Public Joint Stock Company
“Latvijas Kuģniecība”

Financial Statements

31 December 2011

Content

General information

General information on the Company

Name	„Latvijas kuģniecība" (hereinafter also referred to as „Company")
Legal status	Joint Stock Company
Registration number, place and date	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 2011 – 31^{st} December 2011
Previous reporting period	1^{st} January 2010 – 31^{st} December 2010

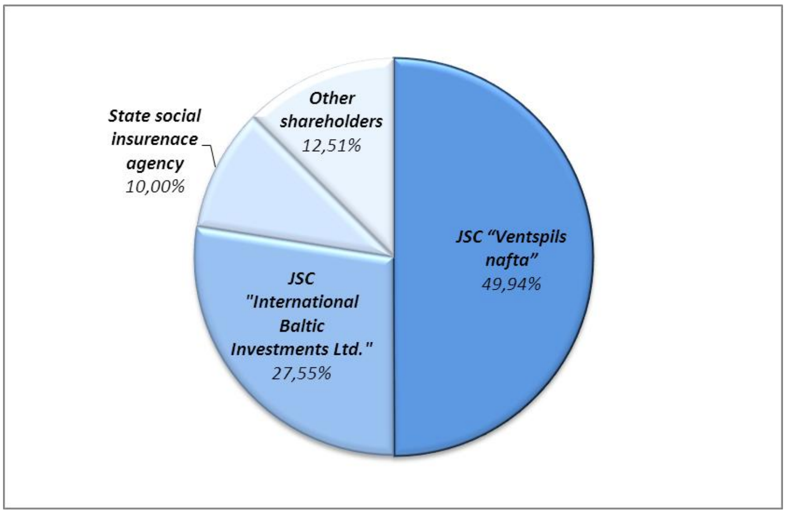
Shareholders of the Company

The major Shareholders of the Company (above 5%) as at 31 December 2011 are as follows:

Name of the Shareholder	Registered office	Share of interest
JSC "Ventspils nafta"	Valnu street 3-18, Riga, LV 1050, Latvia	49,94%
JSC "International Baltic Investments Ltd."	Blaumana street 5A-1, Riga, LV 1011, Latvia	27,55%
State social insurance agency	Lacplesa street 70a, Riga, LV 1011, Latvia	10,00%

No individual shareholder has legal control, but JSC "Ventspils Nafta" has *de facto* control; therefore JSC "Latvijas kuģniecība" and its subsidiaries are consolidated in to JSC "Ventspils Nafta" consolidated financial statements.

Shareholders structure of the Company as at 31 December 2011 is as follows:



The Auditors of the Company

Name and address of the Auditors:	Ilandra Lejiņa Sworn Auditor Certificate Nr. 168 PricewaterhouseCoopers SIA Commercial licence No. 5 Krisjana Valdemara street 19, Riga, LV-1010, Latvia

General information (*Continued*)

The Supervisory Council of the Company

Chairman of the Council	Simon Digby Boddy
Deputy Chairman of the Council	Mikhail Dvorak
Members of Council:	Vladimir Egger
	Javed Ahmed
	Rubil Yilmaz
	Mark Morrell Ware
	Christophe Theophanis Matsacos
	Oļegs Stepanovs (from 28.01.2011)
	Mārtiņš Kvēps (from 28.01.2011)
	Jaakko Sakari Mikael Samelin (from 27.07.2011)
	Serguei Choutov (from 28.01.2011 until 27.07.2011, from 07.12.2011)
	Ivars Girgensons (from 07.12.2011)
	Olga Pētersone (from 28.01.2011. until 06.12.2011)

The Management Board of the Company

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
	Paul Thomas (from 15.11.2011)
	Christopher James Kernon (from 05.01.2011)
	Simon Richard Blaydes (from 01.06.2011 until 15.11.2011)
	Ashley John Neale (until 01.06.2011)

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. Detailed information on the members of JSC "Latvijas kuģniecība" Supervisory Council and Management Board are available at the JSC "Latvijas kuģniecība" on request.

Management report

Dear Shareholders and Business Partners,

Type of operation

Basic activity of the Joint Stock Company "Latvian Shipping Company" (hereafter LSC or Company) is Group holding management and provision of vessel commercial management services. LSC also provides other services to ensure everyday operation of LSC Group companies.

Company's operation and results during the year of account

Net turnover of the LSC in 2011 was LVL 4.63 million that comparing, 7% less than the previous year and mainly attributed to decrease of income from vessel commercial management and other management services. In 2011 the Company operated with profit in amount of LVL 0.85 million comparing to losses in amount of LVL 0.67 million for a year before. The profit was gained by significant reduction of the administration costs. Results for the year were also affected by the decrease in the value of investments into real estate property by LVL 0.65 million.

In 2011 total amount of the LSC assets after corrections of the misstatements of the previous periods has not changed substantially and as at 31 December 2011 amounted to LVL 41.56 million. The following restatements affected the amount of Company's assets and equity capital and are retrospectively reflected in the financial statements of the Company:

(1) decrease in Latmar Holdings Corporation investment value in amount of LVL 76.2 million was formed by accounting of the investment in the subsidiary according to the equity method. In 2005 legislation of the Republic of Latvia regarding accounting of investments in the subsidiaries was amended to cost method. Investment in Latmar Holdings Corporation was not corrected considering changes in accounting policy since on 20 September 1996 the JSC "Latvian Shipping Company" was restructured as a state-owned joint stock company to be privatised and the Company's share capital and reserves were restructured in accordance with the Law on Privatisation. As a result several reserves (incl. Latmar Holdings Corporation long-term revaluation reserve in amount of LVL 76.2 million) were capitalized with the aim to increase the Company's share capital to 200 000 000 shares. Following the identification of the misstatement the balance sheet item "Investment in subsidiaries" was reduced and the equity item "Accumulated deficit" was increased by the above-mentioned sum,

(2) reversal of accrued compensation expenses in amount of LVL 0.40 million, for tax losses transferred within the Group of companies in 2009, reversal corrected by reduction of the Company's accrued liabilities and the equity item "Accumulated deficit".

