LATVIJAS KUĢNIECĪBA

**Public Joint Stock Company**
**Latvian Shipping Company and its Subsidiaries**

# Consolidated Financial Statements

**31 December 2010**

# Contents

# Information about JSC Latvian Shipping Company in brief

## MISSION

JSC Latvijas kuģniecība (Latvian Shipping Company) and its subsidiaries (Latvian Shipping Company Group, LSC Group or Group) is successfully and competitively engaged in the worlds shipping industry. Its main focus of expertise is the handy sized and medium range tanker segments where it provides its clients with a highly professional transportation service in compliance with international safety standards.


## STRATEGY

The strategy of the Group is to maintain a modern flexible fleet to ensure it remains amongst the leading handy sized and medium range tanker owners in the world. In this respect it is the LSC Group’s intention periodically, and when economically viable, to acquire new vessels. The objective of this core strategy is to improve shareholder value.

## LATVIAN SHIPPING COMPANY GROUP PERFORMANCE

The core activity of Latvian Shipping Company Group is the carriage of oil by sea with its large product tanker fleet. LSC Group offers a wide and diverse range of options and flexibility to its clients as its vessels can be received in all the ports, seas and oceans of the world. Following the best Latvian maritime traditions LSC Group provides a safe, reliable service to its clients as well as offering a wealth of technical expertise. Along with the above mentioned services LSC Group successfully offers professional education to seamen providing training and crewing in compliance with the international conventions for its own vessels.

# 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

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

# Professional experience of the members of the Management board

### Paul Thomas – Chairman of the Management Board

*Head of Vitol Group's* World Wide Shipping since 1988, director of the shipping company *Finaval Spa* since 2007, member of the Management Board of Latvian Shipping Company since June 2010.

### Ashley John Neale – Member of the Management Board (until 01.06.2011)

CFO of *Vitol Tank Terminals International* Group until June 2009 and since then a consultant to *Vitol Tank Terminals International* Group and Vitol, member of the Supervisory Council of JSC "Ventspils nafta" from 2006 till 2009.

### Michael Main King – Member of the Management Board

Head *of Vitol Group's* World Wide Shipping Operations since 2005, prior to that General Manager at Tankers Ship owners *Zodiac Maritime London* for seven years.

### Christopher James Kernon – Member of the Management Board

With more than twenty years of experience in the shipping industry. Previously C. Kernon was responsible for shipping and chartering in Asia and Australia for *Vitol Group*. Last seven years he is responsible for projects and shipping time charters at *Vitol Group*.

### Simon Richard Blaydes – Member of the Management Board (from 01.06.2011)

S. Blaydes has taken up the position of CFO of the *Arawak Group* of companies since 2009. He was previously a partner in the transaction support departments of *Ernst & Young's* Energy practices in Beijing, London and Kazakhstan. He is a chartered accountant and an associate of The Institute of Chartered Accountants in England and Wales (ICAEW) who trained with *Price Waterhouse* (now *Price Waterhouse Coopers*) working for them in the UK and Russia.

# The election of the Supervisory Council, the Management Board and committees

Current Supervisory Council of Latvian Shipping Company was elected in the extraordinary shareholders meeting on January 28, 2011. It represents all 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 substantial changes are made in the Management Board of Latvian Shipping Company at the end of 2010 and it now consists of four members: Chairman Paul Thomas and members Michael Main King, Christopher James Kernon and Simon Richard Blaydes (from 01.06.2011).

The Audit Committee of Latvian Shipping Company consists of three members. Extraordinary shareholders meeting on December 17, 2010 elected a new audit committee consisting of Lahsen Idiken, Mikhail Dvorak, Jozef Hubertus Johannes Baardemans.

# Shareholders

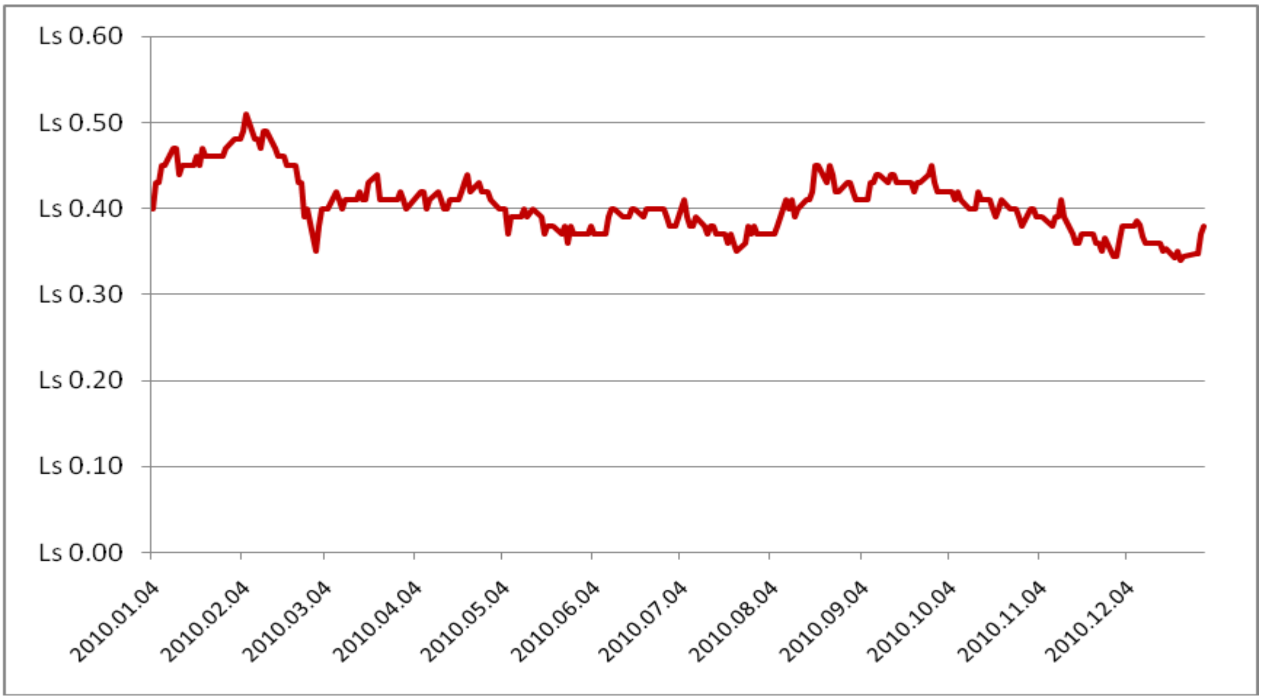
**The major Shareholders (above 5%) of JSC Latvian Shipping Company are:**

- JSC *Ventspils nafta* - 49.94%
- JSC *International Baltic Investments* Ltd. - 27.55%
- State Social Insurance Agency - 10.00%

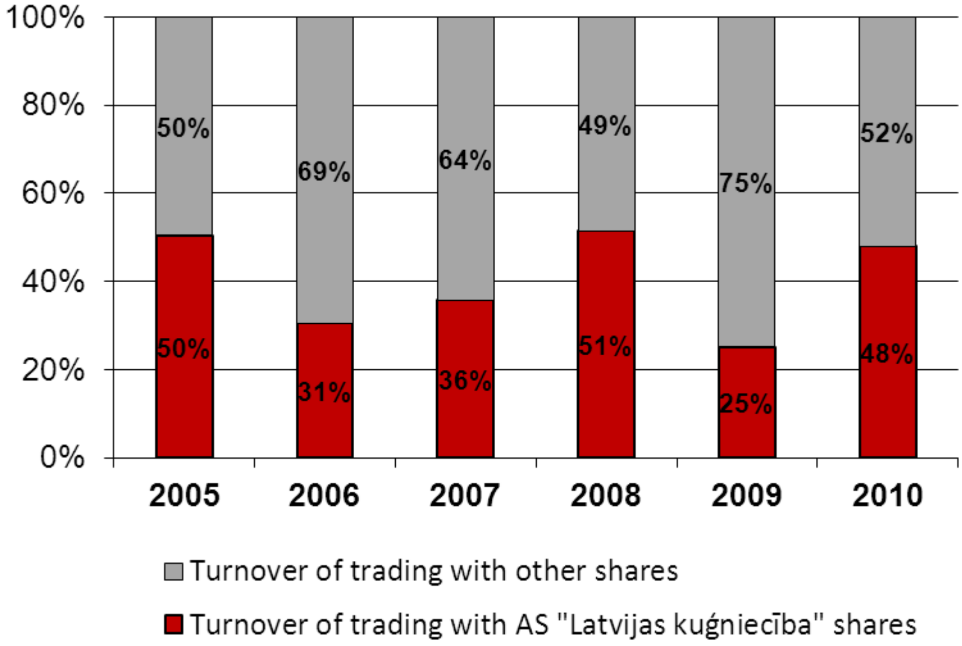
No individual shareholder has a legal control.

# Review of shares

**SHARE PRICE MOVEMENT (LVL)**




**PROPORTION OF SHARES IN THE TOTAL SHARE TURNOVER OF NASDAQ OMX RIGA OFFICIAL LIST**



# Review of shares *(continued)*

## BASIC INFORMATION

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

## INFORMATION ON THE PRICE AND NUMBER OF THE TRADED SHARES

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Highest share price, LVL** | 1.31 | 1.57 | 1.37 | 0.69 | 0.41 |
| **Lowest share price, LVL** | 0.84 | 1.07 | 0.56 | 0.36 | 0.34 |
| **Last transaction price, LVL** | 1.07 | 1.30 | 0.66 | 0.40 | 0.38 |
| **Number of shares traded** | 12 850 514 | 16 355 655 | 8 277 028 | 3 961 245 | 5 058 251 |
| **Turnover, LVL million** | 13.33 | 20.64 | 8.62 | 1.91 | 2.03 |
| **Capitalisation, LVL million** | 214.00 | 260.00 | 132.00 | 80.00 | 75.80 |

## CHARACTERISTICS OF THE SHARES

JSC Latvian Shipping Company 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 Latvian Shipping Company 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 Latvian Shipping Company 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 Latvian Shipping Company Members of the Management Board have no extraordinary mandate to issue or repurchase the shares, except for the cases provided in the Commercial Law.

# Environment protection

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

JSC Latvian Shipping Company 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 Latvian Shipping Company 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.

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 Latvian Shipping Company 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 governance report

## I INTRODUCTION

Joint Stock Company Latvijas kuģniecība (hereinafter Latvian Shipping Company or Company) Corporate Governance Report for 2010 (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 (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 2010 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 2010 Latvian Shipping Company complied only with some of the corporate governance principles referred to in the Corporate Governance Principles and Recommendations on their Implementation issued by the NASDAQ OMX Riga. It was the main reason why the significant changes were made in the composition of the Board and the Council at the end 2010. The existing Board is in the position that such a behavior and attitude to the shareholders never should happen again.

On behalf of the Board I can assure that in 2011 we will do our best to comply with the corporate governance principles, respecting rights of all the shareholders and other stakeholders.

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 NASDAQ OMX Riga together with Latvian Shipping Company Annual Report for 2010, as well as published on Latvian Shipping Company website www.lk.lv.

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

# 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.

*Starting in January the Company's largest shareholder, joint stock company "Ventspils nafta", and other shareholders repeatedly requested the convocation of an extraordinary shareholders meeting. The purpose was to make changes to the Council and replace the Board in order to ensure that in the future these bodies acted in the best interests of all shareholders of the company. After many requests, and after several scheduled meetings were cancelled, a shareholders meeting finally took place on December 17th. In general in 2010 Latvian Shipping Company did not comply with this best practice provision and the reason for it was activities of the Board and the Council most probably to delay their dismissal.*

## 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. However, in 2010 Latvian Shipping Company disregarded request of the largest shareholder, joint stock company "Ventspils nafta" who owns 49.94% of shares and votes to convoke an extraordinary shareholders meeting, therefore, Latvian Shipping Company did not comply with 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.

*Latvian Shipping Company has not prepared dividend policy. According to the Commercial law Latvian Shipping Company Shareholders' meeting makes a decision on the profit distribution and payment of dividends. Latvian Shipping Company did not comply with 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.

*In 2010 the Enterprise Register of Republic of Latvia has not convened shareholders meeting according to request of the largest shareholder joint stock company "Ventspils nafta" who owns 49.94% of shares; therefore, Latvian Shipping Company did not comply with 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.

## Corporate governance report *(continued)*

*In 2010 shareholders of the Latvian Shipping Company were not provided with possibility to receive in due time and regularly all the required information about the Company, as, for example, audited annual report for 2009 was disclosed only in December, however, the deadline set out in the law is April 30.*

*The place of the shareholders meeting ("Lejastiezumi", Renda civil parish, Kuldīga region which is summer recreation facility more than hundred kilometers from Riga, where the headquarters of the company are located) last year in severe winter was chosen opposite the recommendations – it substantially restricted the attendance of a meeting by shareholders.*

*Therefore, Latvian Shipping Company did not comply with this best practice provision.*

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

*See general explanation for chapter "Shareholders' meeting"; Latvian Shipping Company did not comply with 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 general explanation for chapter "Shareholders' meeting"; additionally, the Company ignored request of the shareholder joint stock company "Ventspils nafta" to answer the questions about items included in the agenda of the extraordinary shareholders meeting, as well as the draft decisions of the shareholders meeting were not disclosed in due time as prescribed by the law (at least fourteen days prior to the meeting); therefore Latvian Shipping Company did not comply with 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 comply with 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 1.6., additionally, the Company ignored and not disclosed the draft decisions that were submitted additionally already after the announcement on calling the meeting by the shareholder joint stock company "Ventspils nafta"; therefore Latvian Shipping Company did not comply with 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 general explanation for chapter "Shareholders' meeting"; Latvian Shipping Company did not comply with 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 general explanation for chapter "Shareholders' meeting"; Latvian Shipping Company did not comply with this best practice provision.*

# Corporate governance report *(continued)*

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 complied with 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.*

*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 complied with 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.

*The extraordinary shareholders meeting on December 17, 2010 was attended only by one member of the Board and some of the candidates to be elected at the shareholders' meeting, therefore, Latvian Shipping Company partly complied with 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.

*No breaks were announced during the Company's extraordinary shareholders meeting held on December 17, 2010; therefore, Latvian Shipping Company complied with 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.

