LATVIJAS KUĢNIECĪBA

Public Joint Stock Company
“Latvian Shipping Company”

Consolidated Financial Statements

31 December 2011

Contents

Information about JSC "Latvian Shipping Company" in brief

Mission

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

Strategy

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

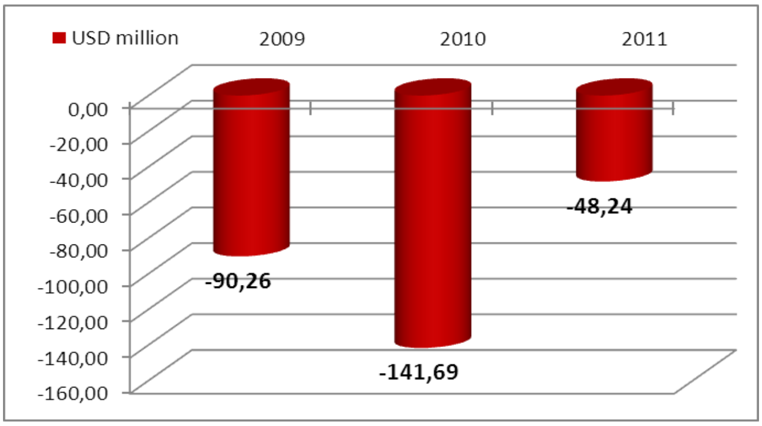
Latvian Shipping Company Group performance

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

Management report

Dear shareholders and 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

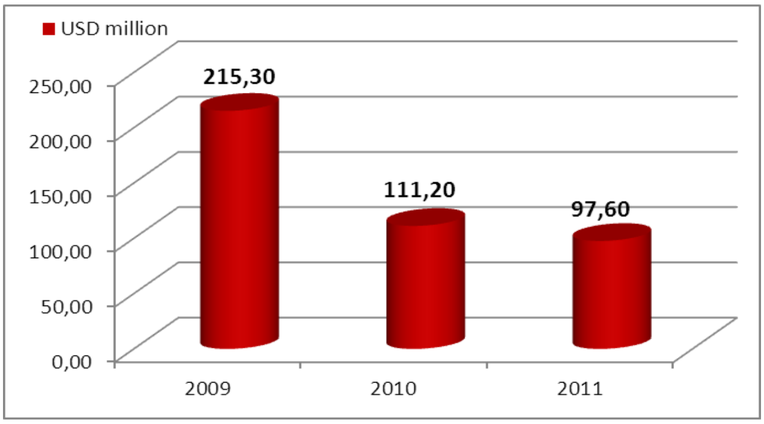
Explanations:
HS = handy size (37 dwt);
MR = medium range (52 dwt);
LR1 = long range (68 dwt).

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

Supervisory Council

Chairman of the Supervisory Council	Simon Digby Boddy
Deputy Chairman of the Supervisory Council	Mikhail Dvorak
Members of the Supervisory 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 Salmelin (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)

Professional experience of the members of the Supervisory Council

Simon Boddy

Since 1989, S. Boddy has worked in various positions in the *Vitol Group* of companies. From 2006 until 2008 he was Chief Representative of *Vitol*'s Moscow office and Chairman of *Vitol*'s terminal in Kaliningrad (Russia). Since 2009 he has been the Managing Director of the company *ETOS Latvia*, responsible for *Vitol*'s commercial activities in Latvia, as well as being a member of the *JSC "Ventspils nafta" (VN)* Management Board. S. Boddy currently holds the position of Chairman of the *VN* Management Board (since 20 January 2010). He does not own *JSC "Latvian Shipping Company" (LSC)* shares.

Mikhail Dvorak

The *Vitol Group*'s Financial Controller, Financial Director in the Group's companies in the former USSR countries. Currently holds position of Deputy Chairman of the *VN* Supervisory Council, re-elected in the *VN* Supervisory Council in 22 November 2011. He does not own *LSC* shares.

Christophe Theophanis Matsacos

Joined the *Vitol* financial group in 2008. He is working in the *Vitol's* representation office in Moscow and is responsible for business development in Russia and former CIS countries. Before working for *Vitol*, K. T. Matsacos has gained experience in the banking sector, working for *VTB Europe (London)* (previously – *Moscow Narodny Bank*) where he was responsible for oil business and financial area in Russia and former CIS countries. Since July 2010, he is also a member of the *VN* Supervisory Council. He does not own *LSC* shares.

Rubil Yilmaz

Member of the Supervisory Council of *Ventspils nafta termināls* Ltd, Manager of the Amsterdam terminal of the *Vitol Tank Terminals International* (*VTTI*) Group and Financial Director of *VTTI*. Since 20 January 2010 he holds the position of Supervisory Council member of *VN*. He does not own *LSC* shares.

Professional experience of the members of the Supervisory Council *(continued)*

Vladimir Egger

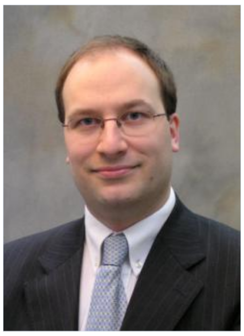
The Chief Representative of the *Vitol Group's* company *VNT SA* in Moscow. Since 20 January 2010 he holds the position of Chairman of the *VN* Supervisory Council. He does not own *LSC* shares.

Javed Ahmed

The Head of the *Vitol Group*'s purchasing and investment division; Management Board member of the *Vitol Tank Terminals International* Group, Management Board member of *Blue Knight Energy Partners*, as well since 20 January 2010 he holds the position of Supervisory Council member of *VN*. He does not own *LSC* shares.

Mark Morrell Ware

The *Vitol Group's* Director in Corporate Matters, previously Corporate Communications Director of the company *BP* until 2008. Since 20 January 2010 he holds the position of Supervisory Council member of *VN*. He does not own *LSC* shares.



Jaakko Sakari Mikael Salmelin

J. Salmelin has worked over 8 years as an analyst and a portfolio manager in various equity markets. Since 2003 he has focused solely on emerging European equity markets first in *Danske Capital*, *Sampo Bank plc.* and subsequently in *KJK Capital Oy*, which he co-founded in 2010. He holds the positions of: Member of the Management Board of *KJK Fund SICAV SIF*, Member of the Board of *KJK Management SA*, Member of the Board of *KJK Capital Oy*, Member of the Supervisory Board and member of the Audit committee in *JSC "Baltika"*. He owns 5 500 *LSC* shares.

Professional experience of the members of the Supervisory Council *(continued)*

Ivars Girgensons

A lawyer in the corporate finance company *ConFide*. His main area of specialization is civil law and commercial law. Previously he has managed *Creative Consultation Centre Ltd*, has worked for *Baltijas Ofiss Ltd*, *Akvašips Ltd* and has been a manager of a branch of *JSC* "*SEB banka"*. He does not own *LSC* shares.

Mārtiņš Kvēps

Sworn attorney since 1999, Deputy chairman of the Supervisory Council of *JSC "Ventbunkers"* from 2006 until 2010 and now again has a position there, Chairman of the Supervisory Council of *JSC "Latvijas naftas tranzīts"* from 2007 until 2010. He does not own *LSC* shares.

Oļegs Stepanovs

Doctor of Economic Sciences, Vice-president of the *Baltic Association – Transport and Logistics* from 2006 until 2011, Chairman of the Supervisory Board of *JSC "Ventspils Commercial Port"* from 2009 until 2010, Member of the Supervisory Council of *VN* from 2010 until 2011, Chairman of the Supervisory Council of *JSC SS&F Group* since 2008, Member of the Supervisory Council of *JSC "Baltic Coal Terminal*" since 2009. He does not own *LSC* shares.

Serguei Choutov

Graduated the Moscow State Institute of International Relations and obtained a Doctor's degree in economic science in 1998. S. Choutov is a member of the Transport Academy of Russia. In the 1980s he worked as a manager in the companies *Sovbunker* and *Soyuznefteexport*, later he was a managing director at *Navitank A.B.*, but since 2006 he is the Chairman of the Management Board of *Transgroup Ltd*. He does not own *LSC* shares.

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
	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)

Professional experience of the members of the Management board

Simon Richard Blaydes

Member of the Management Board of *LSC* since June 2011. Previously from 2009 till 2011 CFO of the *Arawak Group* of companies. Before that he was a partner in the transaction support department of *Ernst & Young*'s Energy practices in Beijing, London and Kazakhstan. He is a chartered accountant and an associate of the ICAEW. He does not own *LSC* shares.

Paul Thomas

Head of *Vitol Group's* World Wide Shipping, employed by *Vitol Group* since 1988, director of the shipping company *Finaval Spa* since 2007, member of the Management Board of *LSC* since July 2010. He does not own *LSC* shares.

Michael Main King

Head of *Vitol Group's* World Wide Shipping Operations since 2004, prior to that General Manager Tankers at Ship owners *Zodiac Maritime London* for 8 years. He does not own *LSC* shares.

Christopher James Kernon

With more than 20 year experience in the shipping industry. Previously C. Kernon was responsible for shipping and chartering in Asia and Australia for *Vitol Group*. Last seven years he is responsible for projects and shipping timecharters at *Vitol Group.* He does not own *LSC* shares.

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

Supervisory Council

Current Supervisory Council of JSC "Latvian Shipping Company" was elected in the extraordinary shareholders meeting on December 7, 2011. It represents all the shareholders of JSC "Latvian Shipping Company" and consists of twelve members: Chairman Simon Boddy, deputy chairman Mikhail Dvorak and members Christophe Theophanis Matsacos, Rubil Yilmaz, Vladimir Egger, Javed Ahmed, Mark Morrell Ware, Oļegs Stepanovs, Ivars Girgensons, Mārtiņš Kvēps, Jaakko Sakari Mikael Salmelin and Serguei Choutov.

Management Board

The Management Board of JSC "Latvian Shipping Company" consists of four members: Chairman Simon Richard Blaydes and members Paul Thomas, Michael Main King, Christopher James Kernon.

Audit Committee

The Audit Committee of JSC "Latvian Shipping Company" consists of three members Lahsen Idiken, Mikhail Dvorak, Jozef Hubertus Johannes Baardemans.

Shareholders

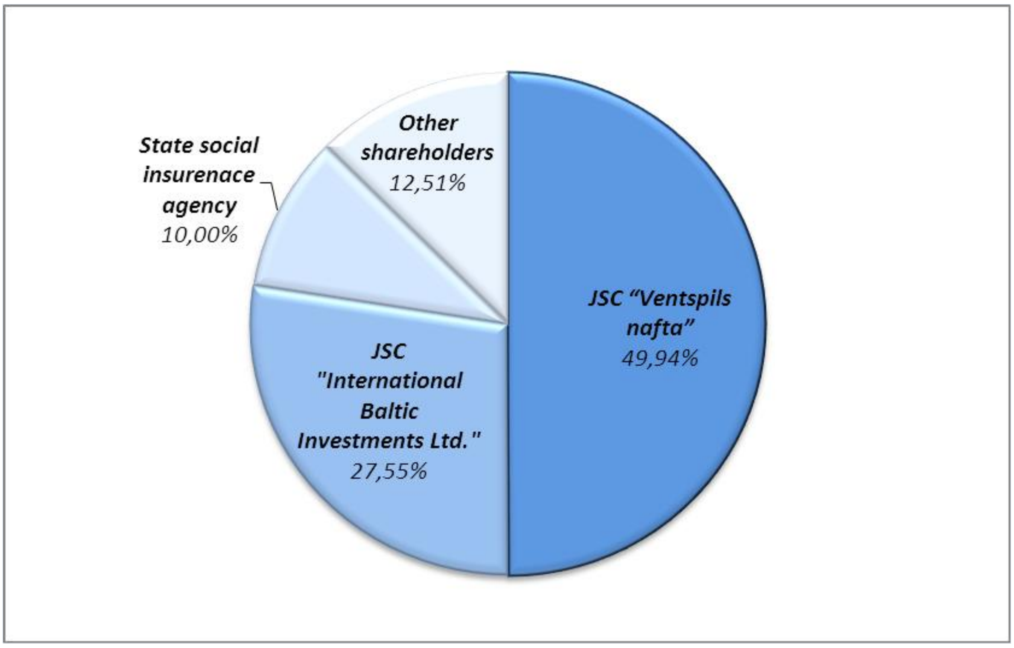
JSC "Latvian Shipping Company" shareholders (over 5%) as of 31.12.2011

Name	Description	Ownership interest
JSC "Ventspils nafta"	Listed company	49.94%
JSC "International Baltic Investments Ltd."	Private company	27.55%
State social insurance agency	Government institution	10.00%

No individual shareholder of JSC "Latvian Shipping Company" has legal control.

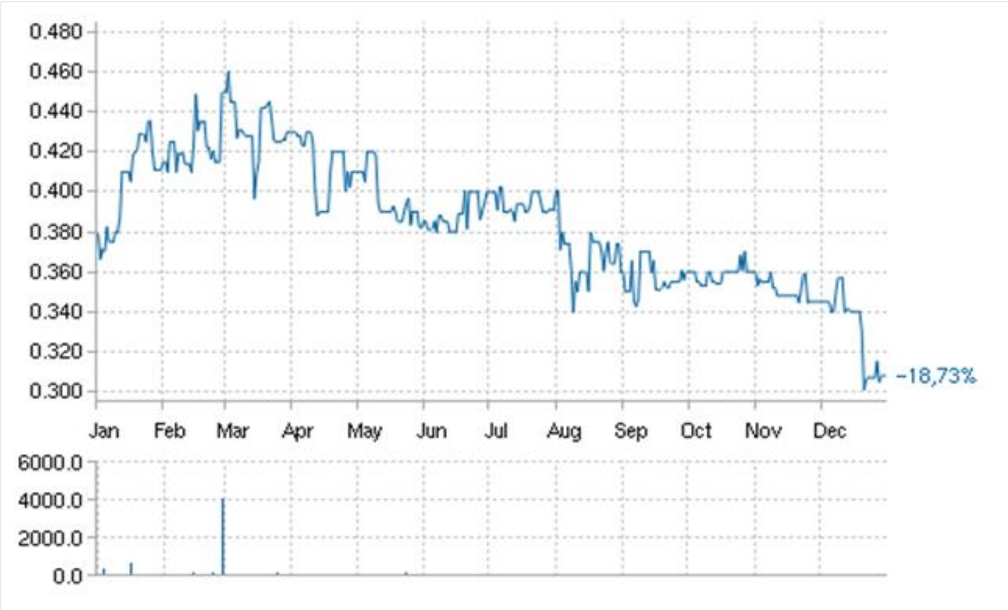
JSC "Ventspils Nafta" has de facto control, therefore JSC "Latvian Shipping Company" and its subsidiaries are consolidated into JSC "Ventspils Nafta" consolidated financial statements.

Shareholders structure as of 31.12.2011



Review of shares

JSC “Latvian Shipping Company” share price development for the period 01.01.11 – 31.12.11



Securities information

ISIN	LV0000101103
Ticker	LSC1R
Market	BALTIC MAIN LIST
Issuer	Latvijas kuģniecība (LSC)
Nominal value	1.00 LVL
Total number of securities	200 000 000
Number of listed securities	200 000 000
Listing date	26.06.2002
Liquidity providers	None
Indexes	B2000GI, B2000PI, B2700GI, B2700PI, OMXBBCAPGI, OMXBBCAPPI, OMXBBGI, OMXBBPI, OMXBGI, OMXBPI, OMXRGI

Information on the price and number of the traded shares

Price	2009	2010	2011
Open	0.660	0.410	0.370
High	0.690	0.520	0.460
Low	0.360	0.340	0.301
Last	0.400	0.379	0.308
Traded volume	3 961 245	5 058 251	13 526 230
Turnover, million	1.91	2.03	5.85
Capitalisation, million	80.00	75.80	61.60

*Information source: JSC “NASDAQ OMX RIGA” web page www.nasdaqomxbaltic.*com

Review of shares *(continued)*

JSC "Latvian Shipping Company" share price development for the period 01.01.09 – 31.12.11

JSC "Latvian Shipping Company" share price development
in comparison with OMX Baltic Benchmark GI index for the period 01.01.09 – 31.12.11

Indekss	01.01.2009	31.12.2011	+/-%
OMX Riga	271,29	371,16	36,81
LSC1R	0,66 LVL	0,31 LVL	-53,33

Information source: JSC "NASDAQ OMX RIGA" web page www.nasdaqomxbaltic.com

Characteristics of the shares

JSC "Latvian Shipping Company" has issued 200 000 000 (two hundred million) dematerialized bearer's shares. The nominal value of one share is LVL 1.00 (one lat). All shares are of the same category providing equal rights to receive dividends, liquidation quotas and voting rights at the Shareholders' Meeting.

The shares have no alienation restrictions or requirement to receive approval of the Company or other shareholders for alienation of shares.

JSC "Latvian Shipping Company" has not issued any employees' shares. The shares do not have any voting restrictions or shareholders right to claim a share of the profit that is not related to the proportion of one's shares in possession.

JSC "Latvian Shipping Company" is not aware of any shareholders' agreements that may cause restrictions for transferring shares belonging to the shareholders or their voting rights to other persons, or regulations requiring advance confirmation of this kind of transfer.

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

Environment protection

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

JSC "Latvian Shipping Company" Group's key objectives in respect of environmental protection are ensuring appropriate environmental protection management targeted at "zero-spill" practice and safe management of its vessels operations eliminating environmental pollution and minimising the possibility of accidents. In order to achieve these objectives JSC "Latvian Shipping Company" Group has set the following rules to be observed by the crew members:

- organise regular training and courses to master the necessary skills of action in case of contamination;
- follow all the procedures set for preventing all kinds of environmental pollution;
- identify security risks and take corresponding measures to minimise possibilities of accidental contamination;
- be prepared professionally to take actions in case of pollution and eliminate the consequences.

A motivated, highly professional and responsible personnel is an integral part of the environmental protection policy. The Group's personnel must follow such basic principles as continuous improvement of individual skills with respect to security requirements both on-board the vessels and ashore, building personal responsibility and personal involvement in health, safety and environment issues.

To ensure the implementation of the environmental protection policy of JSC "Latvian Shipping Company" Group in accordance with the highest standards, the Group has developed an effective safety and quality management system ensuring complete adherence with national and international environmental regulations and guidelines. The safety and quality system is maintained in accordance with the requirements of International Safety Management (ISM) Code.

Statement of Management's responsibility

The following statement, which should be read in conjunction with the independent auditors' report set out on pages from 19 to 21, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of JSC "Latvian Shipping Company" and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of 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 IFRS 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

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC Latvian Shipping Company

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of JSC Latvian Shipping Company and its subsidiaries ("the Group"), set out on pages 22 to 77 of the accompanying annual report which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of comprehensive income, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

The Group's available-for-sale financial asset in the consolidated statement of financial position as at 31 December 2011 and 2010 comprises the investment in JSC Latvijas Naftas Tranzits of USD 29 595 thousand (LVL 16 100 thousand) and USD 28 681 thousand (LVL 16 465 thousand) , respectively. The Group has recognised a loss from the investment in the amount of USD 5 000 thousand (LVL 2 675 thousand) in 2010. The Group had no access to any financial information relating to the investee and, accordingly, was unable to reliably determine the fair value or recoverable value of the investment as of these dates. As a result, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the investment as at 31 December 2011 and 2010. Consequently, we were unable to determine whether any adjustments to the carrying amount were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph the consolidated financial statements present fairly, in all material respects the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter – Going Concern Assumption

We draw attention to Note 46, “Going concern”, in the consolidated financial statements, which discloses the Group’s assumptions about its ability to continue as a going concern. Matters as set forth in Note 46, indicate the existence of a material uncertainty which may cast significant doubt about the Group’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 4 to 6 of the accompanying annual report for 2011 and Corporate Governance Report for 2011 and did not identify material inconsistencies between the financial information contained in the Management Report, Corporate Governance Report and that contained in the consolidated 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.