Research and development

During 2011, within Group management, LSC 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 Group sold two constructions in progress of 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 Group has reclassified three of its oldest vessels as assets classified as held for sale in order to ensure sustainable financing for the remaining fleet. At the end of 2011 the fleet of LSC Group consisted of 20 tankers, 19 of which are owned by the LSC Group. 1 vessel chartered on the terms of sale and leaseback, while 18 tankers are under commercial management of the Company.

Group performance results

LSC Group's net loss in 2011 was LVL 24.09 million. Net loss for the year ended December 31, 2010 was LVL 77.95 million.

In both years a considerable amount of the net losses relates to the impairments, provisions 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 LVL 6.48 million,

(2) total fleet value adjustment, in the amount of LVL 7.13 million,

(3) value adjustment of investment in real estate properties in the amount of LVL 0.65 million.

This result reflects the continuing difficult financial situation that ship-owners experienced during 2011, yet again experiencing the lowest market rates in history. The reasons for this are various and complex however the main factors are less demand for oil products caused by the global economic downturn especially in the 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. As a consequence of this increase in vessel supply and current decrease in demand is lower earnings for ship-owners.

At December 31, 2011 the total value of the LSC Group assets was LVL 354.64 million. In the previous year the total value amounted to LVL 365.16 million. The decrease is mainly attributed to the impairment provisions as explained above. The total value of the LSC Group's fleet has decreased from LVL 305.2 million to LVL 277.4 million and in addition to the impairment provisions also reflects effect of depreciation. The total equity value of the Group as at December 31, 2011 was LVL 145.70 million (2010 – LVL 169.06 million).

Management report (Continued)

Financial risk management

One of the main risks related to Company's operations is reduction in the number of vessels of the LSC Group fleet, because the LSC main source of income is provision of vessel commercial management services to the vessels of the LSC Group's fleet. The Group tries to minimise this risk by implementation of vessel reconstruction program and replacing the old vessels with new.

Company's operations are exposed to various financial risks, including credit risk, liquidity risk, foreign currency exchange rate and interest rate fluctuation risks. The Company's Management tries to minimise the potential negative impact of the financial risks on the Company's financial position.

The Company is subjected to foreign currency exchange rate fluctuation risk caused by various currencies, mainly because the largest part of the Company's income is in USD, while expenses – mainly in LVL. The Company's Management is considering possibility to apply risk hedging instruments in order to reduce the impact of the USD exchange rate fluctuations. Company's credits and loans are with variable interest rate. Company's Management considers the possibility to use financial instruments that would minimise the interest rate risk. The Company observes prudent liquidity risk management ensuring that there are sufficient credit resources for settlement of liabilities within the set terms.

Information on Company's securities

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%. Latvian Shipping Company's 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 Latvian Shipping Company shares at NASDAQ OMX Riga was LVL 61.60 million.

Post balance conditions and events

In April 2012 the LSC Group reached an agreement with the crediting banks regarding temporary amendment of the terms provided in the LSC Group credit facility agreement that have not been complied with and reduction of the Cash reserve until USD 17 million until 31 December 2012. Both these activities will allow the LSC and companies within its Group to continue operation in the difficult conditions when the vessel chartering rates for several years have been very low.

Distribution of profit suggested by the Management Board

The Management Board suggests using the profit for the reporting year to cover losses of previous periods.

Future prospects

LSC Parent company results in 2012 will strongly depend on results of LSC Group. 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 Group 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 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, fewer product tankers will be built. This should help to improve the current disbalance between the number of product tankers and product movements.

Simon Richard Blaydes
Chairman of the Management Board of
JSC "Latvijas kuģniecība"
Riga, 19 April 2012

Income statement

for the year ended 31 December 2011

	Notes	LVL 2011	LVL 2010
Net sales	4	4 630 547	4 999 663
Cost of sales	5	(1 661 925)	(2 379 027)
Gross profit		**2 968 622**	**2 620 636**
Administrative expenses	6	(1 207 201)	(5 903 375)
Other operating income	7	49 082	-
Other operating expenses	8	(702 089)	(742 155)
Income from investments in subsidiaries	9	-	4 146 489
Interest and similar income	10	151 615	33 322
Impairment of non-current investments	11	-	(280 647)
Interest and similar expenses	12	(3 904)	(51 383)
Profit/ (loss) before taxation		**1 256 125**	**(177 113)**
Corporate income tax and deferred tax	13	(373 369)	(465 402)
Real estate tax	25	(27 890)	(26 548)
Net profit/(loss) for the year		**854 866**	**(669 063)**

The notes on pages 12 to 32 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 19 April 2012 and signed on its behalf by

Simon Richard Blaydes
Chairman of the Management Board of
JSC "Latvijas kuģniecība"
Riga, 19 April 2012

Balance Sheet

as at 31 December 2011

	Notes	LVL 2011	2010 (restated)
Assets			
Non-Current Assets			
Intangible Assets:			
Concessions, patents, licenses, trademarks and similar rights	14	120 052	269 157
Total Intangible Assets:		**120 052**	**269 157**
Tangible Assets:			
Land, buildings and constructions		1 718 918	1 783 434
Other fixed assets		167 072	262 798
Total Tangible Assets:	15	**1 885 990**	**2 046 232**
Investment properties	15	**1 012 594**	**1 678 948**
Non-Current Financial Assets:			
Investments in subsidiaries	16	35 488 089	35 488 089
Investments in associates	17	7 553	7 553
Other long term debtors	18	14 290	-
Total Non-Current Financial Assets:		**35 509 932**	**35 495 642**
Total Non-Current Assets		**38 528 568**	**39 489 979**
Current Assets			
Inventories	19	**1 266**	**9 860**
Accounts receivable and prepayments:			
Trade receivables	20	1 410	4 189
Amounts due from related companies	21	1 338 307	741 247
Other receivables	22	140 434	652 793
Deferred expenses		33 964	169 127
Total Accounts Receivable:		**1 514 115**	**1 567 356**
Cash and Cash Equivalents	23	**1 515 326**	**333 998**
Total Current Assets		**3 030 707**	**1 911 214**
Total Assets		**41 559 275**	**41 401 193**

