

**Public Joint Stock Company  
Latvian Shipping Company and its Subsidiaries**

## **Unaudited Condensed Consolidated Financial Statements**

**for the six month period ended  
30 June 2011**



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## **JSC “Latvijas kuģniecība” Supervisory Council**

<b>Chairman of the Council</b>	Simon Digby Boddy
<b>Deputy Chairperson of the Council</b>	Mikhail Dvorak
<b>Members of the Council:</b>	Vladimir Egger Javed Ahmed Rubil Yilmaz Mark Morell Ware Christophe Theophanis Matsacos Oļegs Stepanovs (from 28.01.2011) Mārtiņš Kvēps (from 28.01.2011) Olga Pētersone (from 28.01.2011) Jaakko Sakari Mikael Salmelin (from 27.07.2011) Serguei Choutov (from 28.01.2011 until 27.07.2011)

## **JSC “Latvijas kuģniecība” Management Board**

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

## Management report

Dear shareholders and stakeholders,

Latvian Shipping Company (hereafter – LSC) and its subsidiaries (hereafter – LSC Group or Group) financial results for Q1-Q2/2011 were negative with a net loss amounting to 8.75 million USD; however positive trends were observed. The net loss incurred was three times less than the Group results for the same reporting period in 2010 (25.24 million USD) The gross profit (7.02 million USD) was a considerable improvement (309%) for the same period in 2010 and was able to fully cover administrative costs. These administrative costs were reduced by 34% compared with Q1-Q2/2010.

On the 23rd June 2011 LSC Group took delivery of its latest new building tanker “Latgale” from “Hyundai Mipo Dockyard Co., Ltd” shipyard in Korea. It was a very important event for LSC Group with the new management successfully managing to arrange financing for its new build programme in a very short period of time. On the 30th June 2011 the fleet under commercial management of the LSC Group consisted of 22 tankers, 19 of which are owned by the LSC Group, with 3 vessels belong to other ship owners. After the reporting period on the 27th July 2011 LSC received its second new build tanker “Zemgale” from “Hyundai Mipo Dockyard Co., Ltd” shipyard in Korea thus completing the first stage of its fleet renewal programme.

In the reporting period the voyage income from shipping was 46.18 million USD, which is a decrease from 60.85 million USD for the same reporting period in the previous year. The decrease was due to a number of factors – during Q1-Q2/2010 part of the fleet was employed in the spot market which incurred substantial voyage costs for bunkers and port charges. Additionally throughout 2010 LSC Group sold seven older ships. During Q1-Q2/2011 20 tankers of the LSC Group fleet were employed on time charters, only 2 tankers were traded on the spot market. During Q1-Q2/2011 LSC Group has concluded 9 new chartering agreements, with 11 agreements still in force concluded by the previous management who were controlling the business until 17 December 2010.

At the end of the reporting period Q1-Q2/2011, the total value of the LSC Group assets has not fundamentally changed and at 30th June 2011 it was 677.97 million USD. During the reporting period the total value of the LSC Group fleet has increased from 570.50 million USD to 582.29 million USD due mainly to the delivery of the new tanker “Latgale”. The total equity value of the Group at 30th June 2011 was 309.72 million USD in comparison to 313.18 million USD at the beginning of the year.

In June, LSC Group successfully renegotiated the terms of the Group’s loan facility with its lending banks in respect of its various covenant obligations. This enabled LSC Group to receive an unqualified auditors’ opinion on the financial statements for 2010 and to publish the annual report for 2010. The annual report 2010 was approved at the annual shareholders meeting on the 27th July 2011.

During Q1-Q2/2011 the price of LSC shares on the NASDAQ OMX Rīga decreased by 2.11%. This can be mainly attributed to the general negative macroeconomic trends as the OMX Baltic Benchmark GI index in the same period decreased by 2.68%. The Latvian Shipping Company’s shares were among the trading leaders during the reporting period – 1,065 transactions involving 12.94 million shares worth 5.64 LVL million were conducted, representing 82% of all share transactions in terms of share amount and 57% of all share transactions in terms of value on the NASDAQ OMX Rīga official list during the reporting period. On the 30th June 2011 the capitalization of Latvian Shipping Company shares at NASDAQ OMX Rīga was 79.80 million LVL.

