

Public Joint Stock Company
Latvijas Kuģniecība

Condensed Financial Statements

31 December 2010

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General information

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

Shareholders of the Company

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

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

JSC Latvijas kuģniecība has no shareholders having control rights.

General information *(Continued)*

The Supervisory Council of the Company

Chairman of the Council

Simon Digby Boddy (from 17.12.2010.)
Māris Gailis (until 17.12.2010.)

Deputy Chairpersons of the Council

Mikhail Dvorak (from 17.12.2010.)
Andris Vilcmeiers (until 17.12.2010.)
Vladimirs Solomatins (until 17.12.2010.)

Members of Council:

Vladimir Egger (from 17.12.2010.)
Javed Ahmed (from 17.12.2010.)
Rubil Yilmaz (from 17.12.2010.)
Mark Morrell Ware (from 17.12.2010.)
Christophe Theophanis Matsacos (from 17.12.2010.)
Oļegs Stepanovs (from 28.01.2011.)
Mārtiņš Kvēps (from 28.01.2011.)
Serguei Choutov (from 28.01.2011.)
Olga Pētersone (until 17.12.2010. and from 28.01.2011.)
Ansis Sormulis (until 17.12.2010.)
Guntis Ločmelis (until 17.12.2010.)
Kārlis Boldiševics (until 17.12.2010.)
Miķis Ekbaums (until 17.12.2010.)
Normunds Staņēvičs (until 17.12.2010.)
Svens Zālītis (until 17.12.2010.)
Uldis Pumpurs (until 17.12.2010.)
Vladimir Koshkhul (until 17.12.2010.)

General information *(Continued)*

The Management Board of the Company

Chairman of the Management Board

Paul Thomas (from 17.12.2010.)
Imants Sarmulis (until 17.12.2010.)

Members of the Management Board

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

The Auditors of the Company

Name and address of the Auditors:

Diāna Krišjāne
Sworn Auditor
Certificate Nr. 124

SIA Ernst & Young Baltic
Licence Nr. 17
1A Muižas iela, Rīga, LV 1010, Latvia

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

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

Management report

Dear Shareholders and Business Partners!

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

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

In 2010 Latvian Shipping Company (the parent company) suffered losses in the amount of LVL0.67 million, what is noticeably less than in 2009 when the losses were LVL17.59 million. However, in 2010 the Latvian Shipping Company Group suffered losses in the amount of USD142.44 million, considerably higher than the losses of USD90.26 million suffered in 2009. The largest losses of the Group relate to a series of impairments, which are required to be made according to the International Financial Reporting Standards. These impairments are as follows:

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

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

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

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

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

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

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

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

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

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

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

Management report (*Continued*)

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

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

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

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

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

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

Main post balance's events

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

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

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

Future prospects

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

Proposal for the indemnity of losses

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

Statement of Management Board responsibilities

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

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

Management report (*Continued*)

Statement of Management Board responsibilities (*continued*)

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



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

Income statement

for the year ended 31 December 2010

	2010 EUR	2010 LVL	2009 EUR	2009 LVL
Net sales	7 113 880	4 999 663	10 518 208	7 392 239
Cost of sales	<u>(3 385 051)</u>	<u>(2 379 027)</u>	<u>(4 123 121)</u>	<u>(2 897 746)</u>
Gross profit	3 728 829	2 620 636	6 395 087	4 494 493
Administrative expenses	(8 399 746)	(5 903 375)	(7 188 952)	(5 052 424)
Other operating income	-	-	180 738	127 023
Other operating expenses	(1 055 992)	(742 155)	(953 892)	(670 399)
Income from investments in subsidiaries	5 899 922	4 146 489	5 637 676	3 962 181
Interest and similar income	47 413	33 322	187 496	131 773
Impairment of non-current investments, net	(399 325)	(280 647)	(28 863 376)	(20 285 296)
Interest and similar expenses	<u>(73 111)</u>	<u>(51 383)</u>	<u>(26 684)</u>	<u>(18 754)</u>
Loss before taxation	(252 010)	(177 113)	(24 631 907)	(17 311 403)
Corporate income tax	(662 207)	(465 402)	(366 816)	(257 800)
Real estate tax	(37 774)	(26 548)	(35 703)	(25 092)
Net loss for the year	<u>(951 991)</u>	<u>(669 063)</u>	<u>(25 034 426)</u>	<u>(17 594 295)</u>