Consolidated income statement

for the year ended 31 December 2011

	Notes	2011 USD'000	2010 (Restated) USD'000	2011 LVL'000	2010 (Restated) LVL'000
Voyage income	7	96 603	108 803	48 839	57 601
Income from other services		973	2 357	488	1 239
Revenue		**97 576**	**111 160**	**49 327**	**58 840**
Voyage costs	8	(8 616)	(20 496)	(4 392)	(11 034)
Cost of sales	9	(75 992)	(83 324)	(38 136)	(44 348)
Gross profit		**12 968**	**7 340**	**6 799**	**3 458**
Selling costs	10	(7)	(14)	(3)	(6)
Administrative expenses	11	(12 536)	(20 463)	(6 376)	(10 870)
Impairment of non-financial assets	12	(26 863)	(96 612)	(14 262)	(51 687)
Other operating income	13	388	1 219	201	490
Other operating expenses	14	(1 313)	(11 139)	(684)	(6 073)
Deconsolidation of net financial liabilities*	19a	-	6 505	-	1 582
Operating loss		**(27 363)**	**(113 164)**	**(14 325)**	**(63 106)**
Finance income	16	574	2 082	1 038	1 113
Finance costs	17	(20 733)	(29 795)	(10 434)	(15 494)
Loss before tax		**(47 522)**	**(140 877)**	**(23 721)**	**(77 487)**
Income tax	18	(751)	(870)	(373)	(465)
Loss for the year		**(48 273)**	**(141 747)**	**(24 094)**	**(77 952)**
Attributable to:					
Equity holders of the parent		(48 239)	(141 688)	(24 076)	(77 921)
Non-controlling interests		(34)	(59)	(18)	(31)
		(48 273)	**(141 747)**	**(24 094)**	**(77 952)**
Loss per share		USD (0.24)	USD (0.71)	LVL (0.12)	LVL (0.39)

**See Note 2*

The notes on pages 28 to 77 are integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on April 19, 2012 and signed 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 USD'000	2010 (Restated) USD'000	2011 LVL'000	2010 (Restated) LVL'000
Loss for the year	**(48 273)**	**(141 747)**	**(24 094)**	**(77 952)**
Exchange differences on translation of foreign operations	665	(4 679)	(51)	21 623
Net movement on cash flow hedges (*Note 35*)	1 519	(363)	788	(371)
Other comprehensive incom/(expenses) for the year, net of tax	**2 184**	**(5 042)**	**737**	**21 252**
Total comprehensive loss for the year, net of tax	**(46 089)**	**(146 789)**	**(23 357)**	**(56 700)**
Attributable to:				
Equity holders of the parent	(46 321)	(146 730)	(23 339)	(56 669)
Non-controlling interests	232	(59)	(18)	(31)
	(46 089)	**(146 789)**	**(23 357)**	**(56 700)**

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Riga, 19 April 2012

Consolidated statement of financial position

as of 31 December 2011

	Notes	2011 USD'000	2010 (Restated) USD'000	2011 LVL'000	2010 (Restated) LVL'000
Assets					
Non-current assets					
Intangible assets	21	237	540	129	289
Fleet	22	509 973	570 502	277 425	305 219
Property, plant and equipment	23	3 669	4 049	1 996	2 166
Investment properties	24	1 861	3 138	1 013	1 679
Investment in associates	25	14	26	7	13
Other non-current financial assets	30	7 857	7 720	4 274	4 130
Total non-current assets		**523 611**	**585 975**	**284 844**	**313 496**
Current assets					
Inventories	27	3 804	2 028	2 069	1 085
Trade and other receivables	28	7 208	10 166	3 921	5 438
Prepayments	29	1 317	2 203	717	1 179
Other current financial assets	30	29 595	31 866	16 100	18 160
Cash and short-term deposits	31	26 983	42 471	14 679	22 722
		68 907	**88 734**	**37 486**	**48 584**
Assets classified as held for sale	26	59 400	5 760	32 314	3 082
Total current assets		**128 307**	**94 494**	**69 800**	**51 666**
Total assets		**651 918**	**680 469**	**354 644**	**365 162**

Consolidated statement of financial position *(continued)*

as of 31 December 2011

	Notes	2011 USD'000	2010 (Restated) USD'000	2011 LVL'000	2010 (Restated) LVL'000
Equity and liabilities					
Equity					
Share capital		362 319	362 319	200 000	200 000
Accumulated deficit		(84 722)	(36 483)	(46 039)	(21 963)
Other components of equity		(15 876)	(17 794)	(11 585)	(12 322)
Equity attributable to equity holders of the parent	32	**261 721**	**308 042**	**142 376**	**165 715**
Non-controlling interests		6 114	5 882	3 326	3 344
Total equity		**267 835**	**313 924**	**145 702**	**169 059**
Non-current liabilities					
Interest bearing loans	33	297 204	281 949	161 678	150 843
Finance lease	34	25 775	27 094	14 021	14 495
Derivative financial instruments	35	919	1 416	500	757
Trade and other payables	38	1 942	300	1 056	161
Deferred tax liabilities	36	136	207	74	111
Total non-current liabilities		**325 976**	**310 966**	**177 329**	**166 367**
Current liabilities					
Trade and other payables*	38	13 635	15 187	7 419	8 126
Interest bearing loans	33	31 180	31 230	16 962	16 708
Finance lease	34	1 262	1 105	687	591
Derivative financial instruments	35	1 769	2 792	963	1 494
Deferred revenue	37	10 261	5 265	5 582	2 817
Total current liabilities		**58 107**	**55 579**	**31 613**	**29 736**
Total equity and liabilities		**651 918**	**680 469**	**354 644**	**365 162**

**See Note 2.*

The notes on pages 28 to 77 are integral part of these Consolidated Financial Statements.

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Chairman of the Management Board of
Joint Stock Company "Latvian Shipping Company"
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										Non-controlling interests		Total equity	
	Share capital (Note 32)		Accumulated deficit		Cash flow hedge reserve		Foreign currency translation reserve		Total					
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
As at 1 January 2011	**362 319**	**200 000**	**(36 483)**	**(21 963)**	**(4 208)**	**(2 251)**	**(13 586)**	**(10 071)**	**308 042**	**165 715**	**5 882**	**3 344**	**313 924**	**169 059**
Loss for the period	-	-	(48 239)	(24 076)	-	-	-	-	**(48 239)**	**(24 076)**	(34)	(18)	**(48 273)**	**(24 094)**
Other comprehensive income/(expense)	-	-	-	-	1 519	788	399	(51)	**1 918**	**737**	266	-	**2 184**	**737**
Total comprehensive income/(expense)	**-**	**-**	**(48 239)**	**(24 076)**	**1 519**	**788**	**399**	**(51)**	**(46 321)**	**(23 339)**	**232**	**(18)**	**(46 089)**	**(23 357)**
At 31 December 2011	**362 319**	**200 000**	**(84 722)**	**(46 039)**	**(2 689)**	**(1 463)**	**(13 187)**	**(10 122)**	**261 721**	**142 376**	**6 114**	**3 326**	**267 835**	**145 702**

for the year ended 31 December 2010

	Attributable to the equity holders of the parent										Non-controlling interests		Total equity (Restated)	
	Share capital (Note 32)		Retained earnings/ (accumulated deficit) (Restated)		Cash flow hedge reserve		Foreign currency translation reserve		Total (Restated)					
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
As at 1 January 2010	**362 319**	**200 000**	**105 205**	**55 958**	**(3 845)**	**(1 880)**	**(8 907)**	**(31 694)**	**454 772**	**222 384**	**-**	**-**	**454 772**	**222 384**
Loss for the period*	-	-	(141 688)	(77 921)	-	-	-	-	**(141 688)**	**(77 921)**	(59)	(31)	**(141 747)**	**(77 952)**
Other comprehensive income/(expense)	-	-	-	-	(363)	(371)	(4 679)	21 623	**(5 042)**	**21 252**	-	-	**(5 042)**	**21 252**
Total comprehensive income/(expense)	**-**	**-**	**(141 688)**	**(77 921)**	**(363)**	**(371)**	**(4 679)**	**21 623**	**(146 730)**	**(56 669)**	**(59)**	**(31)**	**(146 789)**	**(56 700)**
Non-controlling interests from acquisition	-	-	-	-	-	-	-	-	**-**	**-**	5 941	3 375	**5 941**	**3 375**
At 31 December 2010	**362 319**	**200 000**	**(36 483)**	**(21 963)**	**(4 208)**	**(2 251)**	**(13 586)**	**(10 071)**	**308 042**	**165 715**	**5 882**	**3 344**	**313 924**	**169 059**

**See Note 2.*

The notes on pages 28 to 77 are integral part of these Consolidated Financial Statements.

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Riga, 19 April 2012

Consolidated statement of cash flows

for the year ended 31 December 2011

	Notes	2011 USD'000	2010 (Restated) USD'000	2011 LVL'000	2010 (Restated) LVL'000
Operating activities					
Loss before tax		**(47 522)**	**(140 877)**	**(23 721)**	**(77 487)**
Non-cash adjustment to reconcile loss before tax to net cash flows:					
Depreciation of other property, plant and equipment and fleet	22, 23	25 942	27 437	12 979	14 715
Amortisation of intangible assets	21	338	379	170	202
Depreciation of investment properties	24	28	737	14	320
Decrease in financial instruments		(19)	(20)	(11)	(10)
Loss on disposal of non-financial assets	13, 14	450	1 952	222	1 162
Currency translation difference		(1 295)	2 765	(1 288)	9 388
Finance income	16	(72)	(2 082)	(37)	(1 113)
Finance costs	17	20 526	23 917	10 331	12 767
Recognised impairment	12, 14	26 863	100 421	14 262	53 722
Changes in fair value of financial assets		(23)	5 531	(11)	2 959
Deconsolidation of net financial liabilities	2, 19	-	(6 505)	-	(1 582)
Working capital adjustments:					
Decrease/(increase) in trade and other receivables and prepayments		2 100	(1 306)	1 061	(693)
(Increase)/decrease in inventories		(1 776)	4 165	(898)	2 211
Increase/(decrease) in trade and other payables		2 566	(7 944)	1 297	(4 217)
Income tax paid		(905)	-	(457)	-
Net cash flows from operating activities		**27 201**	**8 570**	**13 913**	**12 344**
Investing activities					
Proceeds from sale of non-current assets		31 060	26 145	15 698	13 879
Purchase of non-current assets		(74 856)	(4 556)	(37 833)	(2 418)
Purchase of investment properties		-	(836)	-	(444)
Acquisition of subsidiary	5	-	(27 398)	-	(15 562)
Acquisition of other financial instruments		-	(2 524)	-	(1 340)
Net cash flow from deconsolidation of net financial liabilities		-	(688)	-	(365)
Proceeds from sale of financial instruments		3 323	189	1 680	100
Proceeds from disposal of subsidiaries		-	108	-	57
Placement of deposits with maturity more than three months	30b	-	54 804	-	29 092
Loans received		1 506	-	761	-
Loans issued		-	(1 476)	-	(784)
Interest received		174	1 833	88	973
Net cash flows (used in)/from investing activities		**(38 793)**	**45 601**	**(19 606)**	**23 188**
Financing activities					
Payment of finance lease liabilities		(1 107)	(1 051)	(559)	(558)
Proceeds from borrowings		50 684	27 600	25 616	14 651
Repayment of borrowings		(33 486)	(91 802)	(16 924)	(48 733)
Interest paid		(18 650)	(20 496)	(9 426)	(10 880)
Prepaid financing expenses		(1 357)	(2 018)	(686)	(1 071)
Net cash flows used in financing activities		**(3 916)**	**(87 767)**	**(1 979)**	**(46 591)**
Net decrease in cash and cash equivalents		**(15 508)**	**(33 596)**	**(7 672)**	**(11 059)**
Cash and cash equivalents at 1 January		**42 471**	**75 095**	**22 722**	**36 722**
Exchange gains/(losses) on cash and cash equivalents		20	972	(371)	(2 941)
Cash and cash equivalents at 31 December	31	**26 983**	**42 471**	**14 679**	**22 722**

These Consolidated Financial Statements were approved by the Management Board on April 19, 2012 and signed 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 consolidated financial statements

1. Corporate information

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

The core activities of the Company are commercial management of the fleet owned by JSC "Latvian Shipping Company" Group (LSC Group or the Group) and the management of the investments in subsidiary undertakings.

The Group is a participant of the global shipping market; therefore, it has commercial activities all over the world and it is not dependant on one particular country's economy only.

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

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

According to the decision of the Court made on 3 January 2011, "LASCO Investment" SIA insolvency proceedings is considered to be initiated as of 17 December 2010. Accordingly it is considered that the Group lost control over this company as of 17 December 2010 and the company was deconsolidated as of that date.

The consolidated financial statements of the Group for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Management Board on April 19, 2012.

The shareholders' meeting has the power to amend these financial statements.

2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

The consolidated financial statements are presented in US dollars which is the functional currency of the primary business and Latvian lats which is the presentation currency of the Group, all values are rounded to the nearest thousand (USD'000) and (LVL'000) except when otherwise indicated.

In these consolidated financial statements the Company has performed reclassification of some lines of Consolidated income statement of 2010; allowance on doubtful debt in amount of USD 79 658 thousand (LVL 42 552 thousand) and deconsolidation of net financial liabilities in the amount of USD 85 416 thousand (LVL 43 735 thousand) have been presented net as such presentation better reflects the impact of the deconsolidation of the subsidiary.

In 2011 the Group made a correction in the 2010 consolidated financial statements due to an error identified in accrued expenses and income from deconsolidation of net financial liabilities in the amount of USD 747 thousand (LVL 399 thousand). This error comprised an overstatement in these line items in the Group's financial statements for the year ended 31 December 2010.

In 2011 the Group has made certain reclassifications between different captions of the consolidated income statement. The comparatives have been restated conform to the new presentation; impacts of reclassifications of the 2010 income statement were not material. The reclassifications had no effect on the statement of financial position as of 1 January 2010.

2.1. Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

2.2. Basis of consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Notes to the consolidated financial statements *(continued)*

Basis of consolidation *(continued)*

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in income statement;
- Reclassifies the Parent's share of components previously recognised in other comprehensive income statement.

2.3. Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in income statement or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

b) Investment in associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Notes to the consolidated financial statements *(continued)*

Investments in associates *(continued)*

After application of the equity method, the Group determines whether it is necessary to recognise impairment losses on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in the income statement.

c) Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

d) Foreign currency translation

The financial statements are prepared in U.S. dollars which is the functional currency of the primary (shipping) business and Latvian Lats (LVL) which is the presentation currency of the Group in accordance with legislation of the Republic of Latvia. Functional currency of non-primary businesses is LVL, which is translated to the functional currency of the primary business as described below.

Monetary assets and liabilities of the Group entities denominated in other currencies are translated into functional currency at the rate of exchange prevailing at the end of the financial year. Share capital and reserves are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

Differences on exchange rates arising from retranslating the opening net investment in subsidiary undertakings, and from the translation of the results of those undertakings at the average rate of exchange, are taken to the Foreign currency translation reserve in other comprehensive income. On disposal of the foreign entity, such translation differences are recognised in the consolidated income statement as part of the gain or loss on disposal.

Presentation of financial statements in LVL is done using exchange rate set by the Bank of Latvia (LB) according to the following rates:

LB rate of exchange as of 31.12.2011 US $/LVL - 0.544 (average – 0.505410)

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

Notes to the consolidated financial statements *(continued)*

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Voyages revenue

Revenue from time charters and bareboat charters, which are of operating lease in nature, is recognised on a straight-line basis over the period of each charter. Revenue from voyage charter on spot market is recognised on a percentage-of-completion basis, which is determined on the time proportion method of each individual voyage. The percentage is calculated based on the number of days completed of the estimated voyage period.

Other income

Other income from the rendering of services is recognized when service is provided.

Interest income

For all financial instruments measured at amortised cost interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the Group's right to receive the dividend payment is established.

Deferred revenue

Amounts invoiced to charterers for future service periods are accounted as deferred revenue.

f) Voyage costs/ Cost of sales

Voyage costs include the costs related to the vessels that operate in the spot market, where the owner carries costs including bunkers, port expenses and commissions. For vessels operating on a time charter, these costs are carried by the charterer. Cost of sales include vessel operating costs that are costs related to the running of the vessels like crew, repairs, equipment, insurance and dry-docking costs and other costs directly related to the core service delivery process.

g) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income, respectively and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

Notes to the consolidated financial statements *(continued)*

Taxes *(continued)*

Deferred tax *(continued)*

- In respect of deductible temporary differences associated with investments in subsidiaries and associates the deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside income statement is recognised outside income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

h) Financial assets

Initial recognition and measurement

Financial assets of the Group have been classified as financial assets at fair value through profit or loss, financial assets available for sale, and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Regular purchases and sales of financial assets are recognised on the trade-date.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income for cash and cash equivalents and in other operating income for other loans and receivables. The losses arising from impairment are recognised in the income statement in other operating expense and for operating receivables related to shipping activity in voyage costs.

Notes to the consolidated financial statements *(continued)*

Financial assets *(continued)*

Financial assets available for sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for- sale financial assets are subsequently carried at fair value. All gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in other comprehensive income except for dividends on available-for-sale equity instruments, which are recognised in the income statement when the Group's right to receive payments is established, and impairment losses, which are recognised in the income statement. Unquoted equity instruments which fair value cannot be measured reliably are carried at cost, less any impairment losses.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

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

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

Financial assets available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. For unquoted equity instruments that are carried at cost because their fair value cannot be reliably measured, if there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 30.

Notes to the consolidated financial statements *(continued)*

i) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at amortised cost and derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate (EIR) method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

The Group uses cash flow hedges when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognised liability.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Notes to the consolidated financial statements *(continued)*

Financial liabilities *(continued)*

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects income statement, such as when the hedged financial income or financial expense is recognised. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects income statement.

Current versus non-current classification

Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

j) Fleet

The Group's fleet is recorded at historical cost less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the asset when that cost is incurred, if the recognition criteria are met.

Depreciation has been provided on the basis that the carrying value of the vessels, less an estimated scrap value of US $ 450 per lightweight ton (2010: US $ 300), is written off on a straight line basis over the remainder of their anticipated useful lives - 25 years from the date of construction.

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

The vessels are required to undergo planned dry-dockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an ''Intermediate Survey'') and the fifth annual inspection being the most comprehensive survey (a ''Special Survey''). The inspection cycle resumes after each Special Survey.

Vessels are typically required to undergo Special Surveys, which include inspection of underwater parts ("Bottom Survey"), every 60 months. Dry-docking surveys are required to be held twice within the five-year survey cycle, with a maximum of 36 months between inspections, for bottom surveys and for repairs related to inspections. An in-water survey may be permitted in lieu of a dry-docking for the Intermediate Survey, although the vessel must carry out a dry-docking in conjunction with a Special Survey.

Dry-docking and Special Survey costs are capitalised and written off to direct operating expenses on a straight line basis over the estimated period to the next dry-docking.

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

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

k) Other property, plant and equipment

Other property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings 1.25 to 20 % per annum
- Other assets 14.29 to 50% per annum

Notes to the consolidated financial statements *(continued)*

Other property, plant and equipment *(continued)*

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

The policies applied to the Group's intangible assets are as follows:

Licences

Licences for the use of software programmes are granted for periods ranging between 1 and 3 years. Therefore the licences are assessed as having finite useful life and are amortised on a straight line basis over the licence period.

m) Leases

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease contract that allows the use of an asset, but does not convey rights similar to ownership of the asset. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets.

Notes to the consolidated financial statements *(continued)*

o) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight line basis over the useful life of the asset using 2% per annum.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, cost value is used, net of accumulated depreciation and accumulated impairment losses, if any. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

p) Inventories

Inventories are stated at the lower of cost and net realisable value and comprise bunkers, luboils, victualling and slopchest stocks and other inventories. Cost is determined using the first-in, first-out (FIFO) method. Other stores and spares relating to vessel operations are charged to running costs when purchased and no balances are taken to inventory remaining on board at the end of the period.

q) Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses are recognised in the income statement as impairment of non-financial assets.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

r) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks, on hand, on hand on board the vessels and short-term deposits with original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above.

s) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Notes to the consolidated financial statement *(continued)*

2.4. Changes in accounting policy and disclosures

Certain new IFRSs became effective for the Group from 1 January 2011. The new or amended standards or interpretations which became effective from 1 January 2011 are not expected to have a material impact to the Group.

3. Standards issued but not yet effective

Certain new standards and interpretations have been published that will become effective for the accounting periods beginning on or after 1 January 2012.

- **Presentation of Items of Other Comprehensive Income – Amendment to IAS 1** (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU). The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.
- **IFRS 9, Financial Instruments Part 1: Classification and Measurement** (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU)
  IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities, and in December 2011 to change its effective date and add transition disclosures. Key features of the standard are as follows:
  • Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  • An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  • All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  • Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
  The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.;
- **IFRS 10, Consolidated financial statements** (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on its financial statements.
- **IFRS 12, `Disclosures of interests in other entities`** (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.
- **IFRS 13, `Fair value measurement`** (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU) aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the consolidated financial statement *(continued)*

4. Significant accounting judgments, estimates and assumptions

Judgments

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

According to the decision of the Court made on 3 January 2011, "LASCO Investment" SIA insolvency proceedings is considered to be initiated as of 17 December 2010. Accordingly it is considered that the Group has lost the control over this company as of 17 December 2010. The Company was deconsolidated from the Company as of that date.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Anticipated useful economic life of the fleet

Depreciation of vessels is charged so as to allocate the depreciable amount of these assets over their respective estimated useful lives. Management is required to assess the useful economic lives and residual value of the assets so that depreciation is charged on a systematic basis up to the estimated residual value. Estimates of useful economic life of vessels are based on managements' experience by comparison to similar vessels in the industry. However, the actual life of a vessel may be different. Residual values are difficult to estimate given the long lives of vessels, the uncertainty as to future economic conditions and the future price of steel. Residual values are calculated by reference to the scrap value as of the reporting date, obtained from independent professional brokers. Changes to estimates of useful lives and residual values may affect the annual depreciation charge and thereby the results for the period significantly.

Management have made sensitivity analysis of residual value by increasing/decreasing expected life of fleet by 5 years. The effect of this change in estimate would decrease depreciation expenses by $3.8 million or increase depreciation expenses by $6.2 million.

Recoverable value of fleet

The recoverable amount is the most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in *Note 22*.

Recoverable value of investment property

To determine the recoverable value of investment properties the Group engages independent certified valuation specialists. The valuer uses valuation techniques based on a discounted cash flow model and comparable market data. The estimated recoverable value of the investment properties is the most sensitive to the estimated rent rates, discount rates as well as other assumptions applied. The key assumptions used in determining the recoverable value of the investment properties as of 31 December 2011 and 2010 is provided in *Note 24*.

