

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

Unaudited Condensed Interim Consolidated Financial Statements

**for the nine month period ended
30 September 2012**



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Supervisory Council

Chairman of the Council

Simon Boddy

Deputy Chairperson of the Council

Mikhail Dvorak

Members of the Council:

Christophe Theophanis Matsacos

Rubil Yilmaz

Vladimir Egger

Javed Ahmed

Mark Morell Ware

Jaakko Sakari Mikael Salmelin

Ivars Girgensons

Mārtiņš Kvēps

Oļegs Stepanovs

Serguei Choutov

Professional experience of the members of the Supervisory Council

<i>Simon Boddy</i>	Since 1989, Simon Boddy has worked in various positions in the <i>Vitol Group</i> of companies. From 2006 until 2008 he was Chief Representative of <i>Vitol's</i> Moscow office and Chairman of <i>Vitol's</i> terminal in Kaliningrad (Russia). Since 2009 he has been the Managing Director of the company <i>ETOS Latvia</i> , responsible for <i>Vitol's</i> commercial activities in Latvia, as well as being a member of the <i>JSC Ventspils nafta (VN)</i> Management Board. Simon Boddy currently holds the position of Chairman of the <i>VN</i> Management Board (since January 20, 2010). He does not own <i>JSC Latvian Shipping Company (LSC)</i> shares.
<i>Mikhail Dvorak</i>	The <i>Vitol Group's</i> Financial Controller, Financial Director in the Group's companies in the former USSR countries. Currently holds position of Deputy Chairman of the <i>VN</i> Supervisory Council, re-elected in the <i>VN</i> Supervisory Council in November 22, 2011. He does not own <i>LSC</i> shares.
<i>Christophe Theophanis Matsacos</i>	Joined the <i>Vitol</i> financial group in 2008. He is working in the <i>Vitol's</i> representation office in Moscow and is responsible for business development in Russia and former CIS countries. Before working for <i>Vitol</i> , K.T.Matsacos has gained experience in the banking sector, working for <i>VTB Europe (London)</i> (previously – <i>Moscow Narodny Bank</i>) 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 <i>VN</i> Supervisory Council. He does not own <i>LSC</i> shares.
<i>Rubil Yilmaz</i>	Member of the Supervisory Council of <i>Ventspils nafta termināls Ltd</i> , Manager of the Amsterdam terminal of the <i>Vitol Tank Terminals International (VTTI)</i> Group and Financial Director of <i>VTTI</i> . Since January 20, 2010 he holds the position of Supervisory Council member of <i>VN</i> . He does not own <i>LSC</i> shares.
<i>Vladimir Egger</i>	The Chief Representative of the <i>Vitol Group's</i> company <i>VNT SA</i> in Moscow. Since January 20, 2010 he holds the position of Chairman of the <i>VN</i> Supervisory Council. He does not own <i>LSC</i> shares.
<i>Javed Ahmed</i>	The Head of the <i>Vitol Group's</i> purchasing and investment division; Management Board member of the <i>Vitol Tank Terminals International</i> Group, Management Board member of <i>Blue Knight Energy Partners</i> . Since January 20, 2010 he holds the position of Supervisory Council member of <i>VN</i> . He does not own <i>LSC</i> shares.
<i>Mark Morrell Ware</i>	The <i>Vitol Group's</i> Director in Corporate Matters, previously Corporate Communications Director of the company <i>BP</i> until 2008. Since January 20, 2010 he holds the position of Supervisory Council member of <i>VN</i> . He does not own <i>LSC</i> shares.
<i>Jaakko Sakari Mikael Salmelin</i>	Jaakko 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 <i>Danske Capital</i> , <i>Sampo Bank plc.</i> and subsequently in <i>KJK Capital Oy</i> , which he co-founded in 2010. He holds the positions of: Member of the Management Board of <i>KJK Fund SICAV SIF</i> , Member of the Board <i>KJK Management SA</i> , Member of the Board of <i>KJK Capital Oy</i> , Member of the Supervisory Board and member of the Audit committee in <i>JSC Baltika</i> . He owns 5 500 <i>LSC</i> shares.
<i>Ivars Girgensons</i>	A lawyer in the corporate finance company <i>Confide</i> . His main area of specialization is civil law and commercial law. Previously he has managed <i>Creative Consultation Centre Ltd</i> , has worked for <i>Baltijas Ofiss Ltd</i> , <i>Akvašips Ltd</i> and has been a manager of a branch of <i>JSC SEB banka</i> . He does not own <i>LSC</i> shares.
<i>Mārtiņš Kvēps</i>	Sworn attorney since 1999, Deputy chairman of the Supervisory Council of <i>JSC Ventbunkers</i> from 2006 until 2010, Chairman of the Supervisory Council of <i>JSC Latvijas naftas tranzīts</i> from 2007 until 2010. He does not own <i>LSC</i> shares.
<i>Oļegs Stepanovs</i>	Doctor of Economic Sciences, Vice-president of the <i>Baltic Association – Transport and Logistics</i> from 2006 until 2011, Chairman of the Supervisory Board of <i>JSC Ventspils Commercial Port</i> from 2009 until 2010, Member of the Supervisory Council of <i>JSC Ventspils Nafta</i> from 2010 until 2011, Chairman of the Supervisory Council of <i>JSC SS&F Group</i> since 2008, Member of the Supervisory Council of <i>JSC Baltic Coal Terminal</i> since 2009. He does not own <i>LSC</i> shares.
<i>Serguei Choutov</i>	Graduated the Moscow State Institute of International Relations and obtained a Doctor's degree in economic science in 1998. He is a member of the Transport Academy of Russia. In the 1980s he worked as a manager in the companies <i>Sovbunker</i> and <i>Soyuznefteexport</i> , later he was a managing director at <i>Navitank A.B.</i> , but since 2006 he is the Chairman of the Management Board of <i>Transgroup Ltd</i> . He does not own <i>LSC</i> shares.

