LATVIJAS KUGNIECĪBA

Public Joint Stock Company
Latvian Shipping Company and its Subsidiaries

Condensed Consolidated Financial Statements

31 December 2011

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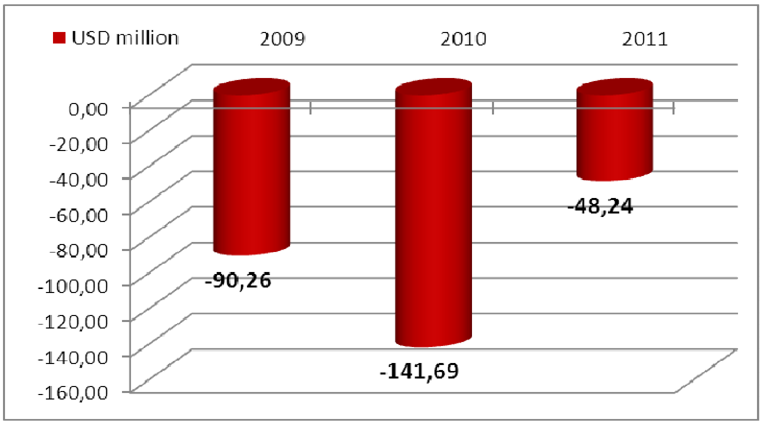
Management Board

Chairman of the Management Board	Simon Richard Blaydes (from 15.11.2011)
	Paul Thomas (until 15.11.2011)
Members of the Management Board	Michael Main King
	Christopher James Kernon (from 05.01.2011)
	Paul Thomas (from 15.11.2011)
	Simon Richard Blaydes (from 01.06.2011 until 15.11.2011)
	Ashley John Neale (until 01.06.2011)

Management Report

Dear shareholders and stakeholders,

JSC "Latvian Shipping Company" (hereafter – LSC) and its subsidiaries (hereafter – LSC Group or Group) present their financial results for year ended 31 December 2011 and report a net loss of USD 48.24 million. Net loss for the year ended December 31, 2010 was USD 141.69 million.



In both 2011 and 2010 a considerable amount of the net losses relates to asset impairments, provisions for which are required to be made according to the International Financial Reporting Standards. The impairment provisions made in 2011 are as follows:

(1) assets held for sale (3 older handy size vessels), in the amount of USD 12.56 million,

(2) total fleet value adjustment, in the amount of USD 13.1 million,

(3) value adjustment of investment in real estate properties in the amount of USD 1.2 million.

This result reflects the continuing difficult financial situation that ship-owners are experiencing with 2011 recording historically low market rates. The reasons for this are varied and complex but the main factors are less demand for oil products caused by the global economic downturn especially within the more developed western economies coupled with an increase in the number of new tankers. Prior to 2008 strong global economic growth stimulated demand for shipping and this encouraged the construction of new tankers. The consequence of this increase in vessel supply and current decrease in demand is lower earnings for ship-owners.

At the end of 2011 the fleet of LSC Group consisted of 20 tankers, 19 of which are owned by the LSC Group, with 1 vessel owned on sale and leaseback contract terms. There were 18 tankers under the commercial management of LSC. During 2011 the Group took delivery of two new build tankers, the "Latgale" and the "Zemgale" ordered in 2007 from "Hyundai Mipo Dockyard Co., Ltd" shipyard in Korea. In 2011 LSC sold two unbuilt liquefied petroleum gas carriers in order to finance the two new build product tankers as well as the 17 year old vessel "Indra" for scrap. Further, LSC has reclassified three of its oldest vessels as assets for sale in order to ensure sustainable financing for the remaining fleet.

It is important that a public quoted company is transparent and provides all interested parties, especially shareholders, with all relevant company information. Henceforth LSC will publish quarterly chartering rates achieved by the LSC fleet.

LSC has succeeded in increasing average charter rates in 2011 when compared with rates achieved in 2010.

In 2011, the medium size tankers (12 tankers with deadweight of 52 thousand tons) achieved an average charter rate of USD 12 882 per day which is an 8.7% increase compared with 2010.

In turn the handy tankers (7 tankers with deadweight of 37 thousand tons each) achieved an average charter rate of USD 11 216 per day which is a 9.2 % increase on 2010.

The only tanker, for which the chartering rate has decreased within the last year, is the tanker "Riga" with deadweight of 68 thousand tons. It achieved USD 13 623 per day which is a 19% decrease on 2010. The decreased earnings on the Riga were a consequence of the vessel's age (built in 2001) and also due to a lack of demand for such sized tankers in the current market. A similar tendency has also been reflected in the earnings of other shipping companies in this particular market sector due to less demand for long range product movements especially from eastern refineries to western economies.