Balance Sheet *(Continued)*

as at 31 December 2011

	Notes	LVL 2011	2010 *(restated)*
Shareholders' Equity and Liabilities			
Shareholders' Equity			
Share capital		200 000 000	200 000 000
Accumulated deficit			
a) accumulated deficit for the prior years		(159 785 560)	(159 116 497)
b) profit/(loss) for the reporting year		854 866	(669 063)
Total Shareholders' Equity		**41 069 306**	**40 214 440**
Liabilities:			
Non-current Liabilities:			
Deferred tax liabilities	13	73 881	110 709
Total Non-current Liabilities		**73 881**	**110 709**
Current Liabilities:			
Trade payables		51 398	157 219
Amounts due to related companies	24	166 821	150 317
Taxes and social security contributions	25	42 858	519 512
Other accounts payable	26	45 457	52 247
Accrued liabilities	27	109 554	196 749
Total Current Liabilities		**416 088**	**1 076 044**
Total Liabilities		**489 969**	**1 186 753**
Total Shareholders' Equity and Liabilities		**41 559 275**	**41 401 193**

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Riga, 19 April 2012

Statement of Changes in Shareholders' Equity

for the year ended 31 December 2011

	LVL		
	Share Capital	**Accumulated deficit**	**Total**
At 1 January 2009	**200 000 000**	**(65 758 798)**	**134 241 202**
Net loss for the year	-	(17 594 295)	(17 594 295)
Correction of the investment *(See Note 2)*	-	(76 162 849)	(76 162 849)
Correction of accrued liabilities *(See Note 2)*	-	399 445	399 445
At 31 December 2009 *(restated)*	**200 000 000**	**(159 116 497)**	**40 883 503**
Net loss for the year	-	(669 063)	(669 063)
At 31 December 2010 (*restated)*	**200 000 000**	**(159 785 560)**	**40 214 440**
Net profit for the year	-	854 866	854 866
At 31 December 2011	**200 000 000**	**(158 930 694)**	**41 069 306**

As of 31 December 2011 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.

The notes on pages 12 to 32 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 19 April 2012 and signed on its behalf by

Simon Richard Blaydes
Chairman of the Management Board of
JSC "Latvijas kuģniecība"
Riga, 19 April 2012

Cash Flow Statement

for the year ended 31 December 2011

	Notes	LVL 2011	LVL 2010
Cash Flow from Operating Activities			
Profit/(loss) before taxation		1 256 125	(177 113)
Adjustments for:			
Depreciation	15	190 949	249 906
Intangible assets amortisation	14	152 630	201 180
Accrued expenses increase		-	1 712 562
Impairment of investment properties	15	652 418	742 082
Foreign exchange (profit)/loss		(60 627)	8 229
Income from investments in subsidiaries and associates		-	(4 129 383)
Other interest income	10	(3 895)	(359)
Other interest expenses	12	803	15 955
Impairment of non-current investments		-	263 541
Loss from disposal of fixed assets	8	589	73
Profit / (loss) before adjustments for movements in net working capital		**2 188 992**	**(1 113 327)**
Adjustments for:			
Decrease in inventories		8 594	1 589
Decrease/ (increase) in trade and other receivables		531 728	(2 418 234)
Decrease in trade and other payables		(613 707)	(327 742)
Gross Cash Flow from Operating Activities		**2 115 607**	**(3 857 714)**
Corporation income tax paid	25	(457 212)	-
Real estate tax paid	25	(27 927)	(26 511)
Net Cash Flow from Operating Activities		**1 630 468**	**(3 884 225)**
Cash Flow from Investing Activities			
Acquisition of tangible and intangible assets, assets under construction	14,15	(27 045)	(410 781)
Loans issued		(490 000)	-
Proceeds from sale of fixed and intangible assets		6 160	11 190
Proceeds from disposal of subsidiaries		-	690 741
Interest received		1 118	359
Dividends received		-	3 433 615
Net Cash Flow from Investing Activities		**(509 767)**	**3 725 124**
Cash Flow from Financial Activities			
Repayment of loans		-	(702 804)
Interest paid		-	(16 043)
Net Cash Flow from Financial Activities		**-**	**(718 847)**
Currency Translation Difference		60 627	(8 229)
Net Increase/(Decrease) in Cash and Cash Equivalents		**1 181 328**	**(886 177)**
Cash and Cash Equivalents at the beginning of the year		333 998	1 220 175
Cash and Cash Equivalents at the end of the year	23	**1 515 326**	**333 998**

The notes on pages 12 to 32 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 19 April 2012 and signed on its behalf by

Simon Richard Blaydes
Chairman of the Management Board of
JSC “Latvijas kuģniecība”
Riga, 19 April 2012

Notes

1. General information

The principal activity of JSC "Latvijas kuģniecība" (the Company) is management of "Latvijas kuģniecība" Group. The Company is registered in the Enterprise register on 13 September 1991 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 19 April 2012. 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 financial results of JSC "Latvijas kuģniecība". The financial results of the Group are presented in the consolidated financial statements of the Group.

2.1. Statement of Compliance

The financial statements have been prepared in accordance with the Law of the Republic of Latvia On Annual Accounts and generally accepted accounting standards in Latvia. The financial statements have been prepared on a historical cost basis. The reporting period for the annual report is from 1 January 2011 till 31 December 2011 and financial statements are prepared in Latvian lats (LVL). The income statement is prepared in accordance with the turnover method. Cash flow statement is prepared using the indirect cash flow method.

2.2. Changes in accounting policy and disclosures

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

Changes in results of the prior years

In 2011 the Company made restatement of financial statements due to errors noted, which had an effect on the balance sheet as of 1 January 2010.