During Q1-Q2/2011 significant litigation was continuing in the UK Courts with regard to substantial losses suffered in previous years. Also several further transactions were challenged through the courts regarding the dissipation of funds and other assets during 2010 and before.

There has been a slow but steady improvement in ship chartering rates throughout the reporting period which has enabled LSC Group to achieve better than expected earnings. Looking forward the LSC management is acutely aware of the impact worldwide economic events can have on the earning potential of ship-owners. LSC management believes that with a fleet that is predominantly time chartered for an average of 18 months that the resulting steady income stream will give some cushion against the current unstable economic environment.



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Paul Thomas  
Chairman of the Management Board of  
Joint Stock Company Latvian Shipping Company  
Rīga, 31 August 2011

## **Statement of Management's Responsibilities**

The Management Board prepares consolidated financial statements for each reporting period which give a true and fair view of the state of affairs of the JSC "Latvian Shipping Company" and its subsidiaries (hereinafter also – the Group) as of 30 June 2011, changes in shareholders' equity, cash flows and the results of the Group for the period ended of 30 June 2011.

The aforementioned financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union on a going concern basis. During the reporting period, appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the European Union.

For and on behalf of the Management Board



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Paul Thomas  
Chairman of the Management Board of  
Joint Stock Company Latvian Shipping Company  
Riga, 31 August 2011

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011**

## Consolidated income statement

for the period ended 30 June 2011

	2011 US \$'000	2010 US \$'000	2011 LVL'000	2010 LVL'000	2011 EUR'000	2010 EUR'000
Voyage income	46 175	60 848	23 321	32 195	33 183	49 610
Income from printing and publishing	-	32	-	16	-	26
Income from management of real estate	-	704	-	372	-	574
Rendering of services	434	682	215	361	306	556
<b>Revenue</b>	<b>46 609</b>	<b>62 266</b>	<b>23 536</b>	<b>32 944</b>	<b>33 489</b>	<b>50 766</b>
Voyage costs	(1 773)	(16 924)	(835)	(8 954)	(1 189)	(13 798)
Cost of sales	(37 814)	(43 066)	(18 809)	(22 786)	(26 762)	(35 112)
<b>Gross profit</b>	<b>7 022</b>	<b>2 276</b>	<b>3 892</b>	<b>1 204</b>	<b>5 538</b>	<b>1 856</b>
Selling costs	(4)	(9)	(2)	(5)	(3)	(7)
Administrative expenses	(5 610)	(8 537)	(2 794)	(4 517)	(3 975)	(6 960)
Result from disposal of non-financial assets	139	(2 125)	80	(1 124)	114	(1 733)
Impairment of financial assets	(4)	-	(2)	-	(3)	-
Other operating income	63	-	33	-	47	-
<b>Operating profit/(loss)</b>	<b>1 606</b>	<b>(8 395)</b>	<b>1 207</b>	<b>(4 442)</b>	<b>1 718</b>	<b>(6 844)</b>
Finance income	291	1 177	124	623	176	960
Finance costs	(10 271)	(17 862)	(5 089)	(9 451)	(7 242)	(14 563)
<b>Loss before tax</b>	<b>(8 374)</b>	<b>(25 080)</b>	<b>(3 758)</b>	<b>(13 270)</b>	<b>(5 348)</b>	<b>(20 447)</b>
Income tax	(397)	(155)	(197)	(82)	(280)	(126)
<b>Loss for the period</b>	<b>(8 771)</b>	<b>(25 235)</b>	<b>(3 955)</b>	<b>(13 352)</b>	<b>(5 628)</b>	<b>(20 573)</b>
Attributable to:						
Equity holders of the parent	(8 754)	(25 235)	(3 946)	(13 352)	(5 615)	(20 573)
Non-controlling interests	(17)	-	(9)	-	(13)	-
	<b>(8 771)</b>	<b>(25 235)</b>	<b>(3 955)</b>	<b>(13 352)</b>	<b>(5 628)</b>	<b>(20 573)</b>
<b>Loss per share</b>	<b>US\$ (0.04)</b>	<b>US\$ (0.13)</b>	<b>LVL (0.02)</b>	<b>LVL (0.07)</b>	<b>EUR (0.03)</b>	<b>EUR (0.10)</b>

