	Accruals for employee vacations	Accruals for employee bonuses and salaries	Accruals for other expenses	Other accruals	Total
	LVL	LVL	LVL	LVL	LVL
31.12.2009.	**283 578**	**2 747**	**82 317**	**399 445**	**768 087**
Increase	-	-	65 620	-	65 620
Decrease	(152 449)	(2 747)	(82 317)	-	(237 513)
31.12.2010.	**131 129**	**-**	**65 620**	**399 445**	**596 194**

27. Fees paid to external auditors

	LVL	
	2010	2009
Audit of the financial statements	69 145	32 287
Management consulting	14 299	17 120
Total	**83 444**	**49 407**

Notes *(Continued)*

28. Off balance sheet liabilities

Operating lease liabilities

At the year end the Company as a lessee has entered into one vehicles operating lease agreement. In 2010 the total amount of the annual operating lease expense was LVL 28 998 (2009: LVL 40 958)

As at 31 December 2010, the future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	LVL	
	31.12.2010.	31.12.2009.
Less than one year	8 942	30 136
Between one and three years	745	9 687
Total	**9 687**	**39 823**

Minimum lease payments are calculated based on floating rate 4.56% respectively which was effective at the date of the agreement. Actual floating rates as at 31 December 2010 where between 1.33% and 2.93%. (31 December 2009: 1.44% - 4.56%)

Guaranteed issued

In 2004, for the purpose of financing the new-building program for new vessels the JSC Latvian Shipping Company Group signed a long term loan agreement with the maximum loan amount of US $ 360 million and another long term loan with the maximum loan amount of US $ 75 million to finance purchase of vessels. Both loans are denominated in US $ and are advanced to the JSC Latvian Shipping Company Group's single vessel companies. As a security the lenders have mortgages of vessels together with common assignments and pledges. JSC Latvian Shipping Company has issued corporate guarantees to secure these loans, guarantees being given in the normal course of business.

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

Capital commitments

In November 2007 the Group signed contracts with Hyundai Mipo Dockyard Co., Ltd. (HMD) for the building of four medium-range (MR) ice-classed tankers of 52 000 DWT each with the delivery scheduled in 2011 - 2012. In accordance with the amendment dated 4 December 2009 two of ordered four ice-classed tankers where converted to two 20 600 CBM gas carriers. In March 2011 the Group sold two new build gas carriers at price USD 52 million each. The cash raised from these sales will be used to finance these two new build product tankers. The total value of these contracts is around USD 71.5 million.

Legal cases

The entities within JSC Latvian Shipping Company have been involved in several court cases.

29. Average number of employees

The average number of the Company's employees during 2010 and 2009 was 64 and 79, respectively.

30. Key management remuneration

Management Board remuneration for 2010 was LVL 530 175 (2009: LVL 737 082), social security contributions amounted to LVL 122 438 (2009: LVL 169 592). The remuneration of Supervisory Council members for 2010 was LVL 926 079 (2009: LVL 1 100 746), and social security contributions amounted to LVL 218 048 (2009: LVL 262 319).

During 2010 no loans or guarantees were issued to the members of Supervisory Council and Management Board.

Notes *(Continued)*

31. Transactions with related parties

Transactions with subsidiaries

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

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

	LVL	
	2010	2009
Income from commercial management services	4 804 501	7 093 647
Income from the goods sold and services rendered	205 641	335 894
Interest income on borrowings to subsidiaries	-	3 381
Total	**5 010 142**	**7 432 922**
Interest expenses	(1 485)	(12 771)
Cost of goods and services received	(110 147)	(129 882)
Total	**(111 632)**	**(142 653)**

(See also Notes 20 and 23).

Transactions with other related parties

In 2010 the Company has received legal services from related party – shareholder in amount of LVL 8 324.

32. Financial risk management

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

Financial risks

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

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

	LVL	
	2010	2009
Financial assets USD	494 927	796 666
Financial liabilities USD	(165 464)	(480 010)
Net balance sheet position, USD	**329 463**	**316 656**
Net balance sheet position, LVL	**176 263**	**154 845**

Liquidity risk
The Company's liquidity risk policy is based on a conservative approach whose main objective is to ensure the safeguarding of cash flows generated from operations and investments.

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

Notes *(Continued)*

Financial risks *(continued)*

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

Fair value

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

Capital management

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

33. Events after the reporting period

On 3 January 2011 the insolvency of SIA LASCO Investment was announced by the Court.

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

34. Going Concern

The Group has significant balance interest bearing loans as at 31 December 2010. 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.

The Group considers that it has complied with conditions and covenants set by Banking syndicates as at 31 December 2010 and financial statements reporting date.

Subsequent to the year-end specific covenants set under the loan agreements were not met. Particularly, as at 31 March 2011 the Group did not meet financial covenant ratio EBITDA (earnings before interest, tax, depreciation and amortisation)/ Debt service and Cash reserve covenant as set under the loan agreement. During 2011 formal agreement was reached with the existing lenders on temporary waiver of EBITDA/ Debt service covenant till 31 December 2011 and reduction of minimum Cash reserve covenant down to USD 25 million.

The management of JSC Latvian Shipping Company acknowledges that certain breaches of the bank loan covenants might occur onwards. These conditions give rise to a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern; therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. However the management is confident that, if needed, the agreement on debt restructuring or further waivers of covenants will be successfully obtained.

The 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.

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas Kuģniecība

Report on the financial statements

We have audited the accompanying financial statements of AS Latvijas Kuģniecība (the "Company"), set out on pages 9 through 32 of the accompanying 2010 Annual Report, which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS Latvijas Kuģniecība as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Emphasis of matter

The accompanying financial statements have been prepared on a going concern basis. Without qualifying our opinion we draw attention to Note 26 of the accompanying financial statements, which indicates the uncertainties regarding changes in key assumptions, if any, that might significantly impact the Latvian Shipping Company's Group's ability to meet financial targets and ratios that are needed to comply with requirements and restrictions under the bank loan agreement entered by LSC Holdings Ltd group and the Company as its sole shareholder. These conditions, along with the other matters as depicted in Note 26, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2010 (set out on pages 6 through 8 of the accompanying 2010 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2010.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 15 June 2011

A member firm of Ernst & Young Global