LATVIJAS KUĢNIECĪBA

Public Joint Stock Company
“Latvijas Kuģniecība”

Financial Statements

31 December 2012

Content

General information

General information of 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-1010, Latvia
Main activity (NACE classificatory)	6420 – activities of holding companies
Reporting period	1st January 2012 – 31st December 2012
Previous reporting period	1st January 2011 – 31st December 2011

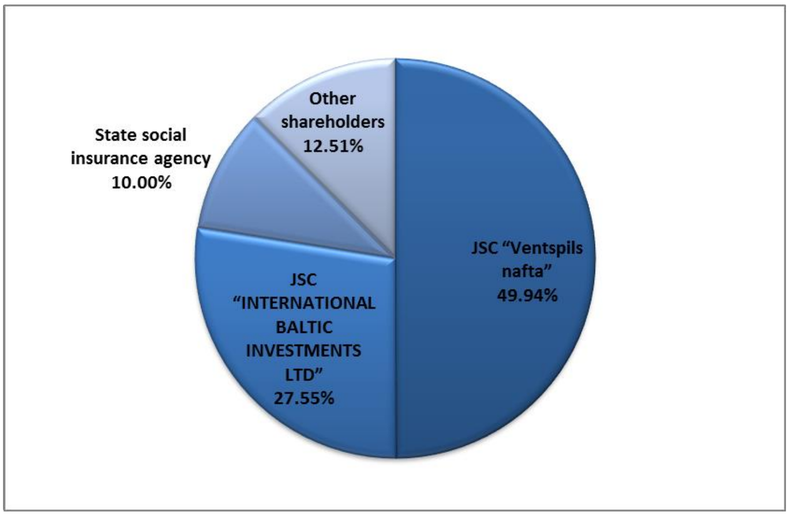
Shareholders of the Company

The major Shareholders of the Company (above 5%) as at 31 December 2012 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" Group financial statements.

Shareholders structure of the Company as at 31 December 2012 is as follows:



The Auditors of the Company

Name and address of the Auditors:	PricewaterhouseCoopers SIA Commercial licence No. 5 Krišjāņa Valdemāra street 21-21, Riga, LV-1010, Latvia Certified auditor in charge Ilandra Lejiņa Sworn Auditor Certificate No. 168

General information (*Continued*)

The Supervisory Council of the Company

Chairman of the Council	Simon Boddy
Deputy Chairpersons of the Council	Mikhail Dvorak
Members of Council:	Vladimir Egger Javed Ahmed Rubil Yilmaz Mark Morrell Ware Christophe Theophanis Matsacos Oļegs Stepanovs Mārtiņš Kvēps Jaakko Sakari Mikael Salmelin Serguei Choutov Ivars Girgensons

The Management Board of the Company

Chairman of the Management Board	Simon Richard Blaydes
Members of the Management Board:	Paul Thomas Christopher James Kernon Michael Main King *(until 31.12.2012.)*

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 secretary of 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. The LSC also provides other services to ensure everyday operation of the LSC Group companies.

Company's operation and results during the year of account

Net turnover of the LSC in 2012 was LVL 2.52 million that comparing with the previous year is by 46% less and mainly can be attributed to decrease of income from vessel commercial management and other management services. The decrease caused by changes in market and decrease in costs used for provision of services. In 2012 the Company worked with profit in amount of LVL 74 thousand comparing to profit in amount of LVL 855 thousand year before.

Total sum of the LSC assets has not substantially changed being LVL 41.66 million as at 31 December 2012. The major portion of assets conforms to LVL 35.5 million of investments in subsidiaries; the same as last year end.

Research and development

There were no changes in LSC as parent company of the LSC Group operations as number of the fleet has not been changed. At the end of December 2012 the fleet consisted of 20 tankers, 19 of which are owned by the LSC Group, with one vessel chartered pursuant to a sale and leaseback deal. The average age of the fleet is 6.5 years and has contracted average future employment for approximately 10 months. 18 tankers are under commercial management of the Company.

Group performance results

LSC Group net loss in 2012 was LVL 18.65 million. Net loss for the year ended 31 December, 2011 was LVL 24.09 million.

In both 2012 and 2011 a considerable amount of the net losses relates to the impairment of the fleet in amount of LVL 15.28, provisions for which are required to be made according to the International Financial Reporting Standards. The impairments are non-cash items so do not affect the cash flow and cash position of the Group. The LSC Group's cash position at the end of December 2012 was LVL 13.88 million.

Despite this improvement in the LSC Group financial results the worldwide shipping market remains very challenging. LSC Group's core area of expertise, the handy size and medium range product tanker market, has been the least affected by the shipping downturn as compared with other sectors of the tanker market and shipping markets in general. The reasons for this are varied but the main factors are that the products tanker segment has a much greater degree of flexibility in terms of voyage routes and variety of cargo products. The LSC Group's fleet is attractively placed within this segment as nineteen vessels within its fleet are ice classed which provides a wider trading range and all have the additional ability to load light products - vegoils/palm oils as well as standard petroleum products.