Notes to the consolidated financial statement *(continued)*

5. Acquisition of assets

On 21 May 2010 the Group acquired 100% of “NAFTA Invest” SIA shares for US $ 27.6 million cash consideration with the purpose to earn capital gains on its main asset - JSC “Latvijas Naftas Tranzits” shares. The contribution was paid in cash. In accordance with independent appraiser’s valuation report the value of the company’s equity as at the day of acquisition was US $ 27.6 million, which is equal to consideration paid on acquisition. As the subsidiary acquired did not constitute a business, the transaction was treated as purchase of assets and the consideration was allocated between the individual identifiable assets and liabilities based on their relative fair values at the acquisition date. Shares of JSC “Latvijas Naftas Tranzits” are classified as available-for-sale financial asset in accordance to IAS 39. Non-controlling interest is measured at its proportionate share in the recognised amounts of net identifiable assets of “Skonto Nafta” SIA, which is 71.43% subsidiary of the acquired “NAFTA Invest” SIA.

The consideration paid was allocated to the purchased assets and liabilities based on their relative fair values as follows:

	Fair value recognised on acquisition 2010	
	USD'000	**LVL'000**
Other assets acquired on acquisition	368	210
Shares in JSC "Latvijas Naftas Tranzits" acquired on acquisition*	33 681	19 131
	34 049	**19 341**
Trade and other payables	(508)	(289)
	(508)	**(289)**
Net assets	**33 541**	**19 052**
Non-controlling interest	(5 941)	(3 375)
Net asssets acquired	**27 600**	**15 677**
Cash outflow on acquisition		
Net cash acquired with the subsidiary	202	115
Cash paid in 2010	(27 600)	(15 677)
Net cash outflow	**(27 398)**	**(15 562)**

* “Skonto Nafta” SIA owns 15.91% shareholding in JSC “Latvijas Naftas Tranzits”. The shares of JSC “Latvijas Naftas Tranzits” are not publicly traded.

Notes to the consolidated financial statement *(continued)*

6. Corporate Structure

The subsidiary undertakings, all of which are effectively controlled by the Company, are stated below. All are wholly-owned at the balance sheet date if not stated otherwise.

Name	Country of Incorporation	Activity /Vessels
Latmar Holdings Corporation	Liberia	Holding company
Abava Shipping Co. Ltd.	Malta	Dormant
Amata Shipping Co. Ltd.	Malta	Dormant
Antonio Gramsi Shipping Corporation	Liberia	Dormant
Apollo Holdings Corporation	Cayman Islands	Dormant
Arctic Seal Shipping Company Ltd.	Cyprus	Dormant
Atlantic Leader Shipping Company Ltd.	Cyprus	Dormant
Cape Wind Trading Company	Liberia	m.t. Indra sold in September 2011
Clipstone Navigation S. A.	Liberia	Dormant
Dawnlight Shipping Co. Ltd.	Cyprus	Dormant
Juris Avots Shipping Co.	Cyprus	Dormant
Faroship Navigation Company Ltd.	Cyprus	Dormant
Gaida Shipping Corporation	Liberia	Dormant
Gevostar Shipping Company Ltd.	Cyprus	Dormant
Kemeri Navigation Corporation	Liberia	Dormant
Klements Gotvalds Shipping Corporation	Liberia	Dormant
Kriti Sea Shipping Co. Ltd.	Cyprus	Liquidated in April 2011
Latalpha Holding Corporation	Liberia	Intermediate Holding company
Latgale Shipping Co. Ltd.	Malta	Dormant
Latmar Shipping Co. Ltd.	Cyprus	Dormant
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Lattanker Holdings Corporation	Liberia	Intermediate holding company
Limetree Shipping Co. Ltd.	Malta	m.t. Riga
"LSC Shipmanagement" SIA[1]	Latvia	Ship management services
New Spring Shipping Co. Ltd.	Cyprus	Dormant
Noella Maritime Co. Ltd.	Cyprus	Dormant
Pinewood Shipping Corporation	Liberia	Dormant
Radar Shipping Ltd.	Liberia	Dormant
Razna Shipping Corporation	Liberia	Dormant
Reeferlat Holdings Corporation	Liberia	Intermediate holding company
Renda Maritime Co. Ltd.	Cyprus	Liquidated in April 2011
Rhodos Shipping Co. Ltd.	Cyprus	Dormant
Rundale Shipping Co.	Cyprus	Dormant
Sagewood Trading Inc.	Liberia	Investment company
Subsidiary of Sagewood Trading Inc.		
"NAFTA Invest" SIA[2]	Latvia	Investment company
Subsidiary of "NAFTA Invest" SIA		
"Skonto Nafta" SIA (71.43%)	Latvia	Investment company
Samburga Shipping Co.	Cyprus	Dormant
Saturn Trading Corporation	Liberia	Dormant
S. Tomskis Shipping Co. Ltd.	Malta	Dormant
Taganroga Shipping Corporation	Liberia	Dormant
Tangent Shipping Company Ltd.	Cyprus	Dormant
Viktorio Shipping Corporation	Liberia	Dormant
Wilcox Holdings Ltd.	Liberia	Dormant
World Reefer Corporation	Liberia	Dormant
Zemgale Shipping Co. Ltd.	Malta	Dormant
Zoja Shipping Company Ltd.	Cyprus	Dormant

Notes to the consolidated financial statement *(continued)*

6. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
Lattanker Holdings Corporation	Liberia	Intermediate holding company
Davids Sikeiross Shipping Corporation	Liberia	Dormant
Dzons Rids Shipping Corporation	Liberia	m.t. Blue Star until July 2011
Hose Marti Shipping Corporation	Liberia	m.t. Green Star until August 2011
Imanta Shipping Company Ltd.	Malta	Dormant
Majori Shipping Company Ltd.	Malta	Dormant
Pablo Neruda Shipping Company Ltd.	Cyprus	Dormant
Talava Shipping Company Ltd.	Malta	Dormant
Reeferlat Holdings Corporation	Liberia	Intermediate holding company
Akademikis Artobolevskis Shipping Co. Ltd.	Malta	Liquidated in January 2011
Akademikis Bocvars Shippng Co. Ltd.	Malta	Dormant
Akademikis Celomejs Shipping Co. Ltd.	Malta	Dormant
Belgoroda Shipping Co. Ltd.	Cyprus	In liquidation
Belgoroda Shipping Co. Ltd.	Malta	Dormant
Juris Avots Shipping Co. Ltd.	Malta	Dormant
Kamilo Sjenfuegoss Shipping Co. Ltd.	Malta	Dormant
Kurska Shipping Co. Ltd.	Malta	Dormant
Pure Shipping Co. Ltd.	Malta	Dormant
Ventlines Shipping Limited	Malta	Liquidated in January 2011
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Latalpha Holdings Corporation	Liberia	Intermediate holding company
Ak. Vavilovs Shipping Co. Ltd.	Malta	Dormant
Ak. Zavarickis Shipping Co. Ltd.	Malta	Dormant
Dzintari Shipping Corporation	Liberia	Dormant
Griva Maritime Corporation	Liberia	Dormant
Kasira Shipping Company Ltd.	Cyprus	Dormant
Mahoe Shipping Company Ltd.	Cyprus	In liquidation
O. Vacietis Shipping Company Ltd.	Cyprus	Dormant
Perle Reefer Shipping Company Ltd.	Malta	Dormant
Rosewood Shipping Corporation	Liberia	Dormant
Ventspils Shipping Company Ltd.	Cyprus	Dormant

Notes to the consolidated financial statement *(continued)*

6. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
LSC Holdings Ltd	Isle of Man	Holding company
Kabile Navigation Inc.	Marshall Islands	m.t. Krisjanis Valdemars
Kaltene Navigation Inc.	Marshall Islands	m.t. Kaltene
Kandava Navigation Inc.	Marshall Islands	m.t. Kandava
Kazdanga Navigation Inc.	Marshall Islands	m.t. Kazdanga
Kolka Navigation Inc.	Marshall Islands	m.t. Kolka
Kuldiga Navigation Inc.	Marshall Islands	m.t. Kuldiga
Kursa Navigation Inc.	Marshall Islands	m.t. Kraslava
Sabile Navigation Inc.	Marshall Islands	m.t. Ugale
Salacgriva Navigation Inc.	Marshall Islands	m.t. Jurkalne
Saldus Navigation Inc.	Marshall Islands	m.t. Ainazi
Saulkrasti Navigation Inc.	Marshall Islands	m.t. Puze
Sigulda Navigation Inc.	Marshall Islands	m.t. Uzava
Skrunda Navigation Inc.	Marshall Islands	m.t Piltene
Sloka Navigation Inc.	Marshall Islands	m.t Ance
Smiltene Navigation Inc.	Marshall Islands	m.t Usma
Stende Navigation Inc.	Marshall Islands	m.t Targale
Straupe Navigation Inc.	Marshall Islands	m.t. Salacgriva
Arctic Holding Corporation[3]	Marshall Islands	Holding company
Brasla Shipping Corporation	Marshall Islands	m.t Latgale
Ritupe Shipping Corporation	Marshall Islands	Dormant
Misa Shipping Corporation	Marshall Islands	Dormant
Imula Shipping Corporation	Marshall Islands	m.t Zemgale

Notes to the consolidated financial statement *(continued)*

6. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
Latvian Shipping Corporation	Liberia	Holding company
Michelle Finance Corporation	Liberia	Investment company (dormant)
"LSC Marine Training" SIA	Latvia	Seafarers Training Services
Santomar Holdings Co. Ltd.	Cyprus	Investment Holding Company (dormant)
"LASCO investment" SIA[4]	Latvia	Holding company
Subsidiaries of "LASCO Investment" SIA		
"LASCO Nekustamie īpašumi" SIA[5]	Latvia	Holding company
Subsidiaries of "LASCO Nekustamie īpašumi" SIA		
"Darījumu centrs Daugava" SIA[6]	Latvia	Real estate
"Lejastiezumi" SIA	Latvia	Real estate
"Pārventas sporta centrs" SIA	Latvia	Real estate
"Ventspils biznesa centrs" SIA[7]	Latvia	Real estate
JSC "Preses nams" (95.39%)[8]	Latvia	Printing services
Subsidiary of JSC "Preses nams"		
Preses nams OOO	Russia	Printing services
"Rīgas līcis" SIA[9]	Latvia	Real estate management

Notes:

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

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

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

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

5) On 1 October 2010 the out-of-court restructuring legal protection process of "LASCO nekustamie īpašumi" SIA was announced by the Court.

6) On 29 April 2010 the out-of-court restructuring legal protection process of "Darījumu centrs Daugava" SIA was announced by the Court.

7) On 21 May 2010 the out-of-court restructuring legal protection process of "Ventspils biznesa centrs" SIA was announced by the Court.

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

9) On 21 May 2010 the out-of-court restructuring legal protection process of "Rīgas līcis" SIA was announced by the Court.

Notes to the consolidated financial statement *(continued)*

7. Segment information

Operating segments are determined on the basis of reports reviewed by the Management Board who is chief operating decision maker that are used to make operating decisions. Reports submitted to the Management Board are prepared on the basis of International Financial Reporting Standards as adopted by EU.

For management purposes the Group is organised into business units based on their business activities and has one reportable operating segment - *Shipping.* Shipping segment primarily derives its revenues from the handy sized and medium range tankers transportation services mainly on the basis of time charter agreements. Segment's expenses include voyage costs, vessel operating expenses (including crew expenses and training) and administrative expenses relating to the management of shipping segment.

In 2010 *Other* segment included operations with investment property and aggregated also real estate segment represented by "LASCO Investment" SIA and its subsidiaries. Other segment included also the impairment of investment property and financial assets held by companies included in Shipping companies. After deconsolidation of "LASCO Investment" SIA and its subsidiaries Other segment becomes insignificant therefore not closely monitored by the Management Board anymore, and the respective assets, and income and expenses have been treated as unallocated items in 2011.

On 17 December, 2010 insolvency proceedings was initiated with respect to "LASCO Investment" SIA, therefore, it is considered that the Group lost control over the company on 17 December 2010, and it is deconsolidated as of 17 December 2010. For deconsolidation of other reportable segment refer to *Note 19*.

The Group carries out its shipping operations in global markets. Management does not consider business analysis based on geographical segments because of the known difficulties in identifying the geographical distribution of the Group's activities, while revenue from Other segment was mainly generated in Latvia.
The amounts provided to the Management with respect to total assets, net result before taxes are measured in a manner consistent with that of the financial statements.

Sales between segments are carried out at arm's length basis. The revenue from external parties reported to the Management of the Board is measured in a manner consistent with that in the income statement.

Revenues of approximately US$ 22 828 thousand and US$ 9 162 thousand (2010: US$ 15 762 thousand and US$ 12 196 thousand respectively) are derived from two external customers. These revenues are attributable to the shipping segment.

The following tables present the breakdown of income statement items, as well as assets by operating segments. Adjustments and eliminations represent consolidation entries on transactions.

Notes to the consolidated financial statement *(continued)*

7. Segment information *(continued)*

Year ended 31 December 2011

	Shipping		Total	
	USD '000	LVL '000	USD '000	LVL '000
Time charter hire	83 990	42 353	83 990	42 353
Spot hire	12 613	6 486	12 613	6 486
Voyage income from external customers	**96 603**	**48 839**	**96 603**	**48 839**
Voyage costs	(8 616)	(4 392)	(8 616)	(4 392)
Net voyage result	**87 987**	**44 447**	**87 987**	**44 447**
Vessel operating costs	(47 359)	(23 808)	(47 359)	(23 808)
Other revenue	973	488	973	488
Cost of sales (Vessel operating costs excluding)	(3 012)	(1 512)	(3 012)	(1 512)
Selling costs	(7)	(3)	(7)	(3)
Administrative expenses	(11 605)	(5 908)	(11 605)	(5 908)
Result from disposal of non-financial assets	(450)	(222)	(450)	(222)
Depreciation and amortisation	(26 307)	(13 162)	(26 307)	(13 162)
Impairment of non-financial assets	(25 664)	(13 610)	(25 664)	(13 610)
Other opearating income	116	61	116	61
Other operating expenses	(54)	(29)	(54)	(29)
Result before financial items	**(25 382)**	**(13 258)**	**(25 382)**	**(13 258)**
Interest income	72	37	72	37
Interest expense	(20 526)	(10 331)	(20 526)	(10 331)
Finance income, net	319	912	319	912
Net result before taxes	**(45 517)**	**(22 640)**	**(45 517)**	**(22 640)**
Segment assets	**616 266**	**335 249**	**616 266**	**335 249**
Including additions to non-current assets	75 830	38 324	75 830	38 324

Notes to the consolidated financial statement *(continued)*

7. Segment information *(continued)*

Year ended 31 December 2010

	Shipping (Restated)		Other (Restated)		Adjustments and eliminations		Total (Restated)	
	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000	USD '000	LVL '000
Time charter hire	82 852	43 900	-	-	-	-	82 852	43 900
Spot hire	25 951	13 701	-	-	-	-	25 951	13 701
Voyage income from external customers	**108 803**	**57 601**	**-**	**-**	**-**	**-**	**108 803**	**57 601**
Voyage costs	(20 496)	(11 034)	-	-	-	-	(20 496)	(11 034)
Net voyage result	**88 307**	**46 567**	**-**	**-**	**-**	**-**	**88 307**	**46 567**
Vessel operating costs	(51 394)	(27 336)	-	-	-	-	(51 394)	(27 336)
Other revenue	1 091	564	1 266	675	-	-	2 357	1 239
Inter-segment revenue	136	73	336	180	(472)	(253)	-	-
Cost of sales (Vessel operating costs excluding)	(3 230)	(1 702)	(1 183)	(626)	187	101	(4 226)	(2 227)
Selling costs	(6)	(2)	(8)	(4)	-	-	(14)	(6)
Administrative expenses	(18 304)	(9 719)	(1 298)	(692)	285	152	(19 317)	(10 259)
Result from disposal of non-financial assets	(1 615)	(993)	(337)	(169)	-	-	(1 952)	(1 162)
Depreciation and amortisation	(27 612)	(14 736)	(941)	(501)	-	-	(28 553)	(15 237)
Impairment of non-financial assets	(50 478)	(27 005)	(46 134)	(24 682)	-	-	(96 612)	(51 687)
Other opearating income	657	209	562	281	-	-	1 219	490
Other operating expenses	-	-	(4 340)	(2 319)	-	-	(4 340)	(2 319)
Deconsolidation of net financial liabilities*	-	-	6 505	1 582	-	-	6 505	1 582
Result before financial items	**(62 448)**	**(34 080)**	**(45 572)**	**(26 275)**	**-**	**-**	**(108 020)**	**(60 355)**
Interest income	2 883	1 539	-	-	(801)	(426)	2 082	1 113
Interest expenses	(21 329)	(11 387)	(3 389)	(1 806)	801	426	(23 917)	(12 767)
Net financial expense	(2 936)	(1 045)	(2 839)	(1 627)	-	-	(5 775)	(2 672)
Net result before taxes	**(83 830)**	**(44 973)**	**(51 800)**	**(29 708)**	**-**	**-**	**(135 630)**	**(74 681)**
Segment assets	**641 825**	**343 376**	**6 606**	**3 534**	**-**	**-**	**648 431**	**346 910**
Including additions to non-current assets	5 023	2 632	579	308	-	-	5 602	2 940

**See Note 2.*

Notes to the consolidated financial statement *(continued)*

7. Segment information *(continued)*

Reconciliation of segment results to audited financial statements

	USD '000		LVL '000	
	2011	**2010**	**2011**	**2010**
Net result before taxes for reportable segments	(45 517)	(135 630)	(22 640)	(74 681)
Administrative expenses	(245)	(297)	(122)	(159)
Impairment of investment properties	(1 199)	-	(652)	-
Other operating expenses	(537)	(4 847)	(293)	(2 592)
Finance expenses	(24)	(103)	(14)	(55)
Loss before tax	**(47 522)**	**(140 877)**	**(23 721)**	**(77 487)**

	USD '000		LVL '000	
	2011	**2010**	**2011**	**2010**
Segment assets for reportable segments	616 266	648 431	335 249	346 910
Unallocated:				
Investment properties	1 861	-	1 013	-
Other assets of subsidiaries not included in segment	4 196	172	2 282	92
Financial assets at fair value through profit or loss	-	3 185	-	1 704
Available-for-sale financial asset	29 595	28 681	16 100	16 456
Total assets	**651 918**	**680 469**	**354 644**	**365 162**

8. Voyage costs

	USD '000		LVL '000	
	2011	**2010**	**2011**	**2010**
Fuel (Bunkering)	(5 193)	(13 365)	(2 646)	(7 047)
Commissions	(2 026)	(3 011)	(1 031)	(1 621)
Port expenses	(1 397)	(4 120)	(715)	(2 366)
Total	**(8 616)**	**(20 496)**	**(4 392)**	**(11 034)**

9. Cost of sales

	USD '000		LVL '000	
	2011	**2010**	**2011**	**2010**
Crew expenses (Expenses related to wages included in *Note 15*)	(21 862)	(24 384)	(10 987)	(12 991)
Fleet depreciation (See *Note 22*)	(22 916)	(24 248)	(11 461)	(12 940)
Repairs and spares	(7 222)	(4 656)	(3 589)	(2 514)
Chartering expenses	(5 489)	(10 172)	(2 794)	(5 344)
Equipment maintenance expenses	(5 042)	(2 664)	(2 533)	(1 417)
Insurance	(3 124)	(4 391)	(1 586)	(2 348)
Dry-docking depreciation (See *Note 22*)	(2 600)	(2 451)	(1 304)	(1 309)
Staff costs (Expenses related to wages includedin *Note 15*)	(2 545)	(2 982)	(1 281)	(1 590)
Luboil	(2 334)	(2 668)	(1 170)	(1 419)
Victualling	(1 219)	(1 409)	(612)	(751)
Occupation and repairs	(267)	(924)	(131)	(471)
Materials and services	(120)	(179)	(60)	(93)
Depreciation and amortisation of other assets	(105)	(1 006)	(53)	(536)
Communication	(8)	(54)	(4)	(28)
Travel and transport	(1)	(32)	-	(17)
Other	(1 138)	(1 104)	(571)	(580)
Total	**(75 992)**	**(83 324)**	**(38 136)**	**(44 348)**

Notes to the consolidated financial statement *(continued)*

10. Selling costs

	USD '000		LVL '000	
	2011	2010	2011	2010
Occupation expenses	-	(5)	-	(2)
Delivery expenses	-	(1)	-	-
Advertising and marketing	-	(1)	-	(1)
Other	(7)	(7)	(3)	(3)
Total	**(7)**	**(14)**	**(3)**	**(6)**

11. Administrative expenses

	USD '000		LVL '000	
	2011	2010 *(Restated)*	2011	*2010* *(Restated)*
Professional fees	(6 715)	(7 526)	(3 445)	(4 000)
Staff costs *(see Note 15)*	(2 595)	(7 508)	(1 306)	(3 998)
Occupation and repairs	(772)	(1 357)	(388)	(714)
Depreciation and amortisation of other assets	(687)	(848)	(345)	(452)
IT and communication	(432)	(567)	(217)	(301)
Travel and transport	(135)	(459)	(68)	(244)
Mortgage insurance fees	(107)	(128)	(54)	(69)
Real estate tax	(56)	(304)	(28)	(162)
Advertising and marketing	(25)	(121)	(12)	(65)
Other	(1 012)	(1 645)	(513)	(865)
Total	**(12 536)**	**(20 463)**	**(6 376)**	**(10 870)**

12. Impairment of non-financial assets

	USD '000		LVL '000	
	2011	2010	2011	2010
Impairment of fleet *(See Note 22)*	(13 100)	(45 562)	(7 126)	(24 375)
Impairment of assets clasified as held for sale *(See 26)*	(12 564)	(4 916)	(6 484)	(2 630)
Impairment of investment property *(See Note 24)*	(1 199)	(45 171)	(652)	(24 166)
Impairment of property, plant and equipment *(See Note 23)*	-	(963)	-	(516)
Total	**(26 863)**	**(96 612)**	**(14 262)**	**(51 687)**

13. Other operating income

	USD '000		LVL '000	
	2011	2010	2011	2010
Increase in fair value of financial assets through profit or loss, net *(See Note 30a)*	23	-	11	-
Result from disposal of other non-financial assets	272	-	141	-
Result from sale of subsidiaries (see *Note 6*)	-	601	-	277
Result from liquidation of subsidiaries (see *Note 6*)	-	54	-	(100)
Result from sale of JSC "Ventspils nafta" shares	30	20	16	10
Other income	63	544	33	303
Total	**388**	**1 219**	**201**	**490**

Notes to the consolidated financial statement *(continued)*

14. Other operating expenses

	USD '000		LVL '000	
	2011	2010 *(Restated)*	2011	2010 *(Restated)*
Result from disposal of fleet	(722)	(1 615)	(363)	(993)
Impairment of loans and receivables	(580)	(3 809)	(315)	(2 035)
Decrease in value of financial assets, net	-	(4 847)	-	(2 592)
Result from disposal of other non-financial assets	-	(337)	-	(169)
Other operating expenses	(11)	(531)	(6)	(284)
Total	**(1 313)**	**(11 139)**	**(684)**	**(6 073)**

15. Employment costs and staff numbers

	USD '000		LVL '000	
	2011	2010	2011	2010
Wages and salaries, included in				
- cost of sales	20 533	22 777	10 314	12 146
- administrative expenses	2 000	5 988	1 006	3 189
Social security costs, included in				
- cost of sales	488	562	246	300
- administrative expenses	476	1 412	240	752
Other staff costs				
- cost of sales	9	25	5	13
- administrative expenses	119	108	60	57
Total	**23 625**	**30 872**	**11 871**	**16 457**

The number of the Group's employees as of 31 December 2011 was 449 (2010: 475).