*Regarding minutes of the Company's extraordinary shareholders meeting held on December 17, 2010, the chairperson of the meeting ensured that in case any meeting participant required it, particular debates were reflected in the minutes or that shareholder proposal or questions were appended thereto in written form; therefore, Latvian Shipping Company complied with this best practice provision.*

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

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

# Corporate governance report *(continued)*

2.1. The attendance of members of the Issuer's management institutions and auditor at shareholders' meetings shall be necessary to ensure information exchange between the Issuer's shareholders and members of management institutions as well as to 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.

*The extraordinary shareholders meeting on December 17, 2010 was attended only by one member of the Board and auditors, therefore, Latvian Shipping Company partly complied with this best practice provision.*

2.2. Shareholders' meetings shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall in particular comply with 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.

*The extraordinary shareholders meeting on December 17, 2010 was attended only by some of the candidates to be elected at the shareholders' meeting, therefore, Latvian Shipping Company partly complied with this best practice provision.*

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

*Latvian Shipping Company does not know the reasons why the Board members and the Council members did not attend the extraordinary shareholders meeting on December 17, 2010 and therefore could not enter the reasons in the minutes of the shareholders' meeting; therefore, Latvian Shipping Company did not comply with 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 expressively 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.

*In 2010 the Board did not adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests and that resulted in shareholders decision to pursue a claim against the former members of the Management Board of Latvian Shipping Company Imants Sarmulis, Andris Linužs, Raivis Veckāgans and Edvīns Bērziņš; therefore, Latvian Shipping Company did not comply with 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 but not published on the website of the Company; therefore, Latvian Shipping Company partly complied with 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.

*In 2010 the Board breached a number binding regulatory acts, for example, regarding convocation of the extraordinary shareholders meeting based on the request of the shareholder, regarding disclosure of the audited annual report and others; therefore, Latvian Shipping Company did not comply with 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.

*In 2010 the above mentioned tasks were purely performed, not sufficient attention were paid to 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; the audited annual report for 2009 was submitted only in December despite that deadline set out in the law is April 30; therefore, Latvian Shipping Company did not comply with 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 report, the Board confirmed 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 complied with 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.

*Although according to the regulations of the Board and the Council for certain issues, the Board should obtain approval from the Council, this requirement was, perhaps, disrespected in 2010; therefore, Latvian Shipping Company did not comply with 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 has observed that every Board member has appropriate education and work experience before they are elected, however, Latvian Shipping Company has not prepared 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; therefore, Latvian Shipping Company partly complied with this best practice provision.*

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 majority of the above mentioned information; therefore, Latvian Shipping Company partly complied with this best practice provision.*

## Corporate governance report *(continued)*

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.

*In 2010 some of the Board members were not allowed/rejected access in due time to accurate information on the activity of the Company; therefore, Latvian Shipping Company did not comply with 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 complied with 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.

*Latvian Shipping Company is the position that in 2010 while taking decisions, the Members of the Board of the Latvian Shipping Company, most probably, were not guided by the interests of the company and they used their authority to obtain personal benefit; therefore, Latvian Shipping Company did not comply with 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.

*Although formally, there were no occurrence of any interest conflict for Board members, Latvian Shipping Company considers that in practice, perhaps, in 2010 Latvian Shipping Company did not comply with this best practice provision.*

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

*See explanation on Clause 5.2.*

### 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.

*In general, Latvian Shipping Company is in the position that in 2010 the Council did not perform it task as stipulated in the law and in the statutes. The one but not only example is inadequate reaction to largest shareholder's joint stock company "Ventspils nafta" request to convoke extraordinary shareholders meeting. The Council also did not supervise the work of the Board enough. It resulted in fact that shareholders has decided to pursue a claim against all of the former members of the Supervisory Council of Latvian hipping Company who were elected by the extraordinary shareholders' meeting of Latvian Shipping Company on February 15, 2008.*

# Corporate governance report *(continued)*

## 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 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 but not on the website on the Internet; therefore, Latvian Shipping Company partly complied with 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.

*In 2010 the Council did not carried out sufficient supervision over the achievement of the objectives set by the Company, the corporate strategy and risk management, the process of financial accounting and the business performance of the Company in compliance with the requirements of regulatory acts; therefore, Latvian Shipping Company did not comply with 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.

*Latvian Shipping Company presumes that in 2010 the Council of Latvian Shipping Company had all the information required for it to fulfill its duties.*

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.*

## 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 complied with this best practice provision.*

# Corporate governance report *(continued)*

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 encourages its shareholders to apply 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 encourages its shareholders to apply 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.

*Besides general description in chapter "Council", Latvian Shipping Company considers that Council members perhaps did not comply with the general ethical principles when taking decisions in relation to the business of the Company, therefore, Latvian Shipping Company did not comply with 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.

*Current management of Latvian Shipping Company encourages its shareholders to apply this best practice provision.*

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.

*Latvian Shipping Company encourages its shareholders to apply this best practice provision, currently, Latvian Shipping Company did not comply with this best practice provision considering tense between shareholders.*

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.

*Currently, Latvian Shipping Company did not comply with this best practice provision considering tense between shareholders.*

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.

*Latvian Shipping Company encourages its shareholders to apply this best practice provision, currently, Latvian Shipping Company did not comply with this best practice provision considering tense between shareholders.*

### 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 is the position that in 2010 while taking decisions, the Members of the Council of the Latvian Shipping Company were not guided by the interests of the company and they used their authority most probably to obtain personal benefit; therefore, Latvian Shipping Company did not comply with this best practice provision.*

# Corporate governance report *(continued)*

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.

*Although formally, there were no occurrence of any interest conflict for Council members, Latvian Shipping Company considers that in practice, perhaps, in 2010 Latvian Shipping Company did not comply with 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.

*See explanation on Clause 8.3.*

## 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.

*In general Latvian Shipping Company is in the position that in 2010 the Company's information was not disclosed in timer manner and sufficiently. The information about significant deals (disposal of SIA "LSC Shipmanagement", acquisition of SIA "NAFTA Invest", etc.) was not disclosed in appropriate quality. As mentioned early the audited annual report 2009 was disclosed only in December, however the deadline according to the law is April 30. Also information about shareholders meetings and draft decisions were not disclosed in timer manner and sufficiently. Latvian Shipping Company considers that such activities were performed by former Board and Council members in order to prevent their dismissal.*

## 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.

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.

*See general description on chapter "Disclosure of information", Latvian Shipping Company did not comply with this best practice provision.*

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

*See general description on chapter "Disclosure of information", Latvian Shipping Company did not comply with this best practice provision.*

# Corporate governance report *(continued)*

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 of 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 comply with 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.

*See description on chapter "Disclosure of information", Latvian Shipping Company did not comply with 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.

*See description on chapter "Disclosure of information", Latvian Shipping Company did not comply with 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.

*See description on chapter "Disclosure of information", Latvian Shipping Company did not comply with 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 complied with this best practice provision.*

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.;

# Corporate governance report *(continued)*

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 complied with 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 as well as information on the performance of the Issuer's Audit Committee were not published on the website of Latvian Shipping Company; therefore, the Latvian Shipping Company partly complied with this best practice provision. The company plans to eliminate these drawbacks in 2011.*

## 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.

### 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 complied with this best practice provision.*

## Corporate governance report *(continued)*

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 complied with 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.

*Auditors could access any Company's information. Latvian Shipping Company complied with 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.

*Each year after audit, auditors provide the assessment and improvement of risk management and control processes of the Company. Latvian Shipping Company complied with 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.

*In 2010 the internal audit department of Latvian Shipping Company faced difficulties to perform independent audits in order to evaluate activities of the Latvian Shipping Company. However, the external auditor approved by the general meeting of shareholders performed independent audits in order to evaluate activities of the Latvian Shipping Company Group, including compliance with approved procedures; therefore, Latvian Shipping Company partly complied with 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 complies with 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 complied with 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. Extraordinary shareholders meeting on 17, December 2010 elected a new audit committee consisting of Lahsen Idiken, Mikhail Dvorak, Jozef Hubertus Johannes Baardemans who all have adequate knowledge in accounting and financial reporting; therefore, Latvian Shipping Company complied with this best practice provision.*

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.

*In 2010 the Audit Committee members had limited access to the information about the accounting principles practiced by Latvian Shipping Company; therefore, Latvian Shipping Company did not comply with this best practice provision.*

# Corporate governance report *(continued)*

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' activities.

*See comment on Clause 12.3.*

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

*Regarding Annual Report 2009, Audit Committee did not reported to shareholders meeting; therefore, Latvian Shipping Company did not comply with 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.

*In general, Latvian Shipping Company has not developed and approved motivation and remuneration policy regarding the Board and Council members. Despite that Latvian Shipping Company Group suffered losses more than hundred million USD in 2010, the Council in total received 2.1 million USD in remuneration and the Board in total received 1.2 million USD in remuneration. Company considers this fact illegal, unacceptable and it is one of the reasons why former members of Council and Board were dismissed on December 17, 2010 and decision to pursue a claim against them was taken. Currently regarding difficult financial situation of the Latvian Shipping Company Group, remuneration of the Council and the Board is set to zero. It can be revised when situation improves and the Company returns to profit.*

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.

*See general explanation on chapter “Remuneration policy” Latvian Shipping Company did not comply with 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 fulfilment 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.

*See general explanation on chapter “Remuneration policy”. Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*

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.

*See general explanation on chapter “Remuneration policy”. Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*

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.

*See general explanation on chapter “Remuneration policy”. Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*

# Corporate governance report *(continued)*

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.

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the 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.

*See general explanation on chapter "Remuneration policy".*

### 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 comply with 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.

*See also general explanation on chapter "Remuneration policy".*

*The information about the remuneration paid to the members of the Council and the Board is included in the Annual report of Latvian Shipping Company. Latvian Shipping Company does not disclose information mentioned in the Clause 14.2 regarding the each separate Council and Board member because of 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.

*See the Clause 14.2.*

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 the Clause 14.2.*

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 fulfilment of duties in addition to the regular job responsibilities;

## Corporate governance report *(continued)*

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 the 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.).

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the 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.

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the 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.

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*

# Statement of Management responsibility

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.

For and on behalf of the Management Board

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

# Independent auditors' report

ERNST & YOUNG

SIA "Ernst & Young Baltic"
Muitas iela 1A
Rīga, LV-1010
Latvija

Tālr.: 6704 3801
Fakss: 6704 3802
Riga@lv.ey.com
www.ey.com/lv

Vienotais reģistrācijas Nr. 40003593454
PVN maksātāja Nr. LV 40003593454

SIA Ernst & Young Baltic
Muitas iela 1A
Riga LV-1010
Latvia

Phone.: +371 6704 3801
Fax: +371 6704 3802
Riga@lv.ey.com
www.ey.com/lv

Reg. No 40003593454
VAT payer code LV 40003593454

## INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas kuģniecība

### Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Latvijas kuģniecība and its subsidiaries (the "Group"), set out on pages 32 through 90 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 International Financial Reporting Standards as adopted by the European Union 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 consolidated 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 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 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

*Emphasis of matter*

Without qualifying our opinion, we draw attention to Note 48 to the accompanying consolidated financial statements which indicates that the Group's financial statements have been prepared on a going concern basis. The Group's ability to reach the projected financial targets and ratios that are needed to comply with the requirements and restrictions imposed by the lenders depends on various external factors as disclosed in Note 48. Changes in key assumptions, if any, might significantly impact on the Group's ability to meet financial targets and ratios and may cast significant doubt on the Group's ability to continue as a going concern.

### Report on Corporate Management Report

Furthermore, we have assured ourselves that the Group has prepared the corporate management report for the year 2010 (included on pages 14 through 30 of accompanying Annual Report) and verified information presented in the report according to the requirements listed in the section 56[1], Paragraph one, clauses 3, 4, 6, 8 and 9 and in the section 56[2] second paragraph clause 5 in the Law on Financial Instruments Market.

SIA Ernst & Young Baltic
License 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

# Consolidated income statement

**for the year ended 31 December 2010**

| | Notes | 2010 USD'000 | 2009 USD'000 | 2010 LVL'000 | 2009 LVL'000 |
|---|---|---|---|---|---|
| Voyage income | | 108 803 | 196 120 | 57 601 | 99 097 |
| Income from printing and publishing | | 32 | 16 823 | 16 | 8 501 |
| Income from management of real estate | | 1 229 | 821 | 656 | 415 |
| Rendering of services | | 1 096 | 1 504 | 567 | 759 |
| **Revenue** | 7 | **111 160** | **215 268** | **58 840** | **108 772** |
| Voyage costs | 8 | (20 496) | (47 205) | (11 034) | (23 852) |
| Cost of sales | 9 | (83 324) | (145 064) | (44 348) | (73 299) |
| **Gross profit** | | **7 340** | **22 999** | **3 458** | **11 621** |
| Selling costs | 10 | (14) | (3 408) | (6) | (1 722) |
| Administrative expenses | 11 | (20 335) | (28 494) | (10 801) | (14 398) |
| Result from disposal of non-financial assets | 12 | (1 952) | 1 124 | (1 162) | 568 |
| Impairment of non-financial assets | 13 | (96 612) | (88 801) | (51 687) | (44 871) |
| Other operating income | 14 | 1 219 | 576 | 490 | 291 |
| Other operating expenses | 15 | (88 998) | (10 737) | (47 546) | (5 425) |
| **Operating loss** | | **(199 352)** | **(106 741)** | **(107 254)** | **(53 936)** |
| Deconsolidation of net financial liabilities | 20 | 85 416 | 39 311 | 43 735 | 19 863 |
| Finance income | 17 | 2 235 | 1 506 | 1 196 | 761 |
| Finance costs | 18 | (29 923) | (24 793) | (15 563) | (12 527) |
| **Loss before tax** | | **(141 624)** | **(90 717)** | **(77 886)** | **(45 839)** |
| Income tax | 19 | (870) | 458 | (465) | 232 |
| **Loss for the year** | | **(142 494)** | **(90 259)** | **(78 351)** | **(45 607)** |
| Attributable to: | | | | | |
| Equity holders of the parent | | (142 435) | (90 259) | (78 320) | (45 607) |
| Non-controlling interests | | (59) | - | (31) | - |
| | | **(142 494)** | **(90 259)** | **(78 351)** | **(45 607)** |
| Loss per share | 21 | (0.72) | (0.45) | LVL (0.40) | LVL (0.23) |

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
Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

# Consolidated statement of comprehensive income

**for the year ended 31 December 2010**

| | 2010 USD'000 | 2009 USD'000 | 2010 LVL'000 | 2009 LVL'000 |
|---|---|---|---|---|
| **Loss for the year** | **(142 494)** | **(90 259)** | **(78 351)** | **(45 607)** |
| Exchange differences on translation of foreign operations | (4 679) | 2 766 | 21 623 | (453) |
| Net movement on cash flow hedges | (363) | 932 | (371) | 485 |
| **Other comprehensive (expenses)/income for the year, net of tax** | **(5 042)** | **3 698** | **21 252** | **32** |
| **Total comprehensive loss for the year, net of tax** | **(147 536)** | **(86 561)** | **(57 099)** | **(45 575)** |
| Attributable to: | | | | |
| Equity holders of the parent | (147 477) | (86 561) | (57 068) | (45 575) |
| Non-controlling interests | (59) | - | (31) | - |
| | **(147 536)** | **(86 561)** | **(57 099)** | **(45 575)** |

Net movement on cash flow hedges *(see Note 37)*.

