LATVIJAS KUĢNIECĪBA

Public Joint Stock Company
“Latvian Shipping Company”

Consolidated Financial Statements

31 December 2012

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Information about JSC "Latvian Shipping Company" in brief

Mission

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

Strategy

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

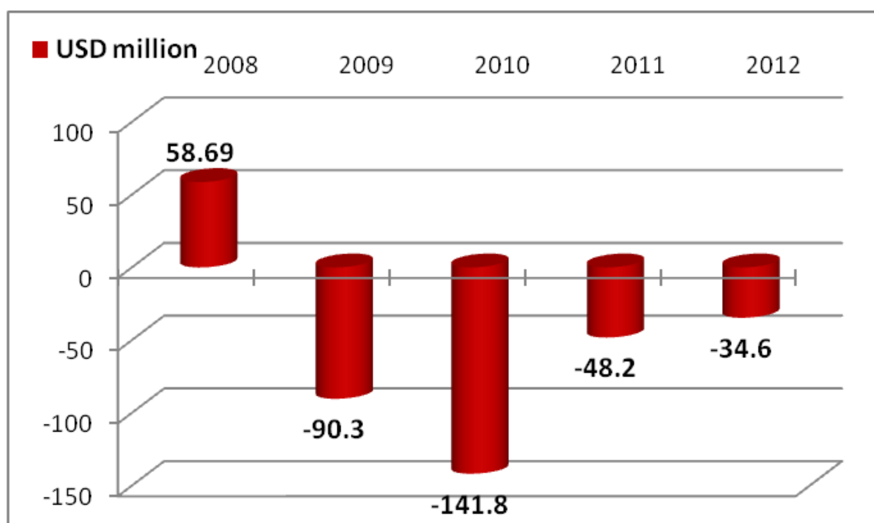
Latvian Shipping Company Group performance

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

Management report

Dear shareholders and stakeholders,

Latvian Shipping Company and its subsidiaries financial result for the twelve months of 2012 was a net loss of USD 34.60 million. The net loss for the same reporting period in 2011 was USD 48.27 million.



The Group's net financial result only with a 1% variance corresponds to the planned budget, except the impairment of the fleet which is not budgeted.

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.

The weak shipping market throughout 2012 resulted in recognizing a considerable impairment of the fleet. In total there was a decrease in the fleet's value for 2012 in the amount of USD 28.24million. The impairments are calculated using the higher of a vessel's fair value less costs to sell or its value in use, which fully complies with International Financial Reporting Standards. In order to determine the fair value of LSC Group's fleet, valuations of the vessels are carried out by independent international shipping experts. The impairments are non-cash items so do not affect the cash position of the Group. The LSC Group cash position at the end of December 2012 was USD 26.13 million.

There were no changes in LSC Group's fleet during 2012 and 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.

The total income of the fleet in 2012 was USD 114.61 million which is a considerable increase if compared to 2011 when the total income was USD 96.60 million. This increase reflects that a larger number of the fleet was employed on the spot market where the income can be higher due to the fact that the shipowner is compensated within the freight payment to cover all voyage costs (bunkers, port and agency charges, commissions etc.). Therefore the net voyage result is a more comparable indicator for the fleet performance analysis. The net voyage result is calculated by deducting voyage costs from voyage income and shows the Group's income, irrespective of whether the fleet is employed in the spot or time charter market. LSC Group fleet's net voyage result for 2012 was USD 88.33 million which is similar to the previous year (2011: USD 87.99 million) and very close to the planned year 2012 budget figure (USD 86.82 million). Vessel operating profit after depreciation and dry-dock amortisation for 2012 was USD 23.53 million, a significant improvement on the previous period (2011: USD 15.24 million) sufficient to fully cover the fleet's financing expenses in the amount of USD 17.98 million (2011: USD 20.53 million).

Management report *(continued)*

LSC continues to release quarterly chartering rates achieved by the Group's fleet:

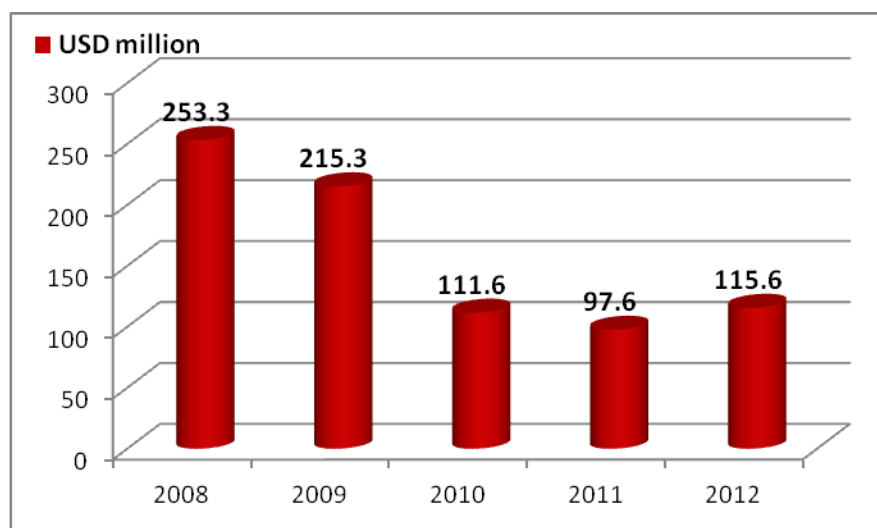
Average LSC Group's Fleet net TCE (time charter equivalent) USD/per day

Fleet	Y 2010	Y 2011	1Q 2012	2Q 2012	3Q 2012	Q4 2012	Y 2012
HS (7 vessels)	10 271	11 216	13 003	12 131	12 776	13 239	12 703
MR (12 vessels)	11 849	12 882	12 605	12 419	13 064	13 904	13 168
LR1 (1 vessel)	16 826	13 623	13 163	11 782	11 700	11 700	12 086

Explanations:
HS = handy size (37 dwt);
MR = medium range (52 dwt);
LR1 = long range (68 dwt).
Net TCE = TCE earnings after deduction of commissions payable by LSC Group to shipbroker(s)/charterers, port costs, bunker costs and any other applicable voyage related costs. The above figures reflect combined earnings of fleet from both time-charters and spot market trading.

	2008	2009	2010	2011	2012
Turnover (million USD)	253.29	215.27	111.60	97.58	115.56
Net profit/(loss) (million USD)	58.69	-90.26	-141.75	-48.27	-34.60
Gross profit before depreciation (million USD)	94.93	61.37	35.89	41.58	52.22
EBITDA (million USD)	107.28	30.91	14.15	26.39	40.99
EBIT (million USD)	76.96	-7.46	-14.40	0.08	12.51
Return on Assets (%)	6.7	-8.5	-17.2	-7.2	-5.7
Return on Equity (%)	11.4	-18.1	-36.9	-16.6	-14.2
EPS (USD)	0.29	-0.45	-0.71	-0.24	-0.17
Liquidity ratio	1.0	1.5	1.7	2.2	1.5

LSC Group turnover for the period 01.01.2008. – 31.12.2012.



At 31 December 2012 the total book value of LSC Group assets was USD 605.78 million. The figure at 31 December, 2011 was USD 651.92 million. The decrease is mainly attributed to the impairment provisions as explained above and depreciation of the fleet. The total book value of the LSC Group 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 USD 234.89 million (31.12.2011: USD 267.84 million).

Management report *(continued)*

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.

Towards the end of the reporting year 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.

Prospects for 2013

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
Joint Stock Company "Latvian Shipping Company"
Riga, 22 April 2013

Supervisory Council

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

Professional experience of the members of the Supervisory Council

Simon Boddy

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

Mikhail Dvorak

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

Christophe Theophanis Matsacos

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

Rubil Yilmaz

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

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

Vladimir Egger

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

Javed Ahmed

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

Mark Morrell Ware

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

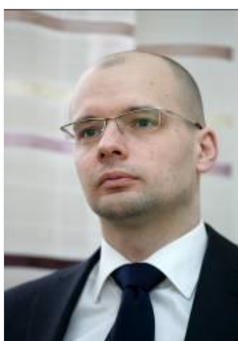
Jaakko Sakari
Mikael Salmelin

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

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

Ivars Girgensons

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



Mārtiņš Kvēps

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

Oļegs Stepanovs

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

Serguei Choutov

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

Management Board

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

Professional experience of the members of the Management board

Simon Richard Blaydes

Member of the Management Board of Latvian Shipping Company since 1 June 2011, Chairman of the Management Board since 15 November 2011. Previously from 2009 till 2011 CFO of the *Arawak Group* of companies. Before that he was a partner in the transaction support department of *Ernst & Young*'s Energy practices in Beijing, London and Kazakhstan. He is a chartered accountant and an associate of the ICAEW. He does not own *LSC* shares.

Paul Thomas

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

Michael Main King

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

Christopher James Kernon

With more than 20 year experience in the shipping industry. Member of the Management Board of Latvian Shipping Company since January 2011. Previously C. Kernon was responsible for shipping and chartering in Asia and Australia for *Vitol Group*. Last seven years he is responsible for projects and shipping timecharters at *Vitol Group.* He does not own *LSC* shares.

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

Supervisory Council

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

Management Board

Until 31 December 2012 the Management Board of JSC "Latvian Shipping Company" consisted of four members: Chairman Simon Richard Blaydes and members Paul Thomas, Michael Main King, Christopher James Kernon. Since 1 January 2013 Michael Main King has resigned and therefore the Management Board currently consists of three members.

Audit Committee

The extraordinary shareholders meeting on 25 July 2012 re-elected the audit committee for a three year term consisting of three members: Lahsen Idiken, Nafiset Negouch, Jozef Hubertus Johannes Baardemans.

Shareholders

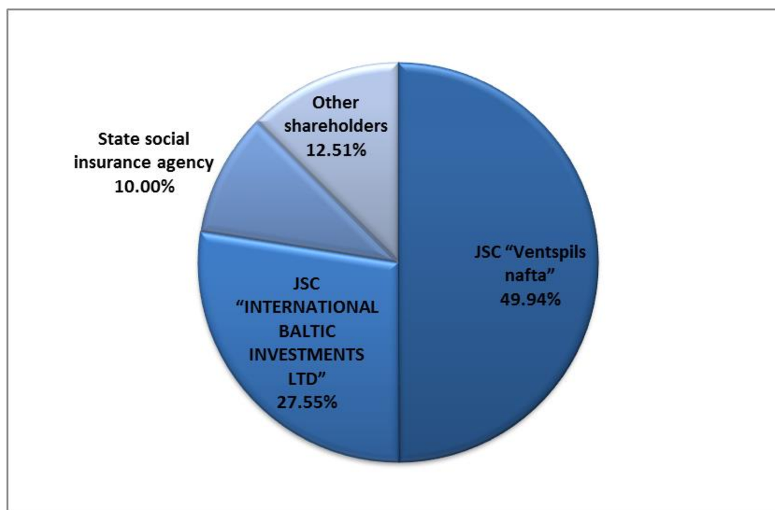
JSC “Latvian Shipping Company” shareholders (over 5%) as of 31.12.2012.

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

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

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

Shareholders structure as of 31.12.2012.



Review of shares

JSC “Latvian Shipping Company” share price development for the period 01.01.2012. – 31.12.2012.