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## Consolidated statement of comprehensive income

for the period ended 30 June 2011

	2011 US \$'000	2010 US \$'000	2011 LVL'000	2010 LVL'000	2011 EUR'000	2010 EUR'000
<b>Loss for the period</b>	<b>(8 771)</b>	<b>(25 235)</b>	<b>(3 955)</b>	<b>(13 352)</b>	<b>(5 628)</b>	<b>(20 573)</b>
<b>Other comprehensive income/(expenses)</b>						
Exchange differences on translation of foreign operations	4 115	(16 267)	(14 032)	34 098	(19 965)	50 093
Net movement on cash flow hedges	1 197	(1 090)	779	(948)	1 108	(1 349)
<b>Other comprehensive income/(expenses) for the period, net of tax</b>	<b>5 312</b>	<b>(17 357)</b>	<b>(13 253)</b>	<b>33 150</b>	<b>(18 857)</b>	<b>48 744</b>
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>(3 459)</b>	<b>(42 592)</b>	<b>(17 208)</b>	<b>19 798</b>	<b>(24 485)</b>	<b>28 171</b>
Attributable to:						
Equity holders of the parent	(4 397)	(42 592)	(17 199)	19 798	(24 472)	28 171
Non-controlling interests	938	-	(9)	-	(13)	-
	<b>(3 459)</b>	<b>(42 592)</b>	<b>(17 208)</b>	<b>19 798</b>	<b>(24 485)</b>	<b>28 171</b>

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## Consolidated statement of financial position

as at 30 June 2011

	30.06.2011 US \$'000	31.12.2010 US \$'000	30.06.2011 LVL'000	31.12.2010 LVL'000	30.06.2011 EUR'000	31.12.2010 EUR'000
<b>Assets</b>						
<b>Non-current assets</b>						
Other intangible assets	426	540	208	289	296	411
Fleet	582 292	570 502	284 741	305 219	405 150	434 288
Other property, plant and equipment	4 213	4 049	2 060	2 166	2 931	3 082
Investment properties	3 419	3 138	1 672	1 679	2 379	2 389
Investments in associates	26	26	13	13	18	18
Other non-current financial assets	8 617	7 720	4 214	4 130	5 996	5 876
<b>Total non-current assets</b>	<b>598 993</b>	<b>585 975</b>	<b>292 908</b>	<b>313 496</b>	<b>416 770</b>	<b>446 064</b>
<b>Current assets</b>						
Inventories	2 597	2 028	1 270	1 085	1 807	1 544
Trade and other receivables	8 877	10 166	4 342	5 438	6 177	7 738
Prepayments	1 526	2 203	746	1 179	1 062	1 678
Other current financial assets	32 029	31 866	15 662	18 160	22 285	25 839
Cash and short term deposits	28 187	42 471	13 783	22 722	19 611	32 330
<b>Total current assets</b>	<b>73 216</b>	<b>88 734</b>	<b>35 803</b>	<b>48 584</b>	<b>50 942</b>	<b>69 129</b>
Assets classified as held for sale	5 760	5 760	2 817	3 082	4 008	4 385
<b>Total assets</b>	<b>677 969</b>	<b>680 469</b>	<b>331 528</b>	<b>365 162</b>	<b>471 720</b>	<b>519 578</b>



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**Consolidated statement of financial position (continued)**