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



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

Balance Sheet

as at 31 December 2010

	2010 EUR	2010 LVL	2009 EUR	2009 LVL
Assets				
Non-Current Assets				
Intangible Assets:				
Concessions, patents, licenses, trademarks and similar rights	382 976	269 157	530 656	372 947
Total Intangible Assets:	382 976	269 157	530 656	372 947
Tangible Assets:				
Land, buildings and constructions	2 537 598	1 783 434	3 755 700	2 639 521
Other fixed assets	373 928	262 798	538 584	378 519
Total Tangible Assets:	2 911 526	2 046 232	4 294 284	3 018 040
Investment properties	2 388 928	1 678 948	1 987 752	1 397 000
Non-Current Financial Assets:				
Investments in subsidiaries	158 864 972	111 650 938	159 176 706	111 870 026
Investments in associates	10 747	7 553	273 267	192 053
Total Non-Current Financial Assets:	158 875 719	111 658 491	159 449 973	112 062 079
Total Non-Current Assets	164 559 149	115 652 828	166 262 665	116 850 066
Current Assets				
Inventories	14 030	9 860	16 290	11 449
Accounts receivable and prepayments:				
Trade receivables	5 960	4 189	625	439
Amounts due from related companies	1 054 699	741 247	642 681	451 679
Other receivables	928 841	652 793	489 886	344 294
Deferred expenses	240 646	169 127	92 840	65 248
Deferred revenue	-	-	31	22
Total Accounts Receivable:	2 230 146	1 567 356	1 226 063	861 682
Cash and Cash Equivalents	475 236	333 998	1 736 153	1 220 175
Total Current Assets	2 719 412	1 911 214	2 978 506	2 093 306
Total Assets	167 278 561	117 564 042	169 241 171	118 943 372

Balance Sheet (Continued)

as at 31 December 2010

	2010 EUR	2010 LVL	2009 EUR	2009 LVL
Shareholders' Equity and Liabilities				
Shareholders' Equity				
Share capital	284 574 362	200 000 000	284 574 362	200 000 000
Accumulated deficit				
a) accumulated deficit for the prior years	(118 600 766)	(83 353 093)	(93 566 340)	(65 758 798)
b) loss for the reporting year	(951 991)	(669 063)	(25 034 426)	(17 594 295)
Total Shareholders' Equity	165 021 605	115 977 844	165 973 596	116 646 907
Liabilities:				
Non-current Liabilities:				
Deferred tax liabilities	157 525	110 709	148 960	104 690
Total Non-current Liabilities	157 525	110 709	148 960	104 690
Current Liabilities:				
Other loans	-	-	1 002 238	704 377
Trade payables	223 702	157 219	209 812	147 457
Amounts due to related companies	213 882	150 317	337 252	237 022
Taxes and social security contributions	739 199	519 512	238 180	167 394
Other accounts payable	74 341	52 247	238 243	167 438
Accrued liabilities	848 307	596 194	1 092 890	768 087
Total Current Liabilities	2 099 431	1 475 489	3 118 615	2 191 775
Total Liabilities	2 256 956	1 586 198	3 267 575	2 296 465
Total Shareholders' Equity and Liabilities	167 278 561	117 564 042	169 241 171	118 943 372

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



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

Statement of Changes in Shareholders' Equity

for the year ended 31 December 2010

	Share Capital EUR	Share Capital LVL	Accumulated deficit EUR	Accumulated deficit LVL	Total EUR	Total LVL
31 December 2008	<u>284 574 362</u>	<u>200 000 000</u>	<u>(93 566 340)</u>	<u>(65 758 798)</u>	<u>191 008 022</u>	<u>134 241 202</u>
Net loss for the year	-	-	(25 034 426)	(17 594 295)	(25 034 426)	(17 594 295)
31 December 2009	<u>284 574 362</u>	<u>200 000 000</u>	<u>(118 600 766)</u>	<u>(83 353 093)</u>	<u>165 973 596</u>	<u>116 646 907</u>
Net loss for the year	-	-	(951 991)	(669 063)	(951 991)	(669 063)
31 December 2010	<u>284 574 362</u>	<u>200 000 000</u>	<u>(119 552 757)</u>	<u>(84 022 156)</u>	<u>165 021 605</u>	<u>115 977 844</u>