Securities information

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

Information on the price and number of the traded shares

Price	2008	2009	2010	2011	2012
Open	1.300	0.660	0.410	0.370	0.312
High	1.370	0.690	0.520	0.460	0.346
Low	0.560	0.360	0.340	0.301	0.203
Last	0.660	0.400	0.379	0.308	0.252
Traded volume	8 277 028	3 961 245	5 058 251	13 526 230	985 943
Turnover, million	8.62	1.91	2.03	5.85	0.27
Capitalisation, million	132.00	80.00	75.80	61.60	50.40

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

Review of shares *(continued)*

JSC "Latvian Shipping Company" share price development for the period 01.01.2008. – 31.12.2012.

JSC "Latvian Shipping Company" share price development
in comparison with OMX Baltic Benchmark GI index for the period 01.01.2008. – 31.12.2012.

Index/Equity	01.01.2008.	31.12.2012.	+/-%
OMX Baltic Benchmark GI	684.91	546.98	-20.14
LSC1R	1.30 LVL	0.25 LVL	-80.77

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

Characteristics of the shares

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

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

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

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

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

Environment protection

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

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

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

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

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

Personnel policy

In today's globally competitive environment highly professional and motivated personnel make a ground for success of the company. JSC "Latvian Shipping Company" Personnel Policy aims to ensure equal development opportunities for all the employees and personnel potential development and utilisation for achievement of maximum performance results of the JSC "Latvian Shipping Company" Group. To reach the objectives set the company expects its employees to apply their skills and competence, efficient and dynamic work, as well as further development of professional knowledge and skills.

The personnel evaluation policy implemented in the company provides setting annual objectives for each employee as well as the evaluation of achievement of the objectives and overall participation in meeting the company's operation results. The results of the personnel evaluation are linked to the revision of remuneration of the JSC "Latvian Shipping Company" Group.

Subsidiary of the JSC "Latvian Shipping Company" – "LSC Shipmanagement" Ltd provides crewing for oil and chemical tankers. Many years of experience have resulted in a very large pool of business contacts; our database contains information about more than 2 000 highly experienced sea-farers eligible for different levels of jobs – from the highest to entry-levels. In order to support maritime traditions in Latvia, the preference is given to the local seafarers. Therefore, approximately 90% of the seagoing personnel are of Latvian origin.

Statement of Management's responsibility

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 21 to 23, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of JSC "Latvian Shipping Company" and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2012, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as adopted by EU.

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial statements; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

For and on behalf of the Management Board

Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company "Latvian Shipping Company"
Riga, 22 April 2013

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC Latvian Shipping Company

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of JSC Latvian Shipping Company and its subsidiaries ("the Group"), set out on pages 24 to 74 of the accompanying annual report which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

Basis for Qualified Opinion

The Group's available-for-sale financial asset in the consolidated statement of financial position as at 31 December 2012 and 2011 comprises the investment in JSC Latvijas Naftas Tranzits of USD 30 125 thousand (LVL 15 996 thousand) and USD 29 595 thousand (LVL 16 100 thousand) , respectively. The Group had no access to any financial information relating to the investee and, accordingly, was unable to reliably determine the fair value or recoverable value of the investment as of these dates. As a result, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the investment as at 31 December 2012 and 2011. Consequently, we were unable to determine whether any adjustments to the carrying amount were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects the financial position of the Group as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter – Going Concern Assumption

We draw attention to Note 43, "Going concern", in the consolidated financial statements, which discloses the Group's assumptions about its ability to continue as a going concern. Matters as set forth in Note 43, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

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

Report on Other Legal and Regulatory Requirements

We have read the Management Report for 2012 set out on pages 4 to 6 of the accompanying annual report for 2012 and the Corporate Governance Report for 2012 and did not identify material inconsistencies between the financial information contained in the Management Report, Corporate Governance Report and that contained in the consolidated financial statements for 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

Consolidated income statement

for the year ended 31 December 2012

	Notes	2012 USD'000	2011 USD'000	2012 LVL'000	2011 LVL'000
Voyage income	6	114 607	96 603	62 561	48 839
Income from other services		957	973	522	488
Revenue		**115 564**	**97 576**	**63 083**	**49 327**
Voyage costs	7	(26 275)	(8 616)	(14 301)	(4 392)
Cost of sales	8	(65 548)	(73 688)	(35 731)	(36 980)
Gross profit		**23 741**	**15 272**	**13 051**	**7 955**
Selling costs		-	(7)	-	(3)
Administrative expenses	9	(10 988)	(14 840)	(5 994)	(7 532)
Impairment of non-financial assets	10	(28 238)	(26 863)	(15 279)	(14 262)
Other operating income	11	351	388	192	201
Other operating expenses	12	(595)	(1 313)	(338)	(684)
Operating loss		**(15 729)**	**(27 363)**	**(8 368)**	**(14 325)**
Finance income	14	27	574	15	1 038
Finance costs	15	(18 743)	(20 733)	(10 204)	(10 434)
Loss before tax		**(34 445)**	**(47 522)**	**(18 557)**	**(23 721)**
Income tax	16	(152)	(751)	(93)	(373)
Loss for the year		**(34 597)**	**(48 273)**	**(18 650)**	**(24 094)**
Attributable to:					
Equity holders of the parent		(34 557)	(48 239)	(18 628)	(24 076)
Non-controlling interests		(40)	(34)	(22)	(18)
		(34 597)	**(48 273)**	**(18 650)**	**(24 094)**
Loss per share		USD (0.17)	USD (0.24)	LVL (0.09)	LVL (0.12)

The notes on pages 30 to 74 are integral part of these Consolidated Financial Statements.

These Consolidated 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
Joint Stock Company “Latvian Shipping Company”
Riga, 22 April 2013

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	2012 USD'000	2011 USD'000	2012 LVL'000	2011 LVL'000
Loss for the year	**(34 597)**	**(48 273)**	**(18 650)**	**(24 094)**
Exchange differences on translation of foreign operations	855	665	(2 784)	(51)
Net movement on cash flow hedges (*Note 32*)	799	1 519	459	788
Other comprehensive income/(expenses) for the year, net of tax	**1 654**	**2 184**	**(2 325)**	**737**
Total comprehensive loss for the year, net of tax	**(32 943)**	**(46 089)**	**(20 975)**	**(23 357)**
Attributable to:				
Equity holders of the parent	(33 052)	(46 321)	(20 953)	(23 339)
Non-controlling interests	109	232	(22)	(18)
	(32 943)	**(46 089)**	**(20 975)**	**(23 357)**

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Riga, 22 April 2013

Consolidated statement of financial position

as of 31 December 2012

	Notes	2012 USD'000	2011 USD'000	2012 LVL'000	2011 LVL'000
Assets					
Non-current assets					
Intangible assets	18	37	237	20	129
Fleet	19	517 823	509 973	274 964	277 425
Property, plant and equipment	20	3 527	3 669	1 873	1 996
Investment properties	21	1 880	1 861	999	1 013
Investment in associates	22	14	14	7	7
Other non-current financial assets	27	4 403	7 857	2 338	4 274
Total non-current assets		**527 684**	**523 611**	**280 201**	**284 844**
Current assets					
Inventories	24	4 766	3 804	2 531	2 069
Trade and other receivables	25	14 125	7 208	7 500	3 921
Prepayments	26	1 619	1 317	859	717
Other current financial assets	27	31 450	29 595	16 699	16 100
Cash and short-term deposits	28	26 133	26 983	13 876	14 679
		78 093	**68 907**	**41 465**	**37 486**
Assets classified as held for sale	23	-	59 400	-	32 314
Total current assets		**78 093**	**128 307**	**41 465**	**69 800**
Total assets		**605 777**	**651 918**	**321 666**	**354 644**

Consolidated statement of financial position *(continued)*

as of 31 December 2012

	Notes	2012 USD'000	2011 USD'000	2012 LVL'000	2011 LVL'000
Equity and liabilities					
Equity					
Share capital		362 319	362 319	200 000	200 000
Accumulated deficit		(119 279)	(84 722)	(64 667)	(46 039)
Other components of equity		(14 371)	(15 876)	(13 910)	(11 585)
Equity attributable to equity holders of the parent	29	**228 669**	**261 721**	**121 423**	**142 376**
Non-controlling interests		6 223	6 114	3 304	3 326
Total equity		**234 892**	**267 835**	**124 727**	**145 702**
Non-current liabilities					
Interest bearing loans	30	265 965	297 204	141 227	161 678
Finance lease	31	24 360	25 775	12 935	14 021
Derivative financial instruments	32	1 212	919	643	500
Trade and other payables	35	28 781	1 942	15 283	1 056
Deferred tax liabilities	33	105	136	56	74
Total non-current liabilities		**320 423**	**325 976**	**170 144**	**177 329**
Current liabilities					
Trade and other payables	35	14 628	13 635	7 768	7 419
Interest bearing loans	30	31 206	31 180	16 570	16 962
Finance lease	31	1 447	1 262	768	687
Derivative financial instruments	32	756	1 769	401	963
Deferred revenue	34	2 425	10 261	1 288	5 582
Total current liabilities		**50 462**	**58 107**	**26 795**	**31 613**
Total equity and liabilities		**605 777**	**651 918**	**321 666**	**354 644**

The notes on pages 30 to 74 are integral part of these Consolidated Financial Statements.

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Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company "Latvian Shipping Company"
Riga, 22 April 2013

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Attributable to the equity holders of the parent										Non-controlling interests		Total equity	
	Share capital (Note 29)		Accumulated deficit		Cash flow hedge reserve		Foreign currency translation reserve		Total					
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
As at 1 January 2012	**362 319**	**200 000**	**(84 722)**	**(46 039)**	**(2 689)**	**(1 463)**	**(13 187)**	**(10 122)**	**261 721**	**142 376**	**6 114**	**3 326**	**267 835**	**145 702**
Loss for the period	-	-	(34 557)	(18 628)	-	-	-	-	**(34 557)**	**(18 628)**	(40)	(22)	**(34 597)**	**(18 650)**
Other comprehensive income/(expense)	-	-	-	-	799	459	706	(2 784)	**1 505**	**(2 325)**	149	-	**1 654**	**(2 325)**
Total comprehensive income/(expense)	**-**	**-**	**(34 557)**	**(18 628)**	**799**	**459**	**706**	**(2 784)**	**(33 052)**	**(20 953)**	**109**	**(22)**	**(32 943)**	**(20 975)**
At 31 December 2012	**362 319**	**200 000**	**(119 279)**	**(64 667)**	**(1 890)**	**(1 004)**	**(12 481)**	**(12 906)**	**228 669**	**121 423**	**6 223**	**3 304**	**234 892**	**124 727**

for the year ended 31 December 2011

	Attributable to the equity holders of the parent										Non-controlling interests		Total equity	
	Share capital (Note 29)		Accumulated deficit		Cash flow hedge reserve		Foreign currency translation reserve		Total					
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
As at 1 January 2011	**362 319**	**200 000**	**(36 483)**	**(21 963)**	**(4 208)**	**(2 251)**	**(13 586)**	**(10 071)**	**308 042**	**165 715**	**5 882**	**3 344**	**313 924**	**169 059**
Loss for the period	-	-	(48 239)	(24 076)	-	-	-	-	**(48 239)**	**(24 076)**	(34)	(18)	**(48 273)**	**(24 094)**
Other comprehensive income/(expense)	-	-	-	-	1 519	788	399	(51)	**1 918**	**737**	266	-	**2 184**	**737**
Total comprehensive income/(expense)	**-**	**-**	**(48 239)**	**(24 076)**	**1 519**	**788**	**399**	**(51)**	**(46 321)**	**(23 339)**	**232**	**(18)**	**(46 089)**	**(23 357)**
At 31 December 2011	**362 319**	**200 000**	**(84 722)**	**(46 039)**	**(2 689)**	**(1 463)**	**(13 187)**	**(10 122)**	**261 721**	**142 376**	**6 114**	**3 326**	**267 835**	**145 702**

The notes on pages 30 to 74 are integral part of these Consolidated Financial Statements.