as at 30 June 2011

	<b>30.06.2011</b> <b>US \$'000</b>	<b>31.12.2010</b> <b>US \$'000</b>	<b>30.06.2011</b> <b>LVL'000</b>	<b>31.12.2010</b> <b>LVL'000</b>	<b>30.06.2011</b> <b>EUR'000</b>	<b>31.12.2010</b> <b>EUR'000</b>
<b>Equity and liabilities</b>						
<b>Equity</b>						
Issued capital	362 319	362 319	200 000	200 000	284 574	284 574
Accumulated deficit	(45 984)	(37 230)	(26 308)	(22 362)	(37 515)	(31 900)
Other components of equity	(13 437)	(17 794)	(25 575)	(12 322)	(36 308)	(17 451)
Equity attributable to equity holders of the parent	302 898	307 295	148 117	165 316	210 751	235 223
Non-controlling interests	6 820	5 882	3 335	3 344	4 745	4 758
<b>Total equity</b>	<b>309 718</b>	<b>313 177</b>	<b>151 452</b>	<b>168 660</b>	<b>215 496</b>	<b>239 981</b>
<b>Non-current liabilities</b>						
Interest bearing loans	289 764	281 949	141 695	150 843	201 613	214 630
Finance lease	26 441	27 094	12 930	14 495	18 397	20 625
Other financial liabilities	1 244	1 416	608	757	866	1 077
Trade and other payables	300	300	146	161	208	229
Deferred tax liability	226	207	111	111	158	158
<b>Total non-current liabilities</b>	<b>317 975</b>	<b>310 966</b>	<b>155 490</b>	<b>166 367</b>	<b>221 242</b>	<b>236 719</b>
<b>Current liabilities</b>						
Trade and other payables	12 492	15 934	6 109	8 525	8 692	12 130
Interest bearing loans	32 074	31 230	15 684	16 708	22 317	23 773
Finance lease	1 177	1 105	576	591	819	841
Other financial liabilities	1 779	2 792	870	1 494	1 238	2 126
Deferred revenue	2 754	5 265	1 347	2 817	1 916	4 008
<b>Total current liabilities</b>	<b>50 276</b>	<b>56 326</b>	<b>24 586</b>	<b>30 135</b>	<b>34 982</b>	<b>42 878</b>
<b>Total equity and liabilities</b>	<b>677 969</b>	<b>680 469</b>	<b>331 528</b>	<b>365 162</b>	<b>471 720</b>	<b>519 578</b>

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## Consolidated statement of changes in equity

for the period ended 31 June 2011

	Attributable to the equity holders of the parent					Non-controlling interests	Total equity
	Issued capital	Retained earnings/ (accumulated deficit)	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000		
<b>At 31 December 2009</b>	<b>362 319</b>	<b>105 205</b>	<b>(3 845)</b>	<b>(8 907)</b>	<b>454 772</b>	-	<b>454 772</b>
Loss for the period	-	(25 235)	-	-	(25 235)	-	(25 235)
Other comprehensive expense	-	-	(1 090)	(16 267)	(17 357)	-	(17 357)
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(25 235)</b>	<b>(1 090)</b>	<b>(16 267)</b>	<b>(42 592)</b>	<b>-</b>	<b>(42 592)</b>
Non-controlling interests	-	-	-	-	-	-	-
<b>At 30 June 2010</b>	<b>362 319</b>	<b>79 970</b>	<b>(4 935)</b>	<b>(25 174)</b>	<b>412 180</b>	-	<b>412 180</b>
Loss for the period	-	(117 200)	-	-	(117 200)	(59)	(117 259)
Other comprehensive income	-	-	727	11 588	12 315	-	12 315
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(117 200)</b>	<b>727</b>	<b>11 588</b>	<b>(104 885)</b>	<b>(59)</b>	<b>(104 944)</b>
Non-controlling interests	-	-	-	-	-	5 941	5 941
<b>At 31 December 2010</b>	<b>362 319</b>	<b>(37 230)</b>	<b>(4 208)</b>	<b>(13 586)</b>	<b>307 295</b>	<b>5 882</b>	<b>313 177</b>
Loss for the period	-	(8 754)	-	-	(8 754)	(17)	(8 771)
Other comprehensive income/(expenses)	-	-	1 197	3 160	4 357	955	5 312
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(8 754)</b>	<b>1 197</b>	<b>3 160</b>	<b>(4 397)</b>	<b>938</b>	<b>(3 459)</b>
Non-controlling interests	-	-	-	-	-	-	-
<b>At 30 June 2011</b>	<b>362 319</b>	<b>(45 984)</b>	<b>(3 011)</b>	<b>(10 426)</b>	<b>302 898</b>	<b>6 820</b>	<b>309 718</b>