16. Finance income

	USD '000		LVL '000	
	2011	*2010 (Restated)*	2011	*2010 (Restated)*
Interest income from bank account balances	51	1 996	26	1 068
Interest income from loans issued	21	86	11	45
Currency exchange transactions/difference, net	502	-	1 001	-
Total financial income	**574**	**2 082**	**1 038**	**1 113**
Of which: from financial instruments relating to financial instrument categories (according to IAS 39):				
Loans and receivables	72	2 082	37	1 113
Total	**72**	**2 082**	**37**	**1 113**

Notes to the consolidated financial statement *(continued)*

17. Finance costs

	USD '000		LVL '000	
	2011	2010 *(Restated)*	2011	2010 *(Restated)*
Interest expense	(20 526)	(23 917)	(10 331)	(12 767)
Bank charges	(207)	(582)	(103)	(305)
Currency exchange transactions/difference, net	-	(5 296)	-	(2 422)
Total financial costs	**(20 733)**	**(29 795)**	**(10 434)**	**(15 494)**
Of which: from financial instruments relating to financial instrument categories:				
Financial liabilities measured at amortised cost	(20 526)	(23 917)	(10 331)	(12 767)
Total	**(20 526)**	**(23 917)**	**(10 331)**	**(12 767)**

18. Income tax

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

	USD '000		LVL '000	
	2011	2010	2011	2010
Current income tax:				
Current income tax charge	(819)	(859)	(410)	(459)
Deferred tax:				
Relating to origination and reversal of temporary differences	68	(11)	37	(6)
Income tax expense reported in the income statement	**(751)**	**(870)**	**(373)**	**(465)**

Reconciliation between tax expense and accounting loss multiplied by the statutory income tax rate for the years ended 31 December 2011 and 2010 is as follows:

	USD '000		LVL '000	
	2011	2010	2011	2010
Accounting loss before income tax	**(47 522)**	**(140 877)**	**(23 721)**	**(77 487)**
At statutory income tax rate of 15%	(7 128)	(21 132)	(3 558)	(11 623)
Non-deductible loss from foreign subsidiaries	7 357	29 176	3 726	15 462
Non-taxable income/ non-deductible expense	513	985	201	513
Non-taxable income/ non-deductible expense related to deconsolidation*	-	(5 025)	-	(2 379)
Increase/(decrease) in unrecognised deferred tax asset	9	(3 134)	4	(1 508)
Income tax expense	**751**	**870**	**373**	**465**

**See Note 2.*

Corporate income tax is payable in Latvia at a rate of 15%.

Notes to the consolidated financial statement *(continued)*

19. Deconsolidation of net financial liabilities

According to the decision of the Court made on 3 January 2011, "LASCO Investment" SIA, insolvency proceedings were considered to be initiated on 17 December 2010. Accordingly it was considered the Group has lost control over this company as of 17 December 2010 and, as a result, the company was deconsolidated from the Group as of that date. For more details on "LASCO Investment" SIA Group structure see *Note 6*. The financial results of "LASCO Investment" SIA Group are disclosed in *Note 7* under reportable segment "Other".

19 (a) Derecognition of assets and liabilities

On deconsolidation of "LASCO Investment" SIA Group companies assets and liabilities were derecognised as presented below, resulting in recognition of gain from deconsolidation of net financial liabilities.

	2010 *(Restated)*	
	USD '000	**LVL '000**
Other fixed assets	2 769	1 460
Investment property	65 477	34 600
Current assets	1 703	904
Total deconsolidated assets	**69 949**	**36 964**
Deferred corporate income tax	(13 491)	(7 164)
Borrowings (intragroup)	(84 590)	(44 917)
Trade and other payables	(57 284)	(28 618)
Total deconsolidated liabilities	**(155 365)**	**(80 699)**
Loans and trade receivables recognised on deconsolidation	84 372	45 139
Foreign exchange rate fluctuations	218	(222)
Allowance on doubtful debt recognised on deconsolidation	(79 658)	(42 552)
Gain on deconsolidation of the subsidiary	5 758	1 183
Restatement (*See Note 2*)	747	399
Adjusted gain on deconsolidation of the subsidiary	**6 505**	**1 582**

19 (b) Results consolidated line by line until loss of control

The results of the operations of "LASCO Investment" SIA Group until the loss of control are consolidated on a line by line basis within the Group's income statement as presented below:

	2010	
	USD'000	**LVL'000**
Net sales	1 602	855
Cost of sales	(2 123)	(1 126)
Gross loss	**(521)**	**(271)**
Selling costs	(8)	(4)
Administrative expenses	(1 299)	(693)
Result from disposal of non-financial assets	(337)	(169)
Impairment of non-financial assets	(44 747)	(23 940)
Other operating income	562	281
Other operating expenses	(86)	(43)
Operating loss	**(46 436)**	**(24 839)**
Finance costs	(6 228)	(3 433)
Loss before tax	**(52 664)**	**(28 272)**
Deferred income tax	-	-
Net loss for the reporting period until loss of control	**(52 664)**	**(28 272)**

In 2010, impairment of non-financial assets relates to the property of "LASCO Investment" SIA, recoverable amount of which was defined based on valuations performed by independent certified appraisers at the end of the year. Financial information presented above includes also results of "Mediju nams" SIA and "LASCO Housing services" SIA that were disposed out of "LASCO Investment" SIA Group. Results of those companies operations until date of disposal are consolidated line by line within the Group's income statement as presented in financial information presented above.

Notes to the consolidated financial statement *(continued)*

19. Deconsolidation of net financial liabilities *(continued)*

19 (c) Results of disposed companies

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

	2010	
	USD'000	**LVL'000**
Net sales	391	209
Cost of sales	(497)	(265)
Gross loss	**(106)**	**(56)**
Selling costs	(8)	(4)
Administrative expenses	(98)	(52)
Operating loss	**(212)**	**(112)**
Finance costs	(1)	-
Loss before tax	**(213)**	**(112)**
Income tax	-	-
Net loss for the reporting period	**(213)**	**(112)**

20. Earnings per share

Basic earnings per share are calculated by dividing the net loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

USD'000	**2011**	**2010 *(Restated)***
Net loss for the year attributable to shareholders	(48 239)	(141 688)
Weighted average number of ordinary shares in issue	200 000	200 000
Basic loss per share	**(0.24)**	**(0.71)**
LVL'000		
Net loss for the year attributable to shareholders	(24 076)	(77 921)
Weighted average number of ordinary shares in issue	200 000	200 000
Basic loss per share	**(0.12)**	**(0.39)**

Notes to the consolidated financial statement *(continued)*

21. Intangible assets

	Patents and licences		Goodwill		Other intangibles		Total	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost								
At 1 January 2010	1 862	910	19 758	9 662	65	32	21 685	10 604
Additions	223	118	-	-	-	-	223	118
Disposals	(256)	(136)	(101)	(54)	(60)	(32)	(417)	(222)
Deconsolidation	-	-	(18 094)	(9 608)	-	-	(18 094)	(9 608)
Exchange differences	(160)	-	(1 563)	-	(5)	-	(1 728)	-
At 31 December 2010	**1 669**	**892**	**-**	**-**	**-**	**-**	**1 669**	**892**
Additions	21	10	-	-	-	-	21	10
Disposals	(142)	(70)	-	-	-	-	(142)	(70)
Exchange differences	(19)	-	-	-	-	-	(19)	-
At 31 December 2011	**1 529**	**832**	**-**	**-**	**-**	**-**	**1 529**	**832**
Amortisation								
At 1 January 2010	1 064	520	19 758	9 662	-	-	20 822	10 182
Amortisation	379	202	-	-	-	-	379	202
Deconsolidation	-	-	(18 094)	(9 608)	-	-	(18 094)	(9 608)
Disposals	(223)	(119)	(101)	(54)	-	-	(324)	(173)
Exchange differences	(91)	-	(1 563)	-	-	-	(1 654)	-
At 31 December 2010	**1 129**	**603**	**-**	**-**	**-**	**-**	**1 129**	**603**
Amortisation	338	170	-	-	-	-	338	170
Disposals	(140)	(70)	-	-	-	-	(140)	(70)
Exchange differences	(35)	-	-	-	-	-	(35)	-
At 31 December 2011	**1 292**	**703**	**-**	**-**	**-**	**-**	**1 292**	**703**
Net book value:								
At 31 December 2010	**540**	**289**	**-**	**-**	**-**	**-**	**540**	**289**
At 31 December 2011	**237**	**129**	**-**	**-**	**-**	**-**	**237**	**129**

Notes to the consolidated financial statement *(continued)*

22. Fleet

	Vessels		Capitalised dry-docking expenses		Total fleet in use		Newbuildings under construction and dry-dock in progress		Total fleet	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost										
At 1 January 2010	671 114	328 175	5 196	2 541	676 310	330 716	79 167	38 714	755 477	369 430
Additions	-	-	3 928	2 085	3 928	2 085	208	77	4 136	2 162
Disposals	(10 500)	(5 574)	(2 466)	(1 309)	(12 966)	(6 883)	(4)	(2)	(12 970)	(6 885)
Reclassification	(26 711)	(14 179)	(324)	(172)	(27 035)	(14 351)	-	-	(27 035)	(14 351)
Exchange differences	-	30 716	(105)	188	(105)	30 904	-	3 674	(105)	34 578
At 31 December 2010	**633 903**	**339 138**	**6 229**	**3 333**	**640 132**	**342 471**	**79 371**	**42 463**	**719 503**	**384 934**
Additions	-	-	3 358	1 697	3 358	1 697	72 340	36 561	75 698	38 258
Disposals	-	-	(1 918)	(969)	(1 918)	(969)	(42 179)	(21 318)	(44 097)	(22 287)
Reclassification	8 970	4 533	(487)	(246)	8 483	4 287	(109 333)	(55 258)	(100 850)	(50 971)
Exchange differences	-	6 052	65	128	65	6 180	-	(2 340)	65	3 840
At 31 December 2011	**642 873**	**349 723**	**7 247**	**3 943**	**650 120**	**353 666**	**199**	**108**	**650 319**	**353 774**
Depreciation and impairment										
At 1 January 2010	101 715	49 739	2 699	1 321	104 414	51 060	-	-	104 414	51 060
Depreciation	24 248	12 940	2 451	1 309	26 699	14 249	-	-	26 699	14 249
Disposals	(8 817)	(4 680)	(2 466)	(1 309)	(11 283)	(5 989)	-	-	(11 283)	(5 989)
Reclassification	(16 088)	(8 540)	(271)	(143)	(16 359)	(8 683)	-	-	(16 359)	(8 683)
Impairment	-	-	-	-	-	-	45 562	24 375	45 562	24 375
Exchange differences	-	4 607	(32)	96	(32)	4 703	-	-	(32)	4 703
At 31 December 2010	**101 058**	**54 066**	**2 381**	**1 274**	**103 439**	**55 340**	**45 562**	**24 375**	**149 001**	**79 715**
Depreciation	22 916	11 461	2 600	1 304	25 516	12 765	-	-	25 516	12 765
Disposals	-	-	(1 918)	(969)	(1 918)	(969)	(16 524)	(8 245)	(18 442)	(9 214)
Reclassification	(28 230)	(14 268)	(656)	(331)	(28 886)	(14 599)	-	-	(28 886)	(14 599)
Impairment	42 138	21 340	-	-	42 138	21 340	(29 038)	(14 214)	13 100	7 126
Exchange differences	-	2 409	57	63	57	2 472	-	(1 916)	57	556
At 31 December 2011	**137 882**	**75 008**	**2 464**	**1 341**	**140 346**	**76 349**	**-**	**-**	**140 346**	**76 349**
Net book value:										
At 31 December 2010	**532 845**	**285 072**	**3 848**	**2 059**	**536 693**	**287 131**	**33 809**	**18 088**	**570 502**	**305 219**
At 31 December 2011	**504 991**	**274 715**	**4 783**	**2 602**	**509 774**	**277 317**	**199**	**108**	**509 973**	**277 425**
Impairment										
At 31 December 2010	**-**	**-**	**-**	**-**	**-**	**-**	**45 562**	**24 375**	**45 562**	**24 375**
At 31 December 2011	**42 138**	**22 923**	**-**	**-**	**42 138**	**22 923**	**-**	**-**	**42 138**	**22 923**

As of 31 December 2011 the net book value of vessels under the finance lease was US $ 25.5 million (31.12.2010: US $ 26.9 million). The finance lease is secured by a pledge on the vessel acquired.
Reclassification in 2011 and 2010 represents transfer of the vessels from fleet to assets held for sale. *See Note 26*.
In 2010, impairment of newbuildings under construction was recognised, recoverable amount of which was defined based on discounted cash flows. Two of newbuildings under construction were sold in March 2011.
In 2011, impairment was recognised for 7 MR size vessels of the fleet. The recoverable amount was estimated based on the higher of calculated value in use and fair value less cost to sell.

Notes to the consolidated financial statement *(continued)*

22. Fleet (*continued*)

Part of the fleet with the net book value of US $ 510.0 million (2010: US $ 570.5 million) has been used as security for long term bank loans. *See Note 33 for details*.

The number of vessels in the fleet, including those classified as assets held for sale *(see Note 26)*, at the year-end is:

	2011	2010
Tankers	20	19
Total	**20**	**19**

In 2011 the Group sold one (2010: 7) product tankers with a total deadweight of 33.12 thousand tons (m.t. Indra built 1994) resulting in a loss of US $ 0.9 million.

The Group operated also 2 tankers chartered in from other ship owners in 2010 and until September 2011. In June and July 2011 the Group received two newbuldings, which were ordered in 2007. As a result total number of vessels operated by the Group as of 31 December 2011 is 20 (2010: 21).

At 31 December 2011 the Group's own fleet comprises:

	Year of Building	DWT
Product Tankers:		
1 Ainaži	2008	52 606
2 Ance	2006	52 622
3 Jurkalne	2006	52 622
4 Kaltene*	2003	37 261
5 Kandava*	2007	37 258
6 Kazdanga	2007	37 312
7 Kolka*	2003	37 211
8 Kraslava	2007	37 258
9 Kr.Valdemars	2007	37 266
10 Kuldiga	2003	37 237
11 Piltene	2007	52 648
12 Puze	2006	52 622
13 Riga	2001	68 467
14 Salacgrīva	2008	52 620
15 Targale	2007	52 622
16 Ugale	2007	52 642
17 Usma	2007	52 684
18 Užava	2008	52 650
19 Latgale	2011	51 407
20 Zemgale	2011	51 407
Total DWT		**958 422**

* as of 31 December 2011, reclassified as assets held for sale. *See Note 26*.

Notes to the consolidated financial statement *(continued)*

22. Fleet (*continued*)

The fleet is tested for impairment annually according to requirements imposed by the financial institutions. The global economic environment and shipping are closely aligned. A weaker global economy has resulted in lower shipping rates and lower earnings in the shipping industry. The management believes that less demand for refined products in developed western economies has negatively impacted the shipping industry.

As at 31 December 2010 the recoverable value of the fleet approximates the estimated value in use and recoverable value of the newbuildings under construction constitutes the fair value less cost to sell.

As at 31 December 2011 the recoverable value of the fleet is determined by using following approaches for three groups of vessels:

- Fair value less costs to sell:
  - fleet held for sale (3 HS vessels) in total balance sheet value of US$ 59.4 million (*see Note 26*), for which the recoverable amount constitutes fair value less cost to sell. Total impairment loss recognised US$ 12.564 million;
  - operating fleet (1 HS and 6 MR vessels) and newbuildings delivered in the middle of 2011 (2 MR vessels) in total balance sheet value of US$ 241.6 million, for which the recoverable amount constitutes fair value. Total impairment loss recognised US$ 13.1 million.
- Value in use:
  - operating fleet (1 Panamax, 3 HS and 4 MR vessels) in total balance sheet value of US$ 281.524 million, for which the recoverable amount constitutes the value in use. There are no impairment losses recognised.

Fair value less cost to sell is determined based on valuation carried out by an independent appraiser. Valuation was performed on "willing seller and willing buyer" basis and was given to the best of their knowledge and based on the sale and purchase market condition prevailing at the time mentioned subject to the vessel being in sound condition and made available for delivery.

Value in use in 2010 was determined for each vessel individually based on discounted cash flow projections.

The following assumptions were used: for 2011 and for the following years the Group has used its budgeted time charter rates (during the agreement period) as well as charter market forecasts (periods not covered by particular periods); operating costs are planned at the current level; discount rate applied is 6.6%; and the scrap value applied is US $ 300 per light weight ton.

Value in use in 2011 is determined for each vessel individually based on discounted cash flow projections. Key assumptions used as of 31 December 2011 are as follows: vessels historical (starting from the year of delivery) time charter equivalent rates and operating costs used; operating costs are increased every 5 years considering necessary dry-docking; last 5 years income and operating expenses are adjusted considering age of the vessel; discount rate applied is 9.06%; and the scrap value applied is US $ 450 per light weight ton.

Sensitivity to changes in assumptions

With regard to the assessment of recoverable value of total fleet in use, management believes that no reasonably possible change in any of the above key assumptions would cause a decrease in estimated recoverable value.

In 2010 impairment loss of newbuildings under construction was recognised in the amount of US $ 45.56 million. In 2011, impairment was recognised on 8 vessels as the carrying value of vessels in use exceeded their recoverable value by USD 25.66 million.

The following individual change in each of the key assumptions would make vessels, which were not impaired, recoverable amount approximate its carrying amount as of 31 December 2011:

- Decrease in time charter rates by 5.4% in average (2010: 6.6%) per day.
- Increase in operating costs by 7 % (2010:10%).
- Increase in discount rate by 1pp (2010: 1pp).