Restatement of investments value in subsidiaries	**LVL**
Investments in Latmar Holdings Corporation before correction	111 417 849
In 20 September 1996 JSC "Latvijas kuģniecība" was transformed into State Share Company for the Privatisation and in accordance with the Law of Republic of Latvia "On privatization" the Company's share capital and reserves has been restructured. As a result several reserves were capitalised (including Latmar Holdings Corporation long-term revaluation reserve in amount of LVL 76 162 849), with the aim to increase the Company's share capital to 200 000 000 shares. Considering previously mentioned the investment value in Latmar Holdings Corporation was not amended as required by changes in Latvian legislation in relation to accounting method of investments in subsidiary and associated undertakings.	
Retrospective restatement in 2011 represents disposal of decrease in Latmar Holdings Corporation investment's value as accounted based on the equity method. Following the accounting policy of the Investments in subsidiary and associated undertakings adopted by the Company, value of the Investments in subsidiaries decreased and position of the Shareholder's Equity "Accumulated deficit" increased.	(76 162 849)
Restated value of investment in Latmar Holdings Corporation (*See Note 16 (a)*)	35 255 000

Restatement of accrued liabilities	**LVL**
Other accruals in Accrued liabilities before restatement	(399 445)
Reversal of accruals for compensation of transferred tax loss within Group made in 2009. Accordingly Accrued liabilities decreased and position of the Shareholder's Equity - "Accumulated deficit" decreased.	399 445
Restated Other accruals in Accrued liabilities (*See Note 27*)	-

Net effect of restatements on Shareholder's equity	**(75 763 404)**

In 2011 the Company has made certain reclassifications between different captions of the income statement. The reclassifications had no effect on the balance sheet as of 1 January 2010.

Notes *(Continued)*

Accounting policies and measurement basis *(continued)*

3. Accounting policies and measurement basis

a) Related parties

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

b) Net sales and income recognition

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

Income is recognised upon delivery of goods or provision of services. The interest income is recognized as the interest accrues. Income from fines and penalties is recognised as received. Income from dividends is recognised when the Company's right to receive the dividend payment is established.

c) Foreign currency conversion into Lats

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

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

	31.12.2011. LVL	**31.12.2010. LVL**
1 USD	0.544	0.535
1 EUR	0.702804	0.702804

d) Intangible assets

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

e) Tangible fixed assets

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the tangible fixed asset is put into operation or engaged in commercial activity. Each part of an item of fixed asset with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of fixed asset, it also accounts separately for the depreciation of those parts.

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

The following depreciation rates were established and applied:

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

Notes *(Continued)*

Accounting policies and measurement basis *(continued)*

Tangible fixed assets *(continued)*

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

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

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

f) Investment property

Investment property comprises land and buildings held by the Company to earn rentals or wait until the increase in value, rather than to use for the providing of services, for administrative purposes or sale in the ordinary course of business. Investment properties are measured at cost, representing purchase price and related transaction costs less calculated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the useful life of the asset using the rates similar to fixed assets of the same type. Land is not depreciated.

When events or changes in circumstances indicate the carrying value may not be recoverable, the carrying value of investment property is reviewed for impairment and asset's value is decreased to its recoverable value. Subsequent to initial recognition, valuation of the investment property is performed at the end of each reporting period.

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

g) Investments in subsidiaries

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

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

h) Investments in associates

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

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

i) Other securities and investments

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

Notes *(Continued)*

Accounting policies and measurement basis *(continued)*

j) Inventories

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

k) Trade receivables

Accounts receivable are recorded in the balance sheet at their amortised cost less provisions for impairment. Provisions for bad and doubtful receivables are made when management considers the recovery of these receivables is doubtful.

l) Cash and cash equivalents

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

m) Provisions

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

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

n) Loans and borrowings

Loans and borrowings initially are recognized at cost, which is determined by increasing/decreasing the fair value of the loan or borrowings issued/received by costs directly attributable to transaction.

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. 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 effective interest rate (EIR). The EIR amortisation is included in finance income/expenses in the income statement.

Loans (borrowings) or part of those are classified as current, if the obligation to settle the liability (the right to collect the claim) occurs within 12 months after the balance sheet date. Loans (borrowings) or part of those are classified as non-current, if the obligation to settle the liability (the right to collect the claim) occurs later than 12 months after the balance sheet date.

o) Accruals for employee vacation expenses

The amount of accruals for employee vacation expenses is determined by multiplying the average daily salary within last six months with the number of unused vacation days as at the end of the reporting year.

p) Corporate income tax

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

q) Operating lease

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

Notes *(Continued)*

Accounting policies and measurement basis *(continued)*

r) Use of estimates

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

s) Post balance sheet events

The amounts recognised in financial statements are adjusted to reflect post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events). Post year-end events that are non adjusting events are disclosed in the notes to the financial statements when material.

Notes *(Continued)*

4. Net sales

	LVL 2011	LVL 2010
Income from commercial management and management services worldwide	4 481 446	4 804 501
Income from IT and other services in Latvia	39 718	142 354
Income from rent and management of real estate in Latvia	109 383	52 808
Total	**4 630 547**	**4 999 663**

5. Cost of sales

	LVL 2011	LVL 2010
Salaries, training and other social costs	(582 003)	(765 779)
Social security contributions	(130 790)	(181 765)
Professional charges and legal costs	(321 179)	(779 776)
Depreciation and amortisation	(151 137)	(264 610)
IT and communication	(148 350)	(280 163)
Repairs and maintenance expenditure	(101 591)	(35 698)
Transport and travelling expenses	(40 020)	(32 412)
Advertising and marketing	(9 702)	-
Other costs	(177 153)	(38 824)
Total	**(1 661 925)**	**(2 379 027)**

6. Administrative expenses

	LVL 2011	LVL 2010
Salaries, training, health insurance and other social costs	(329 788)	(2 041 959)
Social security contributions	(70 799)	(472 732)
Occupation and repairs	(210 584)	(274 919)
Depreciation and amortisation	(192 442)	(186 476)
Professional fees	(86 297)	(174 813)
IT and communication	(77 343)	(14 433)
Movements in doubtful debts and other provisions	16 460	(1 712 912)
Transport and travelling expenses	(12 105)	(192 231)
Advertising and marketing	(2 425)	(47 088)
Other expenses	(241 878)	(785 812)
Total	**(1 207 201)**	**(5 903 375)**

A significant decrease in Administrative expenses is mainly due to reduction of remuneration of the Management Board and cancellation of the remuneration of Supervisory Council.