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Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company “Latvian Shipping Company”
Riga, 22 April 2013

Consolidated statement of cash flows

for the year ended 31 December 2012

	Notes	2012 USD'000	2011 USD'000	2012 LVL'000	2011 LVL'000
Operating activities					
Loss before tax		**(34 445)**	**(47 522)**	**(18 557)**	**(23 721)**
Non-cash adjustment to reconcile loss before tax to net cash flows:					
Depreciation of other property, plant and equipment and fleet	19,20	28 211	25 942	15 381	12 979
Amortisation of intangible assets	18	241	338	130	170
Depreciation of investment properties	21	26	28	14	14
Decrease in financial instruments		-	(19)	-	(11)
Net loss on disposal of non-financial assets	11,12	1	450	1	222
Currency translation difference		181	(1 295)	44	(1 288)
Finance income	14	(27)	(72)	(15)	(37)
Finance costs	15	17 978	20 526	9 805	10 331
Impairment charge	10	28 238	26 863	15 279	14 262
Changes in fair value of financial assets		-	(23)	-	(11)
Working capital adjustments:					
(Increase)/decrease in trade and other receivables and prepayments		(2 406)	2 100	(1 316)	1 061
Increase in inventories		(962)	(1 776)	(526)	(898)
Decrease in trade and other payables		(9 101)	2 566	(4 978)	1 297
Income tax paid		(600)	(905)	(328)	(457)
Net cash flows from operating activities		**27 335**	**27 201**	**14 934**	**13 913**
Investing activities					
Proceeds from sale of non-current assets		2	31 060	1	15 698
Purchase of non-current assets		(4 957)	(74 856)	(2 711)	(37 833)
Proceeds from sale of financial instruments		-	3 323	-	1 680
Placement of deposits with maturity more than three months	27b	(1 294)	-	(703)	-
Loans received		-	1 506	-	761
Loans issued		(517)	-	(281)	-
Interest received		23	174	13	88
Net cash flows (used in)/from investing activities		**(6 743)**	**(38 793)**	**(3 681)**	**(19 606)**
Financing activities					
Payment of finance lease liabilities		(1 445)	(1 107)	(791)	(559)
Proceeds from borrowings		28 796	50 684	15 774	25 616
Repayment of borrowings		(32 431)	(33 486)	(17 738)	(16 924)
Interest paid		(15 998)	(18 650)	(8 750)	(9 426)
Prepaid financing expenses		(404)	(1 357)	(221)	(686)
Net cash flows used in financing activities		**(21 482)**	**(3 916)**	**(11 726)**	**(1 979)**
Net decrease in cash and cash equivalents		**(890)**	**(15 508)**	**(473)**	**(7 672)**
Cash and cash equivalents at 1 January		**26 983**	**42 471**	**14 679**	**22 722**
Result of currency exchange transactions		40	20	(330)	(371)
Cash and cash equivalents at 31 December	28	**26 133**	**26 983**	**13 876**	**14 679**

The notes on pages 30 to 74 are integral part of these Consolidated Financial Statements.

These Consolidated 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
Joint Stock Company “Latvian Shipping Company”
Riga, 22 April 2013

Notes to the consolidated financial statements

1. Corporate information

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

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

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

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Management Board on 22 April, 2013.

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

2. Basis of preparation

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

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

In 2012 the Group has made certain reclassifications between different captions of the consolidated income statement. The comparatives have been restated to conform to the new presentation; impacts of reclassifications of the 2011 income statement were not material. The reclassifications had no effect on the statement of financial position as of 1 January 2012.

2.1. Statement of compliance

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

2.2. Basis of consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of 31 December 2012.

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

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

If the Group loses control over a subsidiary, it:

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

Notes to the consolidated financial statements *(continued)*

2.3. Summary of significant accounting policies

a) Investment in associates

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

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

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

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

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

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

b) Non-current assets held for sale

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

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

c) Foreign currency translation

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

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

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

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

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

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

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

Notes to the consolidated financial statements *(continued)*

Foreign currency translation *(continued)*

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

LB rate of exchange as of 31.12.2012 USD/LVL - 0.531 (average – 0.546937)

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

d) Revenue recognition

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

Voyage income

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

Other income

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

Interest income

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

Dividends

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

Deferred revenue

Amounts invoiced (cash received) to charterers for future service periods are accounted as deferred revenue.

e) Voyage costs and commissions/ Cost of sales

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

f) Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and paid vacation benefits are included in Cost of sales and administrative expenses on an accrual basis.

The Group pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. In accordance with the Rules of the Cabinet of Ministers of Latvia Republic 76.20% (2011: 72.84%) of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group pays fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the Group.

g) Taxes

Current income tax

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

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

Notes to the consolidated financial statements *(continued)*

Taxes *(continued)*

Deferred tax

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

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

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries and associates the deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

Value added tax

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

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

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

h) Financial assets

Initial recognition and measurement

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

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

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

Notes to the consolidated financial statements *(continued)*

Financial assets *(continued)*

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Financial assets available for sale

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

Derecognition

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

Notes to the consolidated financial statements *(continued)*

Financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

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

Financial assets available for sale

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

An analysis of fair values of financial instruments and further details as to how they are measured is provided in *Note 27*.

i) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at amortised cost

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

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

Derecognition

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

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

Notes to the consolidated financial statements *(continued)*

Financial liabilities *(continued)*

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

Cash flow hedges

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

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

Current versus non-current classification

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

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

j) Fleet

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

Depreciation has been provided on the basis that the carrying value of the vessels, less an estimated scrap value of USD 450 per lightweight ton (2011: USD 450), is written off on a straight line basis over the remainder of their anticipated useful lives - 25 years from the date of construction.

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

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

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

Notes to the consolidated financial statements *(continued)*

Fleet *(continued)*

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

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

Until delivery vessels under construction are presented in the statement of financial position as assets under construction.

k) Other property, plant and equipment

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

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

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

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

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

l) Intangible assets

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

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

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

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

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

Licences

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

m) Leases

Group as a lessee

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

Notes to the consolidated financial statements *(continued)*

Leases *(continued)*

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

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

n) Borrowing costs

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

The Group capitalises borrowing costs for all eligible assets.

o) Investment properties

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

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

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

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

p) Inventories

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

q) Impairment of non-financial assets

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

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

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

r) Cash and short-term deposits

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

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

Notes to the consolidated financial statements *(continued)*

s) Provisions

General

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

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

2.4. Changes in accounting policy and disclosures

The following new and amended IFRS and interpretations became effective in 2012, but are not relevant for the Group's operations and did not have an impact on these financial statements:

- **Amendments to IFRS 7 "Financial instruments: Disclosures" on transfers of assets** (effective for annual periods beginning on or after 1 July 2011).
- **Amendments to IFRS 1 "First time adoption" on fixed dates and hyperinflation** (effective for annual periods beginning on or after 1 July 2011).
- **Amendments to IAS 12 "Income taxes" on deferred tax** (effective for annual periods beginning on or after 1 January 2012).

3. Standards issued but not yet effective

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2013 or later periods and which are not relevant to the Group or are not yet endorsed by the EU.

Amendments to IAS 19 "Employee benefits" (effective for annual periods beginning on or after 1 January 2013).

Amendments to IAS 1 "Financial statement presentation" regarding other comprehensive income (effective for annual periods beginning on or after 1 January 2012, endorsed by the EU on June 2012).

IFRS 9 "Financial Instruments Part 1: Classification and Measurement" (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU).

IFRS 10 "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IFRS 11 "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IFRS 12 "Disclosures of interests in other entities" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

Amendments to IFRS 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2013).

IFRS 13 "Fair value measurement" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012).

IAS 27 (revised 2011) "Separate financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IAS 28 (revised 2011) "Associates and joint ventures" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

Amendments to IFRS 7 "Financial instruments: Disclosures" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

Amendments to IAS 32 "Financial instruments: Presentation" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014, endorsed by the EU on December 2012).

Notes to the consolidated financial statements *(continued)*

Standards issued but not yet effective *(continued)*

Improvements to IFRS (issued in May 2012; most of the amendments are effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU):

- IFRS 1 "First time adoption";
- IAS 1 "Financial statement presentation";
- IAS 16 "Property, plant and equipment";
- IAS 32 "Financial instruments: Presentation";
- IAS 34 "Interim financial reporting".

Amendments to IFRS 10, IFRS 12 and IAS 27 on investment entities (effective for annual periods beginning on or after 1 January 2014, not yet endorsed by the EU).

IFRIC 20, `Stripping costs in the production phase of a surface mine` (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

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

4. Significant accounting judgments, estimates and assumptions

Judgments

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

Estimates and assumptions

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

Anticipated useful economic life of the fleet

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

Management have made sensitivity analysis of residual value by increasing/decreasing expected life of fleet by 5 years. The effect of this change in estimate would decrease depreciation expenses by USD 5.0 million (2011: USD 3.8 million) or increase depreciation expenses by USD 8.4 million (2011: USD 6.2 million).

Recoverable value of fleet

The recoverable amount is the most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in *Note 19*.

Recoverable value of investment property

To determine the recoverable value of investment properties the Group engages independent certified valuation specialists. The valuer uses valuation techniques based on a discounted cash flow model and comparable market data. The estimated recoverable value of the investment properties is the most sensitive to the estimated rent rates, discount rates as well as other assumptions applied. The key assumptions used in determining the recoverable value of the investment properties as of 31 December 2012 and 2011 is provided in *Note 21*.