Notes to the consolidated financial statement *(continued)*

23. Property, plant and equipment

	Land and building		Other fixed assets		Assets under construction (fleet excluded)		Total	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost								
At 1 January 2010	15 652	7 654	5 209	2 547	1	-	20 862	10 201
Additions	466	247	235	125	-	-	701	372
Disposals	(3 621)	(1 922)	(954)	(506)	(1)	-	(4 576)	(2 428)
Deconsolidation	(5 137)	(2 728)	(704)	(374)	-	-	(5 841)	(3 102)
Reclassification	(2 074)	(1 101)	(23)	(12)	-	-	(2 097)	(1 113)
Exchange differences	(1 267)	-	(437)	-	-	-	(1 704)	-
At 31 December 2010	**4 019**	**2 150**	**3 326**	**1 780**	**-**	**-**	**7 345**	**3 930**
Additions	-	-	111	56	-	-	111	56
Disposals	-	-	(485)	(245)	-	-	(485)	(245)
Exchange differences	(66)	-	(28)	-	-	-	(94)	-
At 31 December 2011	**3 953**	**2 150**	**2 924**	**1 591**	**-**	**-**	**6 877**	**3 741**
Depreciation and impairment								
At 1 January 2010	6 215	3 039	3 307	1 617	-	-	9 522	4 656
Depreciation	212	186	526	280	-	-	738	466
Reclassification	(154)	(82)	(23)	(12)	-	-	(177)	(94)
Deconsolidation	(4 162)	(2 210)	(199)	(106)	-	-	(4 361)	(2 316)
Impairment	963	516	-	-	-	-	963	516
Disposals	(2 038)	(1 082)	(720)	(382)	-	-	(2 758)	(1 464)
Exchange differences	(351)	-	(280)	-	-	-	(631)	-
At 31 December 2010	**685**	**367**	**2 611**	**1 397**	**-**	**-**	**3 296**	**1 764**
Depreciation	129	64	297	150			426	214
Disposals	-	-	(460)	(233)			(460)	(233)
Exchange differences	(21)	-	(33)	-			(54)	-
At 31 December 2011	**793**	**431**	**2 415**	**1 314**	**-**	**-**	**3 208**	**1 745**
Net book value:								
At 31 December 2010	**3 334**	**1 783**	**715**	**383**	**-**	**-**	**4 049**	**2 166**
At 31 December 2011	**3 160**	**1 719**	**509**	**277**	**-**	**-**	**3 669**	**1 996**

In 2010 impairment of Property, plant and equipment relates to assets of the deconsolidated “LASCO Investment” SIA Group, recoverable amount of which was defined based on valuations performed by independent certified appraiser at the end of the year. Since companies were not consolidated as at the end of the reporting year (*see Note 19*), no sensitivity analysis in respect of impaired assets is presented. No impairment recognised in 2011 on property, plant and equipment.

Notes to the consolidated financial statement *(continued)*

24. Investment properties

	Land, buildings and other property, plant and equipment		Assets under construction		Total	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost						
At 1 January 2010	137 749	67 359	7 642	3 737	145 391	71 096
Additions	209	111	333	177	542	288
Disposals	(674)	(358)	(130)	(69)	(804)	(427)
Reclassification	2 097	1 113	-	-	2 097	1 113
Deconsolidation	(123 249)	(65 445)	(7 232)	(3 840)	(130 481)	(69 285)
Exchange differences	(10 936)	-	(604)	-	(11 540)	-
At 31 December 2010	**5 196**	**2 780**	**9**	**5**	**5 205**	**2 785**
Reclassification	10	5	(10)	(5)	-	-
Exchange differences	(87)	-	1	-	(86)	-
At 31 December 2011	**5 119**	**2 785**	**-**	**-**	**5 119**	**2 785**
Depreciation						
At 1 January 2010	18 155	8 878	4 125	2 017	22 280	10 895
Depreciation	737	320	-	-	737	320
Impairment	45 087	24 121	84	45	45 171	24 166
Reclassification	177	94	-	-	177	94
Deconsolidation	(60 168)	(31 949)	(3 884)	(2 062)	(64 052)	(34 011)
Disposals	(674)	(358)	-	-	(674)	(358)
Exchange differences	(1 247)	-	(325)	-	(1 572)	-
At 31 December 2010	**2 067**	**1 106**	**-**	**-**	**2 067**	**1 106**
Depreciation	28	14	-	-	28	14
Impairment	1 199	652	-	-	1 199	652
Exchange differences	(36)	-	-	-	(36)	-
At 31 December 2011	**3 258**	**1 772**	**-**	**-**	**3 258**	**1 772**
Net book value:						
At 31 December 2010	**3 129**	**1 674**	**9**	**5**	**3 138**	**1 679**
At 31 December 2011	**1 861**	**1 013**	**-**	**-**	**1 861**	**1 013**
Impairment						
At 31 December 2010	**1 892**	**1 012**	**-**	**-**	**1 892**	**1 012**
At 31 December 2011	**3 060**	**1 665**	**-**	**-**	**3 060**	**1 665**

The fair value of Investment Property as of 31 December 2011 and 31 December 2010 is equal to its consolidated statement of financial position carrying value.

At the end of 2011 and 2010 the Group engaged independent certified valuation specialist to determine fair value of assets.

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

In 2010 impairment of Investment properties mainly related to the assets of "LASCO Investment" SIA , recoverable amount of which was defined based on valuations performed by independent certified appraiser at the end of the year. "LASCO Investment" SIA was not consolidated as at 31 December 2010 (*see Note 19*).

Valuation of the investment property held by the Parent company of the Group as at 31 December 2010 has been performed based on number of assumptions, including rent rates, timing of building to be rented out, discounting and capitalisation rates applied which were as follows:

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

In 2011, impairment of investment properties relates to real estate owned by LSC.

In 2011, impairment was recognised on one investment property. Valuation of the respective investment property has been based on number of assumptions, including rent rates, timing of building to be rented out, capitalisation rate applied which are as follows:

- Rent rates: US $ 2 per square meter;
- Occupancy: May - September;
- Capitalisation rate: 12%.

Notes to the consolidated financial statement *(continued)*

25. Investments in associates accounted for using the equity method, comprises:

Name of the Company	Share	Country of registration
Lord World Travel Ltd. (dormant)*	50%	Gibraltar
"Via Una" SIA	45.45%	Latvia
"Futbola klubs "Ventspils"" SIA	23.06%	Latvia

*Lord World Travel Ltd was liquidated in 2011.

26. Assets classified as held for sale

In order to ensure sustainable financing for the remaining fleet the decision was made to sell 3 vessels (2010: one vessel) and those were re-classified to assets classified as held for sale *(See also Note 22).*

As of 31 December 2011 assets held for sale are stated at market value less costs to sell which comprises US $ 59.4 million (2010: US $ 5.8 million). In 2011, impairment of assets held for sale is charged to income statement in amount of US $ 12.6 million (2010: US $ 4.9 million). *See Note 12 and Note 22.*

	Assets held for sale	
	USD'000	LVL'000
Cost		
At 1 January 2010	-	-
Reclassification	10 676	5 668
Exchange differences	-	44
At 31 December 2010	**10 676**	**5 712**
Reclassification	71 964	36 372
Disposals	(10 676)	(5 396)
Exchange differences	-	2 461
At 31 December 2011	**71 964**	**39 149**
Depreciation		
At 1 January 2010	-	-
Impairment	4 916	2 630
At 31 December 2010	**4 916**	**2 630**
Impairment	12 564	6 484
Disposals	(4 916)	(2 485)
Exchange differences	-	206
At 31 December 2011	**12 564**	**6 835**
Carrying amount:		
At 31 December 2010	**5 760**	**3 082**
At 31 December 2011	**59 400**	**32 314**

27. Inventories

	USD '000		LVL '000	
	31.12.2011.	**31.12.2010.**	**31.12.2011.**	**31.12.2010.**
Luboil, victualling and slopchest	2 070	1 967	1 126	1 052
Fuel (bunkers)	1 682	3	915	1
Prepayments for goods	-	1	-	1
Other (at cost)	52	57	28	31
Total	**3 804**	**2 028**	**2 069**	**1 085**

Increase in bunker balances represents bunker on board of vessels employed on SPOT voyages as at 31 December 2011.

Notes to the consolidated financial statement *(continued)*

28. Trade and other receivables

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

	USD '000		LVL '000	
	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.
Trade receivables	*15 591*	*13 584*	*8 482*	*7 267*
Allowance for doubtful debts	*(11 987)*	*(11 716)*	*(6 521)*	*(6 268)*
Due from related parties	59	531	32	284
Other debtors, net	1 462	3 087	795	1 652
Tax receivable	226	1 169	123	625
Deferred expenses	1 270	2 535	691	1 356
Claims receivable	587	976	319	522
Total	**7 208**	**10 166**	**3 921**	**5 438**

The analysis of credit quality of financial assets represented below:

	Total	Neither past due nor impaired	Past due: up to 90 days	Past due: 91 to 180 days	Past due: 181 to 365 days	Past due: More than 365 days	Impaired
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
At 31 December 2011	17 699	5 106	13	361	199	33	11 987
At 31 December 2010	18 178	5 362	340	377	195	188	11 716

	Total	Neither past due nor impaired	Past due: up to 90 days	Past due: 91 to 180 days	Past due: 181 to 365 days	Past due: More than 365 days	Impaired
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
At 31 December 2011	9 628	2 778	7	196	108	18	6 521
At 31 December 2010	9 725	2 869	181	202	104	101	6 268

Analysis of credit quality of financial assets does not include deferred expenses and tax receivable.

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to historical information about counterparty default rates.

Notes to the consolidated financial statement *(continued)*

28. Trade and other receivables *(Continued)*

Counterparties

	USD '000		LVL '000	
	2011	2010	2011	2010
Group 1	5 106	2 743	2 778	1 468
Group 2	606	2 619	329	1 401
	5 712	**5 362**	**3 107**	**2 869**

Group 1 – existing customers with no defaults in the past.
Group 2 – existing customers with some defaults in the past. All defaults were fully recovered.

Carrying value of the trade and other receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables. The Group does not hold any collateral as security.

Changes in the allowances for impairment of trade receivables were as follows:

	USD '000		LVL '000	
	2011	2010	2011	2010
At 1 January	**11 716**	**11 717**	**6 268**	**5 730**
Additions	507	211	256	112
Settlements	(243)	(182)	(123)	(97)
Currency translation difference	7	(30)	120	523
At 31 December	**11 987**	**11 716**	**6 521**	**6 268**

29. Prepayments

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

	USD '000		LVL '000	
	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.
Prepayments	4 319	5 261	2 350	2 815
Allowances for doubtful prepayments	*(3 002)*	*(3 058)*	*(1 633)*	*(1 636)*
Prepayments, net	**1 317**	**2 203**	**717**	**1 179**

Notes to the consolidated financial statement *(continued)*

30. Other financial assets

	USD '000		LVL '000	
	31.12.2011.	**31.12.2010.**	**31.12.2011.**	**31.12.2010.**
Other non-current financial assets	**7 857**	**7 720**	**4 274**	**4 130**
Loans issued to LASCO Investment Group	*83 090*	*83 857*	*45 201*	*44 863*
Allowance for doubtful debt	*(78 937)*	*(79 637)*	*(42 942)*	*(42 605)*
Due from related parties	26	-	14	-
Other*	3 678	3 500	2 001	1 872
Other current financial assets	**29 595**	**31 866**	**16 100**	**18 160**
Assets at fair value through profit and loss	-	3 185	-	1 704
Available-for-sale financial assets	29 595	28 681	16 100	16 456
Total other financial assets	**37 452**	**39 586**	**20 374**	**22 290**

As at 31 December 2011 the amount due from "LASCO Investment" SIA Group of US $ 83.09 million (2010: US $ 83.86 million) represents loans issued with an interest at a margin linked to US $ LIBOR with a long term repayment term. The net value of the loans issued has been decreased to the fair value of assets pledged as of 31 December 2011 representing US $ 4.2 million (2010: US $ 4.7 million). The short term loan issued to "LASCO Investment" SIA Group is included in Trade and other receivables. Part of the loans due from "LASCO Investment" SIA Group are not past due, however, considering the circumstances described in *Note 19* the loans were impaired. Carrying value of loans issued to "LASCO Investment" SIA Group approximates their fair value.

*Other financial assets are neither past due nor impaired and their carrying value approximates their fair value.

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

	USD '000		LVL '000	
	31.12.2011.	**31.12.2010. *(Restated)***	**31.12.2011.**	**31.12.2010. *(Restated)***
Shares in JSC "Ventspils Nafta"	-	1 824	-	976
Bonds of Latvian Government	-	1 361	-	728
Total other current financial assets	**-**	**3 185**	**-**	**1 704**

Changes in financial assets at fair value through profit or loss:

	USD '000		LVL '000	
	2011	**2010 *(Restated)***	**2011**	**2010 *(Restated)***
At 1 January	**3 185**	**1 319**	**1 704**	**645**
Additions	-	7 524	-	4 197
Settlements	(3 293)	(169)	(1 708)	(90)
Change in fair value	23	(5 377)	11	(2 876)
Changes in provision	(42)	(4)	(22)	(2)
Exchange differences	127	(108)	15	(170)
At 31 December	**-**	**3 185**	**-**	**1 704**

Fair value in 2010 of equity securities of listed entities is based on their current bid prices in an active market.

Fair value in 2010 of unlisted securities is based on expected cash flows discounted using rate based on the market interest rate and specific risk premium rate.

Notes to the consolidated financial statement *(continued)*

30. Other financial assets *(Continued)*

30 (b) Deposits with maturity more than three months

During the reporting period an effective interest rate on deposits with maturity of more than three months amounted to 3.52% in 2011.

	USD '000		LVL '000	
	2011	2010	2011	2010
At 1 January	**-**	**55 987**	**-**	**27 378**
Deposits settled at maturity	-	(54 804)	-	(29 092)
Previous accrual reversal	-	(361)	-	(192)
Exchange differences	-	(822)	-	1 906
At 31 December	-	-	-	-

30 (c) Available – for – sale financial assets

	USD '000		LVL '000	
	31.12.2011.	31.12.2010. (Restated)	31.12.2011.	31.12.2010. (Restated)
Shares in "Latvijas Naftas Tranzits" JSC	29 595	28 681	16 100	16 456
Total other current financial assets	**29 595**	**28 681**	**16 100**	**16 456**

Due to lack of information the Management was not able to assess the fair value of shares in JSC "Latvijas Naftas Tranzits". As of 2011 the investment is accounted at cost less any impairment charge recognised.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

As of 31 December 2011 and 31 December 2010, the Group held the following financial instruments measured at fair value:

	31.12.2011.		Level 2	
	USD'000	LVL'000	USD'000	LVL'000
Liabilities measured at fair value	**2 688**	**1 463**	**2 688**	**1 463**
Non-current swap transactions (*see note 35*)	919	500	919	500
Current swap transactions (*see note 35*)	1 769	963	1 769	963

	31.12.2010.		Level 1		Level 2	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Assets measured at fair value	**3 185**	**1 704**	**3 185**	**1 704**	-	-
Short term securities (*see note 30a*)	1 361	728	1 361	728	-	-
Equity instruments (*see note 30a*)	1 824	976	1 824	976	-	-
Liabilities measured at fair value	**4 208**	**2 251**	**-**	**-**	**4 208**	**2 251**
Non-current swap transactions (*see note 35*)	1 416	757	-	-	1 416	757
Current swap transactions (*see note 35*)	2 792	1 494	-	-	2 792	1 494

Notes to the consolidated financial statement *(continued)*

31. Cash and short-term deposits

	USD '000		LVL '000	
	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.
Cash at banks and on hand	26 152	42 471	14 227	22 722
Bank deposits with maturity less than 3 months at the date of placement	831	-	452	-
Cash and cash equivalents total	**26 983**	**42 471**	**14 679**	**22 722**

Credit quality of cash at bank and short-term deposits (Fitch's):

	USD '000		LVL '000	
	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.
AAA	16 379	28 867	8 910	15 444
A+	9 192	6 452	5 000	3 452
A	1 273	7 070	693	3 782
Cash on board of vessels	139	82	76	44
Cash and cash equivalents total	**26 983**	**42 471**	**14 679**	**22 722**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. See also *Note 43*.

32. Share capital and reserves

Share capital

The authorised, issued and fully paid share capital of the Parent Company consists of 200 million ordinary fully paid shares with nominal value of 1 Lat each, which are publicly traded on NASDAQ OMX Nordic Exchange. There have been no changes in the share capital and nominal value of shares since 1991.

Other components of equity

Cash flow hedge reserve

This reserve records the effective portion of the gain or loss on hedging instruments in cash flow hedges. The loss on cash flow hedges recognised in other comprehensive income stands for the effective portion of changes in the fair value of interest rate swaps.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the Parent company and subsidiaries with functional currency other than Group's presentation currency.

Notes to the consolidated financial statement *(continued)*

33. Interest bearing loans

	USD '000		LVL '000	
	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.
Repayments due within next twelve months	32 431	32 331	17 643	17 297
Unamortised prepaid financing expenses *	(1 251)	(1 101)	(681)	(589)
Net current portion	**31 180**	**31 230**	**16 962**	**16 708**
Non-current portion	301 896	286 882	164 231	153 482
Unamortised prepaid financing expenses *	(4 692)	(4 933)	(2 553)	(2 639)
Net non-current portion	**297 204**	**281 949**	**161 678**	**150 843**
Total loans outstanding	334 327	319 213	181 874	170 779
Total unamortised prepaid financing expenses*	(5 943)	(6 034)	(3 234)	(3 228)
Total loans, net of unamortised financing costs	**328 384**	**313 179**	**178 640**	**167 551**

* Prepaid financing expenses are amortised within the loan repayment period.

In 2004 the Group signed a long term loan agreement with a loan facility of US $ 360 million and another long term loan agreement with a loan facility of US $ 75 million to finance the purchase of vessels.

In 2011 the Group signed a long term loan agreement with a loan facility of US $ 48.6 million to finance the purchase of new vessels. There are no undrawn loan balances as at the end of 2011 and 2010.

Loans are denominated in US $ and are advanced to the Group's single vessel companies. The Parent Company has issued a corporate guarantee to secure the loans ($ 360 million, $ 75 million). Guarantees are given in the normal course of business. As a security, the lenders have mortgages over the vessels together with common assignments and pledges.

The loans are repayable in quarterly instalments and carry interest at a margin linked to US $ LIBOR. *See also section Capital management in Note 43.*

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

The US $ 4 million long-term loan was received by a Group company; the loan was secured by a vessel pledge. The loan was repayable in monthly instalments which included fixed interest payments. At the end of the reporting year 2010 the loan was classified as current and was repaid at the moment of the vessel sale in September 2011.

The loans are scheduled to be repaid as follows:

Year	USD million	LVL million
2012	32.4	17.6
2013	32.4	17.6
2014	32.4	17.6
2015	32.4	17.6
2016	64.4	35.1
2017	140.3	76.4
Total	**334.3**	**181.9**

Also *see Note 46* Going concern.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	USD' 000		LVL' 000	
	2011	2010	2011	2010
Borrowings bearing fixed interest rate (considering effect of SWAP agreements)	119 915	155 070	65 234	82 963
Borrowings bearing variable interest rate repriced in 3 months	214 412	164 143	116 640	87 816
Total	**334 327**	**319 213**	**181 874**	**170 779**

Notes to the consolidated financial statement *(continued)*

34. Finance lease

In August 2009 one of the Group's companies entered into an agreement for the m.t. Riga sale and leaseback transaction in the amount of US $ 30 million with the final payment deadline in year 2014. As of the end of the reporting year finance lease liabilities amounted to US $ 27.037 million (2010: US $ 28.571 million).

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

	Minimum payments		Present value of payments		Minimum payments		Present value of payments	
	USD '000		USD '000		LVL '000		LVL '000	
	2011	2010	2011	2010	2011	2010	2011	2010
Within one year	5 014	5 001	1 380	1 203	2 727	2 675	751	643
Unamortised prepaid financing expenses *	(118)	(98)	(118)	(98)	(64)	(52)	(64)	(52)
Net current portion	**4 896**	**4 903**	**1 262**	**1 105**	**2 663**	**2 623**	**687**	**591**
After one year but not more than five years	31 378	36 392	25 988	27 368	17 070	19 470	14 137	14 642
Unamortised prepaid financing expenses *	(213)	(274)	(213)	(274)	(116)	(147)	(116)	(147)
Net non-current portion	**31 165**	**36 118**	**25 775**	**27 094**	**16 954**	**19 323**	**14 021**	**14 495**
Minimum lease payments	36 061	41 021	27 037	28 199	19 617	21 946	14 708	15 086
Less amounts representing finance charges*	(9 024)	(12 822)	-	-	(4 909)	(6 860)	-	-
Present value of minimum lease payments	**27 037**	**28 199**	**27 037**	**28 199**	**14 708**	**15 086**	**14 708**	**15 086**

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

35. Derivative financial instruments

In 2008 LSC Holdings Ltd. entered into 2 interest rate swap agreements and in 2011 Arctic Holding Corporation entered into 2 interest rate swap agreements:

	Start date	Maturity date	Notional amount, USD'000	Rate receivable
Interest rate swap	29.12.2008	28.12.2011	91 000	2.9975%
Interest rate swap	29.12.2008	28.12.2012	91 000	2.3950%
Interest rate swap	22.06.2011	22.06.2016	24 300	1.9200%
Interest rate swap	21.07.2011	21.07.2016	24 300	1.8900%

These interest rate swaps are used to hedge the Group's cash flow risk from fluctuation of the LIBOR rates.

As of 31 December 2011 the negative fair value of the swaps amounting to US $ 2.7 million (2010 – US $ 4.2 million) was recognised in equity within the Cash flow hedge reserve.

Gains and losses recognised in the hedging reserve in equity and interest rate swap contract as of 31 December 2011 will be continuously released to comprehensive income statement within net movement of cash flow hedges until the date of swap agreement maturity.

Notes to the consolidated financial statement *(continued)*

36. Deferred tax liabilities

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

The Group has a total tax loss of US $ 3.517 million (2010: US $ 3.455) available for the offset against future taxable profits of the Group companies in which the losses arose.