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
Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

# Consolidated statement of financial position

**as of 31 December 2010**

| | Notes | 2010 USD'000 | 2009 USD'000 | 2010 LVL'000 | 2009 LVL'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 22 | 540 | 863 | 289 | 422 |
| Fleet | 23 | 570 502 | 651 063 | 305 219 | 318 370 |
| Property, plant and equipment | 24 | 4 049 | 11 340 | 2 166 | 5 545 |
| Investment properties | 25 | 3 138 | 123 111 | 1 679 | 60 201 |
| Investment in associates | 26 | 26 | 388 | 13 | 190 |
| Other non-current financial assets | 32 | 7 720 | 2 201 | 4 130 | 1 076 |
| **Total non-current assets** | | **585 975** | **788 966** | **313 496** | **385 804** |
| **Current assets** | | | | | |
| Inventories | 29 | 2 028 | 6 194 | 1 085 | 3 029 |
| Trade and other receivables | 30 | 10 166 | 9 081 | 5 438 | 4 440 |
| Prepayments | 31 | 2 203 | 3 475 | 1 179 | 1 699 |
| Other current financial items | 32 | 31 866 | 57 306 | 18 160 | 28 023 |
| Cash and short-term deposits | 33 | 42 471 | 75 095 | 22 722 | 36 722 |
| **Total current assets** | | **88 734** | **151 151** | **48 584** | **73 913** |
| Assets classified as held for sale | 28 | 5 760 | 24 297 | 3 082 | 11 881 |
| **Total assets** | | **680 469** | **964 414** | **365 162** | **471 598** |

# Consolidated statement of financial position *(continued)*

**as of 31 December 2010**

| | Notes | 2010 USD'000 | 2009 USD'000 | 2010 LVL'000 | 2009 LVL'000 |
|---|---|---|---|---|---|
| **Equity and liabilities** | | | | | |
| **Equity** | | | | | |
| Issued Capital | | 362 319 | 362 319 | 200 000 | 200 000 |
| (Accumulated deficit)/retained earnings | | (37 230) | 105 205 | (22 362) | 55 958 |
| Other components of equity | | (17 794) | (12 752) | (12 322) | (33 574) |
| **Equity attributable to equity holders of the parent** | 34 | **307 295** | **454 772** | **165 316** | **222 384** |
| Non-controlling interests | | 5 882 | - | 3 344 | - |
| **Total equity** | | **313 177** | **454 772** | **168 660** | **222 384** |
| | | | | | |
| **Non-current liabilities** | | | | | |
| Interest bearing loans | 35 | 281 949 | 345 912 | 150 843 | 169 151 |
| Finance lease | 36 | 27 094 | 28 571 | 14 495 | 13 971 |
| Other non-current financial liabilities | 37 | 1416 | 706 | 757 | 345 |
| Trade and other payables | 40 | 300 | 2 534 | 161 | 1 239 |
| Deferred tax liability | 38 | 207 | 14 863 | 111 | 7 268 |
| **Total non-current liabilities** | | **310 966** | **392 586** | **166 367** | **191 974** |
| | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 40 | 15 934 | 79 750 | 8 525 | 38 998 |
| Interest bearing loans | 35 | 31 230 | 29 551 | 16 708 | 14 450 |
| Finance lease | 36 | 1 105 | 1 051 | 591 | 514 |
| Other current financial liabilities | 37 | 2 792 | 3 139 | 1 494 | 1 535 |
| Deferred revenue | 39 | 5 265 | 3 565 | 2 817 | 1 743 |
| **Total current liabilities** | | **56 326** | **117 056** | **30 135** | **57 240** |
| **Total equity and liabilities** | | **680 469** | **964 414** | **365 162** | **471 598** |

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
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 | | | | | | | | | | Non-controlling interests | | Total equity | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital (Note 34) | | Retained earnings/ (accumulated deficit) | | 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 | USD'000 | LVL'000 |
| **As at 1 January 2010** | **362 319** | **200 000** | **105 205** | **55 958** | **(3 845)** | **(1 880)** | **(8 907)** | **(31 694)** | **454 772** | **222 384** | **-** | **-** | **454 772** | **222 384** |
| Loss for the period | - | - | (142 435) | (78 320) | - | - | - | - | **(142 435)** | **(78 320)** | (59) | (31) | **(142 494)** | **(78 351)** |
| Other comprehensive income/(expense) | - | - | - | - | (363) | (371) | (4 679) | 21 623 | **(5 042)** | **21 252** | - | - | **(5 042)** | **21 252** |
| **Total comprehensive income/(expense)** | **-** | **-** | **(142 435)** | **(78 320)** | **(363)** | **(371)** | **(4 679)** | **21 623** | **(147 477)** | **(57 068)** | **(59)** | **(31)** | **(147 536)** | **(57 099)** |
| Non-controlling interests from acquisition | - | - | - | - | - | - | - | - | **-** | **-** | 5 941 | 3 375 | **5 941** | **3 375** |
| **At 31 December 2010** | **362 319** | **200 000** | **(37 230)** | **(22 362)** | **(4 208)** | **(2 251)** | **(13 586)** | **(10 071)** | **307 295** | **165 316** | **5 882** | **3 344** | **313 177** | **168 660** |

**for the year ended 31 December 2009**

| | 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 | 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** |

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
Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

# Consolidated statement of cash flows

**for the year ended 31 December 2010**

| | 2010 USD'000 | 2009 USD'000 | 2010 LVL'000 | 2009 LVL'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| **Loss before tax** | **(141 624)** | **(90 717)** | **(77 886)** | **(45 839)** |
| Non-cash adjustment to reconcile loss before tax to net cash flows: | | | | |
| Depreciation of other property, plant and equipment and fleet | 24 986 | 33 164 | 13 406 | 16 758 |
| Amortisation of intangible assets | 379 | 564 | 202 | 285 |
| Depreciation of investment properties | 737 | 811 | 320 | 410 |
| Decrease in financial instruments | (20) | (1 946) | (10) | (983) |
| Loss on disposal of non-financial assets | 1 952 | (1 124) | 1 162 | (568) |
| Dry-docking deffered expenditure depreciation | 2 451 | 3 827 | 1 309 | 1 934 |
| Currency translation difference | 3 737 | (1 786) | 6 447 | (1 759) |
| Finance income | (2 082) | (1 506) | (1 113) | (761) |
| Finance costs | 23 917 | 23 596 | 12 767 | 11 923 |
| Recognised impairment | 179 734 | 88 128 | 96 089 | 44 531 |
| Changes in fair value of financial assets | 5 876 | - | 3 144 | - |
| Deconsolidation of net financial liabilities | (85 416) | (39 311) | (43 735) | (19 863) |
| Working capital adjustments: | | | | |
| (Increase)/decrease in trade and other receivables and prepayments | (1 306) | 3 297 | (693) | 1 666 |
| Decrease/(increase) in inventories | 4 165 | 513 | 2 211 | 259 |
| (Decrease)/increase in trade and other payables | (7 944) | 25 799 | (4 217) | 13 036 |
| Income tax paid | - | (4) | - | (2) |
| **Net cash flows from operating activities** | **9 542** | **43 305** | **9 403** | **21 027** |
| **Investing activities** | | | | |
| Proceeds from sale of non-current assets | 26 145 | 93 815 | 13 879 | 47 404 |
| Purchase of non-current assets | (4 556) | (4 313) | (2 418) | (2 179) |
| Purchase of investment properties | (836) | (17 454) | (444) | (8 819) |
| Disposal of investment properties | - | 2 691 | - | 1 360 |
| Investments in associates | - | (365) | - | (184) |
| Net cash flow to business combinations | (27 398) | (59 544) | (15 562) | (30 088) |
| Acquisition of other financial instruments | (2 524) | - | (1 340) | - |
| Net cash flow from deconsolidation of net financial liabilities | (688) | - | (365) | - |
| Proceeds from sale of financial instruments | 189 | 2 709 | 100 | 1 369 |
| Proceeds from disposal of subsidiaries | 108 | - | 57 | - |
| Placement of deposits with maturity more than three months | 54 804 | (887) | 29 092 | (448) |
| Loans issued | (1 476) | - | (784) | - |
| Interest received | 1 833 | 2 553 | 973 | 1 290 |
| **Net cash flows from/(used in) investing activities** | **45 601** | **19 205** | **23 188** | **9 705** |
| **Financing activities** | | | | |
| Payment of finance lease liabilities | (1 051) | (1 110) | (558) | (561) |
| Proceeds from borrowings | 27 600 | 55 567 | 14 651 | 28 077 |
| Repayment of borrowings | (91 802) | (57 894) | (48 733) | (29 253) |
| Interest paid | (20 496) | (19 621) | (10 880) | (9 914) |
| Prepaid financing expenses | (2 018) | (206) | (1 071) | (104) |
| **Net cash flows (used in)/from financing activities** | **(87 767)** | **(23 264)** | **(46 591)** | **(11 755)** |
| **Net increase/(decrease) in cash and cash equivalents** | **(32 624)** | **39 246** | **(14 000)** | **18 977** |
| Cash and cash equivalents at 1 January | **75 095** | **35 849** | **36 722** | **17 745** |
| **Cash and cash equivalents at 31 December** | **42 471** | **75 095** | **22 722** | **36 722** |

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 Joint Stock Company Latvian Shipping Company
Riga, 14 June 2011

# Notes to the consolidated financial statements

## 1. Corporate information

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

The core activities of the Company are commercial management of the fleet owned by Latvian Shipping Company Group (LSC Group or 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.

Starting from 2010 the Group ceased its investments in the publishing by disposing investment in SIA Mediju nams on January 2010.

Share in SIA Jūras servisa centrs owned by the Group was sold in July 2010 and share in SIA LASCO Housing Service owned by the Group was sold in October 2010.

On 17 December insolvency proceedings was initiated and on 3 January 2011 the insolvency procedure of SIA LASCO Investment was approved by the Riga City Vidzeme District Court, therefore, it is considered that the Group lost control over the company on 17 December 2010, and it is deconsolidated as of 17 December 2010.

The consolidated financial statements of the Group for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Management Board on June 14, 2011.

The shareholders have the power to amend these financial statements.

## 2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets 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 between different captions of the income statement and the balance sheet for the year 2009.

### 2.1. Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as 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 of 31 December 2010.

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 statements *(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.

**2.3. Summary of significant accounting policies**

**a) Business combinations and goodwill**

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.

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 aggragate of the consideration transferred and the amount recognised for non-controlling interest over the 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.

**b) Investment in 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.

# Notes to the consolidated financial statements *(continued)*

**Business combinations and goodwill** *(continued)*

After application of the equity method, the Group determines whether it is necessary to recognise 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.

**c) 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.

**d) Foreign currency translation**

The financial statements are prepared in U.S. dollars which is the functional currency of the primary (shipping) business 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 functional currency of the primary business as described below.

Monetary assets and liabilities of the Group entities denominated in other currencies are translated into functional currency 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 presentation currency 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 or the actual rates at the date of transaction, whilst resulting exchange differences are recognised as separate component of other comprehensive income statement.

LB rate of exchange as of 31.12.2010 US $/LVL - 0.535 (average – 0.530847)

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

# Notes to the consolidated financial statements *(continued)*

**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.

***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.

## 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.

# Notes to the consolidated financial statements *(continued)*

**Taxes** *(continued)*

***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.

**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.

# Notes to the consolidated financial statements *(continued)*

**Financial assets** *(continued)*

**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. 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 other operating expense and for operating receivables related to shipping activity in voyage costs.

***Available-for-sale financial investments***

Available-for-sale financial investments include equity securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention 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 intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

**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.

# Notes to the consolidated financial statements *(continued)*

**Financial assets** *(continued)*

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.

**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.

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

**Available-for-sale financial investments**

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

# Notes to the consolidated financial statements *(continued)*

**Financial assets** *(continued)*

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

**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.

***Financial guarantee contracts***

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

**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.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**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.

# Notes to the consolidated financial statements *(continued)*

**Financial liabilities** *(continued)*

***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.

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.

# Notes to the consolidated financial statements *(continued)*

**j) Fleet**

The Group's fleet is recorded at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. 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 (2009: US $ 300), is written off on a straight line basis over the remainder of their anticipated useful lives, taken to be between 23 - 25 years from the date of building.

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

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

Until the delivery vessels under construction are presented in the balance sheet as assets under construction.

**k) Other property, plant and equipment**

Other property, 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.

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.

# Notes to the consolidated financial statements *(continued)*

**Intangible assets** *(continued)*

*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.

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, cost value is used, net of accumulated depreciation and/or accumulated impairment losses, if any. 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.

# Notes to the consolidated financial statements *(continued)*

**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.

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 as impairment of non-financial assets.

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

***Goodwill***

Goodwill is tested for impairment annually (as of 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 of 31 December either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

# Notes to the consolidated financial statement *(continued)*

**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.

**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).

**2.4. 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 during the year:

- IFRIC 12 Service Concession Arrangements
- IFRIC 17 Distributions of Non-cash Assets to Owners
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

There is no effect of these changes on the Groups financial statement.

# Notes to the consolidated financial statement *(continued)*

## 3. Standards issued but not yet effective

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

***Amendments to IFRS 7 Financial instruments: Disclosures*** *(effective for financial years beginning on or after 1 July 2011, once adopted by the EU)*

The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the consolidated financial statements since the Group does not have these kinds of transfers.

***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 two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group has not yet evaluated the impact of the implementation of this standard.

***Amendments to IAS 12 Income Taxes*** *(effective for financial years beginning on or after 1 January 2012, once adopted by the EU)*

The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. The Group has not estimated yet the impact of the implementation of these changes.

***Amendments to IAS 24 Related Party Disclosures*** *(effective for financial years beginning on or after 1 January 2011)*

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.