Notes to the consolidated financial statement *(continued)*

5. Corporate Structure

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

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

Notes to the consolidated financial statement *(continued)*

5. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
Lattanker Holdings Corporation	Liberia	Intermediate holding company
Davids Sikeiross Shipping Corporation	Liberia	Dormant
Dzons Rids Shipping Corporation	Liberia	Dormant/m.t. Blue Star until July 2011
Hose Marti Shipping Corporation	Liberia	Dormant/m.t. Green Star until August 2011
Imanta Shipping Company Ltd.	Malta	Dormant
Majori Shipping Company Ltd.	Malta	Dormant
Pablo Neruda Shipping Company Ltd.	Cyprus	In liquidation
Talava Shipping Company Ltd.	Malta	Dormant
Reeferlat Holdings Corporation	Liberia	Intermediate holding company
Akademikis Artobolevskis Shipping Co. Ltd.	Malta	Liquidated in January 2011
Akademikis Bocvars Shippng Co. Ltd.	Malta	Dormant
Akademikis Celomejs Shipping Co. Ltd.	Malta	In liquidation
Belgoroda Shipping Co. Ltd.	Cyprus	In liquidation
Belgoroda Shipping Co. Ltd.	Malta	In liquidation
Juris Avots Shipping Co. Ltd.	Malta	In liquidation
Kamilo Sjenfuegoss Shipping Co. Ltd.	Malta	In liquidation
Kurska Shipping Co. Ltd.	Malta	In liquidation
Pure Shipping Co. Ltd.	Malta	Dormant
Ventlines Shipping Limited	Malta	Liquidated in January 2011
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Latalpha Holdings Corporation	Liberia	Intermediate holding company
Ak. Vavilovs Shipping Co. Ltd.	Malta	In liquidation
Ak. Zavarickis Shipping Co. Ltd.	Malta	In liquidation
Dzintari Shipping Corporation	Liberia	Dormant
Griva Maritime Corporation	Liberia	Dormant
Kasira Shipping Company Ltd.	Cyprus	Liquidated in September 2011
Mahoe Shipping Company Ltd.	Cyprus	In liquidation
O. Vacietis Shipping Company Ltd.	Cyprus	In liquidation
Perle Reefer Shipping Company Ltd.	Malta	In liquidation
Rosewood Shipping Corporation	Liberia	Liquidated in October 2012
Ventspils Shipping Company Ltd.	Cyprus	Liquidated in September 2011

Notes to the consolidated financial statement *(continued)*

5. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
LSC Holdings Ltd	Isle of Man	Holding company
Kabile Navigation Inc.	Marshall Islands	m.t. Krisjanis Valdemars
Kaltene Navigation Inc.	Marshall Islands	m.t. Kaltene
Kandava Navigation Inc.	Marshall Islands	m.t. Kandava
Kazdanga Navigation Inc.	Marshall Islands	m.t. Kazdanga
Kolka Navigation Inc.	Marshall Islands	m.t. Kolka
Kuldiga Navigation Inc.	Marshall Islands	m.t. Kuldiga
Kursa Navigation Inc.	Marshall Islands	m.t. Kraslava
Sabile Navigation Inc.	Marshall Islands	m.t. Ugale
Salacgriva Navigation Inc.	Marshall Islands	m.t. Jurkalne
Saldus Navigation Inc.	Marshall Islands	m.t. Ainazi
Saulkrasti Navigation Inc.	Marshall Islands	m.t. Puze
Sigulda Navigation Inc.	Marshall Islands	m.t. Uzava
Skrunda Navigation Inc.	Marshall Islands	m.t Piltene
Sloka Navigation Inc.	Marshall Islands	m.t Ance
Smiltene Navigation Inc.	Marshall Islands	m.t Usma
Stende Navigation Inc.	Marshall Islands	m.t Targale
Straupe Navigation Inc.	Marshall Islands	m.t. Salacgriva
Arctic Holding Corporation	Marshall Islands	Holding company
Brasla Shipping Corporation	Marshall Islands	m.t Latgale
Ritupe Shipping Corporation	Marshall Islands	Liquidated in July 2012
Misa Shipping Corporation	Marshall Islands	Liquidated in July 2012
Imula Shipping Corporation	Marshall Islands	m.t Zemgale
Latvian Shipping Corporation	Liberia	Liquidated in October 2012
Michelle Finance Corporation	Liberia	Liquidated in October 2012
“LSC Marine Training” SIA	Latvia	Seafarers Training Services
Santomar Holdings Co. Ltd.	Cyprus	Investment Holding Company (dormant)

Notes to the consolidated financial statement *(continued)*

6. Segment information

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

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

The Group carries out its shipping operations in global markets. Management does not consider business analysis based on geographical segments because of the known difficulties in identifying the geographical distribution of the Group's activities, while only Other revenues in Shipping segment was mainly generated in Latvia.

The amounts provided to the Management with respect to total assets, net result before taxes are measured in a manner consistent with that of the financial statements.

The revenue from external parties reported to the Management of the Board is measured in a manner consistent with that in the income statement.

Revenues of approximately USD 29 006 thousand and USD 8 855 thousand (2011: USD 22 828 thousand and USD 9 162 thousand respectively) are derived from two external customers. These revenues are attributable to the shipping segment.

The following tables present the breakdown of income statement items, as well as assets related to operating segment.

Notes to the consolidated financial statement *(continued)*

6. Segment information *(continued)*

Year ended 31 December 2012

	Shipping		Total	
	USD '000	LVL '000	USD '000	LVL '000
Time charter hire income	66 583	36 535	66 583	36 535
Freight income	48 024	26 026	48 024	26 026
Voyage income from external customers	**114 607**	**62 561**	**114 607**	**62 561**
Voyage costs	(26 275)	(14 301)	(26 275)	(14 301)
Net voyage result	**88 332**	**48 260**	**88 332**	**48 260**
Vessel operating costs	(36 947)	(20 139)	(36 947)	(20 139)
Other revenues	957	522	957	522
Cost of sales (Vessel operating costs excluding)	(697)	(380)	(697)	(380)
Administrative expenses	(10 228)	(5 580)	(10 228)	(5 580)
Result from disposal of non-financial assets	(1)	(1)	(1)	(1)
Depreciation and amortisation	(28 476)	(15 524)	(28 476)	(15 524)
Impairment of non-financial assets	(28 238)	(15 279)	(28 238)	(15 279)
Other operating income	351	192	351	192
Other operating expenses	(594)	(337)	(594)	(337)
Result before financial items	**(15 541)**	**(8 266)**	**(15 541)**	**(8 266)**
Interest income	25	14	25	14
Interest expense	(17 977)	(9 805)	(17 977)	(9 805)
Finance expenses, net	(765)	(397)	(765)	(397)
Net result before tax	**(34 258)**	**(18 454)**	**(34 258)**	**(18 454)**
Segment assets	**567 514**	**301 348**	**567 514**	**301 348**
Including additions to non-current assets	4 714	2 578	4 714	2 578

Notes to the consolidated financial statement *(continued)*

6. Segment information *(continued)*

Year ended 31 December 2011

	Shipping		Total	
	USD '000	LVL '000	USD '000	LVL '000
Time charter hire income	83 990	42 353	83 990	42 353
Freight income	12 613	6 486	12 613	6 486
Voyage income from external customers	**96 603**	**48 839**	**96 603**	**48 839**
Voyage costs	(8 616)	(4 392)	(8 616)	(4 392)
Net voyage result	**87 987**	**44 447**	**87 987**	**44 447**
Vessel operating costs	(41 870)	(21 014)	(41 870)	(21 014)
Chartering expenses	(5 489)	(2 794)	(5 489)	(2 794)
Other revenues	973	488	973	488
Cost of sales (Vessel operating costs excluding)	(762)	(383)	(762)	(383)
Selling costs	(7)	(3)	(7)	(3)
Administrative expenses	(13 855)	(7 037)	(13 855)	(7 037)
Result from disposal of non-financial assets	(450)	(222)	(450)	(222)
Depreciation and amortisation	(26 307)	(13 162)	(26 307)	(13 162)
Impairment of non-financial assets	(25 664)	(13 610)	(25 664)	(13 610)
Other opearating income	116	61	116	61
Other operating expenses	(54)	(29)	(54)	(29)
Result before financial items	**(25 382)**	**(13 258)**	**(25 382)**	**(13 258)**
Interest income	72	37	72	37
Interest expense	(20 526)	(10 331)	(20 526)	(10 331)
Finance income, net	319	912	319	912
Net result before tax	**(45 517)**	**(22 640)**	**(45 517)**	**(22 640)**
Segment assets	**616 266**	**335 249**	**616 266**	**335 249**
Including additions to non-current assets	75 830	38 324	75 830	38 324

Notes to the consolidated financial statement *(continued)*

6. Segment information *(continued)*

Reconciliation of segment results and assets to income statement and statement of financial position

	USD '000		LVL '000	
	2012	2011	2012	2011
Net result before taxes for reportable segment	(34 258)	(45 517)	(18 454)	(22 640)
Administrative expenses	(188)	(245)	(102)	(122)
Impairment of investment properties	-	(1 199)	-	(652)
Other operating expenses	-	(537)	-	(293)
Finance income/(expenses)	1	(24)	(1)	(14)
Loss before tax	**(34 445)**	**(47 522)**	**(18 557)**	**(23 721)**

	USD '000		LVL '000	
	2012	2011	2012	2011
Segment assets for reportable segment	567 514	616 266	301 348	335 249
Unallocated:				
Investment properties	1 880	1 861	999	1 013
Other assets of subsidiaries not included in segment	6 258	4 196	3 323	2 282
Available-for-sale financial assets	30 125	29 595	15 996	16 100
Total assets	**605 777**	**651 918**	**321 666**	**354 644**

7. Voyage costs and commissions

	USD '000		LVL '000	
	2012	2011	2012	2011
Fuel (Bunkering)	(18 521)	(5 193)	(10 066)	(2 646)
Port expenses	(5 637)	(1 397)	(3 080)	(715)
Commissions	(2 117)	(2 026)	(1 155)	(1 031)
Total	**(26 275)**	**(8 616)**	**(14 301)**	**(4 392)**

8. Cost of sales

	USD '000		LVL '000	
	2012	2011	2012	2011
Fleet depreciation (See *Note 19*)	(25 090)	(22 916)	(13 684)	(11 461)
Crew expenses (Expenses related to wages included in *Note 13*)	(21 626)	(21 862)	(11 790)	(10 987)
Repairs and spares	(5 332)	(7 222)	(2 908)	(3 589)
Equipment maintenance expenses	(3 061)	(5 042)	(1 672)	(2 533)
Dry-docking depreciation (See *Note 19*)	(2 766)	(2 600)	(1 502)	(1 304)
Insurance	(2 181)	(3 123)	(1 185)	(1 586)
Luboil	(1 923)	(2 334)	(1 047)	(1 170)
Victualling	(1 288)	(1 219)	(702)	(612)
Staff costs (Expenses related to wages included in *Note 13)*	(416)	(448)	(226)	(225)
Depreciation and amortisation of other assets	(49)	(51)	(27)	(26)
Chartering expenses	-	(5 489)	-	(2 794)
Other	(1 816)	(1 382)	(988)	(693)
Total	**(65 548)**	**(73 688)**	**(35 731)**	**(36 980)**

Notes to the consolidated financial statement *(continued)*

9. Administrative expenses

	USD '000		LVL '000	
	2012	2011	2012	2011
Professional fees	(4 542)	(6 715)	(2 487)	(3 445)
Staff costs *(See Note 13)*	(4 250)	(4 692)	(2 312)	(2 362)
Occupancy and repairs	(622)	(912)	(339)	(457)
Depreciation and amortisation of other assets	(573)	(741)	(312)	(372)
IT and communication	(339)	(439)	(185)	(221)
Mortgage insurance fees	(98)	(107)	(53)	(54)
Travel and transport	(83)	(136)	(45)	(68)
Real estate tax	(51)	(56)	(28)	(28)
Advertising and marketing	(15)	(25)	(8)	(12)
Other	(415)	(1 017)	(225)	(513)
Total	**(10 988)**	**(14 840)**	**(5 994)**	**(7 532)**