	USD '000		LVL '000	
	2011	**2010**	**2011**	**2010**
Deferred tax liabilities:				
- Deferred tax liabilities to be recovered after more than 12 months	112	68	61	37
- Deferred tax liabilities to be recovered within 12 months	24	139	13	74
Deferred tax liabilities, net	**136**	**207**	**74**	**111**

Gross movement on the deferred tax account is as follows:

	USD '000		LVL '000	
	2011	**2010**	**2011**	**2010**
1 January	**207**	**14 863**	**111**	**7 268**
Charged/(credited) to the income statement:				
Excess of tax allowances over depreciation	(85)	(1 626)	(46)	(217)
Other temporary differences	26	118	14	54
Unrecognised change in deferred tax asset	(9)	346	(5)	170
Deconsolidation of deferred tax liability	-	(13 494)	-	(7 164)
Foreign exchange rate differences	(3)	-	-	-
Deferred tax liabilities at 31 December	**136**	**207**	**74**	**111**

37. Deferred revenue

	USD '000		LVL '000	
	2 011	**2 010**	**2 011**	**2 010**
At 1 January	**5 265**	**3 565**	**2 817**	**1 743**
Deferred during the year	10 261	5 265	5 186	2 795
Released to the income statement	(5 265)	(3 507)	(2 661)	(1 861)
Currency exchange differences	-	(58)	240	140
At 31 December	**10 261**	**5 265**	**5 582**	**2 817**

Deferred revenue as at 31 December 2011 includes US $ 8.27 million (2010: US $ 1.13 million) advance payment received from related party.

Notes to the consolidated financial statement *(continued)*

38. Trade and other payables

	USD '000		LVL '000	
	31.12.2011.	31.12.2010. *(Restated)*	31.12.2011.	31.12.2010. *(Restated)*
Non-current liabilities				
Due to related parties	1 942	-	1 056	-
Other payables	-	300	-	161
Total non-current liabilities	**1 942**	**300**	**1 056**	**161**
Current liabilities				
Due to related parties	76	19	41	10
Accrued expenses*	4 235	6 417	2 304	3 434
Trade payables	5 919	5 815	3 220	3 112
Other payables	3 405	2 936	1 854	1 570
Total current liabilities	**13 635**	**15 187**	**7 419**	**8 126**

Terms and conditions on the above financial liabilities:

- For terms and conditions relating to related parties, *refer to Note 41*;
- For explanations on the Group's liquidity risk management processes, *refer to Note 43*;
- Trade and other payables are non-interest bearing and have an average term of six months.

***Restated accrued expenses:**

	USD'000		LVL'000	
	2 011	2 010	2 011	2 010
At 31 December before restatement	**4 235**	**7 164**	**2 304**	**3 833**
Restatement (*See Note 2*)	-	(747)	-	(399)
Restated accrued expenses at 31 December	**4 235**	**6 417**	**2 304**	**3 434**

39. Contingent liabilities

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

40. Commitments

a) Capital commitments

No capital commitments entered into as at 31 December 2011. As at 31 December 2010 the Group's capital commitments represented signed contracts with Hyundai Mipo Dockyard Co., Ltd. (HMD) for the building of four medium-range (MR) ice-classed tankers of 52 000 DWT.

b) Operating lease commitments – Group as a lessor

During the normal course of business the Group concludes time charter agreements ranging from 3 months to 2 years and bareboat agreements for a 5 years period.

c) Operating lease commitments – Group as a lessee

The Group has time chartered 2 tankers from other shipowners for five years, which was terminated in the middle of 2011. The Group has entered into real estate rent agreement and into several transport operating lease agreements, which have the following payment schedule:

	USD '000		LVL '000	
	2011	2010	2011	2010
Non-cancellable payments within one year	159	8 550	86	4 574
Non-cancellable payments after one year	407	494	222	264
Total	**566**	**9 044**	**308**	**4 838**

Notes to the consolidated financial statement *(continued)*

41. Related party transactions

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

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

JSC “Ventspils Nafta” has de facto control, therefore JSC “Latvian Shipping Company” and its subsidiaries are consolidated in to JSC “Ventspils Nafta” consolidated financial statements.

a) Compensation of the Management Board and the Supervisory Council members of the Group

	USD '000		LVL '000	
	2011	**2010**	**2011**	**2010**
Salary and bonuses	251	3 015	127	1 601
Social insurance	38	694	19	369
Total	**289**	**3 709**	**146**	**1 970**

The remuneration paid to the members of the Supervisory Council was approved by the decision made by the General Shareholders' Meeting. The remuneration paid to the members of the Management Board is approved by the decision made by the Supervisory Council meeting. No other special significant benefits to the members of the Supervisory Council and Management Board apart from salaries and bonuses are paid or made available. Since the appointment of the new Supervisory Council and Management Board remuneration of the Council is set to zero. One person from the Management Board is remunerated based on Supervisory Council decision.

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

There is no information reported that members of the Supervisory Council or Management Board own shares of the Parent company or its subsidiaries. Detailed information about shareholdings of the members of the Supervisory Council and the Management Board as well as on their positions in other companies is available in the Parent company's office upon request.

c) Transactions with Shareholders and the entities under joint control of the shareholder

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

Notes to the consolidated financial statement *(continued)*

41. Related party transactions *(continued)*

Thereby total amounts due from the shareholder and the entities under joint control of the shareholder were as follows:

	USD '000		LVL '000	
	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.
Prepayment for rent	26	-	14	-
Amount due for services received	59	531	32	284
Total	**85**	**531**	**46**	**284**
Current	59	531	32	284
Non-current	26	-	14	-
	85	**531**	**46**	**284**

Thereby total amounts due to the shareholder and the entities under joint control of the shareholder were as follows:

	USD '000		LVL '000	
	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.
Loan from related party	1 942	-	1 056	-
Amount due for services received	76	19	41	10
Total	**2 018**	**19**	**1 097**	**10**
Current	76	19	41	10
Non-current	1 942	-	1 056	-
	2 018	**19**	**1 097**	**10**

In 2011 the Group received a loan with variable interest rate repayable in 2017.

In 2010 real estate management services were provided to the entities under joint control of the shareholder in amount of US $ 318 (LVL 169) thousand and interest expenses in amount of US $ 1 651 (LVL 876) thousand. Income from chartering out vessels received in amount of US $ 17 887 (LVL 9 495) thousand.

In 2011 Technical management and IT services (US $ 160/LVL 81 thousand) and chartering out the vessels (US $ 26 142/LVL 13 212 thousand) were provided to related parties. As well the Group received compensation for expenses (US $ 3/LVL 2 thousand).

In 2011 the following services were received from the entities under joint control of the shareholder - Bunkering and other (US $ 661/LVL 334 thousand); Rent services (US $ 15/LVL 8 thousand); Management and consulting services (US $ 471/LVL 238 thousand); Other services (US $ 32/LVL 16 thousand); Calculated interest expenses on long term loan (US $ 13/LVL 7 thousand).

42. Fees paid to external auditors

	USD '000		LVL '000	
	2011	2010	2011	2010
Audit of the financial statements	151	237	76	126
Other consulting services	13	27	7	14
Total	**164**	**264**	**83**	**140**

Notes to the consolidated financial statement *(continued)*

43. Financial instruments and financial risk management

The Group's principal financial instruments comprise cash, trade and other accounts receivable, financial assets at fair value through profit or loss, equity instruments, bank loans, finance lease, trade and other accounts payables and derivatives. The main purpose of these financial instruments which mainly arise directly from operations is to raise finance for the Group's operations.

Financial instruments by category:

USD '000

Assets as per statement of financial position as at 31 December 2011	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
Trade and other receivables	5 712	-	5 712
Other financial assets (*Note 30*)	7 857	29 595	37 452
Cash and short term deposits (*Note 31*)	26 983	-	26 983
Total	**40 552**	**29 595**	**70 147**

Liabilities as per statement of financial position as at 31 December 2011	**Derivatives used for hedging**	**Other financial liabilities at amortised cost**	**Total**
Interest bearing loans (*Note 33*)	-	328 384	328 384
Finance lease (*Note 34*)	-	27 037	27 037
Derivative financial instruments (*Note 35*)	2 688	-	2 688
Trade and other payables	-	13 540	13 540
Total	**2 688**	**368 961**	**371 649**

LVL '000

Assets as per statement of financial position as at 31 December 2011	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
Trade and other receivables	3 108	-	3 108
Other financial assets (*Note 30*)	4 274	16 100	20 374
Cash and short term deposits (*Note 31*)	14 679	-	14 679
Total	**22 061**	**16 100**	**38 161**

Liabilities as per statement of financial position as at 31 December 2011	**Derivatives used for hedging**	**Other financial liabilities at amortised cost**	**Total**
Interest bearing loans (*Note 33*)	-	178 640	178 640
Finance lease (*Note 34*)	-	14 708	14 708
Derivative financial insrtuments (*Note 35*)	1 463	-	1 463
Trade and other payables	-	7 367	7 367
Total	**1 463**	**200 715**	**202 178**

Notes to the consolidated financial statement *(continued)*

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

USD '000

Assets as per statement of financial position as at 31 December 2010	**Loans and receivables**	**Available-for-sale financial assets**	**Assets at fair value through profit and loss**	**Total**
Trade and other receivables	6 462	-	-	6 462
Other financial assets (*Note 30*)	7 720	28 681	3 185	39 586
Cash and short term deposits (*Note 31*)	42 471	-	-	42 471
Total	**56 653**	**28 681**	**3 185**	**88 519**

Liabilities as per statement of financial position as at 31 December 2010	**Derivatives used for hedging**	**Other financial liabilities at amortised cost**	**Total**
Interest bearing loans (*Note 33*)	-	313 179	313 179
Finance lease (*Note 34*)	-	28 199	28 199
Derivative financial instruments (*Note 35*)	4 208	-	4 208
Trade and other payables	-	12 627	12 627
Total	**4 208**	**354 005**	**358 213**

LVL '000

Assets as per statement of financial position as at 31 December 2010	**Loans and receivables**	**Available-for-sale financial assets**	**Assets at fair value through profit and loss**	**Total**
Trade and other receivables	3 457	-	-	3 457
Other financial assets (*Note 30*)	4 130	16 456	1 704	22 290
Cash and short term deposits (*Note 31*)	22 722	-	-	22 722
Total	**30 309**	**16 456**	**1 704**	**48 469**

Liabilities as per statement of financial position as at 31 December 2010	**Derivatives used for hedging**	**Other financial liabilities at amortised cost**	**Total**
Interest bearing loans (*Note 33*)	-	167 551	167 551
Finance lease (*Note 34*)	-	15 086	15 086
Derivative financial instruments (*Note 35*)	2 251	-	2 251
Trade and other payables	-	6 757	6 757
Total	**2 251**	**189 394**	**191 645**

The Group has a policy of regularly reviewing its approach to risk management. The main financial risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. The Management Board reviews and agrees policies for managing each of these risks which are summarised below.

Notes to the consolidated financial statement *(continued)*

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

Foreign currency risk

The Group operates both in Europe and the Americas and is thus exposed to foreign exchange risk. The majority of the Group's income and expenses are denominated in U.S. dollars as this is the universally accepted trading currency in the shipping business.

The Group's financial instruments are not significantly exposed to foreign currency risk.

Credit risk

The Group is exposed to credit risk through its trade accounts receivable, deposits with maturity more than 3 months and cash and cash equivalents. The Group's cash equivalents have been invested in secure financial institutions. The Group manages its credit risk by continuously assessing the credit history of customers. In addition, receivable balances are monitored on an on-going basis to ensure that the Group's exposure to bad debts is minimised. The Group's policy is to trade only with well recognised, creditworthy third parties. Two largest debtors comprise 36% of total trade accounts receivable as of 31 December 2011 (2010 - 32%). Both debtors have no defaults in history.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold any collateral as security.

The Group's maximum exposure for financial guarantees and financial derivative instruments are noted in the Liquidity and cash management risk section on the next page.

Interest rate risk

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the risk of changes in market interest rates primarily through its received loans and placed short-term deposits. Interest rate risk is related mainly to the floating interest rate of the loans advanced to the Group. Interest on borrowings is fixed every 3 months.

During year 2008 the Group started to manage its interest rate risk by having a balanced portfolio of fixed and variable rate loans. The Group's policy is to keep between 25% and 50% of its borrowings at the fixed rates of interest as well as monitor market trends and fix the interest rates for loans and deposits for the subsequent period based on the market expectations. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2011, after taking into account the effect of interest rate swaps (US $ 119 million), approximately 35% of the Group's borrowings are at a fixed rate of interest. A general rise in the interest rate by 0.5 percentage point would, all other things being equal, have no material effect on the financial result. The effect on equity excluding tax effect on an increase in the interest rate as mentioned above is estimated to be negative with approximately US $ 0.7 million. A general decrease in the interest rate by 0.1 percentage point would have positive effect on equity with approximately US $ 0.2 million.

Notes to the consolidated financial statement *(continued)*

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

Interest rate sensitivity

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

	2011		2010	
	Increase/decrease in basic points	Effect on profit before tax (USD'000)	Increase/decrease in basic points	Effect on profit before tax (USD'000)
US $ - LIBOR	0,5%	(777)	0,5%	(837)
	-0,1%	155	-0,1%	157
EUR - LIBOR	0,5%	(3)	-	-
	-0,1%	1	-	-

	2011		2010	
	Increase/decrease in basic points	Effect on profit before tax (LVL'000)	Increase/decrease in basic points	Effect on profit before tax (LVL'000)
US $- LIBOR	0,5%	(423)	0,5%	(444)
	-0,1%	85	-0,1%	83
EUR - LIBOR	0,5%	(1)	-	-
	-0,1%	-	-	-

Liquidity and cash management risk

Based on the Group's cash management principle, the Group's cash is accumulated in dedicated bank accounts and managed on a Group level. To ensure daily liquidity requirements, the Group's management determines minimum cash balances to be maintained on Group's bank accounts.

Risk analysis and designing of risk management plans are conducted at the top management level.

The Group's liquidity risk policy is based on a conservative approach whose main objective is to secure the safeguarding of the cash flows generated from the operations to ensure sufficient liquidity enabling timely settlement of the liabilities undertaken.

Reviewing the current situation on a money market which is characterised by an increase in a price and a limited availability of credit resources on a banking market the Group's management policy is to accumulate cash to meet obligations to the banking syndicates.

The table on the next page summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Notes to the consolidated financial statement *(continued)*

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

Liquidity and cash management risk (continued)

USD '000

As at 31 December 2011	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**Total**
Bank loans	-	11 066	32 363	200 208	134 268	377 905
Finance lease	-	1 658	3 781	30 953	-	36 392
Derivative financial instruments	-	499	1 407	1 928	-	3 834
Trade and other payables	-	13 635	-	2 025	-	15 660
Total	**-**	**26 858**	**37 551**	**235 114**	**134 268**	**433 791**

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

LVL '000

As at 31 December 2011	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**Total**
Bank loans	-	6 020	17 605	108 913	73 042	205 580
Finance lease	-	902	2 057	16 838	-	19 797
Derivative financial instruments	-	271	765	1 049	-	2 085
Trade and other payables	-	7 419	-	1 102	-	8 521
Total	**-**	**14 612**	**20 427**	**127 902**	**73 042**	**235 983**

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

Fair values

The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the consolidated statement of financial position date.

Notes to the consolidated financial statement *(continued)*

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

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value. The appropriate provisions for asset impairment have been made and the recoverable (market) value of the assets approximates their carrying value. According to the corporate guarantee issued by the Parent Company (*see also Note 33*) the Group should maintain the following capital requirements:

- Value Adjusted Equity (total assets adjusted for fleet current valuation less total liabilities adjusted for contingencies) to Value Adjusted Total Assets (total assets adjusted for fleet current valuation) – 30% or more;
- Market Adjusted Net Worth (Value adjusted total assets less total liabilities adjusted for contingencies) – at least US $ 150 million;
- Current Assets to Current Liabilities (excluding the short term portion of any long term debt) – not less than 1.4 to 1.

	31.12.2011.	31.12.2010.
Value adjusted equity/Value adjusted total assets	41%	46%
Market Adjusted Net Worth	USD 269 million	USD 313 million
Current Assets to Current Liabilities	5	3.9

During 2011 the Group had the obligation to maintain a Cash reserve covenant, i.e. to keep the required amount of cash in Group's accounts (US $ 25 million) which had been a condition to EBITDA/Debt Service covenant (>=125%) waiver which expired on 31 December 2011.

All capital requirements are tested on quarterly basis. *See also Note 46*.

44. Legal cases

The Group has been involved in several court cases as defendant, mainly in Latvia and UK. According to the Managements assessment it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

45. Post balance sheet events

As of the last day of the reporting period until the date of signing these financial statements there are no other significant events took place as described below in Note 46.

46. Going Concern

As disclosed in Note 33, the Group has a 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 Group acknowledges that certain breaches of the bank loan covenants might occur onwards. These conditions give rise to a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern; therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. However the management is confident that, if needed, the agreement on debt restructuring or further waivers of covenants will be successfully obtained.

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

Appendix 1: JSC "Latvian Shipping Company" Corporate Governance Report for 2011

For the JSC "Latvian Shipping Company" Corporate governance report see next page

Public Joint Stock Company
"Latvian Shipping Company"

Corporate Governance Report

for year 2011

Contents

I Introduction

Joint stock company "Latvian Shipping Company" Corporate Governance Report for 2011 (hereinafter the Report) has been prepared in compliance with Article $56.^{2}$ of Law on Financial instruments market, Article 15.14 of NASDAQ OMX Riga Rules on Listing and Trading of Financial Instruments on the Markets Regulated by the Exchange and Corporate Governance Principles and Recommendations on their Implementation issued by the NASDAQ OMX Riga on May, 2010. The Report has been prepared by the JSC "Latvian Shipping Company" (hereinafter LSC or Company) Management Board and reviewed by the LSC Supervisory Council.

The Report discloses the information on the compliance with the corporate governance principles in 2011 based on the "comply or explain" principle as recommended in the Corporate Governance Principles and Recommendations on their Implementation issued by the NASDAQ OMX Riga. In 2011 LSC complied with majority of the corporate governance principles referred to in the Corporate Governance Principles and Recommendations on their Implementation issued by the NASDAQ OMX Riga.

Information mentioned in the Article $56.^{2}$ Par Two Clause 5. and 7. and Article $56.^{1}$ Par One Clauses 3.,4., 6., 8. and 9 of Law on Financial instruments market are provided in the Consolidated Annual Report of LSC, which is published on LSC website www.lk.lv.

The Report has been submitted to the NASDAQ OMX Riga together with LSC Annual Report for 2011, as well as published on LSC website www.lk.lv.

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

II Principles of Good Corporate Governance

Shareholders' Meeting

Shareholders realize their right to participate in the management of the Issuer at shareholders' meetings. In compliance with legal acts the Issuers shall call the annual shareholders' meeting as minimum once a year. Extraordinary shareholders' meetings shall be called as required.

1. Ensuring shareholders' rights and participation at Shareholders' meetings

The Issuers shall ensure equal attitude towards all the shareholders – holders of one category of shares. All shareholders shall have equal rights to participate in the management of the Issuer – to participate at shareholders' meetings and receive information that shareholders need in order to make decisions.