***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.

***Improvements to IFRSs***

In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group:

- IFRS 3 Business Combinations;
- IFRS 7 Financial instruments: Disclosures;
- IAS 1 Presentation of Financial Statements;
- IAS 27 Consolidated and Separate Financial Statements;
- IFRIC 13 Customer Loyalty Programmes.

***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)*

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 19 Extinguishing Financial Liabilities with Equity Instruments*** *(effective for financial years beginning on or after 1 July 2010)*

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.

# Notes to the consolidated financial statement *(continued)*

## 4. 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 17 December insolvency proceedings was initiated and on 3 January 2011 the insolvency procedure of SIA LASCO Investment was approved by the Riga City Vidzeme District Court, therefore, it is considered that the Group lost control over the company on 17 December 2010, and it is deconsolidated as of 17 December 2010.

### 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 23-25 years) estimated at US $ 300 per lightweight ton of a respective vessel. Estimates of useful life and scrap value are reassessed annually in view of long-term perspective and in order to disregard temporary market fluctuations which may be significant. Changes in estimates of useful life and scrap value may significantly affect the depreciation charge and thereby the net profit for the year.

*Dry-docking and special surveys*

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

*Impairment*

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

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

*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.

Fleet is tested for impairment annually, by using both, fleet valuation on single vessel basis performed by at least two independent professional valuators and impairment test based on discounted cash flow forecasts prepared by the Group's management where each type of vessels operated is treated as a separate cash generating unit. Major assumptions used for the impairment test as of 31 December 2010 are: for 2011 and for the following years the Group has used its budgeted time charter rates as well as shipping market forecasts; 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.

# Notes to the consolidated financial statement *(continued)*

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

*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 fair value of major part of investment property was established on the basis of its value in use, that fully relied on the assumption that the control over assets of LASCO Investment group will be recovered after 3 years period and the Group will be able to continue project development. Other key assumptions used to determine recoverable value of the investment property, including a sensitivity analysis, are further explained in Note 25.

*Changes in estimates*

In 2010, the Group has changed estimates in respect to the determination of the recoverable amount of assets under construction by changing the assumptions regarding the future usage of assets from the continuous use of two vessels to the market value basis and the assumptions regarding the projected time charter rates. While determining the recoverable amount of investment properties, the Group has changed the assumptions regarding the timeframe of real estate project development and applied the market value instead of the value in use for specific investment properties. For more information refer to 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.

# Notes to the consolidated financial statement *(continued)*

## 5. Business combinations

On 21 May 2010 the Group acquired 100% of SIA NAFTA Invest shares for US $ 27.6 million cash consideration with the purpose to earn capital gains on its main asset - JSC Latvijas Naftas tranzīts shares. The contribution was paid in cash. In accordance with independent valuators valuation report the value of the company's equity as at the day of acquisition was US $ 27.6 million, which is equal to consideration paid on acquisition. Shares of JSC Latvijas Naftas tranzīts are classified as financial assets at fair value through profit or loss as in accordance to IAS 39. Non-controlling interest is measured on the basis of net identifiable assets of SIA Skonto Nafta at the moment of acquisition.

The fair values 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** |
| Other assets acquired on acquisition | 368 | 210 | 368 | 210 |
| Shares in JSC Latvijas Naftas Tranzits acquired on acquisition | 33 681 | 19 131 | 20 724 | 11 771 |
| | **34 049** | **19 341** | **21 092** | **11 981** |
| Trade and other payables | (508) | (289) | (508) | (289) |
| | **(508)** | **(289)** | **(508)** | **(289)** |
| **Net assets** | **33 541** | **19 052** | **20 584** | **11 692** |
| Non-controlling interest | (5 941) | (3 375) | (5 941) | (3 375) |
| **Net asssets acquired** | **27 600** | **15 677** | **14 643** | **8 317** |
| **Cash outflow on acquisition** | | | | |
| Net cash acquired with the subsidiary | 202 | 115 | | |
| Cash paid in 2010 | (27 600) | (15 677) | | |
| **Net cash outflow** | **(27 398)** | **(15 562)** | | |

# 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 |
| Cape Wind Trading Company | Liberia | m.t. Indra |
| 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 |
| LSC Shipmanagement SIA[1] | Latvia | Ship management services |
| New Spring Shipping Co. Ltd. | Cyprus | Dormant |
| Noella Maritime Co. Ltd. | Cyprus | Dormant |
| Radar Shipping Ltd. | Liberia | Dormant |
| 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 | Investment company |
| *Subsidiary of Sagewood Trading Inc.* | | |
| NAFTA Invest SIA[2] | Latvia | Investment company |
| *Subsidiary of NAFTA Invest SIA* | | |
| Skonto Nafta SIA (71.43%) | Latvia | Investment company |
| Samburga Shipping Co. | Cyprus | Dormant |
| Scanreefer Navigation Co. Ltd. | Cyprus | Liquidated in April 2010 |
| Scanreefer Marine Co. Ltd. | Cyprus | Liquidated in April 2010 |
| S. Tomskis Shipping Co. Ltd. | Malta | Dormant |
| S. Tomskis Shipping Co. Ltd. | Cyprus | Liquidated in January 2010 |
| Zemgale Shipping Co. Ltd. | Malta | Dormant |

# Notes to the consolidated financial statement *(continued)*

**6. Corporate Structure** *(continued)*

| Name | Country of Incorporation | Activity /Vessels |
|---|---|---|
| Lattanker Holdings Corporation | Liberia | Intermediate holding company |
| | | |
| Davids Sikeiross Shipping Corporation | Liberia | Dormant |
| Dzons Rids Shipping Corporation | Liberia | m.t. Blue Star |
| Hose Marti Shipping Corporation | Liberia | m.t. Green Star |
| Imanta Shipping Company Ltd. | Malta | 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 | Liquidated in April 2010 |
| Akademikis Artobolevskis Shipping Co. Ltd. | Malta | Dormant |
| Akademikis Bocvars Shipping Co. Ltd. | Cyprus | Liquidated in April 2010 |
| Akademikis Bocvars Shippng Co. Ltd. | Malta | m.t. Zoja II |
| Akademikis Celomejs Shipping Co. Ltd. | Cyprus | Liquidated in April 2010 |
| Akademikis Celomejs Shipping Co. Ltd. | Malta | Dormant |
| Akademikis Hohlovs Shipping Co. Ltd. | Cyprus | Liquidated in April 2010 |
| Belgoroda Shipping Co. Ltd. | Cyprus | In liquidation |
| Belgoroda Shipping Co. Ltd. | Malta | Dormant |
| Juris Avots Shipping Co. Ltd. | Malta | Dormant |
| Kamilo Sjenfuegoss Shipping Co. Ltd. | Cyprus | Liquidated in January 2010 |
| Kamilo Sjenfuegoss Shipping Co. Ltd. | Malta | Dormant |
| Kurska Shipping Co. Ltd. | Cyprus | Liquidated in April 2010 |
| Kurska Shipping Co. Ltd. | Malta | Dormant |
| Pure Shipping Co. Ltd. | Cyprus | Liquidated in April 2010 |
| Pure Shipping Co. Ltd. | Malta | Dormant |
| Ventlines Shipping Limited | Malta | Dormant |
| | | |
| Latstrand Holdings Corporation | Liberia | Intermediate holding company |
| | | |
| Antonio Gramsi Shipping Corporation | Liberia | Dormant |
| Apollo Holdings Corporation | Cayman Islands | Dormant |
| Arctic Seal Shipping Company Ltd. | Cyprus | Dormant |
| Atlantic Leader Shipping Company Ltd. | Cyprus | Dormant |
| Clipstone Navigation S. A. | Liberia | Dormant |
| Faroship Navigation Company Ltd. | Cyprus | Dormant |
| Gaida Shipping Corporation | Liberia | Dormant |
| Gevostar Shipping Company Ltd. | Cyprus | Dormant |
| Kemeri Navigation Corporation | Liberia | Dormant |
| Klements Gotvalds Shipping Corporation | Liberia | Dormant |
| Pinewood Shipping Corporation | Liberia | Dormant |
| Razna Shipping Corporation | Liberia | Dormant |
| Saturn Trading Corporation | Liberia | Dormant |
| Taganroga Shipping Corporation | Liberia | Dormant |
| Tangent Shipping Company Ltd. | Cyprus | Dormant |
| Viktorio Shipping Corporation | Liberia | Dormant |
| Wilcox Holdings Ltd. | Liberia | Dormant |
| World Reefer Corporation | Liberia | 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 | Liquidated in January 2010 |
| Dzintari Shipping Corporation | Liberia | Dormant |
| Griva Maritime Corporation | Liberia | Dormant |
| Kasira Shipping Company Ltd. | Cyprus | Dormant |
| Mahoe Shipping Company Ltd. | Cyprus | In liquidation |
| O. Vacietis Shipping Company Ltd. | Cyprus | Dormant |
| Perle Reefer Shipping Company Ltd. | Malta | Dormant |
| Ringmare Shipping Company Ltd. | Cyprus | Liquidated in January 2010 |
| Rosewood Shipping Corporation | Liberia | Dormant |
| Ventspils Shipping Company Ltd. | Cyprus | Dormant |
| | | |
| Crown Navigation Inc. | Marshall Islands | Holding company liquidated in March 2010 |
| | | |
| LSC Holdings Ltd | Isle of Man | Holding company |
| | | |
| 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 |
| | | |
| Arctic Holding Corporation[3] | Marshall Islands | Holding company |
| | | |
| Brasla Shipping Corporation | Marshall Islands | Incorporated for newbuilding purposes |
| Ritupe Shipping Corporation | Marshall Islands | Incorporated for newbuilding purposes |
| Misa Shipping Corporation | Marshall Islands | Incorporated for newbuilding purposes |
| Imula Shipping Corporation | Marshall Islands | Incorporated for newbuilding purposes |

# Notes to the consolidated financial statement *(continued)*

**6. Corporate Structure** *(continued)*

| Name | Country of Incorporation | Activity /Vessels |
|---|---|---|
| Latvian Shipping Corporation | Liberia | Holding company |
| Michelle Finance Corporation | Liberia | Investment company (dormant) |
| Jūras Servisa Centrs SIA | Latvia | Sold in July 2010 |
| Kristaps Insurance Ltd. | Bermuda | Liquidated in July, 2010 |
| LSC Marine Training SIA | Latvia | Seafarers Training Services |
| Ostas Serviss SIA | Latvia | Liquidated in February 2010 |
| Santomar Holdings Co. Ltd. | Cyprus | Investment Holding Company (dormant) |
| LASCO investment SIA[4] | Latvia | Holding company |
| *Subsidiaries of SIA LASCO Investment* | | |
| LASCO Nekustamie īpašumi SIA[5] | Latvia | Holding company |
| *Subsidiaries of LASCO Nekustamie īpašumi SIA* | | |
| Darījumu centrs Daugava SIA[6] | Latvia | Real estate |
| LASCO Housing Service SIA | Latvia | Sold in October 2010 |
| Lejastiezumi SIA | Latvija | Real estate |
| Pārventas sporta centrs SIA | Latvija | Real estate |
| Ventspils biznesa centrs SIA[7] | Latvia | Real estate |
| Mediju nams SIA | Latvia | Sold in January 2010 |
| *Subsidiaries of Mediju Nams SIA* | | |
| 4. vara SIA (50.05%) | Latvia | Internet portal administration |
| F/64 Photo agency SIA (51.05%) | Latvia | Photo and video services |
| Preses nams JSC (95.39%)[8] | Latvia | Printing services |
| *Subsidiary of Preses nams JSC* | | |
| *Preses nams OOO* | Russia | Printing services |
| Rīgas līcis SIA[9] | Latvia | Real estate management |

# Notes to the consolidated financial statement *(continued)*

**6. Corporate Structure** *(continued)*

*Notes:*

*1) 100% share in LSC Shipmanagement SIA owned by the Group was sold in November 2010. In December 2010 Revocation agreement concluded to revoke the share purchase agreement by returning the purchase price, as a result loss of control in 2010 has not occurred;*

*2) NAFTA Invest SIA was purchased in May 2010;*

*3) Holding company Arctic Holding Corporation and four companies Brasla Shipping Corporation, Imula Shipping Corporation, Misa Shipping Corporation and Ritupe Shiping Corporation was incorporated in July 2010;*

*4) On 17 December insolvency proceedings was initiated and on 3 January 2011 the insolvency procedure of LASCO Investment SIA was approved by the Riga City Vidzeme District Court, therefore, it is considered that the Group lost control over the company on 17 December 2010, and it is deconsolidated as of 17 December 2010;*

*5) On 1 October 2010 the out-of-court restructuring legal protection process of LASCO nekustamie īpašumi SIA 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;*

*6) On 29 April 2010 the out-of-court restructuring legal protection process of Darījumu centrs Daugava SIA 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;*

*7) On 21 May 2010 the out-of-court restructuring legal protection process of Ventspils biznesa centrs SIA 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;*

*8) On 4 February 2010 the insolvency of Preses nams JSC was announced by the Court;*

*9) On 21 May 2010 the out-of-court restructuring legal protection process of Rīgas līcis SIA 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)*

## 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 of 31 December 2009 and 2010 the Group had two reportable operating segments*: Shipping* and *Other.* Other segment aggregates real estate and media and publishing operating segments performed by LASCO Investment SIA and its subsidiaries. Other segment includes the impairment of investment property and other financial assets not related to the shipping segment but recorded in companies which are considered shipping related.

On 17 December insolvency proceedings was initiated and on 3 January 2011 the insolvency procedure of LASCO Investment SIA was approved by the Riga City Vidzeme District Court, therefore, it is considered that the Group lost control over the company on 17 December 2010, and it is deconsolidated as of 17 December 2010. For deconsolidation of other reportable segment refer to Note 20.

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 is mainly generated world-wide, while revenue from non-primary operations mainly is 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.