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**Consolidated statement of changes in equity (continued)**

for the period ended 30 June 2011

	Attributable to the equity holders of the parent					Non-controlling interests	Total equity
	Issued capital	Retained earnings/ (accumulated deficit)	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000		
<b>At 31 December 2009</b>	<b>200 000</b>	<b>55 958</b>	<b>(1 880)</b>	<b>(31 694)</b>	<b>222 384</b>	-	<b>222 384</b>
Loss for the period	-	(13 352)	-	-	(13 352)	-	(13 352)
Other comprehensive income/(expense)	-	-	(948)	34 098	33 150	-	33 150
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(13 352)</b>	<b>(948)</b>	<b>34 098</b>	<b>19 798</b>	<b>-</b>	<b>19 798</b>
Non-controlling interests	-	-	-	-	-	-	-
<b>At 30 June 2010</b>	<b>200 000</b>	<b>42 606</b>	<b>(2 828)</b>	<b>2 404</b>	<b>242 182</b>	-	<b>242 182</b>
Loss for the period	-	(64 968)	-	-	(64 968)	(31)	(64 999)
Other comprehensive income	-	-	577	(12 475)	(11 898)	-	(11 898)
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(64 968)</b>	<b>577</b>	<b>(12 475)</b>	<b>(76 866)</b>	<b>(31)</b>	<b>(76 897)</b>
Non-controlling interests	-	-	-	-	-	3 375	3 375
<b>At 31 December 2010</b>	<b>200 000</b>	<b>(22 362)</b>	<b>(2 251)</b>	<b>(10 071)</b>	<b>165 316</b>	<b>3 344</b>	<b>168 660</b>
Loss for the period	-	(3 946)	-	-	(3 946)	(9)	(3 955)
Other comprehensive income/(expenses)	-	-	779	(14 032)	(13 253)	-	(13 253)
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(3 946)</b>	<b>779</b>	<b>(14 032)</b>	<b>(17 199)</b>	<b>(9)</b>	<b>(17 208)</b>
Non-controlling interests	-	-	-	-	-	-	-
<b>At 30 June 2011</b>	<b>200 000</b>	<b>(26 308)</b>	<b>(1 472)</b>	<b>(24 103)</b>	<b>148 117</b>	<b>3 335</b>	<b>151 452</b>

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
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**Consolidated statement of changes in equity (continued)**

for the period ended 30 June 2011

	Attributable to the equity holders of the parent					Non-controlling interests	Total equity
	Issued capital	Retained earnings/ (accumulated deficit)	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000		
<b>At 31 December 2009</b>	<b>284 574</b>	<b>79 539</b>	<b>(2 675)</b>	<b>(45 014)</b>	<b>316 424</b>	-	<b>316 424</b>
Loss for the period	-	(20 573)	-	-	(20 573)	-	(20 573)
Other comprehensive income/(expense)	-	-	(1 349)	50 093	48 744	-	48 744
<b>Total comprehensive income/(expense)</b>	<b>-</b>	<b>(20 573)</b>	<b>(1 349)</b>	<b>50 093</b>	<b>28 171</b>	<b>-</b>	<b>28 171</b>
Non-controlling interests	-	-	-	-	-	-	-
<b>At 30 June 2010</b>	<b>284 574</b>	<b>58 966</b>	<b>(4 024)</b>	<b>5 079</b>	<b>344 595</b>	-	<b>344 595</b>
Loss for the period	-	(90 866)	-	-	(90 866)	(44)	(90 910)
Other comprehensive income	-	-	821	(19 327)	(18 506)	-	(18 506)
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(90 866)</b>	<b>821</b>	<b>(19 327)</b>	<b>(109 372)</b>	<b>(44)</b>	<b>(109 416)</b>
Non-controlling interests	-	-	-	-	-	4 802	4 802
<b>At 31 December 2010</b>	<b>284 574</b>	<b>(31 900)</b>	<b>(3 203)</b>	<b>(14 248)</b>	<b>235 223</b>	<b>4 758</b>	<b>239 981</b>
Loss for the period	-	(5 615)	-	-	(5 615)	(13)	(5 628)
Other comprehensive income/(expenses)	-	-	1 108	(19 965)	(18 857)	-	(18 857)
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(5 615)</b>	<b>1 108</b>	<b>(19 965)</b>	<b>(24 472)</b>	<b>(13)</b>	<b>(24 485)</b>
Non-controlling interests	-	-	-	-	-	-	-
<b>At 30 June 2011</b>	<b>284 574</b>	<b>(37 515)</b>	<b>(2 095)</b>	<b>(34 213)</b>	<b>210 751</b>	<b>4 745</b>	<b>215 496</b>