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

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



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

Cash Flow Statement

	2010 EUR	2010 LVL	2009 EUR	2009 LVL
Cash Flow from Operating Activities				
Loss before taxation	(252 009)	(177 113)	(24 631 907)	(17 311 403)
Adjustments for:				
Depreciation	355 584	249 906	439 871	309 143
Intangible assets amortisation	286 253	201 180	254 078	178 567
Accrued expenses increase	2 436 756	1 712 562	716 784	503 759
Impairment of investment properties	1 055 888	742 082	384 188	270 009
Foreign exchange loss	11 709	8 229	48 067	33 782
Income from investments in subsidiaries and associates	(5 875 583)	(4 129 383)	(4 575 956)	(3 216 000)
Other interest income	(511)	(359)	(8 362)	(5 877)
Other interest expenses	22 702	15 955	20 410	14 344
Impairment of non-current investments	374 985	263 541	27 801 656	19 539 115
Loss/(gain) from disposal of fixed assets	104	73	(179 393)	(126 078)
Profit/(loss) before adjustments for movements in net working capital	(1 584 122)	(1 113 327)	269 436	189 361
Adjustments for:				
Decrease in inventories	2 261	1 589	4 188	2 943
(Increase)/decrease in trade and other receivables	(3 440 837)	(2 418 234)	205 528	144 446
Decrease in trade and other payables	(466 335)	(327 742)	(1 955 568)	(1 374 381)
Gross Cash Flow from Operating Activities	(5 489 033)	(3 857 714)	(1 476 416)	(1 037 631)
Real estate tax	(37 722)	(26 511)	(35 703)	(25 092)
Net Cash Flow from Operating Activities	(5 526 755)	(3 884 225)	(1 512 119)	(1 062 723)
Cash Flow from Investing Activities				
Acquisition of tangible and intangible assets, assets under construction	(584 489)	(410 781)	(534 981)	(375 987)
Investments in investment property	-	-	(1 906 092)	(1 339 609)
Investments in subsidiaries	-	-	(2 134 308)	(1 500 000)
Investments in associates	-	-	(262 520)	(184 500)
Proceeds from sale of fixed and intangible assets	15 922	11 190	355 816	250 069
Proceeds from disposal of subsidiaries	982 836	690 741	1 934 477	1 359 558
Interest received	511	359	4 506	3 167
Dividends received	4 885 594	3 433 615	4 575 956	3 216 000
Net Cash Flow from Investing Activities	5 300 374	3 725 124	2 032 854	1 428 698
Cash Flow from Financial Activities				
Loans received	-	-	1 000 000	702 804
Repayment of loans	(1 000 000)	(702 804)	-	-
Interest paid	(22 827)	(16 043)	-	-
Net Cash Flow from Financial Activities	(1 022 827)	(718 847)	1 000 000	702 804
Currency Translation Difference	(11 709)	(8 229)	(48 067)	(33 782)
Net Increase/(Decrease) in Cash and Cash Equivalents	(1 260 917)	(886 177)	1 472 668	1 034 997
Cash and Cash Equivalents at the beginning of the year	1 736 153	1 220 175	263 485	185 178
Cash and Cash Equivalents at the end of the year	475 236	333 998	1 736 153	1 220 175

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



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

Notes

Accounting policies and measurement basis

1. General information

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

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

2. General principles

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

These condensed financial statements are prepared in accordance with and comply with accounting policies applied in preparation of the financial statements of JSC "Latvijas kuģniecība" for the year ended 31 December 2010, which were prepared in accordance with the Law of the Republic of Latvia On Annual Accounts and Latvian Accounting Standards (LAS) applicable in the reporting year. The financial statements have been prepared on a historical cost basis. The reporting period for the annual report is from 1 January 2010 till 31 December 2010 and financial statements are prepared in Latvian lats (LVL). The income statement is prepared in accordance with the turnover method. Cash flow statement is prepared using the indirect cash flow method.

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

These condensed financial statements are translated in Euros using the rate of exchange stated by the Bank of Latvia as of 31.12.2010: 1 LVL = 0.702804 EUR

Notes to the financial statements *(continued)*

Contact person with respect to information presented in these financial statements

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