At 31 December, 2012 the total value of LSC Group assets was LVL 321.67 million. The figure at 31 December, 2011 was LVL 354.64 million. The decrease is mainly attributed to the impairment provisions as explained above and depreciation of the fleet. The total value of the LSC Group's fleet has slightly increased from USD 509.97 million to USD 517.82 million as result of the reclassification of the vessels which had previously been classified as held for sale. The total equity value of the Group at 31 December, 2012 was LVL 124.73 million (31.12.2011: LVL 145.70 million).

Management report *(Continued)*

Financial risk management

One of the main risks related to the Company's operation is a reduction of number of vessels of the LSC Group's fleet, because the LSC's main source of income is provision of vessel commercial management services to the vessels of the LSC Group's fleet. The Company tries to minimise this risk by keeping the number of the fleet the same size. Towards the end of the reporting year the banking syndicates which finance the LSC Group's fleet, agreed to continue to waive certain breaches of covenants until the end of 2013. The waiver conditions included a requirement on the part of LSC's largest shareholder JSC "Ventspils nafta" to provide further financing, if required, in order to comply with a minimum cash reserve requirement of USD 17 million.

Company's operation is 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, but expenses – mainly in LVL. The Company's Management is considering possibility to apply risk-reduction 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 of Company's securities

During the 2012 the price of LSC shares quoted on the NASDAQ OMX Riga decreased by 18.18%. The OMX Baltic Benchmark GI index in the same period increased by 26.63%. There were 1 113 trades of Latvian Shipping Company's shares during the reporting period involving 985 943 shares worth LVL 267 087. On 31 December, 2012 the capitalization of Latvian Shipping Company shares at NASDAQ OMX Riga was LVL 50.40 million.

Post balance conditions and events

As of the last day of the reporting year until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

Distribution of profit suggested by the Management Board

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

Future prospects

LSC Parent company results in 2013 will strongly depend on results of LSC Group. LSC Group does not expect to see a dramatic improvement in the shipping market throughout 2013. The markets are still suffering, to some extent, from the weak economic environment especially within the EU/USA and the after effects of the extensive product tanker new building programme in previous years. However looking to the future there are more optimistic signals that bode well for the product tanker sector with increased demand for refined products in South America, Africa, Australia (with refinery closures) and the USA becoming an exporter of refined products.

Simon Richard Blaydes
Chairman of the Management Board of
JSC "Latvijas kuģniecība"
Riga, 22 April 2013

Income statement

for the year ended 31 December 2012

	Note	LVL 2012	LVL 2011
Net sales	4	2 524 356	4 630 547
Cost of sales	5	(1 142 092)	(1 661 925)
Gross profit		**1 382 264**	**2 968 622**
Administrative expenses	6	(1 106 812)	(1 207 201)
Other operating income	7	-	49 082
Other operating expenses	8	(613)	(702 089)
Interest and similar income	9	8 136	151 615
Interest and similar expenses	10	(88 357)	(3 904)
Profit before taxation		**194 618**	**1 256 125**
Corporate income tax and deferred tax	11	(93 082)	(373 369)
Real estate tax	23	(27 597)	(27 890)
Net profit for the year		**73 939**	**854 866**

The notes on pages 12 to 28 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 22 April 2013 and signed on its behalf by

Simon Richard Blaydes
Chairman of the Management Board of
JSC "Latvijas kuģniecība"
Riga, 22 April 2013

Balance Sheet

as at 31 December 2012

	Note	LVL 31.12.2012.	LVL 31.12.2011.
Assets			
Non-Current Assets			
Intangible Assets:			
Concessions, patents, licenses, trademarks and similar rights	12	14 715	120 052
Total Intangible Assets:		**14 715**	**120 052**
Tangible Assets:			
Land, buildings and constructions		1 665 808	1 718 918
Other fixed assets		119 931	167 072
Total Tangible Assets:	13	**1 785 739**	**1 885 990**
Investment properties	13	**998 541**	**1 012 594**
Non-Current Financial Assets:			
Investments in subsidiaries	14	35 488 089	35 488 089
Investments in associates	15	7 553	7 553
Other long term debtors	16	-	14 290
Total Non-Current Financial Assets:		**35 495 642**	**35 509 932**
Total Non-Current Assets		**38 294 637**	**38 528 568**
Current Assets			
Inventories	17	**3 505**	**1 266**
Accounts receivable and prepayments:			
Trade receivables	18	-	1 410
Amounts due from related companies	19	1 116 484	1 338 307
Other receivables	20	358 589	140 434
Deferred expenses		40 446	33 964
Total Accounts Receivable:		**1 515 519**	**1 514 115**
Cash and Cash Equivalents	21	**1 841 973**	**1 515 326**
Total Current Assets		**3 360 997**	**3 030 707**
Total Assets		**41 655 634**	**41 559 275**