7. Other operating income

	LVL 2011	LVL 2010
Reversal of the impairment of investment properties (*See Note 15*)	49 082	-
Total	**49 082**	**-**

Notes *(Continued)*

8. Other operating expenses

	LVL 2011	LVL 2010
Impairment of investment properties *(See Note 15)*	(701 500)	(742 082)
Loss on disposal of fixed assets	(589)	(73)
Total	**(702 089)**	**(742 155)**

9. Income from investments in subsidiaries

	LVL 2011	LVL 2010
Dividends received from Latmar Holdings Corporation	-	3 433 615
Income from sale of SIA "LSC Shipmanagement" share	-	470 000
Dividends received from SIA "LSC Marine Training"	-	145 074
Income from liquidation of Kristaps Insurance Ltd.	-	97 800
Total	**-**	**4 146 489**

10. Interest and similar income

	LVL 2011	LVL 2010
Interest income from short term loans advanced to subsidiaries	2 777	-
Interest income	1 118	359
Net gain from foreign currency rate fluctuations	147 720	-
Net gain from foreign currency translation	-	32 963
Total	**151 615**	**33 322**

11. Impairment of non-current investments

	LVL 2011	LVL 2010
SIA "Futbola klubs "Ventspils""	-	(184 500)
SIA "LSC Marine Training"	-	(79 041)
Loss from sale of SIA "Jūras servisa centrs" share	-	(17 106)
Total	**-**	**(280 647)**

(See also Notes 16 and 17).

Notes *(Continued)*

12. Interest and similar expenses

	LVL 2011	LVL 2010
Net loss from foreign currency rate fluctuations	-	(32 802)
Interest expenses	(803)	(15 955)
Financial institutions charges	(1 815)	(2 626)
Net loss from foreign currency translation	(1 286)	-
Total	**(3 904)**	**(51 383)**

13. Corporate income tax and deferred tax

	LVL 2011	LVL 2010
Current income tax charge	(410 197)	(459 383)
Deferred income tax	36 828	(6 019)
Income tax expense reported in the income statement	**(373 369)**	**(465 402)**

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

	LVL 2011	LVL 2010
Loss before taxes	**1 256 125**	**(177 113)**
Tax calculated at tax rate of 15%	188 419	(26 567)
Expenses not deductible for tax purposes	199 347	814 637
Income not subject to corporate income tax	(10 213)	(318 686)
Expenses reducing taxable income	(4 184)	(3 982)
Income tax expense	**373 369**	**465 402**

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

	LVL 31.12.2011.	LVL 31.12.2010.
Excess of tax allowances over depreciation	90 314	137 457
Temporary difference on provisions for unused vacations	(14 669)	(19 669)
Other temporary differences	(1 764)	(7 079)
Deferred tax liabilities	**73 881**	**110 709**

Deferred income tax in amount of LVL 73 881 is recoverable on the following terms: within one year – LVL 13 210, after more than one year - LVL 60 671.

Notes *(Continued)*

14. Intangible assets

	Software licences LVL
Historical cost	
At 1 January 2010	806 358
Additions	97 411
Disposals	(102 985)
At 31 december 2010	**800 784**
Additions	4 536
Disposals	(58 112)
At 31 december 2011	**747 208**
Accumulated amortisation	
At 1 January 2010	433 411
Amortisation	201 180
Disposals	(102 964)
At 31 december 2010	**531 627**
Amortisation	152 630
Disposals	(57 101)
At 31 december 2011	**627 156**
Net book value:	
At 31 december 2010	**269 157**
At 31 december 2011	**120 052**

Notes *(Continued)*

15. Tangible Assets and Investment Property

	LVL			
	Land, buildings and construction	Other fixed assets	Investment properties	Total
Historical cost				
At 1 January 2010	2 971 476	1 556 149	1 667 009	6 194 634
Additions	247 326	61 096	4 948	313 370
Reclassification	(1 100 733)	(12 209)	1 112 942	-
Disposals	-	(263 264)	-	(263 264)
At 31 december 2010	**2 118 069**	**1 341 772**	**2 784 899**	**6 244 740**
Additions	-	22 509	-	22 509
Disposals	-	(183 337)	-	(183 337)
At 31 december 2011	**2 118 069**	**1 180 944**	**2 784 899**	**6 083 912**
Accumulated depreciation and impairment				
At 1 January 2010	331 955	1 177 630	270 009	1 779 594
Depreciation	84 331	165 575	-	249 906
Impairment	-	-	742 082	742 082
Reclassification*	(81 651)	(12 209)	93 860	-
Disposals	-	(252 022)	-	(252 022)
At 31 december 2010	**334 635**	**1 078 974**	**1 105 951**	**2 519 560**
Depreciation	64 516	112 497	13 936	190 949
Impairment**	-	-	701 500	701 500
Impairment reversal**	-	-	(49 082)	(49 082)
Disposals	-	(177 599)	-	(177 599)
At 31 december 2011	**399 151**	**1 013 872**	**1 772 305**	**3 185 328**
Net book value				
At 31 december 2010	**1 783 434**	**262 798**	**1 678 948**	**3 725 180**
At 31 december 2011	**1 718 918**	**167 072**	**1 012 594**	**2 898 584**

Notes:

- The carrying value of the Company's real estate included in Land, buildings and construction and Investment properties as at 31 December 2011 amounted to LVL 2 731 512 (31 December 2010: LVL 3 457 434). The cadastral value of the real estate as at 31 December 2011 amounted to LVL 1 834 264 (31 December 2010: LVL 1 854 764).
- *Due to change in the type of use of the real estate in December 2010, part of real estate in amount of LVL 1 019 082 is reclassified to investment properties. There are no changes in type of use of the real estate.
- **As at 31 December 2011 the fair value of real estate owned by Company was estimated based on certified appraiser's valuation. The market value of the real estate was determined in the amount of LVL 4 156 500 (31 December 2010: LVL 3 796 000). Depending on the plans of the intended use of the real estate property comparative transaction method or income method were used. As a results impairment is recognised in amount of LVL 701 500 and increase in value is recognised to the income statement in the amount of LVL 49 082 as reversal of impairment *(See Notes 7 and 8).*
- In 2011 the real estate owned by the Company in Riga on Jekaba street 30, is pledged on behalf of JSC Ventspils nafta.
- Part of the fully depreciated Other fixed assets are still used in operating activities of the Company. Total cost value of those Other fixed assets as at 31 December 2011 is LVL 1 093 thousand (31 December 2010: LVL 750 thousand).