Management Board

Chairman of the Management Board

Simon Richard Blaydes

Members of the Management Board

Paul Thomas

Michael Main King

Christopher James Kernon

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 2010 CFO of the Arawak Group of companies. Before that he was a partner in the transaction support departments of Ernst & Young's Energy practices in Beijing, London and Kazakhstan. Mr. Simon Blaydes is a chartered accountant and an associate of the ICAEW who trained with Price Waterhouse (now PwC) working for them in the UK and Russia. 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 Latvian Shipping Company 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 years experience in the shipping industry. Previously C.Kernon was responsible for shipping and chartering in Asia and Australia for Vitol Group. Last seven years he is responsible for projects and shipping timecharters at Vitol Group. He does not own LSC shares.

Review of the shares

Information on share price/index dynamics for the period from 01.01.2012 till 30.09.2012



Index/Share	01.01.2012	30.09.2012	+/-%
—OMX Baltic Benchmark GI	431,94	510,85	18,27
—LSC1R	0,31 LVL	0,24 LVL	-22,73

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

Securities trading history, LVL

Price	2008	2009	2010	2011	Q1-Q3 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	0.238
Traded volume	8,277,028	3,961,245	5,058,251	13,526,230	738,386
Turnover, million	8.62	1.91	2.03	5.85	0.21
Capitalisation, million	132.00	80.00	75.80	61.60	47.60