Balance Sheet *(Continued)*

as at 31 December 2012

	Note	LVL 31.12.2012.	LVL 31.12.2011.
Shareholders' Equity and Liabilities			
Shareholders' Equity			
Share capital		200 000 000	200 000 000
Accumulated deficit			
a) accumulated deficit for the prior years		(158 930 694)	(159 785 560)
b) profit for the reporting year		73 939	854 866
Total Shareholders' Equity		**41 143 245**	**41 069 306**
Liabilities:			
Non-current Liabilities:			
Deferred tax liabilities	11	55 707	73 881
Total Non-current Liabilities		**55 707**	**73 881**
Current Liabilities:			
Finance lease		1 021	-
Trade payables		52 158	51 398
Amounts due to related companies	22	199 391	166 821
Taxes and social security contributions	23	40 034	42 858
Other accounts payable	24	52 132	45 457
Accrued liabilities	25	111 946	109 554
Total Current Liabilities		**456 682**	**416 088**
Total Liabilities		**512 389**	**489 969**
Total Shareholders' Equity and Liabilities		**41 655 634**	**41 559 275**

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Riga, 22 April 2013

Statement of Changes in Shareholders' Equity

for the year ended 31 December 2012

	LVL		
	Share Capital	**Accumulated deficit**	**Total**
At 31 December 2010	**200 000 000**	**(159 785 560)**	**40 214 440**
Net profit for the year	-	854 866	854 866
At 31 December 2011	**200 000 000**	**(158 930 694)**	**41 069 306**
Net profit for the year	-	73 939	73 939
At 31 December 2012	**200 000 000**	**(158 856 755)**	**41 143 245**

As of 31 December 2012 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.

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Riga, 22 April 2013

Cash Flow Statement

for the year ended 31 December 2012

	Note	2012 LVL	2011 LVL
Cash Flow from Operating Activities			
Profit before taxation		194 618	1 256 125
Adjustments for:			
Depreciation	13	166 879	190 949
Intangible assets amortisation	12	122 562	152 630
Impairment of investment properties		-	652 418
Foreign exchange loss/(profit)		88 508	(60 627)
Other interest income	9	(8 136)	(3 895)
Other interest expenses	10	879	803
Loss from disposal of fixed assets	8	613	589
Profit before adjustments for movements in net working capital		**565 923**	**2 188 992**
Adjustments for:			
(Increase)/decrease in inventories		(2 239)	8 594
Decrease in trade and other receivables		237 749	531 728
Increase/ (decrease) in trade and other payables		40 623	(613 707)
Gross Cash Flow from Operating Activities		**842 056**	**2 115 607**
Corporate income tax paid	23	(327 994)	(457 212)
Real estate tax paid	23	(27 597)	(27 927)
Net Cash Flow from Operating Activities		**486 465**	**1 630 468**
Cash Flow from Investing Activities			
Acquisition of tangible and intangible assets, assets under construction	12,13	(60 207)	(27 045)
Loans issued		-	(490 000)
Proceeds from sale of fixed and intangible assets		122	6 160
Interest received	9	12	1 118
Net Cash Flow from Investing Activities		**(60 073)**	**(509 767)**
Cash Flow from Financial Activities			
Payment of finance lease liabilities		(11 048)	-
Interest paid	10	(189)	-
Net Cash Flow from Financial Activities		**(11 237)**	**-**
Currency Translation Difference		(88 508)	60 627
Net Increase in Cash and Cash Equivalents		**326 647**	**1 181 328**
Cash and Cash Equivalents at the beginning of the year		1 515 326	333 998
Cash and Cash Equivalents at the end of the year	21	**1 841 973**	**1 515 326**

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Riga, 22 April 2013

Notes

1. General information

The principal activity of JSC "Latvijas kuģniecība" (the Company) is management of the "Latvijas kuģniecība" Group. The Company was 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 22 April 2013. The Company's shareholders have the power to amend the financial statements after they have been issued.

The members of the Management Board are as follows: Simon Richard Blaydes (Chairman), Paul Thomas (Member) and Christopher James Kernon (Member) and Michael Main King (Member until 31.12.2012.). The Auditors of the Company are Company of Sworn Auditors PricewaterhouseCoopers SIA and responsible Sworn Auditor Ilandra Lejiņa.

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.