Notes *(Continued)*

16. Information on the subsidiaries and investments in subsidiaries

(a) Investments in subsidiaries

Name and address	Percentage holding %	31.12.2011.	31.12.2010. *(restated)**
Latmar Holdings Corporation			
80 Broad Street, City of Monrovia, Liberia	100	35 255 000	35 255 000
LSC Holdings Limited			
Manning House, 21 Bucks Road, Douglas, Isle of Man	100	10 920	10 920
Arctic Holdings Corporation			
Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	100	-	-
Santomar Holdings Company Ltd.			
284 Archbishop Makarios III Avenue, Fortuna Court block B, 2nd floor, 3105, Limassol, Cyprus	100	1 210	1 210
Latvian Shipping Corporation			
80 Broad Street, City of Monrovia, Liberia	100	-	-
MSIA „LASCO Investment" **			
Berzaunes iela 11A, Riga, LV 1039, Latvia	100	-	-
SIA „LSC Marine Training"			
Ganibu dambis 24D, Riga, LV 1045, Latvia	100	220 959	220 959
		35 488 089	**35 488 089**

Notes:

* Additional information regarding restatement see Note 2.

** According to the decision of the Vidzeme District Court of Riga made on 3 January 2011, SIA LASCO Investment insolvency proceedings is considered to be initiated as of 17 December 2010. Accordingly it is considered that the Company has lost the control over this company at that date.

Notes *(Continued)*

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

(a) Investments in subsidiaries *(continued)*

Name and address	Percentage holding %	31.12.2010. *(restated)*	Impairment	31.12.2009. *(restated)*
Latmar Holdings Corporation				
80 Broad Street, City of Monrovia, Liberia	100	35 255 000	-	35 255 000
Kristaps Insurance Ltd.*				
11 Victoria Street P.O. Box HM 392, Hamilton HM PX, Bermudas	100	-	(79 542)	79 542
LSC Holdings Limited				
Manning House, 21 Bucks Road, Douglas, Isle of Man	100	10 920	-	10 920
Arctic Holdings Corporation*				
Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	100	-	-	-
Santomar Holdings Company Ltd.				
284 Archbishop Makarios III Avenue, Fortuna Court block B, 2nd floor, 3105, Limassol, Cyprus	100	1 210	-	1 210
Latvian Shipping Corporation				
80 Broad Street, City of Monrovia, Liberia	100	-	-	-
Crown Navigation Inc.*				
Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands	100	-	-	-
MSIA „LASCO Investment”				
Berzaunes iela 11A, Riga, LV 1039, Latvia	100	-	-	-
SIA „LSC Marine Training”				
Ganibu dambis 24D, Riga, LV 1045, Latvia	100	220 959	(79 041)	300 000
SIA „Jūras servisa centrs”*				
Andrejostas iela 4a, Riga, LV 1045, Latvia	100	-	(60 505)	60 505
SIA „LSC Shipmanagement”*				
Ganibu dambis 10A, Riga, LV 1045, Latvia	100	-	-	-
SIA „Ostas serviss”*				
Elizabetes iela 1, Riga, LV 1807, Latvia	100	-	-	-
		35 488 089	**(219 088)**	**35 707 177**

**Notes:*

- SIA “Ostas serviss” owned by the Company was liquidated in February 2010.
- Crown Navigation Inc. owned by the Company was liquidated in March 2010.
- Kristaps Insurance Ltd. owned by the Company was liquidated in July 2010.
- The shares of SIA “Jūras servisa centrs” owned by the Company were sold in July 2010.
- Holding company Arctic Holding Corporation was incorporated in July 2010.
- The shares of SIA “LSC Shipmanagement” owned by the Company were sold in September 2010 within the Group.

For additional information regarding restatement see Note 2.

Notes *(Continued)*

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

(b) Information on subsidiaries

Name and address	LVL Shareholders' Equity of the subsidiaries 31.12.2011.	31.12.2010.	Profit/(Loss) of the subsidiaries 2011	2010
Latmar Holdings Corporation				
80 Broad Street, City of Monrovia, Liberia	125 171 252	130 514 737	(6 403 116)	(74 873 375)
LSC Holdings Limited				
Manning House, 21 Bucks Road, Douglas, Isle of Man	18 998 452	33 721 999	(15 970 326)	(6 589 187)
Arctic Holdings Corporation				
Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	(4 293 961)	-	(3 389 483)	-
Santomar Holdings Company Ltd.				
284 Archbishop Makarios III Avenue, Fortuna Court block B, 2nd floor, 3105, Limassol, Cyprus	18 509	18 739	(490)	(1 984)
Latvian Shipping Corporation				
80 Broad Street, City of Monrovia, Liberia	-	-	-	-
MSIA „LASCO Investment"				
Berzaunes iela 11A, Riga, LV 1039, Latvia	-	-	-	-
SIA „LSC Marine Training"				
Ganibu dambis 24D, Riga, LV 1045, Latvia	330 976	220 959	110 018	(79 041)

Notes:

- Latmar Holdings Corporation (holding company) has two active companies 100% owned by the Latmar Holdings Corporation from which one company (single vessel company) is registered in Malta and one in Latvia (technical management company).
- LSC Holdings Ltd. (holding company) has 17 active single vessel companies registered in Marshall Islands.
- Arctic Holding Corporation (holding company) has four including two active single vessel companies and all of them are registered in Marshall Islands.
- Santomar Holdings Company Ltd. is dormant investment holding company registered in Cyprus.
- Latvian Shipping Corporation (holding company) has one subsidiary registered in Liberia.
- MSIA “LASCO Investment” has subsidiaries SIA “Rīgas līcis” and SIA “LASCO Nekustamie īpašumi”, the later having 100% owned subsidiaries SIA “Darījumu centrs Daugava”, SIA “Ventspils biznesa centrs”, SIA “Lejastiezumi”, SIA “Pārventas sporta centrs”.
- SIA „LSC Marine Training” – company registered in Latvia who provides seafarers training services.