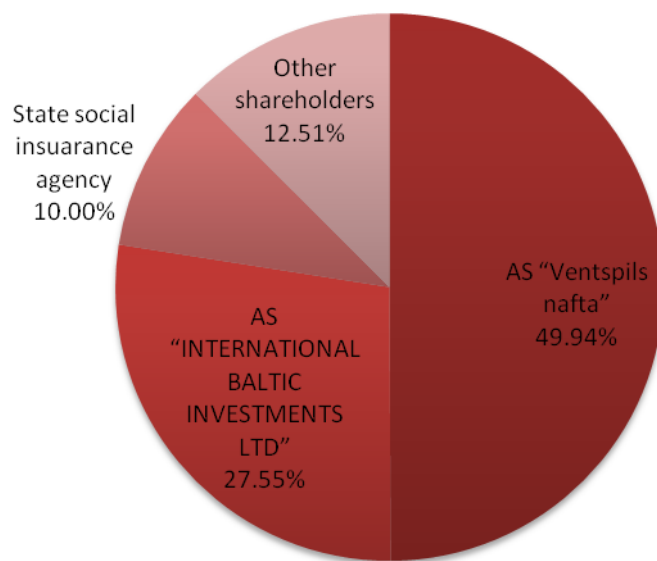
Information source: JSC „NASDAQ OMX Riga” webpage www.nasdaqomxbaltic.com

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012

Company's shareholders (over 5%) as of 30.09.2012

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%

Company's shareholder structure as of 30.09.2012



Management report

Dear shareholders and stakeholders,

Latvian Shipping Company and its subsidiaries (hereafter – LSC, LSC Group or Group) financial result for nine months of 2012 is a net loss of USD35.57 million. The net loss for the same reporting period in 2011 was USD30.41 million.

As in previous quarters, the largest portion of the net loss relates to the impairment of the fleet. A decrease in its value in the amount of USD15.75million was recognised in Q1/2012 followed by a further decrease of USD9.00 million in Q2/2012 and now USD3.49 million in Q3/2012. The total impairment for Q1-Q3/2012 is USD28.24 million. The impairments were 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 the 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 September 2012 was USD29.78 million.

There were no changes in the LSC Group's fleet during nine months of 2012 and at the end of September 2012 the fleet under the commercial management of LSC 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 vessels is 6 years and the LSC fleet has contracted average future employment terms for approximately 12 months.

The net voyage shipping result for Q1-Q3/2012 was USD64.4 million (9 months 2011 – USD66.4 million) and mainly reflects the reduction in number of vessels employed. The net voyage result is calculated by deducting voyage costs (bunkers, port and agency charges, commissions etc.) from voyage income and shows the Group's income, irrespective of whether the fleet is employed in the spot or time charter market. Vessel operating profit after depreciation and dry-dock amortisation for the nine month period was USD16.5 million, a significant improvement on the previous period (9 month 2011 – USD9 million) and it was sufficient to fully cover the fleet financing expenses (USD13.6 million).

The reasons for the demise in ship-owners fortunes over the last few years are many and varied and have been well documented but the two main negative factors have been the weak economic climate, especially within OECD countries, combined with the over-ordering of vessels during the shipping boom years. It is fair to say that the product tanker market, LSC's core area of expertise, continues to be the least affected by the shipping downturn as compared with other shipping sectors, for example the crude and dry bulk markets. However, along with other market sectors it has still been adversely affected and this has, and continues to, impact on the earning capacity of the LSC Group.

LSC continues to release quarterly chartering rates achieved by the LSC 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
HS (7 vessels)	10 271	11 216	13 003	12 131	12 776
MR (12 vessels)	11 849	12 882	12 605	12 419	13 064
LR1 (1 vessel)	16 826	13 623	13 163	11 782	11 700

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 shipbrokers(s)/charterers, port costs, bunker costs and any other applicable voyage related costs. The above figures reflect combined earnings of fleet from both timecharters and spot market trading.

At September 30, 2012 the total value of the LSC Group assets was USD615.22 million. The figure at December 31, 2011 was USD651.92 million. The decrease is mainly attributed to the impairment provisions as explained above. The total value of the LSC Group fleet has increased from USD509.97 million to USD524.50 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 September 30, 2012 was USD232.35 million (December 31, 2011 – USD267.84 million).