2.1. Statement of Compliance

The financial statements have been prepared in accordance with the Law of the Republic of Latvia On Annual Accounts and generally accepted accounting standards in Latvia. The financial statements have been prepared on a historical cost basis. The reporting period for the annual report is from 1 January 2012 till 31 December 2012 and financial statements are prepared in Latvian lats (LVL). The income statement is prepared in accordance with the turnover method. Cash flow statement is prepared using the indirect cash flow method.

2.2. Changes in accounting policy and disclosures

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

3. Accounting policies and measurement basis

a) Related parties

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

b) Net sales and income recognition

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

Income is recognised upon delivery of goods or provision of services. The interest income is recognized as the interest accrues. Income from fines and penalties is recognised as received. Income from dividends is recognised at the date of distribution decision.

c) Foreign currency conversion into Lats

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

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

	31.12.2012. LVL	31.12.2011. LVL
1 USD	0.531	0.544
1 EUR	0.702804	0.702804

Notes *(Continued)*

3. Accounting policies and measurement basis *(continued)*

d) Intangible assets

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

e) Tangible fixed assets

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

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

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

The following depreciation rates were established and applied:

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

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

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

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

f) Investment property

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

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

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

Notes *(Continued)*

3. Accounting policies and measurement basis *(continued)*

g) Investments in subsidiaries

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

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

h) Investments in associates

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

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

i) Other securities and investments

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

j) Inventories

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

k) Trade receivables

Trade receivables are carried at original invoiced amount less the provision made for bad and doubtful receivables. Provisions for bad and doubtful receivables are made when management considers the recovery of these receivables is doubtful.

l) Cash and cash equivalents

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

m) Provisions

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

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

Notes *(Continued)*

3. Accounting policies and measurement basis *(continued))*

n) Loans and borrowings

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

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in finance income/expenses in the income statement.

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

o) Accruals for employee vacation expenses

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

p) Corporate income tax

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

q) Operating lease

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

r) Finance lease – Company as lessee

Finance leases, which transfer to the Company 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.

s) Use of estimates

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

t) Post balance sheet events

The amounts recognised in financial statements are adjusted to reflect post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events). Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Notes *(Continued)*

4. Net sales

	LVL 2012	LVL 2011
Income from commercial management, management and IT services worldwide	2 374 847	4 481 446
Income from IT and other services in Latvia	83 942	39 718
Income from rent and management of real estate in Latvia	65 567	109 383
Total	**2 524 356**	**4 630 547**

5. Cost of sales

	LVL 2012	LVL 2011
Salaries, training and other social costs	(456 750)	(582 003)
Social security contributions	(109 928)	(130 790)
Professional charges and legal costs	(174 515)	(321 179)
Depreciation and amortisation	(140 311)	(151 137)
IT and communication	(126 054)	(148 350)
Repairs and maintenance expenditure	(77 458)	(101 591)
Transport and travelling expenses	(25 729)	(40 020)
Advertising and marketing	(5 708)	(9 702)
Other costs	(25 639)	(177 153)
Total	**(1 142 092)**	**(1 661 925)**

6. Administrative expenses

	LVL 2012	LVL 2011
Salaries, training, health insurance and other social costs	(338 958)	(329 788)
Social security contributions	(76 060)	(70 799)
Occupation and repairs	(210 668)	(210 584)
Depreciation and amortisation	(149 130)	(192 442)
Professional fees	(90 082)	(86 297)
IT and communication	(59 143)	(77 343)
Transport and travelling expenses	(16 395)	(12 105)
Advertising and marketing	(1 427)	(2 425)
Movements in doubtful debts and other provisions	-	16 460
Other expenses	(164 949)	(241 878)
Total	**(1 106 812)**	**(1 207 201)**

7. Other operating income

	LVL 2012	LVL 2011
Reversal of the impairment of investment properties	-	49 082
Total	**-**	**49 082**

Notes *(Continued)*

8. Other operating expenses

	LVL 2012	LVL 2011
Loss on disposal of fixed assets	(613)	(589)
Impairment of investment properties	-	(701 500)
Total	**(613)**	**(702 089)**

9. Interest and similar income

	LVL 2012	LVL 2011
Interest income from short term loans advanced to subsidiaries	8 124	2 777
Interest income	12	1 118
Net gain from foreign currency rate fluctuations	-	147 720
Total	**8 136**	**151 615**

10. Interest and similar expenses

	LVL 2012	LVL 2011
Net loss from foreign currency rate fluctuations	(70 450)	-
Net loss from foreign currency translation	(15 093)	(1 286)
Financial institutions charges	(1 935)	(1 815)
Interest expenses	(690)	(803)
Interest on lease	(189)	-
Total	**(88 357)**	**(3 904)**

11. Corporate income tax and deferred tax

	LVL 2012	LVL 2011
Current income tax charge	(111 256)	(410 197)
Deferred income tax	18 174	36 828
Income tax expense reported in the income statement	**(93 082)**	**(373 369)**