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 2010**

| | Shipping | | Other | | Adjustments and eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|
| | USD '000 | LVL '000 | USD '000 | LVL '000 | USD '000 | LVL '000 | USD '000 | LVL '000 |
| External customers | 109 894 | 58 165 | 1 266 | 675 | - | - | 111 160 | 58 840 |
| Inter-segment | 136 | 73 | 336 | 180 | (472) | (253) | - | - |
| **Revenue** | **110 030** | **58 238** | **1 602** | **855** | **(472)** | **(253)** | **111 160** | **58 840** |
| Cost of sales | (75 120) | (40 072) | (1 183) | (626) | 187 | 101 | (76 116) | (40 597) |
| Selling costs | (6) | (2) | (8) | (4) | - | - | (14) | (6) |
| Administrative expenses | (18 473) | (9 809) | (1 298) | (692) | 285 | 152 | (19 486) | (10 349) |
| Result from disposal of non-financial assets | (1 615) | (993) | (337) | (169) | - | - | (1 952) | (1 162) |
| Depreciation and amortisation | (27 612) | (14 736) | (941) | (501) | - | - | (28 553) | (15 237) |
| Impairment of non-financial assets | (50 478) | (27 005) | (46 134) | (24 682) | - | - | (96 612) | (51 687) |
| Other opearating income | 657 | 209 | 562 | 281 | - | - | 1 219 | 490 |
| Other operating expenses | - | - | (88 998) | (47 546) | - | - | (88 998) | (47 546) |
| **Result before financial items** | **(62 617)** | **(34 170)** | **(136 735)** | **(73 084)** | **-** | **-** | **(199 352)** | **(107 254)** |
| Financial income | 3 036 | 1 622 | - | - | (801) | (426) | 2 235 | 1 196 |
| Financial expense | (24 496) | (12 556) | (6 228) | (3 433) | 801 | 426 | (29 923) | (15 563) |
| Deconsolidation of net financial liabilities | - | - | 85 416 | 43 735 | - | - | 85 416 | 43 735 |
| Income tax | (870) | (465) | - | - | - | - | (870) | (465) |
| **Segment Result** | **(84 947)** | **(45 569)** | **(57 547)** | **(32 782)** | **-** | **-** | **(142 494)** | **(78 351)** |
| **Segment assets** | **643 358** | **344 196** | **37 111** | **20 966** | **-** | **-** | **680 469** | **365 162** |
| **Segment liabilities** | **367 292** | **196 502** | **-** | **-** | **-** | **-** | **367 292** | **196 502** |

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 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 | (6 243) | (3 155) | (82 558) | (41 716) | - | - | (88 801) | (44 871) |
| Other opearating income | 576 | 291 | - | - | - | - | 576 | 291 |
| Other operating expenses | - | - | (11 527) | (5 825) | 790 | 400 | (10 737) | (5 425) |
| **Result before financial items** | **4 040** | **2 041** | **(110 781)** | **(55 977)** | **-** | **-** | **(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** | **(6 661)** | **(3 366)** | **(79 231)** | **(40 034)** | **(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)*

## 8. Voyage costs

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Bunkering | (13 365) | (28 782) | (7 047) | (14 543) |
| Port expenses | (4 120) | (10 926) | (2 366) | (5 521) |
| Commissions | (3 011) | (5 671) | (1 621) | (2 865) |
| Allowance for doubtful debts related to fleet operations | - | (1 826) | - | (923) |
| **Total** | **(20 496)** | **(47 205)** | **(11 034)** | **(23 852)** |

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

## 9. Cost of sales

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Crew expenses (See Note 16) | (24 384) | (32 848) | (12 991) | (16 598) |
| Fleet depreciation | (24 248) | (28 863) | (12 940) | (14 584) |
| Chartering expenses | (10 172) | (25 453) | (5 344) | (12 861) |
| Repaires and spares | (4 656) | (8 392) | (2 514) | (4 240) |
| Insurance | (4 391) | (8 101) | (2 348) | (4 093) |
| Staff costs (See Note 16) | (2 982) | (10 182) | (1 590) | (5 146) |
| Luboil | (2 668) | (4 136) | (1 419) | (2 090) |
| Equipment maintenence expenses | (2 664) | (4 847) | (1 417) | (2 449) |
| Dry-docking | (2 451) | (3 827) | (1 309) | (1 934) |
| Provisions | (1 409) | (2 067) | (751) | (1 044) |
| Depreciation and amortisation of other assets | (1 006) | (3 903) | (536) | (1 972) |
| Occupation and repairs | (924) | (2 656) | (471) | (1 342) |
| Materials and services | (179) | (8 901) | (93) | (4 497) |
| Communication | (54) | (145) | (28) | (73) |
| Travel and transport | (32) | (212) | (17) | (107) |
| Other | (1 104) | (531) | (580) | (269) |
| **Total** | **(83 324)** | **(145 064)** | **(44 348)** | **(73 299)** |

Decrease in cost of sales mainly relates to reduction of number of vessels *(See Note 23)* and deconsolidation of JSC Preses nams in 2009.

## 10. Selling costs

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Occupation expenses | (5) | (148) | (2) | (74) |
| Delivery expenses | (1) | (1 148) | - | (580) |
| Advertising and marketing | (1) | (538) | (1) | (272) |
| Staff costs (See Note 16) | - | (1 211) | - | (612) |
| Depreciation of other assets | - | (56) | - | (28) |
| Other | (7) | (307) | (3) | (156) |
| **Total** | **(14)** | **(3 408)** | **(6)** | **(1 722)** |

Decrease in selling costs relates to deconsolidation of JSC Preses nams in 2009.

# Notes to the consolidated financial statement *(continued)*

## 11. Administrative expenses

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Professional fees | (7 526) | (6 745) | (4 000) | (3 408) |
| Staff costs *(see Note 16)* | (7 508) | (11 444) | (3 998) | (5 783) |
| Occupation and repairs | (1 357) | (824) | (714) | (417) |
| Depreciation | (848) | (1 718) | (452) | (868) |
| IT and communication | (567) | (463) | (301) | (234) |
| Travel and transport | (459) | (857) | (244) | (433) |
| Real estate tax | (304) | (389) | (162) | (197) |
| Advertising and marketing | (121) | (568) | (65) | (287) |
| Other | (1 645) | (5 486) | (865) | (2 771) |
| **Total** | **(20 335)** | **(28 494)** | **(10 801)** | **(14 398)** |

Decrease in administrative expenses mainly relates to deconsolidation of JSC Preses nams in 2009.

## 12. Result from disposal of non-financial assets

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Result from disposal of fleet *(See Note 23)* | (1 615) | 557 | (993) | 281 |
| Result from disposal of other property, plant and equipment | (337) | (818) | (169) | (413) |
| Result from disposal of investment properties | - | 1 385 | - | 700 |
| **Total** | **(1 952)** | **1 124** | **(1 162)** | **568** |

## 13. Impairment of non-financial assets

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Impairment of property, plant and equipment *(See Note 24)* | (963) | (41 654) | (516) | (21 047) |
| Impairment of investment property *(See Note 25)* | (45 171) | (23 958) | (24 166) | (12 106) |
| Goodwill impairment, net *(See Note 22)* | - | (13 977) | - | (7 063) |
| Impairment of assets clasified as held for sale *(See Note 23)* | (4 916) | (6 243) | (2 630) | (3 155) |
| Other intangible asset impairment (*See Note 22)* | - | (2 785) | - | (1 407) |
| Impairment of fleet under construction *(See Note 23)* | (45 562) | - | (24 375) | - |
| Impairment of stock | - | (184) | - | (93) |
| **Total** | **(96 612)** | **(88 801)** | **(51 687)** | **(44 871)** |

## 14. Other operating income

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Result from sale of subsidiaries | 601 | - | 277 | - |
| Result from liquidation of subsidiaries | 54 | 576 | (100) | 291 |
| Result from sale of JSC Ventspils nafta shares | 20 | - | 10 | - |
| Other income | 544 | - | 303 | - |
| **Total** | **1 219** | **576** | **490** | **291** |

# Notes to the consolidated financial statement *(continued)*

### 15. Other operating expenses

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Impairment of loans and receivables | (83 467) | (10 478) | (44 587) | (5 294) |
| Decrease in fair value of financial assets at fair value through profit or loss *(See Note 5 and 32)* | (5 000) | - | (2 675) | - |
| Other operating expenses | (531) | (259) | (284) | (131) |
| **Total** | **(88 998)** | **(10 737)** | **(47 546)** | **(5 425)** |

Impairment of loans and receivables in 2010 mainly relates to impairment of loan issued to SIA LASCO Investment.

### 16. Employment costs and staff numbers

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Wages and salaries, included in | | | | |
| - cost of sales | 22 777 | 35 711 | 12 146 | 18 044 |
| - selling costs | - | 900 | - | 455 |
| - administrative expenses | 5 988 | 9 150 | 3 189 | 4 624 |
| Social security costs, included in | | | | |
| - cost of sales | 562 | 1 792 | 300 | 905 |
| - selling costs | - | 216 | - | 109 |
| - administrative expenses | 1 412 | 2 166 | 752 | 1 094 |
| Other staff costs | | | | |
| - cost of sales | 25 | 5 527 | 13 | 2 795 |
| - selling costs | - | 95 | - | 48 |
| - administrative expenses | 108 | 128 | 57 | 65 |
| **Total** | **30 872** | **55 685** | **16 457** | **28 139** |

The number of the Group's employees as of 31 December 2010 was 475 (2009: 898).

### 17. Finance income

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Interest income from bank account balances and deposits | 1 996 | 1 264 | 1 068 | 639 |
| Interest income from loans issued | 86 | - | 45 | - |
| Fair value changes in financial assets at fair value through profit or loss, net | 153 | 242 | 83 | 122 |
| **Total financial income** | **2 235** | **1 506** | **1 196** | **761** |
| Of which: from financial instruments relating to financial instrument categories (according to IAS 39): | | | | |
| Loans and receivables | 2 082 | 1 264 | 1 113 | 639 |
| Financial assets at fair value through profit or loss | 153 | 242 | 83 | 122 |
| **Total** | **2 235** | **1 506** | **1 196** | **761** |

# Notes to the consolidated financial statement *(continued)*

## 18. Finance costs

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Interest expense | (23 917) | (23 596) | (12 767) | (11 923) |
| Bank charges | (582) | (802) | (305) | (405) |
| Mortgage insurance fees | (128) | (143) | (69) | (72) |
| Currency exchange transactions/difference, net | (5 296) | (252) | (2 422) | (127) |
| **Total financial costs** | **(29 923)** | **(24 793)** | **(15 563)** | **(12 527)** |
| Of which: from financial instruments relating to financial instrument categories: | | | | |
| Financial liabilities measured at amortised cost | (23 917) | (23 596) | (12 767) | (11 923) |
| **Total** | **(23 917)** | **(23 596)** | **(12 767)** | **(11 923)** |

## 19. Corporate income tax

The major components of income tax expense for the years ended 31 December 2010 and 2009 are:

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| ***Current income tax:*** | | | | |
| Current income tax charge | (859) | - | (459) | - |
| ***Deferred tax:*** | | | | |
| Relating to origination and reversal of temporary differences | (11) | 458 | (6) | 232 |
| **Income tax expense reported in the income statement** | **(870)** | **458** | **(465)** | **232** |

Reconciliation between tax expense and accounting (loss)/profit multiplied by the statutory income tax rate for the years ended 31 December 2010 and 2009 is as follows:

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Accounting loss before income tax** | **(141 624)** | **(90 717)** | **(77 886)** | **(45 839)** |
| At statutory income tax rate of 15% | (21 244) | (13 608) | (11 683) | (6 876) |
| Non-taxable income/ non-deductible expense | 30 161 | 6 499 | 15 975 | 3 283 |
| Non-taxable income/ non-deductible expense related to deconsolidation | (4 913) | 1 589 | (2 319) | 803 |
| Changes in not recognised deferred tax asset | (3 134) | 5 062 | (1 508) | 2 558 |
| **Income tax expense** | **870** | **(458)** | **465** | **(232)** |

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 3 January 2011, the insolvency procedure of SIA LASCO Investment was initiated; therefore, it is considered that the Group has lost a control over the company from 17 December 2010, and it is not consolidated as of 31 December 2010. The deconsolidation in 2009 related to JSC Preses nams due to the loss of control. For more details on SIA LASCO Investment Group structure see Note 6. The financial results of SIA LASCO Investment Group are disclosed in Note 7 under reportable segment "Other".

## 20 (a) Derecognition of assets and liabilities

On deconsolidation assets and liabilities of previously mentioned companies were derecognised as presented below, resulting in recognition of gain from deconsolidation of net financial liabilities.

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Goodwill | - | 604 | - | 305 |
| Non-current assets excluding goodwill | 68 246 | 15 811 | 36 060 | 7 989 |
| Current assets | 1 703 | 1 811 | 904 | 915 |
| **Total deconsolidated assets** | **69 949** | **18 226** | **36 964** | **9 209** |
| Non-controlling interest | - | (735) | - | (371) |
| Deferred corporate income tax | (13 491) | (604) | (7 164) | (305) |
| Liabilities | (141 874) | (56 198) | (73 535) | (28 396) |
| **Total deconsolidated liabilities** | **(155 365)** | **(57 537)** | **(80 699)** | **(29 072)** |
| **Gain on deconsolidation of net financial liabilities** | **85 416** | **39 311** | **43 735** | **19 863** |

## 20 (b) Results consolidated line by line until loss of control

Results of companies operations until loss of control are consolidated line by line within the Group's income statement as presented below:

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | 1 602 | 13 760 | 855 | 6 953 |
| Cost of sales | (2 123) | (16 782) | (1 126) | (8 480) |
| **Gross loss** | **(521)** | **(3 022)** | **(271)** | **(1 527)** |
| Selling costs | (8) | (817) | (4) | (413) |
| Administrative expenses | (1 299) | (5 595) | (693) | (2 827) |
| Result from disposal of non-financial assets | (337) | (1 106) | (169) | (559) |
| Impairment of non-financial assets | (44 747) | (37 450) | (23 940) | (18 923) |
| Other operating income | 562 | - | 281 | - |
| Other operating expenses | (86) | (693) | (43) | (350) |
| **Operating loss** | **(46 436)** | **(48 683)** | **(24 839)** | **(24 599)** |
| Finance income | - | 65 | - | 33 |
| Finance costs | (6 228) | (2 256) | (3 433) | (1 140) |
| **Loss before tax** | **(52 664)** | **(50 874)** | **(28 272)** | **(25 706)** |
| Deffred income tax | - | 968 | - | 489 |
| **Net loss for the reporting period until loss of control** | **(52 664)** | **(49 906)** | **(28 272)** | **(25 217)** |

In 2010 impairment of non-financial assets relates to property of SIA LASCO Investment, recoverable amount of which was defined based on valuations performed by independent certified valuators at the end of the year.

# Notes to the consolidated financial statement *(continued)*

### 20 (c) Results of disposed companies

In 2010 shares of Mediju nams SIA (in January) and LASCO Housing services SIA (in October) where disposed out of LASCO Investment SIA Group. Results of those companies operations until date of disposal are consolidated line by line within the Group's income statement as presented in Note 20(b).

