LATVIJAS KUĢNIECĪBA

Public Joint Stock Company
“Latvijas Kuģniecība”

Condensed Financial Statements

31 December 2011

Content

General information

General information on the Company

Name	„Latvijas kuģniecība" (hereinafter also referred to as „Company")
Legal status	Joint Stock Company
Registration number, place and date	40003021108, Riga, 13 September 1991 Reregistered in the Commercial Register on 17 November 2004
Registered Office	Elizabetes iela 1, Riga, LV 1807, Latvia
Reporting period	1st January 2011 – 31st December 2011
Previous reporting period	1st January 2010 – 31st December 2010

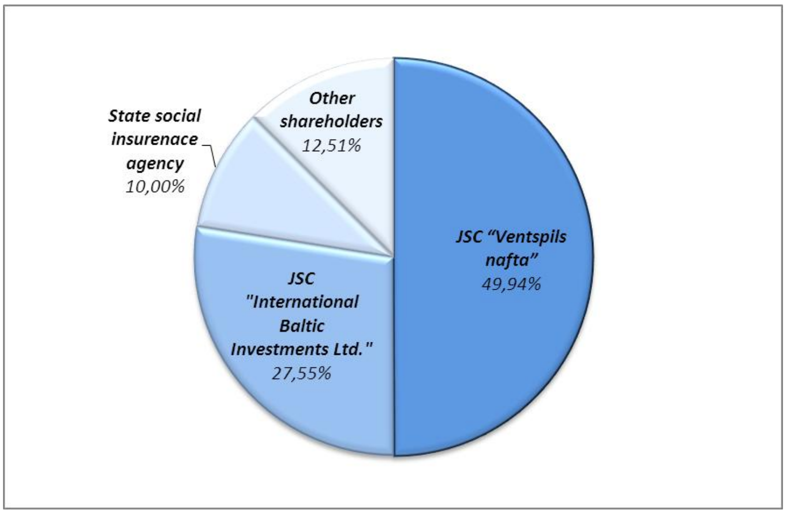
Shareholders of the Company

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

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

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

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



General information (*Continued*)

The Supervisory Council of the Company

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

The Management Board of the Company

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

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

Management report

Dear Shareholders and Business Partners,

Type of operation

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

Company’s operation and results during the year of account

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

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

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

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

Research and development

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

Group performance results

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

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

(1) assets held for sale (3 older handy size vessels), in the amount of LVL 6.48 million,

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

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

This result reflects the continuing difficult financial situation that ship-owners experienced during 2011, yet again experiencing the lowest market rates in history. The reasons for this are various and complex however the main factors are less demand for oil products caused by the global economic downturn especially in the developed western economies coupled with an increase in the number of new tankers. Prior to 2008 strong global economic growth stimulated demand for shipping and this encouraged the construction of new tankers. As a consequence of this increase in vessel supply and current decrease in demand is lower earnings for ship-owners.

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

Management report (Continued)

Financial risk management

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

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

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

Information on Company's securities

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

Post balance conditions and events

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

Distribution of profit suggested by the Management Board

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

Future prospects

LSC Parent company results in 2012 will strongly depend on results of LSC Group. Given the very difficult financial environment the global shipping market remains very challenging. Ship-owners in all market segments are experiencing severe liquidity problems. LSC Group has also been exposed to these difficult conditions but has been cushioned from the worst effects with a majority of the fleet being employed on time charter thus ensuring a more predictable income stream.

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

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

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

Income statement

for the year ended 31 December 2011

	2011 EUR	2011 LVL	2010 EUR	2010 LVL
Net sales	6 588 675	4 630 547	7 113 880	4 999 663
Cost of sales	(2 364 706)	(1 661 925)	(3 385 051)	(2 379 027)
Gross profit	**4 223 969**	**2 968 622**	**3 728 829**	**2 620 636**
Administrative expenses	(1 717 692)	(1 207 201)	(8 399 746)	(5 903 375)
Other operating income	69 837	49 082	-	-
Other operating expenses	(998 983)	(702 089)	(1 055 992)	(742 155)
Income from investments in subsidiaries	-	-	5 899 922	4 146 489
Interest and similar income	215 729	151 615	47 413	33 322
Impairment of non-current investments	-	-	(399 325)	(280 647)
Interest and similar expenses	(5 555)	(3 904)	(73 111)	(51 383)
Profit/(loss) before taxation	**1 787 305**	**1 256 125**	**(252 010)**	**(177 113)**
Corporate income tax and deferred tax	(531 256)	(373 369)	(662 207)	(465 402)
Real estate tax	(39 684)	(27 890)	(37 774)	(26 548)
Net profit/(loss) for the year	**1 216 365**	**854 866**	**(951 991)**	**(669 063)**