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

	LVL 2012	LVL 2011
Profit before taxes	**194 618**	**1 256 125**
Tax calculated at tax rate of 15%	29 193	188 419
Expenses not deductible for tax purposes	86 503	199 347
Income not subject to corporate income tax	-	(10 213)
Expenses reducing taxable income	(22 614)	(4 184)
Income tax expense	**93 082**	**373 369**

Notes *(Continued)*

11. Corporate income tax and deferred tax *(Continued)*

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

	LVL	
	31.12.2012.	**31.12.2011.**
Excess of tax allowances over depreciation	72 433	90 314
Temporary difference on provisions for unused vacations	(13 368)	(14 669)
Other temporary differences	(3 358)	(1 764)
Deferred tax liabilities	**55 707**	**73 881**

Deferred income tax in amount of LVL 55 707 is recoverable within one year.

12. Intangible assets

	Software licences LVL
Historical cost	
At 1 January 2011	800 784
Additions	4 536
Disposals	(58 112)
At 31 december 2011	**747 208**
Additions	17 225
At 31 december 2012	**764 433**
Accumulated amortisation	
At 1 January 2011	531 627
Amortisation	152 630
Disposals	(57 101)
At 31 december 2011	**627 156**
Amortisation	122 562
At 31 december 2012	**749 718**
Net book value:	
At 31 december 2011	**120 052**
At 31 december 2012	**14 715**

Notes *(Continued)*

13. Tangible Assets and Investment Property

	LVL			
	Land, buildings and construction	Other fixed assets	Investment properties	Total
Historical cost				
At 1 January 2011	2 118 069	1 341 772	2 784 899	6 244 740
Additions	-	22 509	-	22 509
Disposals	-	(183 337)	-	(183 337)
At 31 december 2011	**2 118 069**	**1 180 944**	**2 784 899**	**6 083 912**
Additions	-	53 310	-	53 310
Disposals	-	(45 378)	-	(45 378)
At 31 december 2012	**2 118 069**	**1 188 876**	**2 784 899**	**6 091 844**
Accumulated depreciation and impairment				
At 1 January 2011	334 635	1 078 974	1 105 951	2 519 560
Depreciation	64 516	112 497	13 936	190 949
Impairment	-	-	701 500	701 500
Reclassification	-	-	(49 082)	(49 082)
Disposals	-	(177 599)	-	(177 599)
At 31 december 2011	**399 151**	**1 013 872**	**1 772 305**	**3 185 328**
Depreciation	53 110	99 716	14 053	166 879
Disposals	-	(44 643)	-	(44 643)
At 31 december 2012	**452 261**	**1 068 945**	**1 786 358**	**3 307 564**
Net book value				
At 31 december 2011	**1 718 918**	**167 072**	**1 012 594**	**2 898 584**
At 31 december 2012	**1 665 808**	**119 931**	**998 541**	**2 784 280**

The carrying value of the Company's real estate included in Land, buildings and construction and Investment properties as at 31 December 2012 amounted to LVL 2 664 349 (31 December 2011: LVL 2 731 512). The cadastral value of the real estate as at 31 December 2012 amounted to LVL 1 834 264 (31 December 2011: LVL 1 834 264).

As at 31 December 2012 the fair value of real estate owned by Company was estimated based on a certified appraiser's valuation. The market value of the real estate was determined in the amount of LVL 4 130 500 (31 December 2011: LVL 4 156 500). Depending on the plans of the intended use of the real estate property comparative transaction method were used.

In February 2012 vehicle on terms of financial lease was acquired in amount of LVL 10 328. The ownership on the object of the lease was transferred after payment of all obligations in January 2013. At the date of the lease agreement the variable annual interest rate was 3.231%. At the end of financial year finance lease liabilities are LVL 1 021.

As at 31 December 2012 the real estates owned by the Company in Riga on Jekaba street 30 and on Elizabetes street 1, are pledged on behalf of JSC Ventspils nafta.

Part of the fully depreciated Other fixed assets still used in operating activities of the Company. Total cost value of those Other fixed assets as at 31 December 2012 is LVL 0.652 million (31 December 2011: LVL 0.628 million).