10. Impairment of non-financial assets

	USD '000		LVL '000	
	2012	2011	2012	2011
Impairment of fleet *(See Note 19)*	(28 238)	(13 100)	(15 279)	(7 126)
Impairment of assets clasified as held for sale *(See Note 23)*	-	(12 564)	-	(6 484)
Impairment of investment property *(See Note 21)*	-	(1 199)	-	(652)
Total	**(28 238)**	**(26 863)**	**(15 279)**	**(14 262)**

11. Other operating income

	USD '000		LVL '000	
	2012	2011	2012	2011
Income received from previously written off receivables	160	-	88	-
Result from disposal of other non-financial assets	-	272	-	141
Result from sale of JSC "Ventspils nafta" shares	-	30	-	16
Increase in fair value of financial assets through profit or loss, net *(See Note 27a)*	-	23	-	11
Other income	191	63	104	33
Total	**351**	**388**	**192**	**201**

12. Other operating expenses

	USD '000		LVL '000	
	2012	2011	2012	2011
Result from disposal of fleet	-	(722)	-	(363)
Impairment of loans and receivables	-	(580)	-	(315)
Result from disposal of other non-financial assets	(1)	-	(1)	-
Other operating expenses	(594)	(11)	(337)	(6)
Total	**(595)**	**(1 313)**	**(338)**	**(684)**

Notes to the consolidated financial statement *(continued)*

13. Employment costs and staff numbers

	USD '000		LVL '000	
	2012	2011	2012	2011
Wages and salaries, included in				
- cost of sales	19 196	18 842	10 461	9 463
- administrative expenses	3 383	3 691	1 840	1 857
Social security costs, included in				
- cost of sales	77	82	42	41
- administrative expenses	812	882	442	445
Other staff costs				
- cost of sales	5	9	3	5
- administrative expenses	55	119	30	60
Total	**23 528**	**23 625**	**12 818**	**11 871**

The number of the Group's employees as of 31 December 2012 was 425 (2011: 449).

14. Finance income

	USD '000		LVL '000	
	2012	2011	2012	2011
Interest income from bank account balances	25	51	14	26
Interest income from loans issued	2	21	1	11
Currency exchange transactions/difference, net	-	502	-	1 001
Total financial income	**27**	**574**	**15**	**1 038**
Of which: from financial instruments relating to financial instrument categories (according to IAS 39):				
Loans and receivables	27	72	15	37
Total	**27**	**72**	**15**	**37**

15. Finance costs

	USD '000		LVL '000	
	2012	2011	2012	2011
Interest expense	(17 978)	(20 526)	(9 805)	(10 331)
Bank charges	(248)	(207)	(136)	(103)
Currency exchange transactions/difference, net	(517)	-	(263)	-
Total financial costs	**(18 743)**	**(20 733)**	**(10 204)**	**(10 434)**
Of which: from financial instruments relating to financial instrument categories:				
Financial liabilities measured at amortised cost	(17 978)	(20 526)	(9 805)	(10 331)
Total	**(17 978)**	**(20 526)**	**(9 805)**	**(10 331)**

Notes to the consolidated financial statement *(continued)*

16. Income tax

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	USD '000		LVL '000	
	2012	**2011**	**2012**	**2011**
Current income tax:				
Current income tax charge	(186)	(819)	(111)	(410)
Deferred tax:				
Relating to origination and reversal of temporary differences	34	68	18	37
Income tax expense reported in the income statement	**(152)**	**(751)**	**(93)**	**(373)**

Reconciliation between tax expense and accounting loss multiplied by the statutory income tax rate for the years ended 31 December 2012 and 2011 is as follows:

	USD '000		LVL '000	
	2012	**2011**	**2012**	**2011**
Accounting loss before income tax	**(34 445)**	**(47 522)**	**(18 557)**	**(23 721)**
At statutory income tax rate of 15%	(5 167)	(7 128)	(2 784)	(3 558)
Non-deductible loss from foreign subsidiaries	5 184	7 357	2 835	3 726
Non-taxable income/ non-deductible expense	130	513	40	201
Increase in unrecognised deferred tax asset	5	9	2	4
Income tax expense	**152**	**751**	**93**	**373**

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

17. Earnings per share

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

	2012	**2011**
Net loss for the year attributable to shareholders, USD'000	(34 557)	(48 239)
Weighted average number of ordinary shares in issue, thousand	200 000	200 000
Basic loss per share (USD)	**(0.17)**	**(0.24)**
Net loss for the year attributable to shareholders, LVL'000	(18 628)	(24 076)
Weighted average number of ordinary shares in issue, thousand	200 000	200 000
Basic loss per share (LVL)	**(0.09)**	**(0.12)**

Notes to the consolidated financial statement *(continued)*

18. Intangible assets

	Patents and licences		Total	
	USD'000	LVL'000	USD'000	LVL'000
Cost				
At 1 January 2011	1 669	892	1 669	892
Additions	21	10	21	10
Disposals	(142)	(70)	(142)	(70)
Exchange differences	(19)	-	(19)	-
At 31 December 2011	**1 529**	**832**	**1 529**	**832**
Additions	37	21	37	21
Disposals	(136)	(74)	(136)	(74)
Exchange differences	34	-	34	-
At 31 December 2012	**1 464**	**779**	**1 464**	**779**
Amortisation				
At 1 January 2011	1 129	603	1 129	603
Amortisation	338	170	338	170
Disposals	(140)	(70)	(140)	(70)
Exchange differences	(35)	-	(35)	-
At 31 December 2011	**1 292**	**703**	**1 292**	**703**
Amortisation	241	130	241	130
Disposals	(136)	(74)	(136)	(74)
Exchange differences	30	-	30	-
At 31 December 2012	**1 427**	**759**	**1 427**	**759**
Net book value:				
At 31 December 2011	**237**	**129**	**237**	**129**
At 31 December 2012	**37**	**20**	**37**	**20**

Notes to the consolidated financial statement *(continued)*

19. Fleet

	Vessels		Capitalised dry-docking expenses		Total fleet in use		Newbuildings under construction and dry-dock in progress		Total fleet	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost										
At 1 January 2011	633 903	339 138	6 229	3 333	640 132	342 471	79 371	42 463	719 503	384 934
Additions	-	-	3 358	1 697	3 358	1 697	72 340	36 561	75 698	38 258
Disposals	-	-	(1 918)	(969)	(1 918)	(969)	(42 179)	(21 318)	(44 097)	(22 287)
Reclassification	8 970	4 533	(487)	(246)	8 483	4 287	(109 333)	(55 258)	(100 850)	(50 971)
Exchange differences	-	6 052	65	128	65	6 180	-	(2 340)	65	3 840
At 31 December 2011	**642 873**	**349 723**	**7 247**	**3 943**	**650 120**	**353 666**	**199**	**108**	**650 319**	**353 774**
Additions	-	-	4 536	2 481	4 536	2 481	8	4	4 544	2 485
Disposals	-	-	(3 119)	(1 706)	(3 119)	(1 706)	-	-	(3 119)	(1 706)
Reclassification	99 441	54 388	1 486	813	100 927	55 201	(77)	(42)	100 850	55 159
Exchange differences	-	(9 941)	-	(140)	-	(10 081)	-	(1)	-	(10 082)
At 31 December 2012	**742 314**	**394 170**	**10 150**	**5 391**	**752 464**	**399 561**	**130**	**69**	**752 594**	**399 630**
Depreciation and impairment										
At 1 January 2011	101 058	54 066	2 381	1 274	103 439	55 340	45 562	24 375	149 001	79 715
Depreciation	22 916	11 461	2 600	1 304	25 516	12 765	-	-	25 516	12 765
Disposals	-	-	(1 918)	(969)	(1 918)	(969)	(16 524)	(8 245)	(18 442)	(9 214)
Reclassification	(28 230)	(14 268)	(656)	(331)	(28 886)	(14 599)	-	-	(28 886)	(14 599)
Impairment	42 138	21 340	-	-	42 138	21 340	(29 038)	(14 214)	13 100	7 126
Exchange differences	-	2 409	57	63	57	2 472	-	(1 916)	57	556
At 31 December 2011	**137 882**	**75 008**	**2 464**	**1 341**	**140 346**	**76 349**	**-**	**-**	**140 346**	**76 349**
Depreciation	25 090	13 684	2 766	1 502	27 856	15 186	-	-	27 856	15 186
Disposals	-	-	(3 119)	(1 706)	(3 119)	(1 706)	-	-	(3 119)	(1 706)
Reclassification	40 794	22 312	656	359	41 450	22 671	-	-	41 450	22 671
Impairment	28 238	15 279	-	-	28 238	15 279	-	-	28 238	15 279
Exchange differences	-	(3 088)	-	(25)	-	(3 113)	-		-	(3 113)
At 31 December 2012	**232 004**	**123 195**	**2 767**	**1 471**	**234 771**	**124 666**	**-**	**-**	**234 771**	**124 666**
Net book value:										
At 31 December 2011	**504 991**	**274 715**	**4 783**	**2 602**	**509 774**	**277 317**	**199**	**108**	**509 973**	**277 425**
At 31 December 2012	**510 310**	**270 975**	**7 383**	**3 920**	**517 693**	**274 895**	**130**	**69**	**517 823**	**274 964**
Impairment										
At 31 December 2011	**42 138**	**22 923**	**-**	**-**	**42 138**	**22 923**	**-**	**-**	**42 138**	**22 923**
At 31 December 2012	**82 940**	**44 041**	**-**	**-**	**82 940**	**44 041**	**-**	**-**	**82 940**	**44 041**

As of 31 December 2012 the net book value of vessel under the finance lease was USD 24.2 million (31.12.2011: USD 25.5 million). The finance lease is secured by a pledge on the vessel acquired.

Reclassification in 2012 and 2011 represents transfer of the vessels back to/from fleet from/to assets held for sale. *See Note 23*.

Two newbuildings under construction were sold in March 2011 and two were delivered in the middle of 2011.

In 2012, impairment was recognised for 8 MR size and one handy size vessels of the fleet. The recoverable amount was estimated based on the higher of calculated value in use and fair value less cost to sell.

Notes to the consolidated financial statement *(continued)*

19. Fleet (*continued*)

Part of the fleet with the net book value of USD 517.8 million (2011: USD 510.0 million) has been used as security for long term bank loans. *See Note 30.*

Total number of vessels as of 31 December 2012 was 20 (2011: 20); including those classified as assets held for sale as at 31 December 2011 *(see Note 23).*

In 2011 the Group operated also 2 tankers chartered in from other ship owners until September. In June and July 2011 the Group received two newbuldings, which were ordered in 2007.

In 2011 the Group sold one product tanker with a total deadweight of 33.12 thousand tons (m.t. Indra built 1994) resulting in a loss of USD 0.9 million.

At 31 December 2012 the Group's own fleet comprises:

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

* in 2012 reclassified back to the operating fleet, as of 31 December 2011, classified as assets held for sale. *See Note 23*.

Notes to the consolidated financial statement *(continued)*

19. Fleet (*continued*)

At the end of the financial year, the market value of the majority of vessels was below the carrying amounts. Accordingly, an impairment test was also conducted for the CGUs (vessels) by determining the value in use, where the long-term values are assessed.

The global economic environment and shipping are closely aligned. A weaker global economy has resulted in lower shipping rates and lower earnings in shipping industry. The management believes that less demand for refined products in developed western economies has negatively impacted shipping industry.