Notes *(Continued)*

17. Investments in associated undertakings

Name and address	Percentage holding 31.12.2011.	LVL Investment Value, net 31.12.2011.	LVL Shareholders' Equity 31.12.2011.
SIA „Via Una"			
Katrinas dambis 10, Riga, LV 1045, Latvia	45.45%	7 553	30 606
SIA „Futbola klubs „Ventspils""			
Dzintaru iela 54, Ventspils, LV 3602, Latvia	23.06%	-	414 505

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

Notes:

- The operating loss of the associated company SIA "Via Una" for 2011 was LVL 15 532 (2010: LVL 51 797).
- The operating loss of the associated company SIA "Futbola klubs "Ventspils"" for 2011 was LVL 78 615 (2010: LVL 573 029).
- Assessment of recoverability of investment in SIA "Futbola klubs "Ventspils"" was performed at the end of 2010. Based on the planned future cash flows by the company, impairment of the investment is recognised in amount of LVL 184 500. *(See also Note 11)*.

18. Other long-term debtors

Other long-term debtors represents two months deposit paid to JSC Ventspils nafta on real estate rent agreement in amount of LVL 14 290.

19. Inventories

	LVL 31.12.2011.	LVL 31.12.2010.
Other materials and inventories	1 151	9 763
Fuel	115	97
Total	**1 266**	**9 860**

Notes *(Continued)*

20. Accounts receivable

	LVL 31.12.2011.	LVL 31.12.2010.
Trade receivables, gross	45 318	50 673
Provision for doubtful debts	(43 908)	(46 484)
Total	**1 410**	**4 189**

Changes in provisions for doubtful debts:

	LVL 2011	LVL 2010
At 1 January	46 484	46 484
Decrease due to write off	(2 576)	-
At 31 December	**43 908**	**46 484**

The analysis of trade receivables as at 31 December:

	LVL				
		Not	Past due		
	Total	past due	91 - 180 days	181 - 365 days	>365 days
At 31 December 2011	**45 318**	-	-	-	45 318
At 31 December 2010	**50 673**	847	2 670	672	46 484

Notes *(Continued)*

21. Amounts due from related companies

	LVL	
	31.12.2011.	**31.12.2010.**
Latmar Holdings Corporation	657 937	334 046
Limetree Shipping Co. Ltd.	154 189	20 260
Dzons Rids Shipping Corporation	73 347	10 043
Hose Marti Shipping Corporation	35 353	15 347
Sabile Navigation Inc.	27 724	19 294
Cape Wind Traiding Company	26 245	15 220
Sloka Navigation Inc.	25 244	21 348
Straupe Navigation Inc.	22 981	17 264
Salacgriva Navigation Inc.	22 690	17 264
Stende Navigation Inc.	22 543	17 514
Saldus Navigation Inc.	21 166	17 062
Sigulda Navigation Inc.	21 668	15 293
Kursa Navigation Inc.	21 719	14 460
Kazdanga Navigation Inc.	21 616	16 726
Skrunda Navigation Inc.	21 508	17 564
Smiltene Navigation Inc.	21 405	17 578
Saulkrasti Navigation Inc.	20 878	17 576
Kuldiga Navigation Inc.	20 622	13 783
Kandava Navigation Inc.	20 456	15 530
Kabile Navigation Inc.	19 920	16 237
Kaltene Navigation Inc.	18 225	16 198
Kolka Navigation Inc.	16 234	17 662
Mansel Ltd.	15 319	-
SIA „LSC Shipmanagement”	7 245	26 880
A/s "Ventspils nafta"	720	-
SIA "LatRosTrans"	990	-
SIA "Skonto Nafta"	161	160
SIA "Nafta Invest"	161	160
SIA "LSC Marine Training"	41	-
World Reefer Corporation	-	10 465
LSC Holdings Limited	-	16 230
Santomar Holdings Company Ltd.	-	4 083
Total	**1 338 307**	**741 247**

Note:

Amounts due from related companies includes loan issued to Latmar Holdings Corporation in amount of USD 1 000 000 with an interest linked to 3m LIBOR plus margin.

22. Other receivables

	LVL	
	31.12.2011.	**31.12.2010.**
Overpaid income tax *(see Note 25)*	103 393	-
Overpaid value added tax *(see Note 25)*	4 180	528 675
Other receivables, net	32 861	124 118
Total	**140 434**	**652 793**

Notes *(Continued)*

23. Cash and Cash Equivalents

	LVL 31.12.2011.	LVL 31.12.2010.
Cash in banks	1 515 326	333 998
Total	**1 515 326**	**333 998**

24. Amounts due to related parties

	LVL 31.12.2011.	LVL 31.12.2010.
SIA „LSC Marine Training”	79 033	88 524
Latmar Holdings Corporation	45 114	44 329
A/s "Ventspils nafta"	41 185	-
LSC Holdings Limited	1 489	943
SIA „LSC Shipmanagement”	-	11 713
MSIA „LASCO Investment”	-	4 808
Total	**166 821**	**150 317**

Note:

The amounts due to related parties include loans from SIA „LSC Marine Training” with maturity on receipt according to the agreement concluded in 2007 on financial resource management. The interest rates applied are linked to the LIBOR.

25. Taxes and social security contributions

LVL

	Income tax	Value added tax	Real estate tax	Social security contribution	Personal income tax	State business risk duty	Total
(Payable) 31.12.2010.	**(456 004)**	**-**	**(37)**	**(38 828)**	**(24 628)**	**(15)**	**(519 512)**
Overpaid 31.12.2010.	**-**	**528 675**	**-**	**-**	**-**	**-**	**528 675**
Charge	(410 197)	161 623	(27 890)	(307 738)	(189 056)	(104)	(773 362)
Reimbursed	-	(132 927)	-	-	-	-	(132 927)
Restatement	-	-	-	(382)	(269)	-	(651)
Transferred to other taxes	553 185	(553 185)	-	-	-	-	-
Penalties	(40 803)	(6)	-	(8)	-	-	(40 817)
Paid	457 212	-	27 927	320 251	197 808	111	1 003 309
(Payable) 31.12.2011.	**-**	**-**	**-**	**(26 705)**	**(16 145)**	**(8)**	**(42 858)**
Overpaid 31.12.2011.	**103 393**	**4 180**	**-**	**-**	**-**	**-**	**107 573**