Management report *(continued)*

Average LSC Fleet net TCE USD/per day

Fleet	Y 2010	Fleet	1Q 2011	2Q 2011	3Q 2011	4Q 2011	Y 2011
HS (7 vessels)	10 271	HS (7 vessels)	11 138	11 197	10 872	11 549	11 216
MR (10 vessels)	11 849	MR (12 vessels)	12 673	12 430	12 638	12 732	12 882
LR1 (1 vessel)	16 826	LR1 (1 vessel)	12 873	15 745	13 163	13 159	13 623

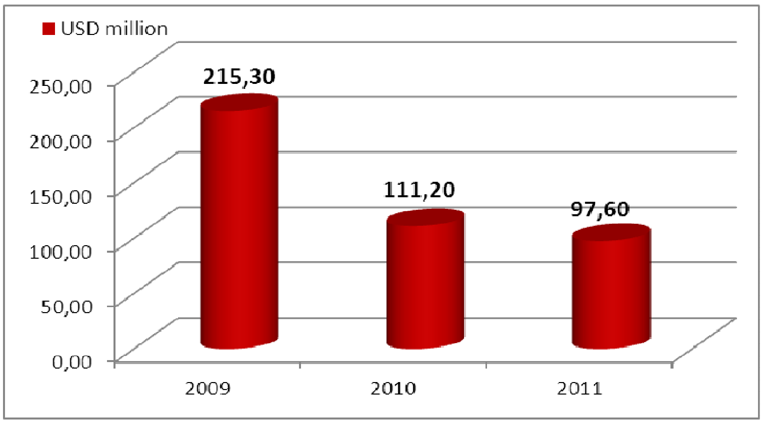
Explanations:
HS = handy size (37 dwt);
MR = medium range (52 dwt);
LR1 = long range (68 dwt).

Net TCE = TIME CHARTER EQUIVALANT earnings after deduction of commissions payable by LSC to shipbrokers(s)/charterers, port costs, bunker costs and any other applicable voyage related costs. The above figures reflect combined earnings of fleet for both timecharters and spot market trading.

In 2011 total net voyage result from shipping was USD 87.99 million (2010 – USD 88.31 million) and shows stabilization in income. The net voyage result is calculated by deducting voyage costs (bunkers, port and agent charges, etc.) from voyage income and shows the company's income, irrespective of whether the fleet is employed in the spot or time charter market. Vessel operating profit was USD 15.11 million, a 19.1% improvement on the previous year (2010 – USD 12.69 million), however, the operating profit did not cover the fleet financing expenses (USD 20.73 million).

	2009	2010	2011
Turnover (million USD)	215.30	111.20	97.60
Net loss (million USD)	-90.26	-141.75	-48.27
Gross profit before depreciation (million USD)	61.37	35.89	39.28
EBITDA (million USD)	30.91	14.15	26.39
EBIT (million USD)	-7.46	-14.40	0.08
Return on Assets (%)	-8.5	-17.2	-7.2
Return on Equity (%)	-18.1	-36.9	-16.6
EPS (USD)	-0.45	-0.71	-0.24
Liquidity ratio	1.5	1.7	2.2

LSC Group turnover for the period 01.01.09 – 31.12.11



At December 31, 2011 the total value of the LSC Group assets was USD 651.92 million. The previous year the figure was USD 680.47 million. The decrease is mainly attributed to the impairment provisions as explained above. The total value of the LSC Group fleet has decreased from USD 570.50 million to USD 510 million and in addition to the impairment provisions also reflects depreciation. The total equity value of the Group at December 31, 2011 was USD 267.84 million (2010 – USD 313.92 million).

Management report *(continued)*

During 2011 the price of LSC shares quoted on the NASDAQ OMX Riga decreased by 18.73%. The OMX Baltic Benchmark GI index in the same period decreased by 19.11%. LSC shares were among the trading leaders during the reporting period; 1 600 transactions involving 13.52 million shares worth LVL 5.85 million were conducted, representing 72% of all share transactions in terms of share amount and 27% of all share transactions in terms of value on the NASDAQ OMX Riga official list during the reporting period. On December 31, 2011 the capitalization of LSC shares at NASDAQ OMX Riga was LVL 61.60 million.

During 2011 significant litigation has continued in the UK Courts with regard to substantial losses suffered in previous years by LSC Group. A series of transactions concluded by the previous management were also challenged through the courts in Latvia regarding the dissipation of funds and other assets during 2010 and before.