Notes *(Continued)*

14. Information on the subsidiaries and investments in those

(a) Investments in subsidiaries

Name and address	Percentage holding %	31.12.2012.	31.12.2011.
Latmar Holdings Corporation			
80 Broad Street, Monrovia, Liberia	100	35 255 000	35 255 000
LSC Holdings Limited			
Manning House, 21 Bucks Road, Douglas, Isle of Man	100	10 920	10 920
Arctic Holding Corporation			
Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	100	-	-
Santomar Holdings Company Ltd.			
284 Archbishop Makarios III Avenue, Fortuna Court block B, 2nd floor, 3105, Limassol, Cyprus	100	1 210	1 210
Latvian Shipping Corporation			
80 Broad Street, Monrovia, Liberia	100	-	-
MSIA „LASCO Investment”			
Berzaunes iela 11A, Riga, LV-1039, Latvia	100	-	-
SIA „LSC Marine Training”			
Ganibu dambis 24D, Riga, LV-1005, Latvia	100	220 959	220 959
		35 488 089	**35 488 089**

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

Holding company Latvian Shipping Corporation owned by the Company was liquidated in October 2012.

Notes *(Continued)*

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

(b) Information on subsidiaries

	LVL			
	Shareholders' Equity of the subsidiaries		(Loss)/ Profit of the subsidiaries	
Name and address	31.12.2012.	31.12.2011.	2012	2011
Latmar Holdings Corporation				
80 Broad Street, Monrovia, Liberia	118 307 037	125 171 252	(4 269 535)	(6 403 116)
LSC Holdings Limited				
Manning House, 21 Bucks Road, Douglas, Isle of Man	10 777 570	18 998 452	(8 310 567)	(15 970 326)
Arctic Holding Corporation				
Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	(10 231 089)	(4 293 961)	(6 093 464)	(3 389 483)
Santomar Holdings Company Ltd.				
284 Archbishop Makarios III Avenue, Fortuna Court block B, 2nd floor, 3105, Limassol, Cyprus	18 066	18 509	-	(490)
Latvian Shipping Corporation				
80 Broad Street, Monrovia, Liberia	-	-	-	-
SIA „LSC Marine Training”				
Ganibu dambis 24D, Riga, LV-1005, Latvia	298 060	330 976	(32 917)	110 018

Latmar Holdings Corporation (holding company) has two active companies 100% owned by the Latmar Holdings Corporation from which one company (single vessel company) is registered in Malta and one in Latvia (technical management company).

LSC Holdings Limited (holding company) has 17 100% owned subsidiaries (active single vessel companies) registered in Marshall Islands.

Arctic Holding Corporation (holding company) has two active single vessel companies registered in Marshall Islands.

Santomar Holdings Company Ltd. is dormant investment holding company registered in Cyprus.

Latvian Shipping Corporation (holding company) subsidiary registered in Liberia which has been liquidated in October 2012.

SIA „LSC Marine Training” – company registered in Latvia who provides seafarers training services.

Notes *(Continued)*

15. Investments in associated undertakings

Name and address	Percentage holding 31.12.2012.	LVL Investment Value, net 31.12.2012.	Shareholders' Equity 31.12.2012.
SIA „Via Una"			
Katrinas dambis 10, Riga, LV-1045, Latvia	45.45%	7 553	31 606
SIA „Futbola klubs „Ventspils""			
Dzintaru iela 54, Ventspils, LV-3602, Latvia	23.06%	-	76 869

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

The profit for the associated company SIA "Via Una" for 2012 was LVL 1 000 (2011: the loss in amount of LVL 15 532).

The loss for the associated company SIA "Futbola klubs "Ventspils"" for 2012 was LVL 337 636 (2011: LVL 78 615).

16. Other long-term debtors

	LVL 31.12.2012.	LVL 31.12.2011.
JSC Ventspils Nafta	-	14 290
Total	**-**	**14 290**

17. Inventories

	LVL 31.12.2012.	LVL 31.12.2011.
Other materials and inventories	3 473	1 151
Fuel	32	115
Total	**3 505**	**1 266**

Notes *(Continued)*

18. Accounts receivable

	LVL	
	31.12.2012.	31.12.2011.
Trade receivables, gross	42 376	45 318
Provision for doubtful debts	(42 376)	(43 908)
Total	**-**	**1 410**

Changes in provisions for doubtful debts:

	LVL	
	2012	2011
At 1 January	43 908	46 484
Decrease due to write off	(1 532)	(2 576)
At 31 December	**42 376**	**43 908**