Principle	Status in 2011	Explanation
1.1 It shall be important to ensure that all the holders of shares of one category have also equal rights, including the right to receive a share of the Issuer's profit as dividends or in another way in proportion to the number of the shares owned by them if such right is stipulated for the shares owned by them.	*Complied*	*According to the Articles of Association LSC has issued 200 000 000 (two hundred million) dematerialized bearer shares. The nominal value of each share is 1 LVL (one lat). All shares are of the same category and have rights to receive dividends, liquidation quota and voting rights at the shareholders' meeting.*
1.2 The Issuer shall prepare a policy for the division of profit. In the preparation of the policy, it is recommended to take into account not only the provision of immediate benefit for the Issuer's shareholders by paying dividends to them but also the expediency of profit reinvesting, which would increase the value of the Issuer in future. It is recommended to discuss the policy of profit division at a shareholders' meeting thus ensuring that as possibly larger a number of shareholders have the possibility to acquaint themselves with it and to express their opinion on it. The Report shall specify where the Issuer's profit distribution policy is made available.	*Not complied*	*LSC has not prepared dividend policy. It is not major issue currently because of large accumulated losses from previous years. According to the Commercial law LSC shareholders' meeting makes a decision on the profit distribution and payment of dividends.*
1.3 In order to protect the Issuer's shareholders' interest to a sufficient extent, not only the Issuers but also any other persons who in compliance with the procedure stipulated in legislative acts call, announce and organize a shareholders' meeting are asked to comply with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information.	*Complied*	*In 2011 only the Board of LSC convoked shareholders meetings and it complied with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information.*
1.4 Shareholders of the Issuers shall be provided with the possibility to receive in due time and regularly all the required information on the relevant Issuer, participate at meetings and vote on agenda issues. The Issuers shall carry out all the possible activities to achieve that as many as possible shareholders participate at meetings; therefore, the time and place of a meeting should not restrict the attendance of a meeting by shareholders. Therefore, it should not be admissible to change the time and place of an announced shareholders' meeting shortly before the meeting, which thus would hinder or even make it impossible for shareholders to attend the meeting.	*Complied*	*In 2011 LSC disclosed information according to the Law on Financial Instruments Market and the rules issued by "NASDAQ OMX Riga". LSC announced the general meetings of shareholders 30 days advance, by disclosing the relevant information in Latvian and English at the central storage of regulated information, internet home page of "NASDAQ OMX Riga", Company's internet home page and then publishing notifications about calling up the general meetings of shareholders in newspaper "Diena", as well as by sending the information to Latvian Central Depository, which then transmitted the information further to financial instruments account operators.* *LSC ensured that form of power of attorney is available at the central storage of regulated information, internet home page of "NASDAQ OMX Riga" and Company's internet home page together with the notification about calling up the general meetings of shareholders.* *The draft decisions of the shareholders meeting*

Principle	Status in 2011	Explanation
		were available 14 days before the shareholders meeting by publishing them in Latvian and English at the central storage of regulated information, internet home page of "NASDAQ OMX Riga" and Company's internet home page. Although LSC invites shareholders in due time to submit and include in the draft decisions shareholders proposals for election of members of the Council, as well as other proposals of shareholders, they were submitted only during shareholders meetings. *The time and places of all three shareholders meetings held in 2011 – conference rooms in hotels in the centre of Riga, has not restricted the attendance of a meeting by shareholders, as the time and place of the meetings was chosen considering predictable amount of shareholders, which could attend the meeting. In 2011 LSC did not change the time and place of the announced shareholders meetings.*
1.5 The Issuers shall inform their shareholders on calling a shareholders' meeting by publishing a notice in compliance with the procedure and the time limits set forth in legislative acts. The Issuers are asked to announce the shareholders' meeting as soon as the decision on calling the shareholders' meeting has been taken; in particular, this condition applies to extraordinary shareholders' meetings. The information on calling a shareholders' meeting shall be published also on the Issuer's website on the Internet, where it should be published also at least in one foreign language. It is recommended to use the English language as the said other language so that the website could be used also by foreign investors. When publishing information on calling a shareholders' meeting, also the initiator of calling the meeting shall be specified.	*Complied*	*See explanation for Clause 1.4. Additionally, when publishing information on calling a shareholders' meeting, also the initiator of calling the meeting was specified.*
1.6 The Issuer shall ensure that compete information on the course and time of the meeting, the voting on decisions to be adopted, as well as the agenda and draft decisions on which it is planned to vote at the meeting is available in due time to the shareholders. The Issuers shall also inform the shareholders whom they can address to receive answers to any questions on the arrangements for the shareholders' meeting and the agenda issues and ensure that the required additional information is provided to the shareholders.	*Complied*	*See explanation for Clause 1.4. Additionally, when publishing information on calling a shareholders' meeting, LSC provided phone number and address in order receive answers to any questions on the arrangements for the shareholders' meeting and the agenda issues and ensure that the required additional information is provided to the shareholders.*
1.7 The Issuer shall ensure that at least 14 (fourteen) days prior to the meeting the shareholders have the possibility to acquaint themselves with the draft decisions on the issues to be dealt with at the meeting, including those that have been submitted additionally already after the announcement on calling the meeting. The Issuer shall ensure the possibility to read a complete text of draft decisions, especially if they apply to voting on amendments to the Issuer's statutes, election of the Issuer's officials, determination of their remuneration, division of the Issuer's profit and other issues.	*Complied*	*See explanation for Clause 1.4.*
1.8 In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for Council elections. The candidates to the Council and candidates to other offices shall be nominated in due time so that the information on the said persons would be available to the shareholders to the extent as stipulated in Clause 1.9 of this Section as	*Complied*	*See explanation for Clause 1.4. In 2011 LSC encouraged all the shareholders to nominate representatives of the shareholders for Council elections. As a result of it, Council is now represented by all the shareholders, including institutional investors.*

Principle	Status in 2011	Explanation
minimum 14 (fourteen) days prior to the shareholders' meeting.		
1.9 Especially, attention should be paid that the shareholders at least 14 (fourteen) days prior to the shareholders' meeting have the possibility to acquaint themselves with information on Council member candidates and audit committee member candidates whose approval is planned at the meeting. When disclosing the said information, also a short personal biography of the candidates shall be published.	*Partly complied*	*See explanation for Clause 1.4. LSC introduced to shareholders and published personal biography of the candidates of Council member as soon as it received this information.*
1.10 The Issuer may not restrict the right of shareholders to consult among them during a shareholders' meeting if it is required in order to adopt a decision or to make clear some issue.	*Complied*	*LSC did not restrict the right of shareholders to consult among themselves during a shareholders' meeting if it is required in order to adopt a decision or to make clear some issue.*
1.11 To provide shareholders with complete information on the course of the shareholders' meeting, the Issuer shall prepare the regulations on the course of shareholders' meeting, in which the agenda of shareholders' meeting and the procedure for solving any organizational issues connected with the shareholders' meeting (e.g., registration of meeting participants, the procedure for the adoption of decisions on the issues to be dealt with at the meeting, the Issuer's actions in case any of the issues on the agenda is not dealt with, if it is impossible to adopt a decision etc.). The procedures adopted by the Issuer in relation to participation in voting shall be easy to implement.	*Complied*	*In order to ensure smooth process of shareholders' registration for the meeting and in due time solve possible problem situations, LSC has determined that shareholders of LSC shall inform the Board of LSC about the representatives and authorised persons of shareholders who shall participate in the meeting, by submitting copies of the power of attorneys or the documents certifying the authorisation at least 5 (five) days before the day of shareholders' meeting.* *Also with aim not to waste the paper, shareholders of LSC need to inform LSC on necessity to receive a separate copy of the draft resolutions in paper form upon registration at least 5 (five) days before the date of the shareholders' meeting.* *In 2011 at the shareholders meetings of LSC the chairman of the meeting which was elected according to the Commercial law, suggested to determine the regulations for the discussions and decision making during the shareholders' meeting which were in force only in case the shareholders meeting approved them with majority of votes.*
1.12 The Issuer shall ensure that during the shareholders' meeting the shareholders have the possibility to ask questions to the candidates to be elected at the shareholders' meeting and other attending representatives of the Issuer. The Issuer shall have the right to set reasonable restrictions on questions, for example, excluding the possibility that one shareholder uses up the total time provided for asking of questions and setting a time limit of speeches.	*Complied*	*See explanation for Clause 1.11.*
1.13 When entering the course and contents of discussions on the agenda issues to be dealt with at the shareholders' meeting in the minutes of shareholders' meeting, the chairperson of the meeting shall ensure that, in case any meeting participant requires it, particular debates are reflected in the minutes or that shareholder proposal or questions are appended thereto in written form.	*Complied*	*In 2011 at the shareholders meetings of LSC the secretary (recorder) took minutes of the meeting.* *The minutes of the meeting were signed by the chairman of the meeting, secretary and at least two shareholders, who are entitled to approve that the minutes of the meeting are correct. The list of shareholders and the documents related to the meeting were attached to the minutes.*

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

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

Principle	Status in 2011	Explanation
2.1 The attendance of members of the Issuer's management institutions and auditor at shareholders' meetings shall be necessary to ensure information exchange between the Issuer's shareholders and members of management institutions as well as to fulfill the right of shareholders to receive answers from competent persons to the questions submitted. The attendance of the auditor shall not be mandatory at shareholders' meetings at which issues connected with the finances of the Issuer are not dealt with. By using the right to ask questions, shareholders have the possibility to obtain information on the circumstances that might affect the evaluation of the financial report and the financial situation of the Issuer.	*Complied*	*All the shareholders meetings in 2011 were attended by both chairmen of the Board and Council as well as some other members of the Board and Council. The auditor and chairman of the Audit Committee were also present.*
2.2 Shareholders' meetings shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall in particular apply to Council members. If a Council member candidate or auditor candidate is unable to attend the shareholders' meeting due to an important reason, then it shall be admissible that this person does not attend the shareholders' meeting. In this case, all the substantial information on the candidate shall be disclosed before the shareholders' meeting.	*Complied*	*The shareholders meetings in 2011 were attended only by some of the candidates whose election was planned at the meetings. For all the new candidates who were not present all the substantial information was disclosed before voting.*
2.3 During shareholders' meetings, the participants must have the possibility to obtain information on officials or official candidates who do not attend the meeting and reasons thereof. The reason of non-attendance should be entered in the minutes of shareholders' meeting.	*Complied*	*During shareholders' meetings, the participants had the possibility to obtain information on officials or official candidates who did not attend the meeting and reasons thereof. In the minutes of the meeting the information on officials who attended and who did not attend the meeting were recorded.*

Management Board

The Management Board is the Issuer's executive institution, which manages and represents the Issuer in its everyday business, therefore the Issuer shall ensure that it is efficient, able to take decisions, and committed to increase the value of the Company, therefore its obligations and responsibilities have to be clearly determined.

3. Obligations and responsibilities of the Management Board

The Issuers shall clearly and expressively determine the obligations and authorities of the Management Board and responsibilities of its members, thus ensuring a successful work of the Management Board and an increase in the Issuer's value.

Principle	Status in 2011	Explanation
3.1 The Board shall have the obligation to manage the business of the Issuer, which includes also the responsibility for the realization of the objectives and strategies determined by the Issuer and the responsibility for the results achieved. The Board shall be responsible for the said to the Council and the Shareholders' Meeting. In fulfillment of its obligations, the Board shall adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests.	*Complied*	*According to the Articles of Association, the Board consists of five members. In 2011 Board worked in composition of four members. The decisions of the Board are made at the meetings of the Board, by at least three of the members voting "for". According to the Commercial law, members of the Board fulfill their duties as honest and careful master. With acceptance of the Council Board approves annual budget, including objectives and quarterly the Board in writing reports on its activities to Council and at the end of the year to the shareholders meeting. The Board informs the Council also about other important aspects of activities of the Company.*
3.2 The powers of the Board shall be stipulated in the Board Regulations or a similar document, which is to be published on the website of the Issuer on the Internet. This document must be also available at the registered office of the Issuer.	*Partly complied*	*The powers of the Board are stipulated in the Board Regulations, which are elaborated on the basis of Articles of Association of Latvian Shipping Company and rules of the Commercial Law. The Management Board Regulations are available in the registered office of LSC but not published on the website of the Company; therefore, LSC partly complied with this best practice provision.*
3.3 The Board shall be responsible also for the compliance with all the binding regulatory acts, risk management, as well as the financial activity of the Issuer.	*Complied*	*According to the Commercial law, the Board is executive institution which manages and represents the Company. The Board superintends and manages the Company's business. It is responsible for commercial activities of the Company, as well as for the accounting which complies with the legislation. The Board manages the property of the Company and acts with its assets according to the laws, articles of association and decisions of the shareholders meetings.*
3.4 The Board shall perform certain tasks, including: 1) corporate strategies, work plan, risk control procedure, assessment and advancement of annual budget and business plans, ensuring control on the fulfillment of plans and the achievement of planned results ; 2) selection of senior managers of the Issuer, determination of their remuneration and control of their work and their replacement, if necessary, in compliance with internal procedures (e.g. personnel policy adopted by the Issuer, remuneration policy etc.); 3) timely and qualitative submission of reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled.	*Partly complied*	*The Board currently acts accordingly in order to execute Company's strategy. LSC has worked out internal system, which provides performance of corporate strategies, work plan, risk control procedure, assessment and advancement of annual budget and business plans, ensuring control on the fulfillment of plans and the achievement of planned results. Similarly the Company selects senior managers, determine their remuneration and control their work and their replacement, if necessary, complying with the adopted personnel policy. The Board ensures also that the internal audits are carried out and the disclosure of information is controlled. The internal audit is carried out by the internal audit department of the Company and supervised by the Audit Committee. In 2011 LSC disclosed audited annual report for 2010 and unaudited financial statements for Q1/2011 after the deadline set out in the law*

Principle	Status in 2011	Explanation
		because additional time was required to reach agreement with the banks on Company's credit facilities restructuring.
3.5 In annual reports, the Board shall confirm that the internal risk procedures are efficient and that the risk management and internal control have been carried out in compliance with the said control procedures throughout the year.	*Complied*	*In 2011 annual report, the Board confirmed that the internal risk procedures are efficient and that the risk management and internal control have been carried out in compliance with the determined control procedures throughout the year.*
3.6 It shall be preferable that the Board submits decisions that determine the objectives and strategies for achievement thereof (participation in other companies, acquisition or alienation of property, opening of representation offices or branches, expansion of business etc) to the Issuer's Council for approval.	*Complied*	*According to the articles of association and the regulations of the Board and the Supervisory Council for certain issues, the Board should obtain approval from the Council. This rule was fully respected in 2011.*

4. The Management Board composition and requirements for the Management Board members

A Management Board composition approved by the Issuer shall be able to ensure sufficiently critical and independent attitude in assessing and taking decisions.

Principle	Status in 2011	Explanation
4.1 In composing the Board, it shall be observed that every Board member has appropriate education and work experience. The Issuer shall prepare a summary of the requirements to be set for every Board member, which specifies the skills, education, previous work experience and other selection criteria for every Board member.	*Complied*	*The Council observes that every Board member has appropriate education and work experience before they are elected, as well as sets the requirements for every Board member, which specifies the skills, education, previous work experience and other selection criteria. All the members of the Board have appropriate education and previous experience in respective area. In 2011 LSC has paid particular attention to requirement for the Board members to have detailed experience in shipping business.*
4.2 On the Issuer's website on the Internet, the following information on every Issuer's Board member shall be published: name, surname, year of birth, education, office term, position, description of the last three year's professional experience, number of the Issuer's or its parent companies/subsidiaries shares owned by the member, information on positions in other capital companies.	*Complied*	*LSC has published on its website on the Internet the majority of the required information.*
4.3 In order to fulfill their obligations successfully, Board members must have access in due time to accurate information on the activity of the Issuer. The Board must be capable of providing an objective evaluation on the activity of the Issuer. Board members must have enough time for the performance of their duties.	*Complied*	*In 2011 Board members had access in due time to accurate information on the activity of LSC. The Board was capable of providing an objective evaluation on the activity of LSC. Board members had enough time for the performance of their duties.*
4.4 It is not recommended to elect one and the same Board member for more than four successive terms. The Issuer has to evaluate whether its development will be facilitated in the result of that and whether it will be possible to avoid a situation where greater power is concentrated in hands of one or a number of separate persons due to their long-term work at the Issuer. If, however, such election is admitted, it shall be recommended to consider to change the field of work of the relevant Board member at the Issuer.	*Complied*	*None of the members of the Board has been elected for more than four successive terms.*

5. Identification of interest conflicts in the work of the Management Board members

Every Management Board member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances and willing to assume responsibility for the decisions taken and comply with the general ethical principles in adopting any decisions connected with the business of the Issuer.

Principle	Status in 2011	Explanation
5.1 It shall be the obligation of every Board member to avoid any, even only supposed, interest conflicts in his/her work. In taking decisions, Board members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit.	*Complied*	*While taking decisions, the Members of the Board are guided by the interests of the Company and they do not use the cooperation offers proposed to the Company to obtain personal benefit.*
5.2 On the occurrence of any interest conflict or even only on its possibility, a Board member shall notify other Board members without delay. Board members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the Board member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements. For the purposes of these Recommendations the following shall be regarded as persons who have close relationship with a Board member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Board member has had a common household for at least one year. For the purposes of these recommendations the following shall be regarded as persons who are connected with a Board member: legal persons where the Board member or a closely related to him/her person is a Board or Council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.	*Complied*	*On the occurrence of any interest conflict or even only on its possibility, the Board member is notifying other Board members without delay. Board members is notifying on any deal or agreement the Company is planning to conclude with a person who has close relationship or is connected with the Board member in question, as well as is informing on any interest conflicts occurred during the validity period of concluded agreements.*
5.3 Board members should not participate in taking decisions that could cause an interest conflict.	*Complied*	*Board members are not participating in taking decisions that could cause an interest conflict.*

Supervisory Council

In compliance with legal acts a Supervisory Council is the institution that supervises the Issuer and represents interests of shareholders between meetings in cases stipulated in the law and in the statutes of the Issuer, supervises the work of the Management Board.

6. Obligations and responsibilities of the Supervisory Council

The objective of the Issuer's Supervisory Council is to act in the interests of all the shareholders, ensuring that the value of the Issuer grows. The Issuer shall clearly determine the obligations of the Council and the responsibility of the Council members, as well as ensure that individual Council members or groups thereof do not have a dominating role in decision making.

Principle	Status in 2011	Explanation
6.1 The functions of the Council shall be set forth in the council regulation or a document equated thereto that regulates the work of the Council, and it shall be published on the Issuer's website on the Internet. This document shall be also available at the Issuer's office.	*Partly complied*	*The functions of the Council are stipulated in the Council Regulations, which are elaborated on the basis of Articles of Association of Latvian Shipping Company and rules of the Commercial Law. The Council Regulations are available in the registered office of LSC but not on the website on the Internet.*
6.2 The supervision carried out by the Council over the work of the Board shall include supervision over the achievement of the objectives set by the Issuer, the corporate strategy and risk management, the process of financial accounting, Board's proposals on the use of the profit of the Issuer, and the business performance of the Issuer in compliance with the requirements of regulatory acts. The Council should discuss every of the said matters and express its opinion at least annually, complying with frequency of calling Council meetings as laid down in regulatory acts, and the results of discussions shall be reflected in the minutes of the Council's meetings.	*Complied*	*In 2011 the Council did carried out sufficient Board supervision over the achievement of the objectives set by the Company, the corporate strategy and risk management, the process of financial accounting and the business performance of the Company in compliance with the requirements of regulatory acts.*
6.3 The Council and every its member shall be responsible that they have all the information required for them to fulfill their duties, obtaining it from Board members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the Council chairperson shall contact the Issuer's Board, inter alia the Board chairperson, on a regular basis and discuss all the most important issues connected with the Issuer's business and development strategy, business activities, and risk management.	*Complied*	*In 2011 the Council had all the information required for it to fulfill its duties. The chairman of the Council at least once a month met chairman of the Board in order to discuss all the most important issues connected with the Company's business and development strategy, business activities, and risk management.*
6.4 When determining the functions of the Council, it should be stipulated that every Council member has the obligation to provide explanations in case the Council member is unable to participate in Council meetings. It shall be recommended to disclose information on the Council members who have not attended more than a half of the Council meetings within a year of reporting, providing also the reasons for non-attendance.	*Complied*	*Usually the member of the Council in due time informs chairman of the Council in due time, if he/she is unable to participate in Council meeting, providing also the reasons for non-attendance.*

7. Supervisory Council composition and requirements for the Supervisory Council members

The Supervisory Council structure determined by the Issuer shall be transparent and understandable and ensure sufficiently critical and independent attitude in evaluating and taking decisions.

Principle	Status in 2011	Explanation
7.1 The Issuer shall require every Council member as well as Council member candidate who is planned to be elected at a shareholders' meeting that they submit to the Issuer the following information: name, surname, year of birth, education, office term as a Council member, description of the last three year's professional experience, number of the Issuer's or its parent companies/subsidiaries shares owned by the member, information on positions in other capital companies. The said information shall be published also on the Issuer's website on the Internet, providing, in addition to the said information, also the term of office for which the Council member is elected, its position, including also additional positions and obligations, if any	*Complied*	*LSC requires the mentioned information from members of the Council and has published it at internet home page.*
7.2 When determining the requirements for Council members as regards the number of additional positions, attention shall be paid that a Council member has enough time to perform his or her duties in order to fulfill their duties successfully and act in the interests of the Issuer to a full extent.	*Complied*	*LSC pays attention that a Council member has enough time to perform his or her duties in order to fulfill their duties successfully and act in the interests of LSC to a full extent.*
7.3 In establishing the Issuer's Council, the qualification of Council members should be taken into account and assessed on a periodical basis. The Council should be composed of individuals whose knowledge, opinions and experience is varied, which is required for the Council to fulfill their tasks successfully.	*Complied*	*LSC assesses and takes into account the qualification of Council members.*
7.4 Every Council member in his or her work shall be as possibly independent from any external circumstances and have the will to assume responsibility for the decisions taken and comply with the general ethical principles when taking decisions in relation to the business of the Issuer.	*Complied*	*LSC appeals the Council members in their work to be as independent as possible from any external circumstances and to assume responsibility for the decisions taken and comply with the general ethical principles when taking decisions in relation to the business of the Company.*
7.5 It is impossible to compile a list of all the circumstances that might threaten the independence of Council members or that could be used in assessing the conformity of a certain person to the status of an independent Council member. Therefore, the Issuer, when assessing the independence of Council members, shall be guided by the independence criteria of Council members specified in the Annex hereto.	*Partly complied*	*The Council members of LSC are nominated for election in the Council and acting in compliance with the Commercial Law, according to which the Council members are independent and unaffected in the decision-making process. However, only one Council member (Jaakko Sakari Mikael Salmelin) meets the independence criteria of Council members specified in the Annex.*
7.6 It shall be recommended that at least a half of Council members are independent according to the independence criteria specified in the Annex hereto. If the number of Council members is an odd number, the number of independent Council members may be one person less than the number of the Council members who do not conform to the independence criteria specified in the Annex hereto.	*Not complied*	*See comment on Clause 7.5.*
7.7 As independent shall be considered persons that conform to the independence criteria specified in the Annex hereto. If a Council member does not conform to any of to the independence criteria specified in the Annex hereto but the Issuer does consider the Council member in question to be independent, then it shall provide an explanation of its opinion in detail on the tolerances	*Not complied*	*See comment on Clause 7.5.*

Principle	Status in 2011	Explanation
permitted.		
7.8 The conformity of a person to the independence criteria specified in the Annex hereto shall be evaluated already when the Council member candidate in question has been nominated for election to the Council. The Issuer shall specify in the Report who of the Council members are to be considered as independent every year.	*Not complied*	*See comment on Clause 7.5.*

8. Identification of interest conflicts in the work of the Supervisory Council members

Every Supervisory Council member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances. Supervisory Council members shall comply with the general ethical principles in adopting any decisions connected with the business of the Issuer and assume responsibility for the decisions taken.