As at 31 December 2012 the recoverable value of fleet is determined by using the following approaches for two groups of vessels:

- operating fleet (7 HS and 7 MR vessels), for which recoverable amount constitutes the value in use, and
- operating fleet (5 MR vessels and one Panamax type vessel) for which recoverable amount constitutes fair value.

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

The impairment test was performed by comparing the carrying amounts with the value in use of the fleet. Value in use is calculated as the present value of total expected cash flows until vessels' age of the vessel is 20 years. Value in use is determined based on discounted cash flow projections. The key assumptions used as of 31 December are as follows: the Group has used vessels historical (starting from the year of delivery) time charter equivalent rates and operating costs; operating costs are increased every 5th year considering necessary dry-docking; discount rate applied is 8.29% (2011: 9.06%); and the scrap value applied is USD 450 per light weight ton (2011: 450 USD).

With regard to the assessment of recoverable value of the vessel, in 2012 management recognised impairment of 9 vessels as the carrying value of vessels in use exceeds their recoverable value by USD 28.2 million. The recoverable amount was estimated based on the higher of calculated value in use and fair value less cost to sell.

Sensitivity to changes in assumptions

With regard to the assessment of recoverable value of total fleet in use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of total fleet in use to materially exceed its recoverable value.

The following individual change in each of the key assumptions would make vessels recoverable amount approximate its carrying amount as of 31 December 2012:

- Decrease in time charter rates by 6.8% in average per day.
- Average increase in operating costs by 16%.
- Increase of discount rate by 0.72pp.

Notes to the consolidated financial statement *(continued)*

20. Property, plant and equipment

	Land and building		Other fixed assets		Total	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost						
At 1 January 2011	4 019	2 150	3 326	1 780	7 345	3 930
Additions	-	-	111	56	111	56
Disposals	-	-	(485)	(245)	(485)	(245)
Exchange differences	(66)	-	(28)	-	(94)	-
At 31 December 2011	**3 953**	**2 150**	**2 924**	**1 591**	**6 877**	**3 741**
Additions	-	-	133	72	133	72
Disposals	-	-	(204)	(111)	(204)	(111)
Exchange differences	96	-	70	-	166	-
At 31 December 2012	**4 049**	**2 150**	**2 923**	**1 552**	**6 972**	**3 702**
Depreciation and impairment						
At 1 January 2011	685	367	2 611	1 397	3 296	1 764
Depreciation	129	64	297	150	426	214
Disposals	-	-	(460)	(233)	(460)	(233)
Exchange differences	(21)	-	(33)	-	(54)	-
At 31 December 2011	**793**	**431**	**2 415**	**1 314**	**3 208**	**1 745**
Depreciation	97	53	258	142	355	195
Disposals	-	-	(201)	(111)	(201)	(111)
Exchange differences	22	-	61	-	83	-
At 31 December 2012	**912**	**484**	**2 533**	**1 345**	**3 445**	**1 829**
Net book value:						
At 31 December 2011	**3 160**	**1 719**	**509**	**277**	**3 669**	**1 996**
At 31 December 2012	**3 137**	**1 666**	**390**	**207**	**3 527**	**1 873**

The real estate property is pledged as collateral under the received loan on behalf of related party. Carrying value of that property as at 31 December 2012 is USD 3.137 million.

No impairment recognised in 2012 and 2011 on property and other fixed assets.

Notes to the consolidated financial statement *(continued)*

21. Investment properties

	Land, buildings and other property, plant and equipment		Assets under construction		Total	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
Cost						
At 1 January 2011	5 196	2 780	9	5	5 205	2 785
Reclassification	10	5	(10)	(5)	-	-
Exchange differences	(87)	-	1	-	(86)	-
At 31 December 2011	**5 119**	**2 785**	**-**	**-**	**5 119**	**2 785**
Exchange differences	125	-	-	-	125	-
At 31 December 2012	**5 244**	**2 785**	**-**	**-**	**5 244**	**2 785**
Depreciation						
At 1 January 2011	2 067	1 106	-	-	2 067	1 106
Depreciation	28	14	-	-	28	14
Impairment	1 199	652	-	-	1 199	652
Exchange differences	(36)	-	-	-	(36)	-
At 31 December 2011	**3 258**	**1 772**	**-**	**-**	**3 258**	**1 772**
Depreciation	26	14	-	-	26	14
Exchange differences	80	-	-	-	80	-
At 31 December 2012	**3 364**	**1 786**	**-**	**-**	**3 364**	**1 786**
Net book value:						
At 31 December 2011	**1 861**	**1 013**	**-**	**-**	**1 861**	**1 013**
At 31 December 2012	**1 880**	**999**	**-**	**-**	**1 880**	**999**
Impairment						
At 31 December 2011	**3 060**	**1 665**	**-**	**-**	**3 060**	**1 665**
At 31 December 2012	**3 135**	**1 665**	**-**	**-**	**3 135**	**1 665**

One investment property is pledged as collateral under the received loan from related party. The carrying value of that property as at 31 December 2012 is USD 1.878 million.

The fair value of Investment Property as of 31 December 2012 and 31 December 2011 approximates to its carrying value.

At the end of 2012 and 2011 the Group engaged independent certified valuation specialist to determine fair value of assets.

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

In 2012, no impairment was recognised on investment properties. For the valuation of the respective investment properties where discounted cash flow method was used, has been carried out based on following assumptions:

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

Notes to the consolidated financial statement *(continued)*

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

Name of the Company	Share	Country of registration
Lord World Travel Ltd. (dormant)*	0%	Gibraltar
"Via Una" SIA	45.45%	Latvia
"Futbola klubs "Ventspils"" SIA	23.06%	Latvia

*Lord World Travel Ltd was liquidated in 2011.

23. Assets classified as held for sale

In order to ensure sustainable financing for the remaining fleet the decision was made in 2011 to sell 3 and those were re-classified to assets classified as held for sale *(See also Note 19)*.

	USD'000	LVL'000
Cost		
At 1 January 2011	10 676	5 712
Reclassification	71 964	36 372
Disposals	(10 676)	(5 396)
Exchange differences	-	2 461
At 31 December 2011	**71 964**	**39 149**
Reclassification	(71 964)	(39 360)
Exchange differences	-	211
At 31 December 2012	-	-
Depreciation		
At 1 January 2011	4 916	2 630
Impairment	12 564	6 484
Disposals	(4 916)	(2 485)
Exchange differences	-	206
At 31 December 2011	**12 564**	**6 835**
Reclassification	(12 564)	(6 872)
Exchange differences	-	37
At 31 December 2012	-	-
Carrying amount:		
At 31 December 2011	**59 400**	**32 314**
At 31 December 2012	-	-

In 2012 the major shareholder of JSC Latvian Shipping Company issued the loans to the Group's subsidiary resulting in compliance with necessary minimum cash covenant. Accordingly vessels were not actively marketed for sale and decision was taken to reclassify three vessels back to the fleet in 2012. M.t. Kolka, m.t. Kaltene, m.t. Kuldiga are pledged as collateral under the syndicated loan agreement, *see Note 30*.

24. Inventories

	USD '000		LVL '000	
	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
Fuel (bunkers)	2 488	1 682	1 321	915
Luboil, victualling and slopchest	2 223	2 070	1 180	1 126
Other (at cost)	55	52	30	28
Total	**4 766**	**3 804**	**2 531**	**2 069**

Bunker balances represents bunker on board of vessels employed on SPOT market as at 31 December 2012 and 2011.

Notes to the consolidated financial statement *(continued)*

25. Trade and other receivables

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

	USD '000		LVL '000	
	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
Trade receivables	8 778	15 591	4 661	8 482
Allowance for doubtful debts	*(724)*	*(11 987)*	*(384)*	*(6 521)*
Due from related parties	971	59	516	32
Other debtors, net	3 162	1 462	1 679	795
Tax receivable	639	226	339	123
Deferred expenses	1 185	1 270	629	691
Claims receivable	114	587	60	319
Total	**14 125**	**7 208**	**7 500**	**3 921**

The analysis of credit quality of financial assets represented below:

			Past due				
	Total	Neither past due nor impaired	up to 90 days	91 to 180 days	181 to 365 days	More than 365 days	Impaired
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
At 31 December 2012	13 025	11 807	8	6	474	6	724
At 31 December 2011	17 699	5 106	13	361	199	33	11 987

			Past due				
	Total	Neither past due nor impaired	up to 90 days	91 to 180 days	181 to 365 days	More than 365 days	Impaired
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
At 31 December 2012	6 916	6 270	4	3	252	3	384
At 31 December 2011	9 628	2 778	7	196	108	18	6 521

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

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

Notes to the consolidated financial statement *(continued)*

25. Trade and other receivables *(Continued)*

Counterparties

	USD '000		LVL '000	
	2012	**2011**	**2012**	**2011**
Group 1	11 807	5 106	6 270	2 778
Group 2	494	606	262	329
	12 301	**5 712**	**6 532**	**3 107**

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

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

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

	USD '000		LVL '000	
	2012	**2011**	**2012**	**2011**
At 1 January	**11 987**	**11 716**	**6 521**	**6 268**
Additions	-	507	-	256
Write-off	(11 269)	(243)	(6 164)	(123)
Currency translation difference	6	7	27	120
At 31 December	**724**	**11 987**	**384**	**6 521**

26. Prepayments

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

	USD '000		LVL '000	
	31.12.2012.	**31.12.2011.**	**31.12.2012.**	**31.12.2011.**
Prepayments	4 695	4 319	2 492	2 350
Allowances for doubtful prepayments	*(3 076)*	*(3 002)*	*(1 633)*	*(1 633)*
Prepayments, net	**1 619**	**1 317**	**859**	**717**

Notes to the consolidated financial statement *(continued)*

27. Other financial assets

	USD '000		LVL '000	
	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
Other non-current financial assets	**4 403**	**7 857**	**2 338**	**4 274**
Loans issued to LASCO Investment Group	84 214	83 090	44 717	45 201
Allowance for doubtful debt	*(80 061)*	*(78 937)*	*(42 512)*	*(42 942)*
Due from related parties	-	26	-	14
Other*	250	3 678	133	2 001
Other current financial assets	**31 450**	**29 595**	**16 699**	**16 100**
Deposits with maturity more than three months	1 325	-	703	-
Available-for-sale financial assets	30 125	29 595	15 996	16 100
Total other financial assets	**35 853**	**37 452**	**19 037**	**20 374**

In 2010 the Group lost control over the "LASCO Investment" SIA Group. As at 31 December 2012 the amount due from "LASCO Investment" SIA Group of USD 84.21 million (2011: USD 83.09 million) represents loans issued with an interest at a margin linked to USD LIBOR with a long term repayment term. The net value of the loans issued has been decreased to the fair value of assets pledged as of 31 December 2012 representing USD 4.2 million (2011: USD 4.2 million). The short term loan issued to "LASCO Investment" SIA Group is included in Trade and other receivables. Part of the loans due from "LASCO Investment" SIA Group are not past due, however, the loans were impaired. Carrying value of loans issued to "LASCO Investment" SIA Group approximates their fair value.

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

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

There are no financial assets at fair value through profit or loss owned by the Group as at 31 December 2012 and 2011.