19. Amounts due from related companies

	LVL	
	31.12.2012.	31.12.2011.
Latmar Holdings Corporation	787 956	657 937
Limetree Shipping Co. Ltd.	267 736	154 189
Smiltene Navigation Inc.	19 601	21 405
SIA „LSC Shipmanagement"	13 760	7 245
Kazdanga Navigation Inc.	10 969	21 616
Sabile Navigation Inc.	7 191	27 724
Mansel Ltd.	3 243	15 319
Brasla Shipping Corporation	2 903	-
Imula Shipping Corporation	2 805	-
SIA "Skonto Nafta"	160	161
SIA "Nafta Invest"	160	161
Dzons Rids Shipping Corporation	-	73 347
Hose Marti Shipping Corporation	-	35 353
Cape Wind Traiding Company	-	26 245
Sloka Navigation Inc.	-	25 244
Straupe Navigation Inc.	-	22 981
Salacgriva Navigation Inc.	-	22 690
Stende Navigation Inc.	-	22 543
Saldus Navigation Inc.	-	21 166
Sigulda Navigation Inc.	-	21 668
Kursa Navigation Inc.	-	21 719
Skrunda Navigation Inc.	-	21 508
Saulkrasti Navigation Inc.	-	20 878
Kuldiga Navigation Inc.	-	20 622
Kandava Navigation Inc.	-	20 456
Kabile Navigation Inc.	-	19 920
Kaltene Navigation Inc.	-	18 225
Kolka Navigation Inc.	-	16 234
JSC "Ventspils nafta"	-	720
SIA "LatRosTrans"	-	990
SIA "LSC Marine Training"	-	41
Kopā	**1 116 484**	**1 338 307**

Notes *(Continued)*

19. Amounts due from related companies *(Continued)*

Amounts due from related companies includes loan issued to Latmar Holdings Corporation in amount of USD 1 000 000. In December 2012 trade receivables from Latmar Holdings Corporation made as a result of operations in amount of USD 460 235 were capitalised. As a result amount of the loan as at 31 December 2012 confirms to USD 1 460 235. An interest applied to the loan is linked to 3m LIBOR plus margin. *(See also Note 30).*

20. Other receivables

	LVL	
	31.12.2012.	**31.12.2011.**
Overpaid income tax *(see Note 23)*	318 185	103 393
Overpaid value added tax *(see Note 23)*	9 745	4 180
Other receivables, net	30 659	32 861
Total	**358 589**	**140 434**

21. Cash and Cash Equivalents

	LVL	
	31.12.2012.	**31.12.2011.**
Cash in banks	1 841 973	1 515 326
Total	**1 841 973**	**1 515 326**

22. Amounts due to related parties

	LVL	
	31.12.2012.	**31.12.2011.**
SIA „LSC Marine Training”	47 229	79 033
JSC "Ventspils nafta"	25 372	41 185
Straupe Navigation Inc.	16 581	-
Kabile Navigation Inc.	16 131	-
Kolka Navigation Inc.	15 318	-
Kaltene Navigation Inc.	11 605	-
Sloka Navigation Inc.	11 212	-
Salacgriva Navigation Inc.	10 302	-
Kuldiga Navigation Inc.	8 895	-
Kursa Navigation Inc.	8 488	-
Sigulda Navigation Inc.	7 086	-
Skrunda Navigation Inc.	5 193	-
Saldus Navigation Inc.	5 105	-
Saulkrasti Navigation Inc.	4 980	-
Kandava Navigation Inc.	2 577	-
Stende Navigation Inc.	2 374	-
LSC Holdings Limited	943	1 489
Latmar Holdings Corporation	-	45 114
	199 391	**166 821**

The amounts due to related parties include loans from SIA „LSC Marine Training” with agreement concluded in 2007 on financial resource management. The interest rates applied are linked to the LIBOR. *(See also Note 30)*

Notes *(Continued)*

23. Taxes and social security contributions

	LVL						
	Income tax	Value added tax	Real estate tax	Social security contribution	Personal income tax	State business risk duty	Total
(Payable) 31.12.2011.	**-**	**-**	**-**	**(26 705)**	**(16 145)**	**(8)**	**(42 858)**
Overpaid 31.12.2011.	**103 393**	**4 180**	**-**	**-**	**-**	**-**	**107 573**
Charge	(111 256)	98 219	(27 597)	(273 198)	(168 442)	(96)	(482 370)
Charge (non-residents)	(1 985)	-	-	-	-	-	(1 985)
Reimbursed	-	(91 010)	-	-	-	-	(91 010)
Charge (result of tax audit)	(52 019)	(1 050)	-	-	-	-	(53 069)
Paid (result of tax audit)	54 042	-	-	-	-	-	54 042
Transferred to other taxes	39	(472)	-	433	-	-	-
Penalties	(2 023)	(122)	-	-	-	-	(2 145)
Paid	327 994	-	27 597	274 446	169 585	96	799 718
(Payable) 31.12.2012.	**-**	**-**	**-**	**(25 024)**	**(15 002)**	**(8)**	**(40 034)**
Overpaid 31.12.2012.	**318 185**	**9 745**	**-**	**-**	**-**	**-**	**327 930**

The overpaid tax positions represented in Balance Sheet line „Other receivables”. *(See Note 20).*

24. Other accounts payable

	LVL	
	31.12.2012.	**31.12.2011.**
Salaries	52 104	43 333
Deductions from salaries	28	18
Other payables	-	2 106
Total	**52 132**	**45 457**