During the nine months of 2012 the price of LSC shares quoted on the NASDAQ OMX Riga decreased by 22.73%. The OMX Baltic Benchmark GI index in the same period increased by 18.27%. There were 758 trades with Latvian Shipping Company's shares during the reporting period involving 738 386 shares worth LVL208 830. On September 30, 2012 the capitalization of Latvian Shipping Company shares at NASDAQ OMX Riga was LVL47.60 million.

Management report *(continued)*

The key drivers required for a better shipping market and a financially stronger LSC are:

- global economic growth within both OECD and emerging economies;
- tanker demand growth exceeding supply growth;
- industry restraint in ordering new product tankers.



Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 15 November 2012

Statement of Management's Responsibilities

The Management Board of JSC "Latvian Shipping Company" prepares condensed interim consolidated financial statements for each reporting period. These condensed interim consolidated financial statements give a true and fair view of the state of affairs of the JSC "Latvian Shipping Company" and its subsidiaries (hereafter – the Group) as of 30 September 2012, changes in shareholders' equity, cash flows and the results of the Group for the nine month period ended 30 September 2012.

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

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

For and on behalf of the Management Board



Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 15 November 2012

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Interim consolidated income statement

for the period ended 30 September 2012

	2012 US \$'000	2011 US \$'000	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Voyage income	83 105	70 962	45 538	35 551	64 795	50 584
Income from other services	726	701	397	347	565	494
Revenue	83 831	71 663	45 935	35 898	65 360	51 078
Voyage costs	(18 709)	(4 580)	(10 230)	(2 251)	(14 556)	(3 203)
Cost of sales	(48 406)	(57 985)	(26 482)	(28 835)	(37 681)	(41 028)
Gross profit	16 716	9 098	9 223	4 812	13 123	6 847
Selling costs	-	(6)	-	(3)	-	(4)
Administrative expenses	(9 280)	(10 433)	(5 064)	(5 196)	(7 205)	(7 394)
Impairment of non-financial assets	(28 238)	(12 564)	(15 279)	(6 444)	(21 740)	(9 169)
Other operating income	163	86	89	43	126	62
Other operating expenses	(443)	(704)	(254)	(395)	(361)	(562)
Operating loss	(21 082)	(14 523)	(11 285)	(7 183)	(16 057)	(10 220)
Finance income	22	335	12	150	17	214
Finance costs	(13 899)	(15 568)	(7 593)	(7 736)	(10 804)	(11 008)
Loss before tax	(34 959)	(29 756)	(18 866)	(14 769)	(26 844)	(21 014)
Income tax	(612)	(654)	(335)	(326)	(477)	(464)
Loss for the period	(35 571)	(30 410)	(19 201)	(15 095)	(27 321)	(21 478)
Attributable to:						
Equity holders of the parent	(35 551)	(30 383)	(19 190)	(15 081)	(27 305)	(21 458)
Non-controlling interests	(20)	(27)	(11)	(14)	(16)	(20)
	(35 571)	(30 410)	(19 201)	(15 095)	(27 321)	(21 478)
Loss per share	US\$ (0.18)	US\$ (0.15)	LVL (0.10)	LVL (0.08)	EUR (0.14)	EUR (0.11)

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012

Interim consolidated statement of comprehensive income

for the period ended 30 September 2012

	2012 US \$'000	2011 US \$'000	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Loss for the period	<u>(35 571)</u>	<u>(30 410)</u>	<u>(19 201)</u>	<u>(15 095)</u>	<u>(27 321)</u>	<u>(21 478)</u>
Other comprehensive income/ (expenses)						
Exchange differences on translation of foreign operations	(112)	2 357	260	(6 521)	372	(9 279)
Net movement on cash flow hedges	<u>196</u>	<u>452</u>	<u>102</u>	<u>313</u>	<u>144</u>	<u>446</u>
Other comprehensive income/ (expenses) for the period, net of tax	<u>84</u>	<u>2 809</u>	<u>362</u>	<u>(6 208)</u>	<u>516</u>	<u>(8 833)</u>
Total comprehensive (loss) for the period, net of tax	<u>(35 487)</u>	<u>(27 601)</u>	<u>(18 839)</u>	<u>(21 303)</u>	<u>(26 805)</u>	<u>(30 311)</u>
Attributable to:						
Equity holders of the parent	(35 444)	(28 172)	(18 828)	(21 189)	(26 789)	(30 291)
Non-controlling interests	<u>(43)</u>	<u>571</u>	<u>(11)</u>	<u>(14)</u>	<u>(16)</u>	<u>(20)</u>
	<u>(35 487)</u>	<u>(27 601)</u>	<u>(18 839)</u>	<u>(21 303)</u>	<u>(26 805)</u>	<u>(30 311)</u>