Results of Mediju nams SIA and LASCO Housing services SIA operations excluding transactions within the Group in 2010 until date of disposal are presented below:

| | USD'000 | LVL'000 |
|---|---|---|
| Net sales | 391 | 209 |
| Cost of sales | (497) | (265) |
| **Gross loss** | **(106)** | **(56)** |
| Selling costs | (8) | (4) |
| Administrative expenses | (98) | (52) |
| **Operating loss** | **(212)** | **(112)** |
| Finance costs | (1) | - |
| **Loss before tax** | **(213)** | **(112)** |
| Income tax | - | - |
| **Net loss for the reporting period** | **(213)** | **(112)** |

### 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.

| | 2010 | 2009 | 2010 | 2009 |
|---|---|---|---|---|
| Net loss for the year attributable to shareholders (USD'000/LVL'000) | (142 435) | (90 259) | (78 320) | (45 607) |
| Weighted average number of ordinary shares in issue (thousands) | 200 000 | 200 000 | 200 000 | 200 000 |
| **Basic loss per share (USD/LVL)** | **(0.72)** | **(0.45)** | **(0.40)** | **(0.23)** |

# 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 2009 | 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** |
| Additions | 223 | 118 | - | - | - | - | - | - | 223 | 118 |
| Disposals | (256) | (136) | - | - | - | (54) | (60) | (32) | (316) | (222) |
| Deconsolidation | - | - | - | - | (18 094) | (9 608) | - | - | (18 094) | (9 608) |
| Exchange differences | (160) | - | - | - | (1 664) | - | (5) | - | (1 829) | - |
| **At 31 December 2010** | **1 669** | **892** | **-** | **-** | **-** | **-** | **-** | **-** | **1 669** | **892** |
| | | | | | | | | | | |
| **Amortisation and impairment** | | | | | | | | | | |
| At 1 January 2009 | 740 | 366 | - | - | 2 873 | 1 422 | - | - | 3 613 | 1 788 |
| Amortisation | 386 | 195 | - | - | - | - | 178 | 90 | 564 | 285 |
| Disposals | (81) | (41) | - | - | - | - | (2 963) | (1 497) | (3 044) | (1 538) |
| Impairment (Note 13) | - | - | - | - | 16 307 | 8 240 | 2 785 | 1 407 | 19 092 | 9 647 |
| Exchange differences | 19 | - | - | - | 578 | - | - | - | 597 | - |
| **At 31 December 2009** | **1 064** | **520** | **-** | **-** | **19 758** | **9 662** | **-** | **-** | **20 822** | **10 182** |
| Amortisation | 379 | 202 | - | - | - | - | - | - | 379 | 202 |
| Deconsolidation | - | - | - | - | (18 094) | (9 608) | - | - | (18 094) | (9 608) |
| Disposals | (223) | (119) | - | - | - | (54) | - | - | (223) | (173) |
| Exchange differences | (91) | - | - | - | (1 664) | - | - | - | (1 755) | - |
| **At 31 December 2010** | **1 129** | **603** | **-** | **-** | **-** | **-** | **-** | **-** | **1 129** | **603** |
| | | | | | | | | | | |
| **Net book value:** | | | | | | | | | | |
| **At 31 December 2009** | **798** | **390** | **-** | **-** | **-** | **-** | **65** | **32** | **863** | **422** |
| **At 31 December 2010** | **540** | **289** | **-** | **-** | **-** | **-** | **-** | **-** | **540** | **289** |

Net impairment of goodwill represented in Note 13 in the amount of US $ 13.977 million (LVL 7.063 million) as of 31 December 2009 includes deferred tax impact in the amount of US $ 2.33 million (LVL 1.177 million).

## Notes to the consolidated financial statement *(continued)*

### 23. Fleet

| | Vessels | | Capitalised dry dock expenses | | Total fleet in use | | Newbuildings under construction | | Total fleet | |
|---|---|---|---|---|---|---|---|---|---|---|
| | USD'000 | LVL'000 | USD'000 | LVL'000 | USD'000 | LVL'000 | USD'000 | LVL'000 | USD'000 | LVL'000 |
| **Cost** | | | | | | | | | | |
| At 1 January 2009 | 941 882 | 466 231 | 19 767 | 9 785 | 961 649 | 476 016 | 74 366 | 36 812 | 1 036 015 | 512 828 |
| Additions | - | - | 2 857 | 1 444 | 2 857 | 1 444 | 4 801 | 2 425 | 7 658 | 3 869 |
| Disposals | (151 666) | (76 635) | (14 128) | (7 138) | (165 794) | (83 773) | - | - | (165 794) | (83 773) |
| Reclassification | (119 102) | (60 181) | (3 261) | (1 648) | (122 363) | (61 829) | - | - | (122 363) | (61 829) |
| Exchange differences | - | (1 240) | (39) | 98 | (39) | (1 142) | - | (523) | (39) | (1 665) |
| **At 31 December 2009** | **671 114** | **328 175** | **5 196** | **2 541** | **676 310** | **330 716** | **79 167** | **38 714** | **755 477** | **369 430** |
| Additions | - | - | 3 928 | 2 085 | 3 928 | 2 085 | 208 | 77 | 4 136 | 2 162 |
| Disposals | (10 500) | (5 574) | (2 466) | (1 309) | (12 966) | (6 883) | (4) | (2) | (12 970) | (6 885) |
| Reclassification | (26 711) | (14 179) | (324) | (172) | (27 035) | (14 351) | - | - | (27 035) | (14 351) |
| Exchange differences | - | 30 716 | (105) | 188 | (105) | 30 904 | - | 3 674 | (105) | 34 578 |
| **At 31 December 2010** | **633 903** | **339 138** | **6 229** | **3 333** | **640 132** | **342 471** | **79 371** | **42 463** | **719 503** | **384 934** |
| | | | | | | | | | | |
| **Depreciation and impairment** | | | | | | | | | | |
| At 1 January 2009 | 254 763 | 126 108 | 13 760 | 6 811 | 268 523 | 132 919 | - | - | 268 523 | 132 919 |
| Depreciation | 28 863 | 14 584 | 3 827 | 1 934 | 32 690 | 16 518 | - | - | 32 690 | 16 518 |
| Disposals | (90 780) | (45 870) | (13 728) | (6 937) | (104 508) | (52 807) | - | - | (104 508) | (52 807) |
| Reclassification | (91 131) | (46 048) | (1 107) | (559) | (92 238) | (46 607) | - | - | (92 238) | (46 607) |
| Exchange differences | - | 965 | (53) | 72 | (53) | 1 037 | - | - | (53) | 1 037 |
| **At 31 December 2009** | **101 715** | **49 739** | **2 699** | **1 321** | **104 414** | **51 060** | **-** | **-** | **104 414** | **51 060** |
| Depreciation | 24 248 | 12 940 | 2 451 | 1 309 | 26 699 | 14 249 | - | - | 26 699 | 14 249 |
| Disposals | (8 817) | (4 680) | (2 466) | (1 309) | (11 283) | (5 989) | - | - | (11 283) | (5 989) |
| Reclassification | (16 088) | (8 540) | (270) | (143) | (16 358) | (8 683) | - | - | (16 358) | (8 683) |
| Impairment | - | - | - | - | - | - | 45 562 | 24 375 | 45 562 | 24 375 |
| Exchange differences | - | 4 607 | (33) | 96 | (33) | 4 703 | - | - | (33) | 4 703 |
| **At 31 December 2010** | **101 058** | **54 066** | **2 381** | **1 274** | **103 439** | **55 340** | **45 562** | **24 375** | **149 001** | **79 715** |
| | | | | | | | | | | |
| **Net book value:** | | | | | | | | | | |
| **At 31 December 2009** | **569 399** | **278 436** | **2 497** | **1 220** | **571 896** | **279 656** | **79 167** | **38 714** | **651 063** | **318 370** |
| **At 31 December 2010** | **532 845** | **285 072** | **3 848** | **2 059** | **536 693** | **287 131** | **33 809** | **18 088** | **570 502** | **305 219** |
| | | | | | | | | | | |
| **Impairment** | | | | | | | | | | |
| **At 31 December 2009** | - | - | - | - | - | - | - | - | - | - |
| **At 31 December 2010** | **-** | **-** | **-** | **-** | **-** | **-** | **45 562** | **24 375** | **45 562** | **24 375** |

As of 31 December 2010 the net book value of vessels under the finance lease was US $ 26.9 (31.12.2009: 29.3 million). The finance lease is secured by pledge on vessel acquired.

Reclassification in 2009 and 2010 represents transfer of the vessels from fleet to assets held for sale. *See Note 28*.

In 2010 impairment of newbuildings under construction was recognised, recoverable amount of which was defined based on discounted cash flows. Two of newbuildings under construction sold in March 2011 *(See note 47)*.

# Notes to the consolidated financial statement *(continued)*

## 23. Fleet (*continued*)

In year 2010 the Group sold 7 (2009: 8) product tankers with total deadweight 167,96 thousand tons: m.t. O.Vacietis - built 1985 (16 341 DWT), m.t. Zoja II – 1989 (18 625 DWT), m.t. Zoja I – 1988 (18 625 DWT), m.t. Inga – 1990 (28 637 DWT), m.t. Mar – 1990 (28 637 DWT), m.t. Estere – 1989 (28 557 DWT) and m.t. Pumpuri – 1987 (28 537) DWT resulting in loss of US $ 1.6 million.

Part of the fleet with the net book value of US $ 515.4 million (2009: 569.5) has been used as security for long term bank loans. *See Note 35 for details*.

The number of vessels in the fleet, including those classified as assets held for sale *(see note 28)*, at the year-end is:

| | 2010 | 2009 |
|---|---|---|
| Tankers | 19 | 26 |
| **Total** | **19** | **26** |

The Group operates also 2 tankers chartered in from other ship owners, as a result total number of vessels operated by the Group as of 31 December 2010 is 21 (2009: 28).

At 31 December 2010 the Group's own fleet comprises:

| | Year of Building | DWT |
|---|---|---|
| **Product Tankers:** | | |
| 1 Ainaži | 2008 | 52 606 |
| 2 Ance | 2006 | 52 622 |
| 3 Indra* | 1994 | 33 115 |
| 4 Jurkalne | 2006 | 52 622 |
| 5 Kaltene | 2003 | 37 261 |
| 6 Kandava | 2007 | 37 258 |
| 7 Kazdanga | 2007 | 37 312 |
| 8 Kolka | 2003 | 37 211 |
| 9 Kraslava | 2007 | 37 258 |
| 10 Kr.Valdemars | 2007 | 37 266 |
| 11 Kuldiga | 2003 | 37 237 |
| 12 Piltene | 2007 | 52 648 |
| 13 Puze | 2006 | 52 622 |
| 14 Riga | 2001 | 68 467 |
| 15 Salacgrīva | 2008 | 52 620 |
| 16 Targale | 2007 | 52 622 |
| 17 Ugale | 2007 | 52 642 |
| 18 Usma | 2007 | 52 684 |
| 19 Užava | 2008 | 52 650 |
| **Total DWT** | | **888 723** |

* as 31 December 2010 reclassified as assets held for sale. *See Note 28*.

# Notes to the consolidated financial statement *(continued)*

## 23. Fleet (*continued*)

The remaining fleet is recognised in the balance sheet in the amount of US $ 536.7 million (2009: 571.9). 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 based on valuations carried out by two independent valuators.

Value in use is determined for each vessel individually based on discounted cash flow projections. The assumptions used for the impairment test as of 31 December 2010 do not differ significantly from the assumptions used in 2009. These are: for 2011 and for the following years the Group has used its budgeted time charter rates as well as charter market forecasts; 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 equal to its carrying value and, consequently, any adverse change in a key assumption would result in impairment loss. In 2010 impairment of newbuildings under construction was recognised, recoverable amount of which was defined based on discounted cash flows.

The following individual change in key assumptions would make recoverable amount approximate its carrying amount as of 31 December 2010:

- Decrease in time charter rates by US $ 1 000 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. 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 2009 | 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** |
| Additions | 466 | 247 | 235 | 125 | 701 | 372 | - | - | 701 | 372 |
| Disposals | (3 621) | (1 922) | (954) | (506) | (4 575) | (2 428) | (1) | - | (4 576) | (2 428) |
| Deconsolidation | (5 137) | (2 728) | (704) | (374) | (5 841) | (3 102) | - | - | (5 841) | (3 102) |
| Reclassification | (2 074) | (1 101) | (23) | (12) | (2 097) | (1 113) | - | - | (2 097) | (1 113) |
| Exchange differences | (1 267) | - | (437) | - | (1 704) | - | - | - | (1 704) | - |
| **At 31 December 2010** | **4 019** | **2 150** | **3 326** | **1 780** | **7 345** | **3 930** | **-** | **-** | **7 345** | **3 930** |
| | | | | | | | | | | |
| **Depreciation and impairment** | | | | | | | | | | |
| At 1 January 2009 | 1 014 | 502 | 3 507 | 1 736 | 4 521 | 2 238 | - | - | 4 521 | 2 238 |
| Depreciation | 1 017 | 514 | 3 284 | 1 660 | 4 301 | 2 174 | - | - | 4 301 | 2 174 |
| Impairment | 16 055 | 8 111 | 6 854 | 3 464 | 22 909 | 11 575 | 18 745 | 9 472 | 41 654 | 21 047 |
| Disposals | (12 050) | (6 088) | (10 375) | (5 243) | (22 425) | (11 331) | (18 745) | (9 472) | (41 170) | (20 803) |
| Exchange differences | 179 | - | 37 | - | 216 | - | - | - | 216 | - |
| **At 31 December 2009** | **6 215** | **3 039** | **3 307** | **1 617** | **9 522** | **4 656** | **-** | **-** | **9 522** | **4 656** |
| Depreciation | 212 | 186 | 526 | 280 | 738 | 466 | - | - | 738 | 466 |
| Reclassification | (154) | (82) | (23) | (12) | (177) | (94) | - | - | (177) | (94) |
| Deconsolidation | (4 162) | (2 210) | (199) | (106) | (4 361) | (2 316) | - | - | (4 361) | (2 316) |
| Impairment | 963 | 516 | - | - | 963 | 516 | - | - | 963 | 516 |
| Disposals | (2 038) | (1 082) | (720) | (382) | (2 758) | (1 464) | - | - | (2 758) | (1 464) |
| Exchange differences | (351) | - | (280) | - | (631) | - | - | - | (631) | - |
| **At 31 December 2010** | **685** | **367** | **2 611** | **1 397** | **3 296** | **1 764** | **-** | **-** | **3 296** | **1 764** |
| | | | | | | | | | | |
| **Net book value:** | | | | | | | | | | |
| **At 31 December 2009** | **9 437** | **4 615** | **1 902** | **930** | **11 339** | **5 545** | **1** | **-** | **11 340** | **5 545** |
| **At 31 December 2010** | **3 334** | **1 783** | **715** | **383** | **4 049** | **2 166** | **-** | **-** | **4 049** | **2 166** |
| | | | | | | | | | | |
| **Accumulated impairment** | | | | | | | | | | |
| **At 31 December 2009** | **5 028** | **2 540** | **-** | **-** | **5 028** | **2 540** | **-** | **-** | **5 028** | **2 540** |
| **At 31 December 2010** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