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
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**FOR THE 1<sup>ST</sup> QUARTER 2011**

## Consolidated statement of cash flows

for the period ended 30 June 2011

	2011 US \$'000	2010 US \$'000	2011 LVL'000	2010 LVL'000	2011 EUR'000	2010 EUR'000
<b>Operating activities</b>						
<b>Loss before taxation</b>	<b>(8 374)</b>	<b>(25 080)</b>	<b>(3 758)</b>	<b>(13 270)</b>	<b>(5 348)</b>	<b>(20 447)</b>
<u>Adjustments for:</u>						
Depreciation and amortisation	13 293	14 024	6 590	7 420	9 377	11 434
Result on disposal of non-financial assets	(139)	2 124	(80)	1 124	(114)	1 732
Other adjustments	8 693	16 301	2 237	13 659	3 183	22 279
<u>Working capital adjustments:</u>						
Changes in trade and other receivables and prepayments	357	(21 834)	179	(11 553)	255	(17 801)
Changes in inventories	(569)	(6 291)	(285)	(3 329)	(406)	(5 129)
Changes in trade and other payables	(6 535)	(9 695)	(3 280)	(5 130)	(4 667)	(7 904)
<b>Net cash flows from/(used in) operating activities</b>	<b>6 726</b>	<b>(30 451)</b>	<b>1 603</b>	<b>(11 079)</b>	<b>2 280</b>	<b>(15 836)</b>
Net cash flows from investing activities	(19 524)	2 611	(9 797)	1 382	(13 939)	2 129
<b>Cash flows before financing activities</b>	<b>(12 798)</b>	<b>(27 840)</b>	<b>(8 194)</b>	<b>(9 697)</b>	<b>(11 659)</b>	<b>(13 707)</b>
Net cash flows used in financing activities	(1 486)	(1 447)	(745)	(765)	(1 060)	(1 179)
<b>Net decrease in cash and cash equivalents</b>	<b>(14 284)</b>	<b>(29 287)</b>	<b>(8 939)</b>	<b>(10 462)</b>	<b>(12 719)</b>	<b>(14 886)</b>
<b>Cash and cash equivalents at 1 January</b>	<b>42 471</b>	<b>75 230</b>	<b>22 722</b>	<b>36 787</b>	<b>32 330</b>	<b>52 344</b>
<b>Cash and cash equivalents at 31 June</b>	<b>28 817</b>	<b>45 943</b>	<b>13 783</b>	<b>26 325</b>	<b>19 611</b>	<b>37 458</b>

## **Notes to the unaudited condensed consolidated financial statements**

### **1. Accounting policies**

These unaudited condensed consolidated financial statements are prepared in accordance with and comply with accounting policies applied in preparation of the consolidated financial statements of Latvian Shipping Company and its Subsidiaries for the year ended 31 December 2010, which were prepared in accordance with International Financial Reporting Standards.

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

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

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

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

LB rate of exchange as at 30.06.2011 USD/LVL - 0.489 (average – 0.501808)

LB rate of exchange as at 30.06.2010 USD/LVL - 0.573 (average – 0.529099)

These financial statements are translated into Euros using the rate of exchange set by the Bank of Latvia prevailing at the 30.06.2011: 1 EUR = 0.702804 LVL, 30.06.2010: 1 USD = 0.815306 EUR.