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012

Interim consolidated statement of financial position

as at 30 September 2012

	30.09.2012 US \$'000	31.12.2011 US \$'000	30.09.2012 LVL'000	31.12.2011 LVL'000	30.09.2012 EUR'000	31.12.2011 EUR'000
Assets						
Non-current assets						
Other intangible assets	92	237	50	129	71	184
Fleet	524 498	509 973	286 376	277 425	407 476	394 740
Other property, plant and equipment	3 477	3 669	1 898	1 996	2 701	2 840
Investment properties	1 835	1 861	1 002	1 013	1 426	1 441
Investments in associates	14	14	8	7	11	10
Other non-current financial assets	6 504	7 857	3 551	4 274	5 053	6 081
Total non-current assets	536 420	523 611	292 885	284 844	416 738	405 296
Current assets						
Inventories	5 044	3 804	2 754	2 069	3 919	2 944
Trade and other receivables	12 328	7 208	6 731	3 921	9 577	5 579
Prepayments	2 127	1 317	1 162	717	1 653	1 020
Other current financial assets	29 516	29 595	16 116	16 100	22 931	22 908
Cash and short term deposits	29 780	26 983	16 259	14 679	23 134	20 886
Total current assets	78 795	68 907	43 022	37 486	61 214	53 337
Assets classified as held for sale	-	59 400	-	32 314	-	45 979
Total assets	615 215	651 918	335 907	354 644	477 952	504 612

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012

Interim consolidated statement of financial position (continued)

as at 30 September 2012

	<u>30.09.2012</u> <u>US \$'000</u>	<u>31.12.2011</u> <u>US \$'000</u>	<u>30.09.2012</u> <u>LVL'000</u>	<u>31.12.2011</u> <u>LVL'000</u>	<u>30.09.2012</u> <u>EUR'000</u>	<u>31.12.2011</u> <u>EUR'000</u>
Equity and liabilities						
Equity						
Issued capital	362 319	362 319	200 000	200 000	284 574	284 574
Accumulated deficit	(120 273)	(84 722)	(65 229)	(46 039)	(92 895)	(65 590)
Other components of equity	(15 769)	(15 876)	(11 223)	(11 585)	(15 885)	(16 401)
Equity attributable to equity holders of the parent	226 277	261 721	123 548	142 376	175 794	202 583
Non-controlling interests	6 071	6 114	3 315	3 326	4 716	4 732
Total equity	232 348	267 835	126 863	145 702	180 510	207 315
Non-current liabilities						
Interest bearing loans	274 014	297 204	149 612	161 678	212 879	230 047
Finance lease	24 762	25 775	13 520	14 021	19 237	19 950
Derivative financial instruments	1 327	919	724	500	1 030	711
Trade and other payables	28 320	1 942	15 463	1 056	22 002	1 503
Deferred tax liability	135	136	74	74	105	105
Total non-current liabilities	328 558	325 976	179 393	177 329	255 253	252 316
Current liabilities						
Trade and other payables	18 511	13 635	10 106	7 419	14 380	10 556
Interest bearing loans	30 887	31 180	16 864	16 962	23 995	24 135
Finance lease	1 370	1 262	748	687	1 064	978
Derivative financial instruments	1 167	1 769	637	963	906	1 370
Deferred revenue	2 374	10 261	1 296	5 582	1 844	7 942
Total current liabilities	54 309	58 107	29 651	31 613	42 189	44 981
Total equity and liabilities	615 215	651 918	335 907	354 644	477 952	504 612