Prospects for 2012

Given the very difficult financial environment the global shipping market remains very challenging. Ship-owners in all market segments are experiencing severe liquidity problems. LSC has also been exposed to these difficult conditions but has been cushioned from the worst effects with a majority of the fleet being employed on time charter thus ensuring a more predictable income stream.

However there are some signs for optimism for the product tanker market. The level of recent closures of uneconomic refineries in Western Europe and the USA is likely to increase demand for oil products which will need to be supplied by the more modern refineries that have been built, and will continue to be built, in the middle and far-east. Additionally, economic growth in emerging economies, for example South America and Africa, is also expected to increase demand for product tankers.

Lastly it is expected that due to the current economic environment, and with less banking finance available, that fewer product tankers will be built. This should help to improve the current in-balance between the number of product tankers and product movements.

Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 19 April 2012

Statement of Management's Responsibilities

The Management Board of JSC Latvian Shipping Company prepares condensed consolidated financial statements for each financial year which give a true and fair view of the financial position of the JSC Latvian Shipping Company and its subsidiaries (hereinafter – the Group) as of 31 December 2011, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as adopted by EU.

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

For and on behalf of the Management Board

Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 19 April 2012

Consolidated income statement

for the year ended 31 December 2011

	2011 EUR'000	2010 (Restated) EUR'000
Voyage income	69 492	81 959
Income from other services	694	1 763
Revenue	**70 186**	**83 722**
Voyage costs	(6 249)	(15 700)
Cost of sales	(54 263)	(63 102)
Gross profit	**9 674**	**4 920**
Selling costs	(4)	(8)
Administrative expenses	(9 073)	(15 467)
Impairment of non-financial assets	(20 293)	(73 544)
Other operating income	287	697
Other operating expenses	(974)	(8 641)
Deconsolidation of net financial liabilities	-	2 251
Operating loss	**(20 383)**	**(89 792)**
Finance income	1 477	1 584
Finance costs	(14 847)	(22 046)
Loss before tax	**(33 753)**	**(110 254)**
Income tax	(530)	(662)
Loss for the year	**(34 283)**	**(110 916)**
Attributable to:		
Equity holders of the parent	(34 257)	(110 872)
Non-controlling interests	(26)	(44)
	(34 283)	**(110 916)**
Loss per share	EUR (0.17)	EUR (0.55)

These condensed Consolidated Financial Statements were approved by the Management Board on April 19, 2012 and singed on its behalf by

Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 19 April 2012

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	2011 EUR'000	2010 (Restated) EUR'000
Loss for the year	**(34 283)**	**(110 916)**
Exchange differences on translation of foreign operations	(72)	30 766
Net movement on cash flow hedges	1 122	(528)
Other comprehensive income for the year, net of tax	**1 050**	**30 238**
Total comprehensive loss for the year, net of tax	**(33 233)**	**(80 678)**
Attributable to:		
Equity holders of the parent	(33 207)	(80 634)
Non-controlling interests	(26)	(44)
	(33 233)	**(80 678)**

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Riga, 19 April 2012

Consolidated statement of financial position

as at 31 December 2011

	2011 EUR'000	2010 EUR'000
Assets		
Non-current assets		
Intangible assets	184	411
Fleet	394 740	434 288
Property, plant and equipment	2 840	3 082
Investment properties	1 441	2 389
Investment in associates	10	18
Other non-current financial assets	6 081	5 876
Total non-current assets	**405 296**	**446 064**
Current assets		
Inventories	2 944	1 544
Trade and other receivables	5 579	7 738
Prepayments	1 020	1 678
Other current financial items	22 908	25 839
Cash and short-term deposits	20 886	32 330
Total current assets	**53 337**	**69 129**
Assets classified as held for sale	45 979	4 385
Total assets	**504 612**	**519 578**

Consolidated statement of financial position *(continued)*

as at 31 December 2011

	2011 EUR'000	2010 (Restated) EUR'000
Equity and liabilities		
Equity		
Issued capital	284 574	284 574
(Accumulated deficit)/retained earnings	(65 590)	(31 333)
Other components of equity	(16 401)	(17 451)
Equity attributable to equity holders of the parrent	**202 583**	**235 790**
Non-controlling interests	4 732	4 758
Total equity	**207 315**	**240 548**
Non-current liabilities		
Interest bearing loans	230 047	214 630
Finance lease	19 950	20 625
Derivative financial instruments	711	1 077
Trade and other payables	1 503	229
Deffered tax liability	105	158
Total non-current liabilities	**252 316**	**236 719**
Current liabilities		
Trade and other payables	10 556	11 563
Interest bearing loans	24 135	23 773
Finance lease	978	841
Derivative financial instruments	1 370	2 126
Deferred revenue	7 942	4 008
Total current liabilities	**44 981**	**42 311**
Total equity and liabilities	**504 612**	**519 578**