Taxes overpaid are included in “Other receivable” *(See also Note 22)*

Notes *(Continued)*

26. Other accounts payable

	LVL	
	31.12.2011.	**31.12.2010.**
Salaries	43 333	50 436
Deductions from salaries	18	18
Other payables	2 106	1 793
Total	**45 457**	**52 247**

27. Accrued liabilities

	LVL			
	Accruals for employee vacations	**Accruals for other expenses**	**Other accruals**	**Total**
31.12.2010.	**131 129**	**65 620**	**399 445**	**596 194**
Correction of other accruals	-	-	(399 455)	(399 455)
31.12.2010. *(restated)*	**131 129**	**65 620**	**-**	**196 749**
Increase	-	11 758	-	11 758
Decrease	(33 333)	(47 194)	-	(80 527)
Transfer	-	(18 426)		(18 426)
31.12.2011.	**97 796**	**11 758**	**-**	**109 554**

Additional information regarding restatement see Note 2.

28. Fees paid to external auditors

	LVL	
	2011	**2010**
Audit of the financial statements	18 659	69 145
Management consulting	6 489	14 299
Total	**25 148**	**83 444**

Notes *(Continued)*

29. Off balance sheet liabilities

Operating lease liabilities

At the year end the Company as a lessee has entered into one vehicles operating lease agreement. In 2011 the total amount of the annual operating lease expenses was LVL 8 995 (2010: LVL 28 998). Additionally in December 2011 the Company renewed a real estate rental agreement.

As at 31 December 2011, the future aggregate minimum lease payments under non-cancellable vehicles operating leases and real estate rent agreement were as follows:

	LVL	
	31.12.2011.	**31.12.2010.**
Less than one year	86 487	8 942
Between one and three years	221 501	745
Total	**307 988**	**9 687**

Minimum vehicle operating lease payments are calculated based on floating rate at the level of 4.56%. Actual floating rates in 2011 where between 2.93% and 3.51%. (2010: 1.33% - 2.93%)

Guaranteed issued

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

Please see also *Note 35*.

Legal cases

JSC Latvian Shipping Company has been involved in several court cases. According to the Managements assessment it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

30. Average number of employees

The average number of the Company’s employees during 2011 and 2010 was 37 and 64, respectively.

31. Key management remuneration

Management Board remuneration for 2011 was LVL 42 000 (2010: LVL 530 175), social security contributions amounted to LVL 10 118 (2010: LVL 122 438). There were no remuneration planned for Supervisory Council members in 2011 (2010: LVL 926 079), accordingly no social security contributions paid (2010: LVL 218 048).

During 2011 no loans or guarantees were issued to the members of Supervisory Council and Management Board.

Notes *(Continued)*

32. Transactions with related parties

Transactions with subsidiaries and entities under common control of subsidiaries

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

The income and expenses related to the transactions with subsidiaries and entities under common control of subsidiaries were as follows:

	LVL	
	2011	**2010**
Income from commercial management and management services	4 467 636	4 804 501
Income from the goods sold and services rendered	150 287	205 641
Interest income on borrowings to subsidiaries	2 777	-
Total	**4 620 700**	**5 010 142**
Interest expenses	(803)	(1 485)
Cost of goods and services received	-	(110 147)
Total	**(803)**	**(111 632)**

Transactions with other related parties

In 2011 the Company received legal services from related party – A/s "Ventspils nafta" in amount of LVL 261 879 and from other related party in amount of LVL 9 153.

Income from services provided to other related parties in 2011 amounted to LVL 16 840.

(See also Notes 21 and 24 for outstanding balances of related parties).

33. Financial risk management

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

Financial risks

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

<u>*Foreign currency risk*</u>

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

	LVL	
	2011	**2010**
Financial assets USD	4 196 912	494 927
Financial liabilities USD	(162 655)	(165 464)
Net balance sheet position, USD	**4 034 257**	**329 463**
Net balance sheet position, LVL	**2 194 636**	**176 263**

Notes *(Continued)*

33. Financial risk management *(continued)*

Financial risks *(continued)*

Liquidity risk

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

To ensure liquidity the Group's dividend policy entitles the Company as a parent of the Group to receive dividends from its subsidiaries, thereby part of accrued free financial resources in subsidiaries are used to improve cash flow of the Company.

Credit risk

The Company is exposed to credit risk through its trade accounts receivables. The Company manages its credit risk by continuously assessing the credit history. Stable credit institutions with the possible highest ratings are used for placement of free cash. In addition, receivable balances are monitored on an on-going basis to ensure that the Company's exposure to bad debts is minimised.

Fair value

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

Capital management

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

34. Events after the reporting period

In April 2012 the real estate owned by the Company in Riga on Elizabetes street 1, is pledged on behalf of JSC "Ventspils nafta".

Except for the events disclosed in this note and note 35, as of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

35. Going Concern

The Group has significant balance of interest bearing loans as at 31 December 2011. 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 2011 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 2012 the Group did not meet financial covenant ratio EBITDA/ Debt service and Cash reserve covenant as set under the loan agreement. During 2012 formal agreement was reached with the existing lenders on temporary waiver of EBITDA/ Debt service covenant and reduction of minimum Cash reserve covenant down to USD 17 million until 31 December 2012.

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

The financial statements have been prepared on a going concern basis. The validity of this assumption will mainly depend on successful negotiations on the loan terms and covenants as depicted above.

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Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC "Latvijas kuģniecība"

Report on the Financial Statements

We have audited the accompanying financial statements of JSC "Latvijas kuģniecība" set out on pages 7 to 32 of the accompanying annual report, which comprise the balance sheet as of 31 December 2011 and the income statement and the statements of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

PricewaterhouseCoopers SIA, Kr. Valdemāra iela 19, Rīga, LV-1010, Latvia, LV40003142793
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Emphasis of matter – Going Concern Assumption

We draw attention to Note 35, "Going concern", in the financial statements, which discloses the Company's assumptions about its ability to continue as a going concern. Matters as set forth in Note 35, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

We have read the Management Report for 2011 set out on pages 5 to 6 of the accompanying annual report for 2011 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2011.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ahmed Abu Sharkh
Chairman of the Board

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Riga, Latvia
26 April 2012

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.