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**FOR THE 1<sup>ST</sup> QUARTER 2011**

**Notes to the unaudited condensed consolidated financial statements (continued)**

**2. Segment information**

for the period ended 30 June 2011

	Shipping		Other		Adjustments and eliminations		Total	
	2011 US \$'000	2010 US \$'000	2011 US \$'000	2010 US \$'000	2011 US \$'000	2010 US \$'000	2011 US \$'000	2010 US \$'000
External customers	46 609	61 524	-	742	-	-	46 609	62 266
Inter-segment	3	90	-	232	(3)	(322)	-	-
<b>Revenue</b>	<b>46 612</b>	<b>61 614</b>	<b>-</b>	<b>974</b>	<b>(3)</b>	<b>(322)</b>	<b>46 609</b>	<b>62 266</b>
Voyage costs	(1 773)	(16 924)	-	-	-	-	(1 773)	(16 924)
Vessel operating costs	(23 289)	(27 176)	-	-	-	-	(23 289)	(27 176)
Cost of sales (Fleet excluding)	(1 600)	(1 737)	-	(724)	-	139	(1 600)	(2 322)
Selling costs	(4)	(1)	-	(8)	-	-	(4)	(9)
Administrative expenses	(5 112)	(8 025)	(133)	(239)	3	183	(5 242)	(8 081)
Result from disposal of non-financial assets	139	(2 124)	-	(1)	-	-	139	(2 125)
Depreciation and amortisation	(13 292)	(13 508)	(1)	(516)	-	-	(13 293)	(14 024)
Impairment of financial assets	(4)	-	-	-	-	-	(4)	-
Other operating income	63	-	-	-	-	-	63	-
<b>Result before financial items</b>	<b>1 740</b>	<b>(7 881)</b>	<b>(134)</b>	<b>(514)</b>	<b>-</b>	<b>-</b>	<b>1 606</b>	<b>(8 395)</b>
Financial income	293	1 585	40	1	(42)	(409)	291	1 177
Financial expense	(10 270)	(18 160)	(43)	(7 657)	42	7 955	(10 271)	(17 862)
Income tax	(397)	(26)	-	(129)	-	-	(397)	(155)
<b>Segment result</b>	<b>(8 634)</b>	<b>(24 482)</b>	<b>(137)</b>	<b>(8 299)</b>	<b>-</b>	<b>7 546</b>	<b>(8 771)</b>	<b>(25 235)</b>
<b>Segment assets</b>	<b>665 830</b>	<b>873 508</b>	<b>40 100</b>	<b>164 677</b>	<b>(27 961)</b>	<b>(49 129)</b>	<b>677 969</b>	<b>989 056</b>
<b>Segment liabilities</b>	<b>367 926</b>	<b>414 323</b>	<b>28 286</b>	<b>140 220</b>	<b>(27 961)</b>	<b>(49 129)</b>	<b>368 251</b>	<b>505 414</b>

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

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**Notes to the unaudited condensed financial statements (continued)**

**2. Segment information (continued)**

for the period ended 30 June 2011

	Shipping		Other		Adjustments and eliminations		Total	
	2011 LVL'000	2010 LVL'000	2011 LVL'000	2010 LVL'000	2011 LVL'000	2010 LVL'000	2011 LVL'000	2010 LVL'000
External customers	23 536	32 552	-	392	-	-	23 536	32 944
Inter-segment	2	48	-	123	(2)	(171)	-	-
<b>Revenue</b>	<b>23 538</b>	<b>32 600</b>	<b>-</b>	<b>515</b>	<b>(2)</b>	<b>(171)</b>	<b>23 536</b>	<b>32 944</b>
Voyage costs	(835)	(8 954)	-	-	-	-	(835)	(8 954)
Vessel operating costs	(11 607)	(14 379)	-	-	-	-	(11 607)	(14 379)
Cost of sales (Fleet excluding)	(795)	(919)	-	(383)	-	74	(795)	(1 228)
Selling costs	(2)	(1)	-	(4)	-	-	(2)	(5)
Administrative expenses	(2 547)	(4 247)	(66)	(126)	2	97	(2 611)	(4 276)
Result from disposal of non-financial assets	80	(1 123)	-	(1)	-	-	80	(1 124)
Depreciation and amortisation	(6 590)	(7 147)	-	(273)	-	-	(6 590)	(7 420)
Impairment of financial assets	(2)	-	-	-	-	-	(2)	-
Other operating income	33	-	-	-	-	-	33	-
<b>Result before financial items</b>	<b>1 273</b>	<b>(4 170)</b>	<b>(66)</b>	<b>(272)</b>	<b>-</b>	<b>-</b>	<b>1 207</b>	<b>(4 442)</b>
Financial income	126	838	19	1	(21)	(216)	124	623
Financial expense	(5 089)	(9 609)	(21)	(4 051)	21	4 209	(5 089)	(9 451)
Income tax	(197)	(14)	-	(68)	-	-	(197)	(82)
<b>Segment result</b>	<b>(3 887)</b>	<b>(12 955)</b>	<b>(68)</b>	<b>(4 390)</b>	<b>-</b>	<b>3 993</b>	<b>(3 955)</b>	<b>(13 352)</b>
<b>Segment assets</b>	<b>325 592</b>	<b>500 520</b>	<b>19 609</b>	<b>94 359</b>	<b>(13 673)</b>	<b>(28 151)</b>	<b>331 528</b>	<b>566 728</b>
<b>Segment liabilities</b>	<b>179 917</b>	<b>237 407</b>	<b>13 832</b>	<b>80 347</b>	<b>(13 673)</b>	<b>(28 151)</b>	<b>180 076</b>	<b>289 603</b>