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Riga, 19 April 2012

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Attributable to the equity holders of the parent						
	Issued capital	Accumulated deficit	Cash flow hedge reserve	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 1 January 2010	**284 574**	**(31 333)**	**(3 203)**	**(14 248)**	**235 790**	**4 758**	**240 548**
Loss for the period	-	(34 257)	-	-	**(34 257)**	**(26)**	**(34 283)**
Other comprehensive income/(expense)	-	-	1 122	(72)	**1 050**	-	**1 050**
Total comprehensive income/(expense)	**-**	**(34 257)**	**1 122**	**(72)**	**(33 207)**	**(26)**	**(33 233)**
As at 31 December 2010	**284 574**	**(65 590)**	**(2 081)**	**(14 320)**	**202 583**	**4 732**	**207 315**

for the year ended 31 December 2010

	Attributable to the equity holders of the parent						
	Issued capital	Retained earnings/ (accumulated deficit) (Restated)	Cash flow hedge reserve	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 1 January 2010	**284 574**	**79 539**	**(2 675)**	**(45 014)**	**316 424**	-	**316 424**
Loss for the period	-	(110 872)	-	-	**(110 872)**	**(44)**	**(110 916)**
Other comprehensive income/(expense)	-	-	(528)	30 766	**30 238**	-	**30 238**
Total comprehensive income/(expense)	**-**	**(110 872)**	**(528)**	**30 766**	**(80 634)**	**(44)**	**(80 678)**
Non-controlling interests	-	-	-	-	-	4 802	**4 802**
As at 31 December 2010	**284 574**	**(31 333)**	**(3 203)**	**(14 248)**	**235 790**	**4 758**	**240 548**

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Riga, 19 April 2012

Consolidated statement of cash flows

for the year ended 31 December 2011

	2011 EUR'000	2010 (Restated) EUR'000
Operating activities		
Loss before tax	**(33 753)**	**(110 254)**
Non-cash adjustment to reconcile loss before tax to net cash flows:		
Depreciation of other property, plant and equipment and fleet	18 467	20 938
Amortisation of intangible assets	242	287
Depreciation of investment properties	20	455
Decrease in financial instruments	(16)	(14)
Loss on disposal of non-financial assets	316	1 653
Currency translation difference	(1 830)	13 361
Finance income	(53)	(1 584)
Finance costs	14 700	18 166
Recognized impairment	20 293	76 176
Changes in fair value of financial assets	(16)	4 475
Deconsolidation of net financial liabilities	-	(2 251)
Working capital adjustments:		
Decrease/(increase) in trade and other receivables and prepayments	1 510	(986)
(Increase)/decrease in inventories	(1 278)	3 146
Increase/(decrease) in trade and other payables	1 845	(6 000)
Income tax paid	(650)	-
Net cash flows from operating activities	**19 797**	**17 568**
Investing activities		
Proceeds from sale of non-current assets	22 336	19 748
Purchase of non-current assets	(53 831)	(3 441)
Purchase of investment properties	-	(632)
Net cash flow from business combinations	-	(22 143)
Acquisition of other financial instruments	-	(1 907)
Net cash flow from deconsolidation of net financial liabilities	-	(519)
Proceeds from sale of financial instruments	2 390	142
Proceeds from disposal of subsidiaries	-	81
Placement of deposits with maturity more than three months	-	41 394
Loans received	1 083	-
Loans issued	-	(1 116)
Interest received	125	1 384
Net cash flows (used in)/from investing activities	**(27 897)**	**32 991**
Financing activities		
Payment of finance lease liabilities	(795)	(794)
Proceeds from borrowings	36 448	20 846
Repayment of borrowings	(24 081)	(69 341)
Interest paid	(13 412)	(15 481)
Prepaid financing expenses	(976)	(1 524)
Net cash flows used in financing activities	**(2 816)**	**(66 294)**
Net decrease in cash and cash equivalents	**(10 916)**	**(15 735)**
Cash and cash equivalents at 1 January	**32 330**	**52 250**
Exchange osses on cash and cash equivalents	(528)	(4 185)
Cash and cash equivalents at 31 December	**20 886**	**32 330**

These condensed Consolidated Financial Statements were approved by the Management Board on April 19, 2012 and singed on its behalf by

Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 19 April 2012

Notes to the financial statements

1. Accounting policies

These unaudited condensed consolidated financial statements are prepared in accordance with and comply with accounting policies applied in preparation of the consolidated financial statements of Latvian Shipping Company & its Subsidiaries for the year ended 31 December 2011, which were prepared in accordance with International Financial Reporting Standards.