25. Accrued liabilities

	LVL			
	Accruals for employee vacations	Accruals for other expenses	Other accruals	Total
31.12.2011.	**97 796**	**11 758**	**-**	**109 554**
Increase	-	22 385	440	22 825
Decrease	(8 675)	(11 758)	-	(20 433)
31.12.2012.	**89 121**	**22 385**	**440**	**111 946**

Notes *(Continued)*

26. Fees paid to external auditors

	LVL	
	2012	**2011**
Audit of the financial statements	18 662	18 659
Management consulting	14 835	6 489
Total	**33 497**	**25 148**

27. Off balance sheet liabilities

Operating lease liabilities

Operating lease agreement of the vehicle

In January 2009 the Company has entered in to operating lease agreement with SIA „SEB līzings" on rent of the vehicle. In 2012 the total amount of the annual operating lease expense was LVL 820 (2011: LVL 8 995). Minimum vehicle operating lease payments are calculated based on floating rate 4.56% respectively which was effective at the date of the agreement. Actual floating rate in 2012 was 3.51% (2011: 2.93% - 3.51%). The term of the operating lease of the vehicle ended in January 2012.

Real estate lease agreement

Additionally in December 2011 the Company renewed a real estate rent agreement which was agreed to terminate in October 2012. Total real estate rent payments in 2012 where LVL 75 477 (2011: LVL 7 644).

There are no rent liabilities as at 31 December 2012:

	LVL	
	31.12.2012.	**31.12.2011.**
Less than one year	-	86 487
Between one and three years	-	221 501
Total	**-**	**307 988**

Guaranteed issued

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

Please see also Note 33 in respect of uncertainties on Banking syndicate loan.

Legal cases

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

28. Average number of employees

The average number of the Company's employees during 2012 and 2011 was 32 and 37, respectively.

29. Key management remuneration

Management Board remuneration for 2012 was LVL 72 500 (2011: LVL 42 000), social security contributions amounted to LVL 17 465 (2011: LVL 10 118). There were no remuneration paid for Supervisory Council members in 2012 and 2011, accordingly no social security contributions paid.

During 2012 no loans or guarantees were issued to the members of Supervisory Council and Management Board.

Notes *(Continued)*

30. Transactions with related parties

Transactions with subsidiaries and subsidiaries owned by those subsidiaries

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

The income and expenses related to the transactions with subsidiaries and subsidiaries owned by those subsidiaries were as follows:

	LVL	
	2012	**2011**
Income from commercial management, management and IT services	2 342 008	4 467 636
Income from the goods sold and services rendered	149 494	150 287
Interest income on borrowings to subsidiaries	8 124	2 777
Total	**2 499 626**	**4 620 700**
Interest expenses	(690)	(803)
Cost of goods and services received	(642)	-
Total	**(1 332)**	**(803)**

Transactions with other related parties

In 2012 the Company has received services from related party – JSC "Ventspils nafta" in amount of LVL 194 697.

Income from services provided to other related parties in 2012 amounted to LVL 32 839.

See also Notes 19 and 22 for outstanding balances of related parties.

31. Financial risk management

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

Financial risks

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

Foreign currency risk

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

	LVL	
	31.12.2012.	**31.12.2011.**
Financial assets USD	5 376 388	4 196 912
Financial liabilities USD	(337 404)	(162 655)
Net balance sheet position, USD	**5 038 984**	**4 034 257**
Net balance sheet position, LVL	**2 675 701**	**2 194 636**

Notes *(Continued)*

31. Financial risk management *(continued)*

Financial risks *(continued)*

Liquidity risk

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

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

Credit risk

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

Fair value

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

Capital management

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

32. Events after the reporting period

As of the last day of the reporting year until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

33. Going Concern

The Group has significant balance of interest bearing loans as at 31 December 2012. 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.

In 2013 the Group continued to be in breach with certain financial covenants, namely such as EBITDA/Debt service and Cash covenant, set in the loan agreements and waived by the lenders until the end of 2012. Towards the end of the reporting year the banking syndicates agreed to extend the waivers of the EBITDA/ Debt service covenant and to reduce the minimum Cash reserve covenant down to USD 17 million until 31 December 2013.

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

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

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC "Latvijas kuģniecība"

Report on the Financial Statements

We have audited the accompanying financial statements of JSC "Latvijas kuģniecība" set out on pages 7 to 28 of the accompanying annual report, which comprise the balance sheet as of 31 December 2012 and the income statement and the statements of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Emphasis of matter – Going Concern Assumption

We draw attention to Note 33, "Going concern", in the financial statements, which discloses the Company's assumptions about its ability to continue as a going concern. Matters as set forth in Note 33, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

We have read the Management Report for 2012 set out on pages 5 to 6 of the accompanying annual report for 2012 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2012.

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
29 April 2013