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012

Interim consolidated statement of changes in equity

for the period ended 30 September 2012

	Attributable to the equity holders of the parent					Non-controlling interests	Total equity
	Issued capital	Accumulated deficit	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000		
At 31 December 2010	362 319	(36 483)	(4 208)	(13 586)	308 042	5 882	313 924
Loss for the period	-	(30 383)	-	-	(30 383)	(27)	(30 410)
Other comprehensive income	-	-	452	1 759	2 211	598	2 809
Total comprehensive income/(expenses)	-	(30 383)	452	1 759	(28 172)	571	(27 601)
At 30 September 2011	362 319	(66 866)	(3 756)	(11 827)	279 870	6 453	286 323
Loss for the period	-	(17 856)	-	-	(17 856)	(7)	(17 863)
Other comprehensive income/(expenses)	-	-	1 067	(1 360)	(293)	(332)	(625)
Total comprehensive income/(expenses)	-	(17 856)	1 067	(1 360)	(18 149)	(339)	(18 488)
At 31 December 2011	362 319	(84 722)	(2 689)	(13 187)	261 721	6 114	267 835
Loss for the period	-	(35 551)	-	-	(35 551)	(20)	(35 571)
Other comprehensive income/(expenses)	-	-	196	(89)	107	(23)	84
Total comprehensive income/(expenses)	-	(35 551)	196	(89)	(35 444)	(43)	(35 487)
At 30 September 2012	362 319	(120 273)	(2 493)	(13 276)	226 277	6 071	232 348

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012

Interim consolidated statement of changes in equity (continued)

for the period ended 30 September 2012

	Attributable to the equity holders of the parent					Non-controlling interests	Total equity
	Issued capital	Accumulated deficit	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000		
At 31 December 2010	200 000	(21 963)	(2 251)	(10 071)	165 715	3 344	169 059
Loss for the period	-	(15 081)	-	-	(15 081)	(14)	(15 095)
Other comprehensive income	-	-	313	(6 521)	(6 208)	-	(6 208)
Total comprehensive income/(expenses)	-	(15 081)	313	(6 521)	(21 289)	(14)	(21 303)
At 30 September 2011	200 000	(37 044)	(1 938)	(16 592)	144 426	3 330	147 756
Loss for the period	-	(8 995)	-	-	(8 995)	(4)	(8 999)
Other comprehensive income/(expenses)	-	-	475	6 470	6 945	-	6 945
Total comprehensive income/(expenses)	-	(8 995)	475	6 470	(2 050)	(4)	(2 054)
At 31 December 2011	200 000	(46 039)	(1 463)	(10 122)	142 376	3 326	145 702
Loss for the period	-	(19 190)	-	-	(19 190)	(11)	(19 201)
Other comprehensive income	-	-	102	260	362	-	362
Total comprehensive income/(expenses)	-	(19 190)	102	260	(18 828)	(11)	(18 839)
At 30 September 2012	200 000	(65 229)	(1 361)	(9 862)	123 548	3 315	126 863

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Interim consolidated statement of changes in equity (continued)