In 2011 Shares in JSC "Ventspils Nafta" and bonds of Latvian Government owned by the Group where sold and changes in financial assets at fair value through profit or loss were as follows:

	USD '000		LVL '000	
	2012	2011	2012	2011
At 1 January	**-**	**3 185**	**-**	**1 704**
Settlements	-	(3 293)	-	(1 708)
Change in fair value	-	23	-	11
Changes in provision	-	(42)	-	(22)
Exchange differences	-	127	-	15
At 31 December	**-**	**-**	**-**	**-**

27 (b) Deposits with maturity more than three months

During the reporting period an effective interest rate on deposits with maturity of more than three months from the date of placement amounted to 0.45 % for the period of deposit in 2012.

	USD '000		LVL '000	
	2012	2011	2012	2011
At 1 January	-	-	-	-
Deposits with maturity more than three months	1 294	-	703	-
Interest accrued	1	-	-	-
Exchange differences	30	-	-	-
At 31 December	**1 325**	**-**	**703**	**-**

Notes to the consolidated financial statement *(continued)*

27. Other financial assets *(Continued)*

27 (c) Available – for – sale financial assets

	USD '000		LVL '000	
	31.12.2012.	**31.12.2011.**	**31.12.2012.**	**31.12.2011.**
Shares in "Latvijas Naftas Tranzits" JSC	30 125	29 595	15 996	16 100
Total other current financial assets	**30 125**	**29 595**	**15 996**	**16 100**

Due to lack of information the Management was not able to assess the fair value of shares in JSC "Latvijas Naftas Tranzits". As of 2012 and 2011 the investment is accounted at cost less any impairment charge recognised.

Fair value hierarchy

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

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

As of 31 December 2012 and 31 December 2011, the Group held the following financial instruments measured at fair value:

	31.12.2012.		Level 2	
	USD'000	**LVL'000**	**USD'000**	**LVL'000**
Liabilities measured at fair value	**1 968**	**1 044**	**1 968**	**1 044**
Non-current swap transactions (*see note 32*)	1 212	643	1 212	643
Current swap transactions (*see note 32*)	756	401	756	401

	31.12.2011.		Level 2	
	USD'000	**LVL'000**	**USD'000**	**LVL'000**
Liabilities measured at fair value	**2 688**	**1 463**	**2 688**	**1 463**
Non-current swap transactions (*see note 32*)	919	500	919	500
Current swap transactions (*see note 32*)	1 769	963	1 769	963

Notes to the consolidated financial statement *(continued)*

28. Cash and short-term deposits

	USD '000		LVL '000	
	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
Cash at banks and on hand	25 117	26 152	13 336	14 227
Bank deposits with maturity less than 3 months at the date of placement	1 016	831	540	452
Cash and cash equivalents total	**26 133**	**26 983**	**13 876**	**14 679**

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

	USD '000		LVL '000	
	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
AAA	13 980	16 379	7 423	8 910
A+	11 380	9 192	6 043	5 000
A	669	1 273	355	693
Cash on board of vessels	104	139	55	76
Cash and cash equivalents total	**26 133**	**26 983**	**13 876**	**14 679**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. See also *Note 40*.

29. Share capital and reserves

Share capital

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

Other components of equity

Cash flow hedge reserve

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

Foreign currency translation reserve

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

Notes to the consolidated financial statement *(continued)*

30. Interest bearing loans

	USD '000		LVL '000	
	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
Repayments due within the next twelve months	32 431	32 431	17 220	17 643
Unamortised prepaid financing expenses *	(1 225)	(1 251)	(650)	(681)
Net current portion	**31 206**	**31 180**	**16 570**	**16 962**
Non-current portion	269 465	301 896	143 085	164 231
Unamortised prepaid financing expenses *	(3 500)	(4 692)	(1 858)	(2 553)
Net non-current portion	**265 965**	**297 204**	**141 227**	**161 678**
Total loans outstanding	301 896	334 327	160 305	181 874
Total unamortised prepaid financing expenses*	(4 725)	(5 943)	(2 508)	(3 234)
Total loans, net of unamortised financing costs	**297 171**	**328 384**	**157 797**	**178 640**

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

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

In 2011 the Group signed a long term loan agreement with a loan facility of USD 48.6 million to finance the purchase of new vessels. There are no undrawn loan balances as at the end of 2012 and 2011.

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

The loans are repayable in quarterly instalments and carry interest at a margin linked to USD LIBOR. *See also section Capital management in Note 40.*

The loans are scheduled to be repaid as follows:

Year	USD million	LVL million
2013	32.4	17.2
2014	51.2	27.2
2015	27.1	14.4
2016	59.1	31.4
2017	132.1	70.1
Total	**301.9**	**160.3**

Also *see Note 43* Going concern.

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

	USD' 000		LVL' 000	
	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
Borrowings bearing fixed interest rate (considering effect of SWAP agreements)	44 365	119 915	23 558	65 234
Borrowings bearing variable interest rate repriced in 3 months	257 531	214 412	136 747	116 640
Total	**301 896**	**334 327**	**160 305**	**181 874**

Notes to the consolidated financial statement *(continued)*

31. Finance lease

In August 2009 one of the Group's companies entered into an agreement for the m.t. Riga sale and leaseback transaction in the amount of USD 30 million with the final payment deadline in year 2014. As of the end of the reporting year finance lease liabilities amounted to USD 25.807 million (2011: USD 27.037 million).

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

	Minimum payments USD '000		Present value of payments USD '000		Minimum payments LVL '000		Present value of payments LVL '000	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Within one year	4 577	5 014	1 607	1 380	2 430	2 727	853	751
Unamortised prepaid financing expenses *	(160)	(118)	(160)	(118)	(85)	(64)	(85)	(64)
Net current portion	**4 417**	**4 896**	**1 447**	**1 262**	**2 345**	**2 663**	**768**	**687**
After one year but not more than five years	26 156	31 378	24 456	25 988	13 889	17 070	12 986	14 137
Unamortised prepaid financing expenses *	(96)	(213)	(96)	(213)	(51)	(116)	(51)	(116)
Net non-current portion	**26 060**	**31 165**	**24 360**	**25 775**	**13 838**	**16 954**	**12 935**	**14 021**
Minimum lease payments	30 477	36 061	25 807	27 037	16 183	19 617	13 703	14 708
Less amounts representing finance charges*	(4 670)	(9 024)	-	-	(2 480)	(4 909)	-	-
Present value of minimum lease payments	**25 807**	**27 037**	**25 807**	**27 037**	**13 703**	**14 708**	**13 703**	**14 708**

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

32. Derivative financial instruments

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

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

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

As at 31 December 2012 the negative fair value of the swaps amounting to US $ 1.97 million (31.12.2011.: USD 2.69 million) including accrued interest in amount of USD 78 thousand and USD 1.89 million (2011: USD 2.69 million) recognised in equity within Cash flow hedge reserve (change during the period is USD 0.8 million (2011: USD 1.5 million).

Gains and losses recognised in the hedging reserve in equity and interest rate swap contracts as of 31 December 2012 will be continuously released to comprehensive income statement within net movement of cash flow hedges until the date of swap agreements maturity.

Notes to the consolidated financial statement *(continued)*

33. Deferred tax liabilities

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

The Group has a total tax loss of USD 3.572 million (2011: USD 3.517) available for the offset against future taxable profits of the Group companies in which the losses arose.

	USD '000		LVL '000	
	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
Deferred tax liabilities:				
- Deferred tax liabilities to be recovered after more than 12 months	-	112	-	61
- Deferred tax liabilities to be recovered within 12 months	105	24	56	13
Deferred tax liabilities, net	**105**	**136**	**56**	**74**

Gross movement on the deferred tax account is as follows:

	USD '000		LVL '000	
	2012	2011	2012	2011
1 January	**136**	**207**	**74**	**111**
Charged/(credited) to the income statement:				
Excess of tax allowances over depreciation	(38)	(85)	(20)	(46)
Other temporary differences	2	26	1	14
Unrecognised change in deferred tax asset	2	(9)	1	(5)
Foreign exchange rate differences	3	(3)	-	-
Deferred tax liabilities at 31 December	**105**	**136**	**56**	**74**

34. Deferred revenue

	USD '000		LVL '000	
	2012	2011	2012	2011
At 1 January	**10 261**	**5 265**	**5 582**	**2 817**
Deferred during the year	2 425	10 261	1 326	5 186
Released to the income statement	(10 261)	(5 265)	(5 612)	(2 661)
Currency exchange differences	-	-	(8)	240
At 31 December	**2 425**	**10 261**	**1 288**	**5 582**

Notes to the consolidated financial statement *(continued)*

35. Trade and other payables

	USD '000		LVL '000	
	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
Non-current liabilities				
Due to related parties	28 781	1 942	15 283	1 056
Total non-current liabilities	**28 781**	**1 942**	**15 283**	**1 056**
Current liabilities				
Due to related parties	58	76	30	41
Accrued expenses	4 204	4 235	2 233	2 304
Trade payables	4 565	5 919	2 424	3 220
Other payables	5 801	3 405	3 081	1 854
Total current liabilities	**14 628**	**13 635**	**7 768**	**7 419**

Terms and conditions on the above financial liabilities:

- For terms and conditions relating to related parties, *refer to Note 38*;
- For explanations on the Group's liquidity risk management processes, *refer to Note 40*;
- Trade and other payables are non-interest bearing and have an average term of six months.

36. Contingent liabilities

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

37. Commitments

a) Capital commitments

No capital commitments entered into as at 31 December 2012.

b) Operating lease commitments – Group as a lessor

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

c) Operating lease commitments – Group as a lessee

The Group has time chartered 2 tankers from other shipowners for five years, which was terminated in the middle of 2011. The Group has entered into real estate rent agreement (agreed to terminate in 2012) and into several transport operating lease agreements which ended in 2011.

Payment schedule as per agreements:

	USD '000		LVL '000	
	2012	2011	2012	2011
Non-cancellable payments within one year	-	159	-	86
Non-cancellable payments after one year	-	407	-	222
Total	-	**566**	-	**308**

Notes to the consolidated financial statement *(continued)*

38. Related party transactions

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

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

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

a) Compensation of the Supervisory Council, Management Board and the Board of Directors of the Group

	USD '000		LVL '000	
	2012	2011	2012	2011
Salary and bonuses	172	159	95	81
Social insurance	41	38	23	19
Outsourcing fees	109	92	59	46
Total	**322**	**289**	**177**	**146**

The remuneration to the members of the Supervisory Council is approved by the decision made by the General Shareholders' Meeting. Since 2011 remuneration of the Supervisory Council is set to zero. The remuneration paid to the members of the Management Boards of the Group companies is approved by the decision made by the Supervisory Council or shareholders meetings. The Board of Directors are outsourced. No other special significant benefits to the members of the Management Boards apart from salaries and bonuses are paid or made available.

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

Information on members of the Supervisory Council or Management Board owned shares of the Parent company or its subsidiaries disclosed on pages 21 to 23 of this report. Detailed information about shareholdings of the members of the Supervisory Council and the Management Board as well as on their positions in other companies is available in the Parent company's office upon request.

To the best of the Company's knowledge no member of the Supervisory Council has more than 5% of direct ownership in any of LSC Group's business partners, suppliers, clients or related companies.

No member of the Management Board has more than 5% of direct ownership in any of LSC Group's business partners, suppliers, clients or related companies.