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

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

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

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

LB rate of exchange as at 31.12.2011 USD/LVL - 0.544 (average – 0.505410)
LB rate of exchange as at 31.12.2010 USD/LVL - 0.535 (average – 0.530847)

These financial statements are translated into Euros using the rate of exchange set by the Bank of Latvia prevailing at the 31.12.2011: 1 EUR = 0.702804 LVL, 31.12.2010: 1 EUR = 0.702804 LVL.

Notes to the financial statements *(continued)*

2. Segment information

for the year ended 31 December 2011

	Shipping	Total
	EUR '000	EUR '000
Time charter hire	60 263	60 263
Spot hire	9 229	9 229
Voyage income from external customers	**69 492**	**69 492**
Voyage costs	(6 249)	(6 249)
Net voyage result	**63 243**	**63 243**
Vessel operating costs	(33 876)	(33 876)
Other revenue	694	694
Cost of sales (Vessel operating costs excluding)	(2 151)	(2 151)
Selling costs	(4)	(4)
Administrative expenses	(8 406)	(8 406)
Result from disposal of non-financial assets	(316)	(316)
Depreciation and amortisation	(18 728)	(18 728)
Impairment of non-financial assets	(19 365)	(19 365)
Other operating income	86	86
Other operating expenses	(41)	(41)
Result before financial items	**(18 864)**	**(18 864)**
Interest income	52	52
Interest expense	(14 700)	(14 700)
Finance income, net	1 298	1 298
Net result before taxes	**(32 214)**	**(32 214)**
Segment assets	**477 016**	**477 016**
Including additions to non-current assets	54 530	54 530

Notes to the financial statements *(continued)*

2. Segment information *(continued)*

for the year ended 31 December 2010

	Shipping (Restated)	Other (Restated)	Adjustments and eliminations	Total (Restated)
	EUR '000	EUR '000	EUR '000	EUR '000
Time charter hire	62 464	-	-	62 464
Spot hire	19 495	-	-	19 495
Voyage income from external customers	**81 959**	**-**	**-**	**81 959**
Voyage costs	(15 700)	-	-	(15 700)
Net voyage result	**66 259**	-	-	**66 259**
Vessel operating costs	(38 896)	-	-	(38 896)
Other revenue	802	961	-	1 763
Inter-segment revenue	104	256	(360)	-
Cost of sales (Vessel operating costs excluding)	(2 422)	(891)	144	(3 169)
Selling costs	(3)	(5)	-	(8)
Administrative expenses	(13 828)	(985)	216	(14 597)
Result from disposal of non-financial assets	(1 413)	(240)	-	(1 653)
Depreciation and amortisation	(20 967)	(713)	-	(21 680)
Impairment of non-financial assets	(38 425)	(35 119)	-	(73 544)
Other operating income	297	400	-	697
Other operating expenses	-	(3 300)	-	(3 300)
Deconsolidation of net financial liabilities	-	2 251	-	2 251
Result before financial items	**(48 492)**	**(37 385)**	**-**	**(85 877)**
Interest income	2 190	-	(606)	1 584
Interest expense	(16 202)	(2 570)	606	(18 166)
Finance costs	(1 487)	(2 315)	-	(3 802)
Net result before taxes	**(63 991)**	**(42 270)**	**-**	**(106 261)**
Segment assets	**488 580**	**5 028**	**-**	**493 608**
Including additions to non-current assets	3 745	438	-	4 183

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

Notes to the financial statements *(continued)*

2. Segment information *(continued)*

	2011	2010
	EUR '000	EUR '000
Net result before taxes for reportable segments	(32 214)	(106 261)
Administrative expenses	(175)	(227)
Impairment of investment properties	(928)	-
Other operating expenses	(417)	(3 688)
Finance expenses	(19)	(78)
Loss before tax	**(33 753)**	**(110 254)**

	2011	2010
	EUR '000	EUR '000
Segment assets for reportable segments	477 016	493 608
Unallocated:		
Investment properties	1 441	-
Other assets of subsidiaries not included in segment	3 247	131
Financial assets at fair value through profit or loss	-	2 424
Available-for-sale financial asset	22 908	23 415
Total assets	**504 612**	**519 578**

Contact person with respect to information presented in these financial statements

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