for the period ended 30 September 2012

	Attributable to the equity holders of the parent					Non-controlling interests	Total equity
	Issued capital	Accumulated deficit	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000		
At 31 December 2010	284 574	(31 333)	(3 203)	(14 248)	235 790	4 758	240 548
Loss for the period	-	(21 458)	-	-	(21 458)	(20)	(21 478)
Other comprehensive income/(expenses)	-	-	446	(9 279)	(8 833)	-	(8 833)
Total comprehensive income/(expenses)	-	(21 458)	446	(9 279)	(30 291)	(20)	(30 311)
At 30 September 2011	284 574	(52 791)	(2 757)	(23 527)	205 499	4 738	210 237
Loss for the period	-	(12 799)	-	-	(12 799)	(6)	(12 805)
Other comprehensive income	-	-	676	9 207	9 883	-	9 883
Total comprehensive income/(expenses)	-	(12 799)	676	9 207	(2 916)	(6)	(2 922)
At 31 December 2011	284 574	(65 590)	(2 081)	(14 320)	202 583	4 732	207 315
Loss for the period	-	(27 305)	-	-	(27 305)	(16)	(27 321)
Other comprehensive income	-	-	144	372	516	-	516
Total comprehensive income/(expenses)	-	(27 305)	144	372	(26 789)	(16)	(26 805)
At 30 September 2012	284 574	(92 895)	(1 937)	(13 948)	175 794	4 716	180 510

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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Interim consolidated statement of cash flows

for the period ended 30 September 2012

	2012 US \$'000	2011 US \$'000	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Operating activities						
Loss before taxation	(34 959)	(29 756)	(18 866)	(14 769)	(26 844)	(21 014)
<u>Adjustments for:</u>						
Depreciation and amortisation	20 897	20 915	11 438	10 376	16 275	14 764
Result on disposal of non-financial assets	-	682	-	383	-	544
Impairment of non-financial assets	28 238	12 564	15 279	6 444	21 740	9 169
Other adjustments	10 933	14 445	5 994	5 982	8 530	8 513
<u>Working capital adjustments:</u>						
Changes in trade and other receivables and prepayments	(4 577)	679	(2 511)	339	(3 573)	482
Changes in inventories	(1 240)	(1 649)	(680)	(825)	(968)	(1 174)
Changes in trade and other payables	(3 011)	(1 534)	(1 652)	(767)	(2 351)	(1 091)
Net cash flows from operating activities	16 281	16 346	9 002	7 163	12 809	10 193
Net cash flows used in investing activities	(4 173)	(39 138)	(2 290)	(19 568)	(3 258)	(27 842)
Cash flows before financing activities	12 108	(22 792)	6 712	(12 405)	9 551	(17 649)
Net cash flows (used in)/from financing activities	(9 311)	10 071	(5 132)	5 034	(7 303)	7 162
Net Increase/(decrease) in cash and cash equivalents	2 797	(12 721)	1 580	(7 371)	2 248	(10 487)
Cash and cash equivalents at 1 January	26 983	42 471	14 679	22 722	20 886	32 330
Cash and cash equivalents at 30 September	29 780	29 750	16 259	15 351	23 134	21 843

Notes to the unaudited condensed interim consolidated financial statements

1. Accounting policies

These unaudited condensed consolidated financial statements are prepared in accordance with and comply with accounting policies applied in preparation of the consolidated financial statements of Latvian Shipping Company and its Subsidiaries for the year ended 31 December 2011, which were prepared in accordance with the International Financial Reporting Standards.

These financial statements are prepared in U.S. dollars which is the functional currency of the Group and Latvian lats which is the presentation currency of the Group in accordance with legislation of the Republic of Latvia.

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

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

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

LB rate of exchange as at 30.09.2012 USD/LVL - 0.546 (average – 0.548607)

LB rate of exchange as at 30.09.2011 USD/LVL - 0.516 (average – 0.499989)

These financial statements are translated into Euros using the rate of exchange set by the Bank of Latvia prevailing at the 30.09.2012: 1 EUR = 0.702804 LVL, 30.09.2011: 1 EUR = 0.702804 LVL due to requirements of JSC „NASDAQ OMX Riga”.

