

2 August 2007

Solvita Deglava  
Member of the Management Board  
AS Latvijas kuģniecība (Latvian Shipping Company)  
Elizabetes iela 1  
Rīga, LV 1807

**Re: Classification of deposits in the IFRS financial statements**

Dear Ms Deglava,

In reply to your request, we hereby provide our explanation as to the classification of deposits in the financial statements prepared in accordance with International Financial Reporting Standards (hereinafter also – "IFRS").

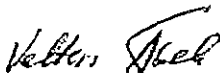
According to International Accounting Standard (IAS) 7 *Cash Flow Statements*, cash represents cash and cash equivalents. Cash comprises cash on hand and demand deposits, while cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Paragraph 7 of this Standard sets forth also the term criterion for cash equivalents to qualify as liquid assets, which is three months. Accordingly, deposits with original maturities from three to twelve months may not be disclosed in the IFRS financial statements together with cash and cash equivalents. Such deposits are viewed in the context of IAS 39 *Financial Instruments* and have to be classified under one of the four categories of financial assets defined in IAS 39. In this particular case, the deposits have to be classified as loans and receivables.

The deposits made by the Latvian Shipping Company in 2006 were initially disclosed in the accounting records as cash and cash equivalents, which is the generally accepted accounting practice in Latvia, and were shown as such also in the published condensed quarterly financial statements. In preparing the annual financial statements, the detailed IFRS technical analysis was carried out. As a result, the respective technical interpretation was established, and the deposits with original maturities from three to twelve months were reclassified in the balance sheet from cash and cash equivalents to loans and receivables.

We would like to emphasise also the technical aspect of this issue and the fact that the reclassification of the deposits was the result of the IFRS technical analysis. In addition, respective balances remained in the current assets captions; and therefore, the reclassification made did not change the liquidity position and ratios of the Latvian Shipping Company.

Should you have any additional questions about the above, please do not hesitate to contact us.

Sincerely yours,



Valters Abele  
Senior Audit Manager