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



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**Notes to the unaudited condensed financial statements (continued)**

**2. Segment information (continued)**

for the period ended 30 June 2011

	Shipping		Other		Adjustments and eliminations		Total	
	2011 EUR'000	2010 EUR'000	2011 EUR'000	2010 EUR'000	2011 EUR'000	2010 EUR'000	2011 EUR'000	2010 EUR'000
External customers	33 489	50 161	-	605	-	-	33 489	50 766
Inter-segment	3	73	-	189	(3)	(262)	-	-
<b>Revenue</b>	<b>33 492</b>	<b>50 234</b>	<b>-</b>	<b>794</b>	<b>(3)</b>	<b>(262)</b>	<b>33 489</b>	<b>50 766</b>
Voyage costs	(1 189)	(13 798)	-	-	-	-	(1 189)	(13 798)
Vessel operating costs	(16 515)	(22 157)	-	-	-	-	(16 515)	(22 157)
Cost of sales (Fleet excluding)	(1 131)	(1 416)	-	(590)	-	113	(1 131)	(1 893)
Selling costs	(3)	(1)	-	(6)	-	-	(3)	(7)
Administrative expenses	(3 623)	(6 543)	(94)	(195)	3	149	(3 714)	(6 589)
Result from disposal of non-financial assets	114	(1 732)	-	(1)	-	-	114	(1 733)
Depreciation and amortisation	(9 377)	(11 013)	-	(420)	-	-	(9 377)	(11 433)
Impairment of financial assets	(3)	-	-	-	-	-	(3)	-
Other operating income	47	-	-	-	-	-	47	-
<b>Result before financial items</b>	<b>1 812</b>	<b>(6 426)</b>	<b>(94)</b>	<b>(418)</b>	<b>-</b>	<b>-</b>	<b>1 718</b>	<b>(6 844)</b>
Financial income	179	1 292	27	1	(30)	(333)	176	960
Financial expense	(7 242)	(14 806)	(30)	(6 243)	30	6 486	(7 242)	(14 563)
Income tax	(280)	(21)	-	(105)	-	-	(280)	(126)
<b>Segment result</b>	<b>(5 531)</b>	<b>(19 961)</b>	<b>(97)</b>	<b>(6 765)</b>	<b>-</b>	<b>6 153</b>	<b>(5 628)</b>	<b>(20 573)</b>
<b>Segment assets</b>	<b>463 275</b>	<b>712 176</b>	<b>27 901</b>	<b>134 262</b>	<b>(19 455)</b>	<b>(40 055)</b>	<b>471 721</b>	<b>806 383</b>
<b>Segment liabilities</b>	<b>255 999</b>	<b>337 800</b>	<b>19 681</b>	<b>114 322</b>	<b>(19 455)</b>	<b>(40 055)</b>	<b>256 225</b>	<b>412 067</b>

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

## **Notes to the unaudited condensed financial statements *(continued)***

### **Contact person with respect to information presented in these financial statements**

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