In 2009 and 2010 impairment of Property, plant and equipment relates to assets of the companies deconsolidated (2010: SIA LASCO Investment, 2009: JSC Preses nams) recoverable amount of which was defined based on valuations performed by independent certified valuators at the end of the year. Since companies was not consolidated as at the end of the reporting period (*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 2009 | 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** |
| Additions | 209 | 111 | 333 | 177 | 542 | 288 |
| Disposals | (674) | (358) | (130) | (69) | (804) | (427) |
| Reclassification | 2 097 | 1 113 | - | - | 2 097 | 1 113 |
| Deconsolidation | (123 249) | (65 445) | (7 232) | (3 840) | (130 481) | (69 285) |
| Exchange differences | (10 936) | - | (604) | - | (11 540) | - |
| **At 31 December 2010** | **5 196** | **2 780** | **9** | **5** | **5 205** | **2 785** |
| | | | | | | |
| **Depreciation** | | | | | | |
| At 1 January 2009 | 81 | 40 | - | - | 81 | 40 |
| Depreciation | 811 | 410 | - | - | 811 | 410 |
| Impairment | 19 965 | 10 089 | 3 993 | 2 017 | 23 958 | 12 106 |
| Disposals | (3 286) | (1 661) | 132 | - | (3 154) | (1 661) |
| Exchange differences | 584 | - | - | - | 584 | - |
| **At 31 December 2009** | **18 155** | **8 878** | **4 125** | **2 017** | **22 280** | **10 895** |
| Depreciation | 737 | 320 | - | - | 737 | 320 |
| Impairment | 45 087 | 24 121 | 84 | 45 | 45 171 | 24 166 |
| Reclassification | 177 | 94 | - | - | 177 | 94 |
| Deconsolidation | (60 168) | (31 949) | (3 884) | (2 062) | (64 052) | (34 011) |
| Disposals | (674) | (358) | - | - | (674) | (358) |
| Exchange differences | (1 247) | - | (325) | - | (1 572) | - |
| **At 31 December 2010** | **2 067** | **1 106** | **-** | **-** | **2 067** | **1 106** |
| | | | | | | |
| **Net book value:** | | | | | | |
| **At 31 December 2009** | **119 594** | **58 481** | **3 517** | **1 720** | **123 111** | **60 201** |
| **At 31 December 2010** | **3 129** | **1 674** | **9** | **5** | **3 138** | **1 679** |
| | | | | | | |
| **Impairment** | | | | | | |
| **At 31 December 2009** | **16 773** | **8 476** | **3 993** | **2 017** | **20 766** | **10 493** |
| **At 31 December 2010** | **1 892** | **1 012** | **-** | **-** | **1 892** | **1 012** |

The fair value of Investment Property as of 31 December 2010 is equal to its balance sheet carrying value.

At the end of 2010 the Group engaged independent certified valuation specialists to determine fair value of assets.

For valuation purposes the valuer used a discounted cash flow model and comparable deal method. The valuations were done for each of investment properties on individual bases.

Mainly in 2010 impairment of Investment properties relates to assets of SIA LASCO Investment, recoverable amount of which was defined based on valuations performed by independent certified valuators at the end of the year. Since SIA LASCO Investment was not consolidated as of 31 December 2010 (*see Note 20*), no sensitivity analysis in respect of impaired investment properties is presented.

In respect of the investment property held by Parent company of the Group as at 31 December 2010 the valuation of the respective investment property has been based on significant assumptions, including rent rates, timing of building to be rented out, discounting and capitalisation rates applied which are the following:

- Rent rates: US $ 11 - US $ 12 per square meter;
- Occupancy rates: 0% in initial year until 100% after four years;
- Discounting rates(pre tax): 9.6%;
- Capitalisation rate: 8.6%.

Considering recent changes in the real estate market in Latvia and the fact that the object is not started to develop 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.

# Notes to the consolidated financial statement *(continued)*

## 25. Investment properties *(continued)*

Recoverable 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 2010 | |
|---|---|---|---|
| | | USD'000 | LVL'000 |
| Change in rent rates per 1 sq.m. | +5% | 108 | 58 |
| | -5% | (108) | (58) |
| Change in ocupancy rate | +5% | 108 | 58 |
| | -5% | (108) | (58) |
| Change in discounting rate applied | +1% | (88) | (47) |
| | -1% | 93 | 50 |
| Change in rate of capitalisation | +1% | (138) | (74) |
| | -1% | 172 | 92 |

## 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 |

# Notes to the consolidated financial statement *(continued)*

## 27. Other financial assets and liabilities

### Fair value hierarchy

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.

As of 31 December 2010, the Group held the following financial instruments measured at fair value.

| | 31.12.2010. | | 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** | **31 866** | **18 160** | **1 361** | **728** | - | - | **30 505** | **17 432** |
| Short term securities | 1 361 | 728 | 1 361 | 728 | - | - | - | - |
| Equity instruments | 30 505 | 17 432 | - | - | - | - | 30 505 | 17 432 |
| **Liabilities measured at fair value** | **4 208** | **2 251** | **-** | **-** | **4 208** | **2 251** | **-** | **-** |
| Non-current swap transactions | 1 416 | 757 | - | - | 1 416 | 757 | - | - |
| Current swap transactions | 2 792 | 1 494 | - | - | 2 792 | 1 494 | - | - |

| | 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 | - | - |

## 28. Assets classified as held for sale

According to the fleet renewal program during 2010 the decision was made to sell m.t. Indra (in 2009: six vessels) and it was re-classified to assets classified as held for sale *(See also Note 23)*.

As of 31 December 2010 assets held for sale are stated at market value which comprises US $ 5.8 million (2009: 24.3). In 2010, impairment of assets held for sale is charged to income statement in amount of US $ 4.9 million (2009: 6.2). *See Note 13*.

# Notes to the consolidated financial statement *(continued)*

## 29. Inventories

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 31.12.2010. | 31.12.2009. | 31.12.2010. | 31.12.2009. |
| Luboil and provisions (at cost) | 1 967 | 2 714 | 1 052 | 1 327 |
| Bunkers (at cost) | 3 | 3 131 | 1 | 1 530 |
| Ship and shore spares (at net realisible value) | - | 179 | - | 88 |
| Prepayments for goods | 1 | 56 | 1 | 28 |
| Other (at cost) | 57 | 114 | 31 | 56 |
| **Total** | **2 028** | **6 194** | **1 085** | **3 029** |

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

Significant decrease in bunker balances accounts for change in type of vessels' employment.

## 30. Trade and other receivables

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 31.12.2010. | 31.12.2009. | 31.12.2010. | 31.12.2009. |
| Trade receivables | 13 621 | 18 708 | 7 287 | 9 149 |
| *Allowance for doubtful debts* | *(11 716)* | *(11 717)* | *(6 268)* | *(5 730)* |
| Other debtors, net | 4 256 | 875 | 2 277 | 428 |
| Deferred expenses | 2 535 | 891 | 1 356 | 435 |
| Claims receivable | 976 | 270 | 522 | 132 |
| Loans issued to LASCO Investment Group | 494 | 54 | 264 | 26 |
| **Total** | **10 166** | **9 081** | **5 438** | **4 440** |

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

As at 31 December 2010 the total amount due from LASCO Investment Group of USD 83.85 million. The net value of the loans issued has been decreased to the fair value of assets pledged as of 31 December 2010 representing USD 4.7 million (LVL 2.5). *(See also Note 32).*

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

| | | | **Past due not impaired** | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Neither past due nor impaired | up to 45 days | 46 to 90 days | 91 to 180 days | 181 to 365 days | More than 365 days |
| | USD '000 | USD '000 | USD '000 | USD '000 | USD '000 | USD '000 | USD '000 |
| **At 31 December 2010** | 1 905 | 805 | 326 | 14 | 377 | 195 | 188 |
| **At 31 December 2009** | 6 991 | 6 644 | 165 | 42 | 42 | 42 | 56 |

| | | | **Past due not impaired** | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Neither past due nor impaired | up to 45 days | 46 to 90 days | 91 to 180 days | 181 to 365 days | More than 365 days |
| | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 |
| **At 31 December 2010** | 1 019 | 430 | 174 | 7 | 202 | 105 | 101 |
| **At 31 December 2009** | 3 419 | 3 249 | 81 | 21 | 21 | 20 | 27 |

# Notes to the consolidated financial statement *(continued)*

## 30. Trade and other receivables *(Continued)*

Change in allowances for impairment of trade receivables were as follows:

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **At 1 January** | **11 717** | **5 295** | **5 730** | **2 621** |
| Additions | 211 | 11 594 | 112 | 5 858 |
| Settlements | (182) | (5 122) | (97) | (2 588) |
| Currency translation difference | (30) | (50) | 523 | (161) |
| **At 31 December** | **11 716** | **11 717** | **6 268** | **5 730** |

## 31. Prepayments

Prepayments are non-interest bearing and are generally on 30-90 days' terms and are disclosed at net value.

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 31.12.2010. | 31.12.2009. | 31.12.2010. | 31.12.2009. |
| Prepayments | 5 261 | 3 875 | 2 815 | 1 895 |
| *Allowances for doubtful prepayments* | *(3 058)* | *(400)* | *(1 636)* | *(196)* |
| **Prepayments, net** | **2 203** | **3 475** | **1 179** | **1 699** |

See reference on allowances for doubtful prepayments in *Note 46*.

# Notes to the consolidated financial statement *(continued)*

## 32. Other financial assets

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 31.12.2010. | 31.12.2009. | 31.12.2010. | 31.12.2009. |
| **Other non-current financial assets** | **7 720** | **2 201** | **4 130** | **1 076** |
| Loans issued to LASCO Investment Group, net | 4 220 | - | 2 258 | - |
| Other | 3 500 | 2 201 | 1 872 | 1 076 |
| **Other current financial assets** | **31 866** | **57 306** | **18 160** | **28 023** |
| Deposits with maturity more than three month | - | 55 987 | - | 27 378 |
| Financial assets at fair value through profit or loss | 31 866 | 1 319 | 18 160 | 645 |
| **Total other financial assets** | **39 586** | **59 507** | **22 290** | **29 099** |

As at 31 December 2010 the amount due from LASCO Investment Group of USD 83.85 million represents loans issued with an interest at a margin linked to US $ LIBOR with a long term repayment term. The net value of the loans issued has been decreased to the fair value of assets pledged as of 31 December 2010 representing USD 4.7 million (LVL 2.5). *(See also Note 30).*

## 32 (a) Financial assets at fair value through profit or loss

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 31.12.2010. | 31.12.2009. | 31.12.2010. | 31.12.2009. |
| Shares in Latvijas Naftas tranzīts JSC *(See note 5)* | 28 681 | - | 16 456 | - |
| Shares in JSC Ventspils Nafta *(See note 47)* | 1 824 | - | 976 | - |
| Bonds of Latvian Government | 1 361 | 1 319 | 728 | 645 |
| **Total other current financial assets** | **31 866** | **1 319** | **18 160** | **645** |

## 32 (b) Deposits with maturity more than three months

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **At 1 January** | **55 987** | **62 101** | **27 378** | **30 740** |
| Deposits settled at maturity | (55 626) | (56 000) | (29 529) | (28 296) |
| Bank deposits maturing more than 3 months from the date of placement | - | 50 826 | - | 25 682 |
| Previous accrual reversal | (361) | (1 301) | (192) | (657) |
| Interest accrued | - | 361 | - | 182 |
| Exchange differences | - | - | 2 343 | (273) |
| **At 31 December** | **-** | **55 987** | **-** | **27 378** |

During the reporting period an effective interest rate on deposits with maturity more than three months amounted to 3.52% (2009: 3.03%).

## 32 (c) Changes in financial assets at fair value through profit or loss

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **At 1 January** | **1 319** | **4 028** | **645** | **1 994** |
| Additions | 36 205 | - | 20 653 | - |
| Settlements | (169) | (2 785) | (90) | (1 407) |
| Change in fair value | (5 377) | 93 | (2 876) | 47 |
| Changes in provision | (4) | - | (2) | - |
| Exchange differences | (108) | (17) | (170) | 11 |
| **At 31 December** | **31 866** | **1 319** | **18 160** | **645** |

The financial assets in 2009 and 2010 at fair value though profit or loss are Bonds of Latvian Government and shares held by Latmar Holdings Corporation and its subsidiaries. (*See also Note 27).*

# Notes to the consolidated financial statement *(continued)*

## 33. Cash and short-term deposits

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 31.12.2010. | 31.12.2009. | 31.12.2010. | 31.12.2009. |
| Cash in banks and on hand | 42 471 | 28 658 | 22 722 | 14 015 |
| Bank deposits with maturity less than 3 months from the date of placement | - | 46 437 | - | 22 707 |
| **Cash and cash equivalents total** | **42 471** | **75 095** | **22 722** | **36 722** |

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.

## 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 2009. No additional hedges acquired in 2010 *(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 functional currency other than Group's reporting currency.

## 35. Interest bearing loans

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 31.12.2010. | 31.12.2009. | 31.12.2010. | 31.12.2009. |
| Repayments due within next twelve months | 32 331 | 30 584 | 17 297 | 14 955 |
| Overdraft received | - | 6 | - | 3 |
| Unamortised prepaid financing expenses * | (1 101) | (1 039) | (589) | (508) |
| **Net current portion** | **31 230** | **29 551** | **16 708** | **14 450** |
| | | | | |
| Non-current portion | 286 882 | 351 713 | 153 482 | 171 988 |
| Unamortised prepaid financing expenses * | (4 933) | (5 801) | (2 639) | (2 837) |
| **Net non-current portion** | **281 949** | **345 912** | **150 843** | **169 151** |
| | | | | |
| Total loans outstanding | 319 213 | 382 303 | 170 779 | 186 946 |
| Total unamortised prepaid financing expenses* | (6 034) | (6 840) | (3 228) | (3 345) |
| **Total loans, net of unamortised financing costs** | **313 179** | **375 463** | **167 551** | **183 601** |

* Prepaid financing expenses are amortised within the 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 agreement with the maximum loan amount of US $ 75 million to finance purchase of vessels.