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

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

Balance Sheet

as at 31 December 2011

	2011 EUR	2011 LVL	2010 *(restated)* EUR	2010 *(restated)* LVL
Assets				
Non-Current Assets				
Intangible Assets:				
Concessions, patents, licenses, trademarks and similar rights	170 819	120 052	382 976	269 157
Total Intangible Assets:	**170 819**	**120 052**	**382 976**	**269 157**
Tangible Assets:				
Land, buildings and constructions	2 445 800	1 718 918	2 537 598	1 783 434
Other fixed assets	237 722	167 072	373 928	262 798
Total Tangible Assets:	**2 683 522**	**1 885 990**	**2 911 526**	**2 046 232**
Investment properties	**1 440 791**	**1 012 594**	**2 388 928**	**1 678 948**
Non-Current Financial Assets:				
Investments in subsidiaries	50 495 001	35 488 089	50 495 001	35 488 089
Investments in associates	10 747	7 553	10 747	7 553
Other long term debtors	20 333	14 290	-	-
Total Non-Current Financial Assets:	**50 526 081**	**35 509 932**	**50 505 748**	**35 495 642**
Total Non-Current Assets	**54 821 213**	**38 528 568**	**56 189 178**	**39 489 979**
Current Assets				
Inventories	**1 801**	**1 266**	**14 030**	**9 860**
Accounts receivable and prepayments:				
Trade receivables	2 006	1 410	5 960	4 189
Amounts due from related companies	1 904 239	1 338 307	1 054 699	741 247
Other receivables	199 820	140 434	928 841	652 793
Deferred expenses	48 326	33 964	240 646	169 127
Total Accounts Receivable:	**2 154 391**	**1 514 115**	**2 230 146**	**1 567 356**
Cash and Cash Equivalents	**2 156 115**	**1 515 326**	**475 236**	**333 998**
Total Current Assets	**4 312 307**	**3 030 707**	**2 719 412**	**1 911 214**
Total Assets	**59 133 520**	**41 559 275**	**58 908 590**	**41 401 193**

Balance Sheet *(Continued)*

as at 31 December 2011

	2011 EUR	2011 LVL	2010 *(restated)* EUR	2010 *(restated)* LVL
Shareholders' Equity and Liabilities				
Shareholders' Equity				
Share capital	284 574 362	200 000 000	284 574 362	200 000 000
Accumulated deficit				
a) accumulated deficit for the prior years	(227 354 369)	(159 785 560)	(226 402 378)	(159 116 497)
b) profit/(loss) for the reporting year	1 216 365	854 866	(951 991)	(669 063)
Total Shareholders' Equity	**58 436 358**	**41 069 306**	**57 219 993**	**40 214 440**
Liabilities:				
Non-current Liabilities:				
Deferred tax liabilities	105 123	73 881	157 525	110 709
Total Non-current Liabilities	**105 123**	**73 881**	**157 525**	**110 709**
Current Liabilities:				
Trade payables	73 133	51 398	223 702	157 219
Amounts due to related companies	237 365	166 821	213 882	150 317
Taxes and social security contributions	60 981	42 858	739 199	519 512
Other accounts payable	64 679	45 457	74 341	52 247
Accrued liabilities	155 881	109 554	279 948	196 749
Total Current Liabilities	**592 039**	**416 088**	**1 531 072**	**1 076 044**
Total Liabilities	**697 162**	**489 969**	**1 688 597**	**1 186 753**
Total Shareholders' Equity and Liabilities	**59 133 520**	**41 559 275**	**58 908 590**	**41 401 193**

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

Simon Richard Blaydes
Chairman of the Management Board
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Riga, 19 April 2012

Statement of Changes in Shareholders' Equity

for the year ended 31 December 2011

	Share Capital EUR	Share Capital LVL	Accumulated deficit EUR	Accumulated deficit LVL	Total EUR	Total LVL
At 1 January 2009	**284 574 362**	**200 000 000**	**(93 566 340)**	**(65 758 798)**	**191 008 022**	**134 241 202**
Net loss for the year	-	-	(25 034 426)	(17 594 295)	(25 034 426)	(17 594 295)
Correction of the investment	-	-	(108 369 971)	(76 162 849)	(108 369 971)	(76 162 849)
Correction of accrued liabilities	-	-	568 359	399 445	568 359	399 445
At 31 December 2009 *(restated)*	**284 574 362**	**200 000 000**	**(226 402 378)**	**(159 116 497)**	**58 171 984**	**40 883 503**
Net loss for the year	-	-	(951 991)	(669 063)	(951 991)	(669 063)
At 31 December 2010 *(restated)*	**284 574 362**	**200 000 000**	**(227 354 369)**	**(159 785 560)**	**57 219 993**	**40 214 440**
Net profit for the year	-	-	1 216 365	854 866	1 216 365	854 866
At 31 December 2011	**284 574 362**	**200 000 000**	**(226 138 004)**	**(158 930 694)**	**58 436 358**	**41 069 306**

As of 31 December 2011 the authorised, issued and fully paid share capital of the Company consists of 200 000 000 shares with nominal value of LVL 1 per share. All shares are publicly traded and listed on NASDAQ OMX Riga Official list. All shares are ordinary shares with voting rights.