Principle	Status in 2011	Explanation
8.1 It shall be the obligation of every Council member to avoid any, even only supposed, interest conflicts in his/her work. When taking decisions, Council members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit.	*Complied*	*LSC appeals when taking decisions, the Council members to guide by the interests of the Company and not use the cooperation offers proposed to the Company to obtain personal benefit.*
8.2 On the occurrence of any interest conflict or even only on its possibility, a Council member shall notify other Council members without delay. Council members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the Council member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements. For the purposes of these recommendations the following shall be regarded as persons who have close relationship with a Council member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Council member has had a common household for at least one year. For the purposes of these recommendations the following shall be regarded as persons who are connected with a council member: legal persons where the Council member or a closely related to him/her person is a board or Council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.	*Complied*	*On the occurrence of any interest conflict or even only on its possibility, the Supervisory Council member is notifying other Council members without delay.*
8.3 A Council member who is in a possible interest conflict should not participate in taking decisions that might be a cause of an interest conflict.	*Complied*	*A Council member who is in a possible interest conflict is not participating in taking decisions that might be a cause of an interest conflict.*

Disclosure of Information

Good practice of corporate governance for an Issuer whose shares are included in the market regulated by the Stock Exchange means that the information disclosed by the Issuer has to provide a view on the economic activity of the Issuer and its financial results. This facilitates a justified determination of the price of financial instruments in public circulation as well as the trust in finance and capital markets. Disclosure of information is closely connected with investor relations (hereinafter – the IR), which can be defined as the process of developing Issuer's relations with its potential and existing investors and other parties interested in the business of the Issuer.

9. Transparency of the Issuer's business

The information disclosed by the Issuers shall be provided in due time and allowing the shareholders to assess the management of the Issuer, to get an idea on the business of the Company and its financial results, as well as to take grounded decisions in relation to the shares owned by them.

Principle	Status in 2011	Explanation
9.1 The structure of corporate governance shall be established in a manner that ensures provision of timely and exhaustive information on all the substantial matters that concern the Issuer, including its financial situation, business results, and the structure of owners	*Complied*	*The structure of corporate governance LSC is established in a manner that ensures provision of timely and exhaustive information on all the substantial matters that concern the Company, including its financial situation, business results, and the structure of owners.*
9.2 The information disclosed shall be checked, precise, unambiguous and prepared in compliance with high-quality standards	*Complied*	*The information LSC discloses is checked, precise, unambiguous and prepared in compliance with high-quality standards*
9.3 The Issuers should appoint a person who would be entitled to contact the press and other mass media on behalf on the Issuer, thus ensuring uniform distribution of information and evading publication of contradictory and untruthful information, and this person could be contacted, if necessary, by the Stock Exchange and investors	*Complied*	*LSC as part of joint stock company "Ventspils nafta" Group has appointed the manager of Public Relations of JSC "Ventspils nafta" as the person who is entitled to contact the press and other mass media on behalf on the Company, thus ensuring uniform distribution of information and evading publication of contradictory and untruthful information, and this person could be contacted, if necessary, by the Stock Exchange and investors.*
9.4 The Issuers should ensure timely and compliant with the existing requirements preparation and disclosure of financial reports and annual reports of the Issuer. The procedure for the preparation of reports should be stipulated in the internal procedures of the Issuer	*Partly complied*	*In 2011 LSC did its best to ensure timely preparation and disclosure of financial reports and annual reports of the Company which are in compliance with the existing requirements. The procedure for the preparation of reports is stipulated in the internal procedures of the Company. However, LSC disclosed audited annual report for 2010 and unaudited financial statements for Q1/2011 after the deadline set out in the law because additional time was required to reach agreement with the banks on Company's credit facilities restructuring.*

10. Investor relations

Considering that financial instruments of the Issuers are offered on a regulated market, also such activity sphere of the Issuers as investor relations (hereinafter – the IR) and the development and maintaining thereof is equally important, paying special attention to that all the investors have access to equal, timely and sufficient information.

Principle	Status in 2011	Explanation
10.1 The main objectives of the IR are the provision of accurate and timely information on the business of the Issuer to participants of finance market, as well as the provision of a feedback, i.e. receiving references from the existing and potential investors and other persons. In the realization of the IR process, it shall be born in mind that the target group consists not only of institutional investors and finance market analysts. A greater emphasis should be put on individual investors, and more importance should be attached to informing other interested parties: employees, creditors and business partners.	*Complied*	*LSC is providing accurate and timely information on the business of the Company to participants of finance market, as well as is providing of a feedback, i.e. receiving references from the existing and potential investors and other stakeholders.*
10.2 The Issuer shall provide all investors with equal and easily accessible important information related to the Issuer's business, including financial position, ownership structure and management. The Issuer shall present the information in a clear and understandable manner, disclosing both positive and negative facts, thus providing the investors with a complete and comprehensive information on the Issuer, allowing the investor to assess all information available before the decision making.	*Complied*	*LSC is providing all investors with equal and easily accessible important information related to the Issuer's business, including financial position, ownership structure and management. LSC presents the information in a clear and understandable manner, disclosing both positive and negative facts, thus providing the investors with a complete and comprehensive information on LSC, allowing the investor to assess all information available before the decision making.*
10.3 A number of channels shall be used for the information flow in the IR. The IR strategy of the Issuer shall be created using both the possibilities provided by technologies (website) and relations with mass media and the ties with the participants of finance market. Considering the development stage of modern technologies and the accessibility thereof, the Internet is used in the IR of every modern company. This type of media has become one of the most important means of communications for the majority of investors.	*Complied*	*For IR information flow LSC is using both the possibilities provided by technologies (website) and relations with mass media and the ties with the participants of finance market.*
10.4 The basic principles that should be observed by the Issuers in preparing the IR section of their websites: 1) The IR section of website shall be perceived not only as a store of information or facts but also as one of the primary means of communication by means of which it is possible to inform the existing and potential shareholders; 2) all the visitors of the IR section of website shall have the possibility to obtain conveniently all the information published there. Information on websites shall be published in all the foreign languages in which the Issuer normally distributes information so that in no way would foreign investors be discriminated, however, it shall be taken into account that information must be disclosed at least in Latvian and English; 3) It shall be recommended to consider a solution that would allow the existing and potential investors to maintain ties with the Issuer by using the IR section of website – submit questions and receive answers thereto, order the most recent information, express their opinions etc.;	*Complied*	*LSC website's IR section is prepared according to these suggestions.*

Principle	Status in 2011	Explanation
4) the information published on websites shall be updated on a regular basis, and the news in relation to the Issuer and its business shall be published in due time. It shall not be admissible that outdated information that could mislead investors is found on websites; 5) after the website is created the creators themselves should assess the IR section of the website from the point of view of users – whether the information of interest can be found easily, whether the information published provides answers to the most important questions etc		
10.5. The Issuer shall ensure that at least the following information is contained in the IR section of website: 1) general information on the Issuer - history of its establishment and business, registration data, description of industry, main types of business; 2) Issuer's Report (*"comply or explain"*) on the compliance with the principles of corporate governance; 3) Number of issued and paid financial instruments, specifying how many of them are included in a regulated market; 4) information on shareholders' meetings, draft decisions to be examined, decisions adopted – at least for the last year of report; 5) Issuer's statutes; 6) Issuer's board or council regulation or a document equated thereto that regulates its work, as well as the Issuer's remuneration policy (or a reference where it is made available) and the shareholders' meeting procedure regulation, if such has been adopted; 7) Information on the performance of the Issuer's Audit Committee; 8) information on present Issuer's council and board members (on each individually): work experience, education, number of the Issuer's shares owned by the member (as at the beginning of year; the information shall be updated as required but at least annually), information on positions in other capital companies, and the term of office of board and council members; 9) Issuer's shareholders which/who own at least 5% of the Issuer's shares; and information on changes of shareholders; 10) Financial reports and annual reports of the Issuer prepared in compliance with the procedure specified in legal acts and the Stock Exchange regulations; 11) Any other information to be disclosed by the Issuer, e.g. information on any substantial events, Issuer's press releases, archived information on Issuer's financial and annual reports on previous periods etc.	*Complied*	*LSC website's IR section contains majority of the suggested information.*

Internal Control and Risk Management

The purpose of internal control and risk management is to ensure efficient and successful work of the Issuer, the truthfulness of the information disclosed and conformity thereof to the relevant regulatory acts and business principles. Internal control helps the board to identify the shortcomings and risks in the management of the Issuer as well as facilitates that the council's task - to supervise the work of the board - is fulfilled efficiently.

11. Principles of the Issuer's internal and external control

To ensure successful work of the Issuer, it shall be necessary to plan regular its controls and to determine the procedure of internal and external (audit) control.

Principle	Status in 2011	Explanation
11.1 To ensure successful operation, the Issuer shall control its work on a regular basis and define the procedure of internal control.	*Complied*	*LSC has defined the procedure of internal control.*
11.2 The objective of risk management is to ensure that the risks connected with the commercial activity of the Issuer are identified and supervised. To ensure an efficient risk management, it shall be necessary to define the basic principles of risk management. It is recommended to characterize the most essential potential and existing risks in relation to the business of the Issuer.	*Complied*	*LSC has characterized the most essential potential and existing risks in relation to the business of the Company.*
11.3 Auditors shall be granted access to the information required for the fulfillment of the auditor's tasks and the possibility to attend council and board meetings at which financial and other matters are dealt with.	*Complied*	*Auditors could access any Company's information.*
11.4 Auditors shall be independent in their work and their task shall be to provide the Issuer with independent and objective auditing and consultation services in order to facilitate the efficiency of the Issuer's business and to provide support in achieving the objectives set for the Issuer's management by offering a systematic approach for the assessment and improvement of risk management and control processes.	*Complied*	*Each year after audit, auditors provide the assessment and improvement of risk management and control processes of the Company.*
11.5 It shall be recommended to carry out an independent internal control at least annually in order to assess the work of the Issuer, including its conformity to the procedures approved by the Issuer.	*Complied*	*The Internal audit department of LSC constantly performs independent audits in order to evaluate activities of the LSC.*
11.6 When approving an auditor, it is recommended that the term of office of one auditor is not the same as the term of office of the board	*Complied*	*Each year the general meeting of shareholders of LSC approves the auditor for the audit for the next year's Annual report.*

12. Audit Committee

The Audit Committee shall be established by a resolution of the Issuer's shareholders' meeting, and its operations and scope of responsibilities shall be set as guided by the legislation.

Principle	Status in 2011	Explanation
12.1 The functions and responsibility of the Audit Committee should be specified in the regulation of the committee or a comparable document.	*Complied*	*The functions and responsibility of the Audit Committee of LSC is specified in the regulations of the Audit Committee.*
12.2 To assure an efficient functioning of the Audit Committee, it is recommended that at least three of its members have adequate knowledge in accounting and financial reporting, because issues related to the Issuer's financial reports and control are in the focus of the Audit Committee's operations.	*Complied*	*The Audit Committee of LSC consists of three members. Extraordinary shareholders meeting on 17, December 2010 elected the Audit Committee for a three year term consisting of Lahsen Idiken, Mikhail Dvorak, Jozef Hubertus Johannes Baardemans who all have adequate knowledge in accounting and financial reporting.*
12.3 All Audit Committee members shall have access to the information about the accounting principles practiced by the Issuer. Board shall advise the audit Committee as to the approaches to significant and unusual transactions, where alternative evaluations are possible, and shall ensure that the Audit Committee has access to all information that has been specified in the legislation.	*Complied*	*The Audit Committee members had access to the information about the accounting principles practiced by LSC. In 2011 the Audit Committee held several joint meetings with the Board to discuss companies business and acquire significant information.*
12.4 The Issuer shall ensure that its officials, board members and staff release the information to the Audit Committee that is necessary for its operations. The Audit Committee should also be entitled to carry out an independent investigation in order to identify, within its scope, any violations in the Issuer' activities.	*Complied*	*The Audit Committee has unlimited access to Company's information. The Audit Committee can also use resources of Internal Audit Department to carry out independent investigations.*
12.5 Within its scope, the Audit Committee shall adopt resolutions, and is accountable to the shareholders' meeting for its operations.	*Complied*	*In 2011 the Audit Committee adopted resolutions and reported to shareholders meeting.*

Remuneration Policy

13. General principles, types and criteria for setting remuneration

The policy of the remuneration of board and council members – type, structure and amount of remuneration - is one of the spheres where persons involved has a potentially greater risk to find themselves in an interest conflict situation. To avoid it, the Issuer shall develop a clear remuneration policy, specifying general principles, types and criteria for the remuneration to be awarded to the board or council members.

Principle	Status in 2011	Explanation
13.1 The Issuers are called on to develop a remuneration policy in which the main principles for setting the remuneration, possible remuneration schemes and other essential related issues are determined. While preparing the remuneration policy Issuer should ensure that the remuneration of management and supervisory board members is proportionate to the remuneration of the Issuer's executive and managing directors and other employees.	*Not complied*	*LSC has not developed and approved motivation and remuneration policy regarding the Board and Council members. Currently regarding difficult financial situation of the LSC Group, remuneration of the Council is set to zero. It can be revised when financial situation improves and the Company returns to profit.* *The Board receives fixed remuneration which is proportionate to the remuneration of the employees. Motivation schemes to the Board could be revised when financial situation improves and the Company returns to profit.*
13.2 Without limiting the role and operations of the Issuer's management bodies responsible for setting remuneration to the board and council members, the drafting of the remuneration policy should be made a responsibility of the Issuer's board, which during the preparation of a draft policy should consult with the Issuer's council. In order to avoid conflicts of interest and to monitor the management board remuneration policy, the Issuer should appoint a responsible person having sufficient experience and knowledge in the field of remuneration for development of the remuneration policy.	*Not complied*	*See comment on Clause 13.1.*
13.3 Should the remuneration policy contain a remuneration structure with a variable part in the form of the Issuer's shares or share options or any other payments, including premiums, it should be linked to previously defined short-term and long-term goals and performance criteria. If remuneration depends on fulfillment of short-term goals only, it is not likely to encourage an interest in the Company's growth and improved performance in the long-term. The scope and structure of the remuneration should depend on the business performance of the Company, share price and other Issuer's events.	*n/a*	*LSC did not prescribe remuneration in the form of the LSC shares or share options.*
13.4 While setting the variable part of remuneration, Issuer should set limits on the variable component(s). The non-variable part of remuneration should be sufficient to allow the Issuer to withhold variable part of remuneration when necessary.	*n/a*	*See comment on Clause 13.1.*
13.5 Where a variable part of remuneration provides Issuer's shares, share options or any other acquisition rights thereof, it should be desirable to prescribe a minimum non-used period of time.	*n/a*	*LSC did not prescribe remuneration in the form of the LSC shares or share options.*
13.6 Remuneration policy should include provisions that permit the Issuer to reclaim variable part of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated. Such provision should be included in contracts concluded between the respective executives and the Issuer.	*Partly complied*	*Currently, LSC has no variable part of remuneration.*

Principle	Status in 2011	Explanation
13.7 Remuneration schemes that include Issuer's shares as remuneration may theoretically cause loss to the Issuer's existing shareholders because the share price might drop due to a new issue of shares. Therefore, prior to the preparation and approval of this type of remuneration, it shall be required to assess the possible benefits or losses.	*n/a*	*LSC did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*
13.8 When preparing the remuneration policy where a variable part is in the form of the Issuer's shares or share options, the Issuer shall be obliged to disclose information on how the Issuer plans to ensure the amount of shares to be granted in compliance with the approved remuneration schemes– whether it is planned to obtain them by buying on a regulated market or by issuing new shares.	*n/a*	*LSC did not prescribe remuneration in the form of the LSC shares or share options.*
13.9 While drafting the remuneration policy and envisaging awarding options entitling to the Issuer's shares, the Stock Exchange rules regarding distribution of share options should be taken into account.	*n/a*	*LSC did not prescribe remuneration in the form of the LSC shares or share options.*
13.10 While setting remuneration principles with regard to board and council members, they should include general approach as to compensations, if any, in cases when contracts with the said officials are terminated (termination payments). Termination payments should not be paid if the termination is due to inadequate performance.	*Complied*	*LSC has general approach to compensations.*
13.11 It is recommended to set an adequate maximum amount of the termination payments which should not be higher than two years of the non-variable part of remuneration.	*Complied*	*LSC has general approach to compensations.*

14. Remuneration Report

A clear and complete report on the remuneration policy with regard to the management body members of the Issuer should be made available to the shareholders. Public disclosure of the said information would allow the existing and potential shareholders to carry out a comprehensive evaluation of the Issuer's approach the remuneration issues; consequently, the Issuer's responsible body shall draft and made public the Remuneration Report.

Principle	Status in 2011	Explanation
14.1 The Issuer is obliged to make public the Remuneration Report – a complete report on the remuneration policy applied to the members of the Issuer's management bodies. Remuneration Report may be a separate document, or may integrated in a special chapter of the Report prepared by the Issuer as recommended by Item 9 of the Introduction of the present Recommendations. The Remuneration Report should be posted on the Issuers website.	*Not complied*	*LSC has not prepared Remuneration Report since remuneration of the Supervisory Council is set to zero and the Management Board receives fixed remuneration which is disclosed in the Annual Report.*
14.2 Remuneration Report should contain at least the following information: 1) Information as to the application of the remuneration policy to board and council members in the previous financial year, specifying the material changes to the Issuer's remuneration policy compared to the previous reporting period; 2) The proportion between the fixed and variable part of the remuneration for the respective category of officials , including information with regard to	*Not complied*	*See explanation on Clause 14.1.*

Principle	Status in 2011	Explanation
vesting periods of variable part of remuneration; 3) Sufficient information as to linking the remuneration with performance. To consider the information sufficient, the report should contain: • An explanation how the choice of performance criteria contributes to the long term interest of the Issuer; • An explanation of the methods applied in order to determine whether performance criteria have been fulfilled; 4) Information about the Issuer's policy with regard to the contracts with the members of the Issuer's management bodies, the terms and conditions of the contracts (duration, notice deadlines about termination, including payments due in case of termination); 5) Information about the incentive schemes and the specifications and reasons for awarding any other benefits; 6) A description of any pension or early retirement schemes; 7) An overview of the remuneration paid to or any benefits received by each individual that has been board or council member in the reporting period – disclosing at least the information required in Items 14.5, 14.5 and 14.7 below.		
14.3 To avoid overlapping of information, the Issuer, while preparing its Remuneration Report, may omit the information required in Items 14.2 1) to 7) above, provided it is a part of the Issuer's Remuneration Policy document. In such case, Remuneration Report should have a reference to the Remuneration Policy, together with an indication where it is made available.	*Not complied*	*See explanation on Clause 14.1.*
14.4 If the Issuer believes that, as a result of following the provisions of Item 14.2 of these Recommendations sensitive business information might become public to the detriment of the Issuer's strategic position, the Issuer may not disclose such information and give the reasons.	*Not complied*	*See explanation on Clause 14.1.*
14.5 The following remuneration and other benefits related information about each board and council member should be disclosed: 1) Total amount paid or outstanding (salary) for the year; 2) Remuneration and other benefits received from any company associated with the Issuer. For the understanding of this Item, "associated undertaking" is a company according to the definition in Paragraph 1 of the Law on the Financial Instruments Market; 3) Remuneration paid as profit distribution or bonus, and the reasons for awarding such remuneration; 4) Compensation for fulfillment of duties in addition to the regular job responsibilities; 5) Compensations and any other payments received by or to be received by board or council member who has left the position during the accounting	*Not complied*	*See explanation on Clause 14.1.*

Principle	Status in 2011	Explanation
period; 6) Total value of any other benefits apart from those listed under Items 1) to 5) received as remuneration.		
14.6 The following information should be disclosed with regard to the shares and/or share options or any other incentive schemes resulting in ownership of the Issuer's shares: 1) the number and holding conditions of shares or share options entitling to the Issuer's shares granted over the reporting period to the members of Issuer's management bodies; 2) The number of options exercised during the reporting period, entitling to the Issuer's shares, specifying the price and the number of shares obtained, or the unit value held by the member of the Issuer's management board in a share-related incentive scheme as at the end of the reporting year; 3) The number of non-exercised options entitling to the Issuer's shares as at the end of the reporting year, the share price in the contract, expiry date and the key rules for exercising the option; 4) Information changes, if any, introduced during the reporting period with regard to the provisions of the contracts on options entitling to the Issuer's shares (such as changes in the option exercising rules, change of expiry date etc.)	*n/a*	*LSC did not prescribe remuneration in the form of the LSC shares or share options.*
14.7 The following information should be disclosed with regard to savings or contributions to pension schemes of private pension funds: 1) the amount of contributions made by the Issuer, to the benefit of individuals, to a pension scheme or schemes, and the rules for disbursement of the pension capital; 2) the participation rules, including termination of participation, to the respective pension scheme, applicable the concrete individual.	n/a	*LSC did not prescribe remuneration in the form of savings or contributions to pension schemes of private pension funds.*
14.8 Remuneration schemes involving awarding with the Issuer's shares, share options or any other tools resulting in ownership of the Issuer's shares shall be approved by the annual general meeting of shareholders. Shareholders' meeting, while resolving on approval of the remuneration scheme, need not resolve on its application to concrete individuals.	n/a	*LSC did not prescribe remuneration in the form of the LSC shares or share options.*