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

2. Shipping segment information

for the period ended 30 September 2012

	2012	2011	2012	2011	2012	2011
	US \$'000	US \$'000	LVL'000	LVL'000	EUR'000	EUR'000
Time charter hire	50 304	65 521	27 687	32 844	39 395	46 733
Spot hire	32 801	5 441	17 851	2 707	25 400	3 851
Voyage income from external customers	83 105	70 962	45 538	35 551	64 795	50 584
Voyage costs	(18 709)	(4 580)	(10 230)	(2 251)	(14 556)	(3 203)
Net voyage result	64 396	66 382	35 308	33 300	50 239	47 381
Vessel operating costs	(27 427)	(31 565)	(15 001)	(15 655)	(21 343)	(22 276)
Chartering expenses	-	(5 552)	-	(2 827)	-	(4 022)
Other revenue	726	701	397	347	565	494
Cost of sales (Vessel operating costs excluding)	(515)	(529)	(281)	(263)	(400)	(375)
Selling costs	-	(6)	-	(3)	-	(4)
Administrative expenses	(8 736)	(9 665)	(4 767)	(4 814)	(6 783)	(6 849)
Result from disposal of non-financial assets	-	(682)	-	(383)	-	(544)
Depreciation and amortisation	(20 896)	(20 914)	(11 437)	(10 376)	(16 274)	(14 764)
Impairment of non-financial assets	(28 238)	(12 564)	(15 279)	(6 444)	(21 740)	(9 169)
Other operating income	163	86	89	43	126	62
Other operating expenses	(443)	(22)	(254)	(12)	(361)	(18)
Result before financial items	(20 970)	(14 330)	(11 225)	(7 087)	(15 971)	(10 084)
Interest income	22	56	12	28	17	40
Interest expenses	(13 579)	(15 380)	(7 430)	(7 644)	(10 570)	(10 877)
Finance income, net	(314)	80	(156)	26	(223)	37
Net result before taxes	(34 841)	(29 574)	(18 799)	(14 677)	(26 747)	(20 884)
Segment assets	577 155	638 221	315 126	329 323	448 383	468 585
Including additions to non-current assets	3 860	74 119	2 1186	37 059	3 013	52 730

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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Notes to the unaudited condensed interim consolidated financial statements (continued)

2. Shipping segment information (continued)

for the period ended 30 September 2012

	2012 US \$'000	2011 US \$'000	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Net result before taxes for reportable segments	(34 841)	(29 574)	(18 799)	(14 677)	(26 747)	(20 884)
Administrative expenses	(112)	(193)	(60)	(96)	(86)	(136)
Finance income	-	11	-	4	-	6
Finance expenses	(6)	-	(7)	-	(11)	-
Loss before tax	(34 959)	(29 756)	(18 866)	(14 769)	(26 844)	(21 014)
	30.09.2012	30.09.2011	30.09.2012	30.09.2011	30.09.2012	30.09.2011
Segment assets for reportable segments	577 155	638 221	315 126	329 323	448 383	468 585
Unallocated:						
Investment properties	1 835	3 234	1 002	1 668	1 426	2 373
Other assets of subsidiaries not included in segment	6 709	4 747	3 663	2 449	5 212	3 485
Available – for – sale financial assets	29 516	30 770	16 116	15 877	22 931	22 591
Total assets	615 215	676 972	335 907	349 317	477 952	497 034

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

Contact person with respect to information presented in these financial statements

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Forward-Looking Statements

Matters discussed in the management report may constitute forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe," "anticipate," "intends," "estimate," "forecast," "project," "plan," "potential," "may," "should," "expect," "pending" and similar expressions identify forward-looking statements. The forward-looking statements in the management report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, our management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. In addition to these important factors, other important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the failure of counterparties to fully perform their contracts with us, the strength of world economies and currencies, general market conditions, including fluctuations in charter rates and vessel values, changes in demand for tanker vessel capacity, changes in our operating expenses, including bunker prices, drydocking and insurance costs, the market for our vessels, availability of financing and refinancing, charter counterparty performance, ability to obtain financing and comply with covenants in such financing arrangements, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, vessels breakdowns and instances of off-hires and other factors. LSC shall not be liable for the decisions made by third persons based on information provided by LSC as the forward-looking statements.