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

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

Cash Flow Statement

for the year ended 31 December 2011

	2011 EUR	2011 LVL	2010 EUR	2010 LVL
Cash Flow from Operating Activities				
Profit/(loss) before taxation	1 787 305	1 256 125	(252 009)	(177 113)
Adjustments for:				
Depreciation	271 696	190 949	355 584	249 906
Intangible assets amortisation	217 173	152 630	286 253	201 180
Accrued expenses increase	-	-	2 436 756	1 712 562
Impairment of investment properties	928 307	652 418	1 055 888	742 082
Foreign exchange loss	(86 264)	(60 627)	11 709	8 229
Income from investments in subsidiaries and associates	-	-	(5 875 583)	(4 129 383)
Other interest income	(5 542)	(3 895)	(511)	(359)
Other interest expenses	1 143	803	22 702	15 955
Impairment of non-current investments	-	-	374 985	263 541
Loss from disposal of fixed assets	838	589	104	73
Profit/(loss) before adjustments for movements in net working capital	**3 114 656**	**2 188 992**	**(1 584 122)**	**(1 113 327)**
Adjustments for:				
Decrease in inventories	12 228	8 594	2 261	1 589
Decrease/(increase) in trade and other receivables	756 581	531 728	(3 440 837)	(2 418 234)
Decrease in trade and other payables	(873 226)	(613 707)	(466 335)	(327 742)
Gross Cash Flow from Operating Activities	**3 010 239**	**2 115 607**	**(5 489 033)**	**(3 857 714)**
Corporation income tax paid	(650 554)	(457 212)	-	-
Real estate tax	(39 737)	(27 927)	(37 722)	(26 511)
Net Cash Flow from Operating Activities	**2 319 948**	**1 630 468**	**(5 526 755)**	**(3 884 225)**
Cash Flow from Investing Activities				
Acquisition of tangible and intangible assets, assets under construction	(38 482)	(27 045)	(584 489)	(410 781)
Loans issued	(697 207)	(490 000)	-	-
Proceeds from sale of fixed and intangible assets	8 765	6 160	15 922	11 190
Proceeds from disposal of subsidiaries	-	-	982 836	690 741
Interest received	1 591	1 118	511	359
Dividends received	-	-	4 885 594	3 433 615
Net Cash Flow from Investing Activities	**(725 333)**	**(509 767)**	**5 300 374**	**3 725 124**
Cash Flow from Financial Activities				
Repayment of loans	-	-	(1 000 000)	(702 804)
Interest paid	-	-	(22 827)	(16 043)
Net Cash Flow from Financial Activities	**-**	**-**	**(1 022 827)**	**(718 847)**
Currency Translation Difference	86 264	60 627	(11 709)	(8 229)
Net Increase/(Decrease) in Cash and Cash Equivalents	**1 680 879**	**1 181 328**	**(1 260 917)**	**(886 177)**
Cash and Cash Equivalents at the beginning of the year	475 236	333 998	1 736 153	1 220 175
Cash and Cash Equivalents at the end of the year	**2 156 115**	**1 515 326**	**475 236**	**333 998**

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

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

Notes

Accounting policies and measurement basis

1. General information

The principal activity of JSC "Latvijas kuģniecība" (the Company) is management of "Latvijas kuģniecība" Group. The Company is registered at the Enterprise register on 13 September 1991 and reregistered in the Commercial register on 17 November 2004. All the shares of the Company are publicly traded and listed on the NASDAQ OMX Riga Official list.

The financial statements of the Company were authorized for issue in accordance with resolution of the Management Board as of 19 April 2012. The Company's shareholders have the power to amend the financial statements after they have been issued.

2. General principles

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

These condensed financial statements are prepared in accordance with accounting policies applied in preparation of the financial statements of JSC "Latvijas kuģniecība" for the year ended 31 December 2011, which were prepared in accordance with the Law of the Republic of Latvia On Annual Accounts and generally accepted accounting principles in Latvia. The financial statements have been prepared on a historical cost basis. The reporting period for the annual report is from 1 January 2011 till 31 December 2011 and financial statements are prepared in Latvian lats (LVL). The income statement is prepared in accordance with the turnover method. Cash flow statement is prepared using the indirect cash flow method.

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

These condensed financial statements are translated in Euros using the rate of exchange stated by the Bank of Latvia as of 31.12.2011: 1 LVL = 0.702804 EUR