# Notes to the consolidated financial statement *(continued)*

### 35. Interest bearing loans *(continued)*

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. *See also section Capital management in Note 45.*

In 2009 the Group entered in to the two long term loan agreements in amount of US $ 32.5 million and US $ 4 million were US $ 32.5 million was repaid in 2010.

The US $ 4 million long-term loan has been received by the Group's company; the loan is secured by vessel pledge. The loan is repayable in monthly instalments which include fixed interest payments. At the end of the reporting year the loan is classified as current and will be repaid at the moment of vessel sale.

In 2010 the Group received and repaid the loan in the amount of US $ 27.6 million.

The loans are scheduled to be repaid as follows:

| Year | USD million | LVL million |
|---|---|---|
| 2011 | 32,3 | 17 |
| 2012 | 29,4 | 16 |
| 2013 | 29,4 | 16 |
| 2014 | 48,1 | 26 |
| 2015 | 24,0 | 13 |
| 2016 - 2017 | 156,0 | 83 |
| **Total** | **319,2** | **171** |

Also see Note 48 Going concern.

### 36. Finance lease

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 of the end of reporting year finance lease liabilities amounted to US $ 28.571 million.

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

| | **Minimum payments** USD '000 | | **Present value of payments** USD '000 | | **Minimum payments** LVL '000 | | **Present value of payments** LVL '000 | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Within one year | 5 001 | 5 000 | 1 203 | 1 051 | 2 675 | 2 445 | 643 | 514 |
| Unamortised prepaid financing expenses * | (98) | - | (98) | - | (52) | - | (52) | - |
| **Net current portion** | **4 903** | **5 000** | **1 105** | **1 051** | **2 623** | **2 445** | **591** | **514** |
| After one year but not more than five years | 36 392 | 41 393 | 27 368 | 28 571 | 19 470 | 20 241 | 14 642 | 13 971 |
| Unamortised prepaid financing expenses * | (274) | - | (274) | - | (147) | - | (147) | - |
| **Net non-current portion** | **36 118** | **41 393** | **27 094** | **28 571** | **19 323** | **20 241** | **14 495** | **13 971** |
| Minimum lease payments | 41 021 | 46 393 | 28 199 | 29 622 | 21 946 | 22 686 | 15 086 | 14 485 |
| Less amounts representing finance charges* | (12 822) | (16 771) | - | - | (6 860) | (8 201) | - | - |
| **Present value of minimum lease payments** | **28 199** | **29 622** | **28 199** | **29 622** | **15 086** | **14 485** | **15 086** | **14 485** |

* For finance charge calculation purposes constant rate applied and unamortised prepaid expenses, which are amortised within the finance lease period.

# 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 | 2.3950% |

The swap is being used to provide a hedge against the Groups exposure to the interest rate market risk, in particular fluctuation of the LIBOR rates.

Components of other comprehensive income:

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 31.12.2010. | 31.12.2009. | 31.12.2010. | 31.12.2009. |
| Cash flow hedges: | | | | |
| Interest rate swap | 3 530 | 4 166 | 1 706 | 2 119 |
| Reclassification adjustments for loss included in the income statement | (3 893) | (3 234) | (2 077) | (1 634) |
| | **(363)** | **932** | **(371)** | **485** |

As of 31 December 2010 the negative fair value of the swaps amounting to US $ 4.2 million (2009 – US $ 3.8 million) was recognised in equity within Cash flow hedge reserve.

## 38. Deferred tax liabilities

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

| | USD '000 | | | LVL '000 | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2010 | | |
| | **31.12.2009.** | **Change for the year** | **31.12.2010.** | **31.12.2009.** | **Change for the year** | **31.12.2010.** |
| Excess of tax allowances over depreciation | 15 393 | (15 120) | 273 | 7 527 | (7 381) | 146 |
| Other temporary differences | (197) | 118 | (79) | (96) | 54 | (42) |
| Tax losses | (3 998) | 3 480 | (518) | (1 955) | 1 678 | (277) |
| Unrecognised deferred tax asset | 3 665 | (3 134) | 531 | 1 792 | (1 508) | 284 |
| **Deferred tax liabilities at 31 December** | **14 863** | **(14 656)** | **207** | **7 268** | **(7 157)** | **111** |

The Group has a total tax loss for US $ 3.5 million (2009: 26.6) in total available for the offset against future taxable profits of the Group companies in which the losses arose.

Total tax losses as of 31 December 2010 carried forward from the previous years are as follows:

| Year | USD '000 | LVL'000 | Expires |
|---|---|---|---|
| 2006 | 2 326 | 1 244 | 2014 |
| 2007 | 531 | 284 | 2015 |
| 2008 | 147 | 79 | 2016 |
| 2009 | 106 | 57 | 2017 |
| 2010 | 345 | 184 | 2018 |
| **Total** | **3 455** | **1 848** | |

# Notes to the consolidated financial statement *(continued)*

### 39. Deferred revenue

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2 010 | 2 009 | 2 010 | 2 009 |
| **At 1 January** | **3 565** | **8 596** | **1 743** | **4 255** |
| Deferred during the year | 5 265 | 3 541 | 2 795 | 1 789 |
| Released to the income statement | (3 507) | (8 553) | (1 861) | (4 322) |
| Currency exchange differences | (58) | (19) | 140 | 21 |
| **At 31 December** | **5 265** | **3 565** | **2 817** | **1 743** |

### 40. Trade and other payables

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 31.12.2010. | 31.12.2009. | 31.12.2010. | 31.12.2009. |
| **Non-current liabilities** | | | | |
| Other payables | 300 | 2 534 | 161 | 1 239 |
| **Total non-current liabilities** | **300** | **2 534** | **161** | **1 239** |
| | | | | |
| **Current liabilities** | | | | |
| Due to related parties | 19 | 57 141 | 10 | 27 942 |
| Accrued expenses | 7 164 | 9 848 | 3 833 | 4 815 |
| Trade payables | 5 815 | 7 966 | 3 112 | 3 896 |
| Other payables | 2 936 | 4 795 | 1 570 | 2 345 |
| **Total current liabilities** | **15 934** | **79 750** | **8 525** | **38 998** |

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.

Due to related parties decreased as a result of loss of control over SIA LASCO Investment from 17 December 2010, and it is not consolidated as of 31 December 2010. *See note 20*.

# Notes to the consolidated financial statement *(continued)*

## 41. Contingent liabilities

In the normal course of business the Group receives claims for underperformances, however Management is of the opinion that all liabilities have been provided for at the balance sheet date.

## 42. Commitments

### a) 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. The total value of contracts' is approximately US $ 200 million.

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 to be delivered in May and June 2011. The total value of these contracts is around USD 71.5 million.

### b) Operating lease commitments – Group as a lessor

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

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| 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 in to the real estate rent agreement and into several transport operating lease agreements, which have the following payment schedule:

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Payments within one year | 8 550 | 14 511 | 4 574 | 7 096 |
| Payments after one year | 494 | 9 564 | 264 | 4 677 |
| **Total** | **9 044** | **24 075** | **4 838** | **11 773** |

## 43. Related party transactions

The major Shareholders (above 5%) of JSC Latvian Shipping Company are:

- JSC *Ventspils nafta* - 49.94%
- JSC *International Baltic Investments* Ltd. - 27.55 %
- State Social Insurance Agency - 10.00 %

No individual shareholder has a legal control.

# 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 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Salary and bonuses | 3 015 | 4 410 | 1 601 | 2 228 |
| Social insurance | 694 | 1 041 | 369 | 526 |
| **Total** | **3 709** | **5 451** | **1 970** | **2 754** |

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. Since the appointment of the new Supervisory Council and management Board remuneration of the Council and the Board is set to zero.

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

There is no information reported that members of the Supervisory Council or Management Board own shares of the Parent company or it's 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) Transactions with Shareholders**

The outstanding considerations as of 31 December 2009 due to related party were deconsolidated in 2010 due to the loss of control over SIA LASCO Investment.

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

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 31.12.2010. | 31.12.2009. | 31.12.2010. | 31.12.2009. |
| Deferred consideration for business combination | - | 56 427 | - | 27 593 |
| Interest accrued on loan from related party | - | 710 | - | 347 |
| Amount due for services received | 19 | 4 | 10 | 2 |
| **Total** | **19** | **57 141** | **10** | **27 942** |
| Current | 19 | 57 141 | 10 | 27 942 |
| Non-current | - | - | - | - |
| | **19** | **57 141** | **10** | **27 942** |

There are no balances outstanding as of 31 December 2010 due from related parties.

On the outstanding loan portion due to the related party as at 31 December 2009 (USD 56.4 million) interest was calculated in amount of USD 0.88 million and services received in amount of USD 18 thousand. On 3 January 2011, the insolvency procedure of SIA LASCO Investment was initiated; therefore, it is considered that the Group has lost a control over the company from 17 December 2010, and it is not consolidated as of 31 December 2010.

Real estate management services were provided to related party in 2010 in amount of USD 0.38 million (2009: USD 0.59).

## Notes to the consolidated financial statement *(continued)*

### 44. Fees paid to external auditors

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Audit of the financial statements | 237 | 210 | 126 | 106 |
| Other consulting services | 27 | 34 | 14 | 17 |
| **Total** | **264** | **244** | **140** | **123** |

### 45. Financial instruments and financial risk management

The Group's principal financial instruments comprise cash, deposits, trade and other accounts receivable, financial assets, 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.

*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 on-going 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 32% of total trade accounts receivable as of 31 December 2010 (2009- 15%).

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.

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 2010, after taking into account the effect of interest rate swaps (US $ 155 million), approximately 45% of the Group's borrowings are at a fixed rate of interest. A general rise in the interest rate by 0.5 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 $ 0.9 million. A general decrease in the interest rate by 0.1 percentage point would have negative effect on equity with approximately US $ 0.2 million.

# Notes to the consolidated financial statement *(continued)*

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

*Interest rate sensitivity*

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | 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 | 0,5% | (837) | 2% | (3 783) |
| | -0,1% | 157 | -0,2% | 378 |
| EUR - LIBOR | - | - | 2% | (1 634) |
| | - | - | -0,2% | 163 |

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | 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 | 0,5% | (444) | 2% | (1 907) |
| | -0,1% | 83 | -0,2% | 191 |
| EUR - LIBOR | - | - | 2% | (826) |
| | - | - | -0,2% | 83 |

*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 2010** | On demand | < 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Bank loans | - | 11 560 | 31 462 | 146 857 | 159 528 | 349 407 |
| Finance lease | - | 1 233 | 3 768 | 36 392 | - | 41 393 |
| Derivative financial instruments | - | - | 2 792 | 1 416 | - | 4 208 |
| Trade and other payables | 23 | 14 379 | 1 463 | 369 | - | 16 234 |
| **Total** | **23** | **27 172** | **39 485** | **185 034** | **159 528** | **411 242** |

| **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 and other payables | - | 7 272 | 15 338 | 2 533 | - | 25 143 |
| **Total** | **-** | **18 961** | **110 668** | **237 847** | **185 897** | **553 373** |

**LVL '000**

| **As at 31 December 2010** | On demand | < 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Bank loans | - | 6 184 | 16 832 | 78 569 | 85 348 | 186 933 |
| Finance lease | - | 660 | 2 015 | 19 470 | - | 22 145 |
| Derivative financial instruments | - | - | 1 494 | 757 | - | 2 251 |
| Trade and other payables | 12 | 7 693 | 783 | 198 | - | 8 686 |
| **Total** | **12** | **14 537** | **21 124** | **98 994** | **85 348** | **220 015** |

| **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 and other payables | - | 3 556 | 7 500 | 1 239 | - | 12 295 |
| **Total** | **-** | **9 272** | **54 116** | **116 307** | **90 904** | **270 599** |

### 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 appropriate provisions for asset impairment has been made and the recoverable (market) value of the assets equals with their carrying value. The Group monitors capital using the market adjusted equity / market adjusted total assets ratio above 30%.

| | USD '000 | | LVL '000 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Market adjusted equity | 313 177 | 454 772 | 168 660 | 222 384 |
| Market adjusted total assets | 680 469 | 964 414 | 365 162 | 471 598 |
| **Ratio** | **46%** | **47%** | **46%** | **47%** |

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.

During the 2010 the Group had the obligation to maintain Cash reserve covenant which had been a condition to EBITDA/DS covenant waiver which expired on 31 December 2010.

All capital requirements are tested on quarterly basis.

## 46. Legal cases

The Group has been involved in several court cases and USD 2.53 million have been booked for specific cases either as an allowance for doubtful prepayments or as accrued expenses as at 31 December 2010.

## 47. Post balance sheet events

As of the last day of the reporting period until the date of signing these financial statements the following significant events took place:

***Insolvencies:***

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

***Disposals of assets:***

In accordance with amendment dated 4 December 2009 with Hyundai Mipo Dockyard Co., Ltd. two of ordered four ice-classed tankers where converted to two gas carriers. In March 2011 the Group sold contract obligations of two gas carriers.

747 088 shares (0.72%) of JSC Ventspils nafta were acquired in September 2010, out of which 50 000 shares were subsequently sold in October 2010; remaining shares were sold in January 2011.

In May 2011 the Board and the Supervisory Council provided all necessary approvals to initiate the disposal of three vessels (having the aggregate carrying value of USD 74 million) in order to maintain the liquidity position of the Group and to comply with the covenants as set by the bank syndicate (see also Note 48).

***Liquidation of subsidiaries:***

Akademikis Artobolevskis Shipping Co. Ltd. owned by the Group was liquidated in January 2011.

Ventlines Shipping Limited owned by the Group was liquidated in January 2011.

Kriti Sea Shipping Co. Ltd. owned by the Group was liquidated in April 2011.

Renda Maritime Co. Ltd. owned by the Group was liquidated in April 2011.

***Other matters:***

In May 2011 the Board and the Supervisory Council approved the acquisition of external financing of USD 48 million necessary to finalize the Fleet Renewal Program.

# Notes to the consolidated financial statement *(continued)*

### 48. Going Concern

As disclosed in Note 35, the Group has a significant balance of 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 the Banking syndicates as at 31 December 2010 and the 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/ 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 the Group 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 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.