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

The total amounts due from/to the shareholder and the entities under joint control of the shareholder were as follows in 2012:

	Income	Expenses	Amounts due from related parties	Amounts due to related parties
	USD '000	USD '000	USD '000	USD '000
Freight and hire revenue/Outstanding balances	37 481	-	434	(1 409)
Technical management fee and IT services/Outstanding balances	360	-	6	-
Interest income/(expenses)/Outstanding balances	1	(601)	530	(28 781)
Consulting services/Outstanding balances	-	(218)	-	(58)
Real estate rent	-	(138)	-	-
Other services/Outstanding balances	35	(36)	1	-
Total	**37 877**	**(993)**	**971**	**(30 248)**
Including:				
Non-current			-	(28 781)
Current			971	(58)
Deferred income			-	(1 409)
Total			**971**	**(30 248)**

Notes to the consolidated financial statement *(continued)*

38. Related party transactions *(continued)*

	Income	Expenses	Amounts due from related parties	Amounts due to related parties
	LVL '000	LVL '000	LVL '000	LVL '000
Freight and hire revenue/Outstanding balances	20 500	-	230	(748)
Technical management fee				
and IT services/Outstanding balances	197	-	3	-
Interest income/(expenses)/Outstanding balances	1	(334)	282	(15 283)
Consulting services/Outstanding balances	-	(119)	-	(30)
Real estate rent	-	(75)	-	-
Other services/Outstanding balances	19	(20)	1	-
Total	**20 717**	**(548)**	**516**	**(16 061)**
Including:				
Non-current			-	(15 283)
Current			516	(30)
Deferred income			-	(748)
Total			**516**	**(16 061)**

The total amounts due from/to the shareholder and the entities under joint control of the shareholder were as follows in 2011:

	Income	Expenses	Amounts due from related parties	Amounts due to related parties
	USD '000	USD '000	USD '000	USD '000
Freight and hire revenue/Outstanding balances	26 142	-	-	(8 271)
Technical management fee				
and IT services/Outstanding balances	160	-	56	-
Bunkering	-	(643)	-	-
Consulting services/Outstanding balances	-	(471)	-	(76)
Real estate rent/Outstanding balances	-	(15)	26	-
Interest expenses/Outstanding balances	-	(13)	-	(1 942)
Other services/Outstanding balances	3	(50)	3	-
Total	**26 305**	**(1 192)**	**85**	**(10 289)**
Including:				
Non-current			26	(1 942)
Current			59	(76)
Deferred income			-	(8 271)
Total			**85**	**(10 289)**

Notes to the consolidated financial statement *(continued)*

38. Related party transactions *(continued)*

	Income	Expenses	Amounts due from related parties	Amounts due to related parties
	LVL '000	LVL '000	LVL '000	LVL '000
Freight and hire revenue/Outstanding balances	13 212	-	-	(4 499)
Technical management fee and IT services/Outstanding balances	81	-	30	-
Bunkering	-	(325)	-	-
Consulting services/Outstanding balances	-	(238)	-	(41)
Real estate rent/Outstanding balances	-	(8)	14	-
Interest expenses/Outstanding balances	-	(7)	-	(1 056)
Other services/Outstanding balances	2	(25)	2	-
Total	**13 295**	**(603)**	**46**	**(5 596)**
Including:				
Non-current			14	(1 056)
Current			32	(41)
Deferred income			-	(4 499)
Total			**46**	**(5 596)**

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 significant shareholders of Group's major shareholder and parties related to these entities. Transactions with related parties are carried out on the arm's length terms and conditions.

The loans advanced from the Group's major shareholder bears variable interest rate with maturity in 2017 (*Note 35*).

39. Fees paid to external auditors

	USD '000		LVL '000	
	2012	2011	2012	2011
Audit of the financial statements	164	151	89	76
Other consulting services	27	13	15	7
Total	**191**	**164**	**104**	**83**

Notes to the consolidated financial statement *(continued)*

40. Financial instruments and financial risk management

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

Financial instruments by category:

USD '000

Assets as per statement of financial position as at 31 December 2012	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
Trade and other receivables	12 301	-	12 301
Other financial assets (*Note 27*)	5 728	30 125	35 853
Cash and short term deposits (*Note 28*)	26 133	-	26 133
Total	**44 162**	**30 125**	**74 287**

Liabilities as per statement of financial position as at 31 December 2012	**Derivatives used for hedging**	**Other financial liabilities at amortised cost**	**Total**
Interest bearing loans (*Note 30*)	-	297 171	297 171
Finance lease (*Note 31*)	-	25 807	25 807
Derivative financial instruments (*Note 32*)	1 968	-	1 968
Trade and other payables	-	41 338	41 338
Total	**1 968**	**364 316**	**366 284**

LVL '000

Assets as per statement of financial position as at 31 December 2012	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
Trade and other receivables	6 532	-	6 532
Other financial assets (*Note 27*)	3 041	15 996	19 037
Cash and short term deposits (*Note 28*)	13 876	-	13 876
Total	**23 449**	**15 996**	**39 445**

Liabilities as per statement of financial position as at 31 December 2012	**Derivatives used for hedging**	**Other financial liabilities at amortised cost**	**Total**
Interest bearing loans (*Note 30*)	-	157 797	157 797
Finance lease (*Note 31*)	-	13 703	13 703
Derivative financial insrtuments (*Note 32*)	1 044	-	1 044
Trade and other payables	-	21 951	21 951
Total	**1 044**	**193 451**	**194 495**

Notes to the consolidated financial statement *(continued)*

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

USD '000

Assets as per statement of financial position as at 31 December 2011	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
Trade and other receivables	5 712	-	5 712
Other financial assets (*Note 27*)	7 857	29 595	37 452
Cash and short term deposits (*Note 28*)	26 983	-	26 983
Total	**40 552**	**29 595**	**70 147**

Liabilities as per statement of financial position as at 31 December 2011	**Derivatives used for hedging**	**Other financial liabilities at amortised cost**	**Total**
Interest bearing loans (*Note 30*)	-	328 384	328 384
Finance lease (*Note 31*)	-	27 037	27 037
Derivative financial instruments (*Note 32*)	2 688	-	2 688
Trade and other payables	-	13 540	13 540
Total	**2 688**	**368 961**	**371 649**

LVL '000

Assets as per statement of financial position as at 31 December 2011	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
Trade and other receivables	3 107	-	3 107
Other financial assets (*Note 27*)	4 274	16 100	20 374
Cash and short term deposits (*Note 28*)	14 679	-	14 679
Total	**22 060**	**16 100**	**38 160**

Liabilities as per statement of financial position as at 31 December 2011	**Derivatives used for hedging**	**Other financial liabilities at amortised cost**	**Total**
Interest bearing loans (*Note 30*)	-	178 640	178 640
Finance lease (*Note 31*)	-	14 708	14 708
Derivative financial insrtuments (*Note 32*)	1 463	-	1 463
Trade and other payables	-	7 367	7 367
Total	**1 463**	**200 715**	**202 178**

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

Notes to the consolidated financial statement *(continued)*

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

Foreign currency risk

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

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

Credit risk

The Group is exposed to credit risk through its trade accounts receivable, deposits with maturity more than 3 months and cash and cash equivalents. The Group's cash equivalents have been invested in secure financial institutions. The Group manages its credit risk by continuously assessing the credit history of customers. In addition, receivable balances are monitored on an on-going basis to ensure that the Group's exposure to bad debts is minimised. The Group's policy is to trade only with well recognised, creditworthy third parties. Two largest debtors comprise 21% of total trade accounts receivable as of 31 December 2012 (2011: 36%). Both debtors have no history of defaults.

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

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

Interest rate risk

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

During year 2008 the Group started to manage its interest rate risk by having a balanced portfolio of fixed and variable rate loans. The Group is monitoring market trends and fix the interest rates for loans for the subsequent period based on the market expectations, when it is considered to be reasonable. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2012, after taking into account the effect of interest rate swaps USD 44 million (2011: USD 119 million), approximately 15% (2011: 35%) of the Group's borrowings are at a fixed rate of interest. A general rise in the interest rate by 0.5 or decrease by 0.1 percentage point would, all other things being equal, have no effect on the financial result related to hedged portfolio.

Interest rate sensitivity

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

	2012		2011	
	Increase/(decrease) in basic points	Effect on profit before tax (USD'000)	Increase/(decrease) in basic points	Effect on profit before tax (USD'000)
US $ - LIBOR	0.5%	(1 099)	0.5%	(777)
	-0.1%	220	-0.1%	155
EUR - LIBOR	0.5%	(39)	0.5%	(3)
	-0.1%	8	-0.1%	1

	2012		2011	
	Increase/(decrease) in basic points	Effect on profit before tax (LVL'000)	Increase/(decrease) in basic points	Effect on profit before tax (LVL'000)
US $- LIBOR	0.5%	(601)	0.5%	(423)
	-0.1%	120	-0.1%	85
EUR - LIBOR	0.5%	(21)	0.5%	(1)
	-0.1%	4	-0.1%	-

Notes to the consolidated financial statement *(continued)*

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

Liquidity and cash management risk

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

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

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

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

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

USD '000

As at 31 December 2012	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans	-	10 388	31 836	296 948	-	339 172
Finance lease	-	1 088	3 505	25 763	-	30 356
Derivative financial instruments	-	176	402	683	-	1 261
Trade and other payables	2 656	11 972	-	34 133	-	48 761
Total	**2 656**	**23 624**	**35 743**	**357 527**	**-**	**419 550**

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

LVL '000

As at 31 December 2012	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank loans	-	5 516	16 905	157 679	-	180 100
Finance lease	-	578	1 861	13 680	-	16 119
Derivative financial instruments	-	93	213	363	-	669
Trade and other payables	1 410	6 358	-	18 125	-	25 893
Total	**1 410**	**12 545**	**18 979**	**189 847**	**-**	**222 781**

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

Fair values

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

Notes to the consolidated financial statement *(continued)*

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

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value. The appropriate provisions for asset impairment have been made and the recoverable (market) value of the assets approximates their carrying value. According to the corporate guarantee issued by the Parent Company (*see also Note 30*) the Group should maintain the following capital requirements:

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

	31.12.2012.	31.12.2011.
Value adjusted equity/Value adjusted total assets	32%	41%
Market Adjusted Net Worth	USD 172 million	USD 269 million
Current Assets to Current Liabilities	4.2	5

During 2012 the Group had the obligation to maintain a Cash reserve covenant, i.e. to keep the required amount of cash in Group’s accounts (USD 40 million) which had been a condition to EBITDA/Debt Service covenant (at least 125%) waiver which expired on 1 January 2013. The Group has received a waiver during 2012 on the minimum cash requirement until 31.12.2013 by reducing the level to USD 17 million.

All capital requirements are tested on quarterly basis. *See also Note 43*.

41. Legal cases

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

42. Subsequent events

On 16 April 2013 m.t. “Kaltene” (37 261 DWT; built 2003) was sold. This transaction was initiated in 2013 and the loss from sale recognised amounted to USD 5.3 million. As of the last day of the reporting year and 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.

43. Going Concern

As disclosed in Note 30, the Group has a 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 Group acknowledges that certain breaches of the bank loan covenants might occur in future. These conditions give rise to a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern; therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. However the management is confident that, if needed, the agreement on debt restructuring or further waivers of covenants will be successfully obtained.

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