

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

## **Unaudited Condensed Interim Consolidated Financial Statements**

**for the year ended  
31 December 2012**



## **CONTENTS**

Supervisory Council.....	3
Professional experience of the members of the Supervisory Council .....	4
Management Board .....	5
Professional experience of the members of the Management Board .....	6
Review of the shares.....	7
Management report .....	9
Statement of Management’s Responsibilities .....	11
Interim consolidated income statement.....	12
Interim consolidated statement of comprehensive income.....	13
Interim consolidated statement of financial position .....	14
Interim consolidated statement of changes in equity .....	16
Interim consolidated statement of cash flows .....	19
Notes to the unaudited condensed interim consolidated financial statements.....	20

## **Supervisory Council**

**Chairman of the Council**

Simon Boddy

**Deputy Chairperson of the Council**

Mikhail Dvorak

**Members of the Council:**

Christophe Theophanis Matsacos

Rubel 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>Rubel 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&amp;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

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 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.
- 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.
- 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.

## Review of the shares

Information on share price/index dynamics for the period from 01.01.2012 till 31.12.2012



Index/Share	01.01.2012	31.12.2012	+/-%
—OMX Baltic Benchmark GI	431.94	546.98	26.63
—LSC1R	0.31 LVL	0.25 LVL	-18.18

### 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	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

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

---

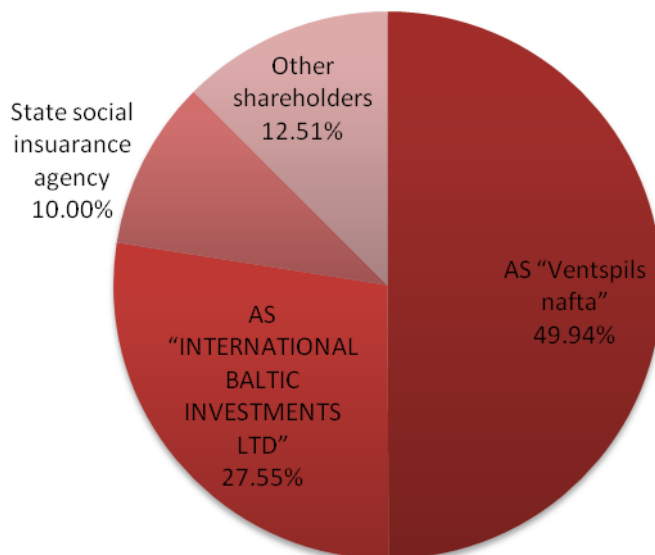
Information source: JSC „NA

SDAQ OMX Riga” webpage [www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)

**Company’s 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%

**Company’s shareholder structure as of 31.12.2012**





## Management report

### Dear shareholders and stakeholders,

Latvian Shipping Company and its subsidiaries (hereafter – LSC, LSC Group or Group) unaudited financial result for the twelve months of 2012 was a net loss of USD35.67 million. The net loss for the same reporting period in 2011 was USD48.27 million. The financial result for Q4/2012 was a net loss of USD0.10 million. This is the first time since 2008 when the Group's performance has been close to break-even.

Despite this improvement in the LSC financial results the worldwide shipping market remains very challenging. LSC'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 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 the first three quarters in the amount of USD28.24million; there were no further impairments required in Q4/2012. 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 USD26.13 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 114.71 million which is a considerable increase if compared to 2011 when the total income was USD96.60 million. However this increase reflects the fact 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 USD88.45 million which is similar to the previous year (2011 – USD87.99 million). Vessel operating profit after depreciation and dry-dock amortisation for the twelve month period was USD23.51 million, a significant improvement on the previous period (2011 – USD15.24 million) sufficient to fully cover the fleet financing expenses (USD17.98 million).

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	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 shipbrokers(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.*

## **Management report (continued)**

At December 31, 2012 the total value of LSC Group assets was USD605.36 million. The figure at December 31, 2011 was USD651.92 million. The decrease is mainly attributed to the impairment provisions as explained above and depreciation of the fleet. The total value of the LSC Group fleet has slightly increased from USD509.97 million to USD517.82 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 December 31, 2012 was USD233.74 million (December 31, 2011 – USD267.84 million).

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 LVL267,087. On December 31, 2012 the capitalization of Latvian Shipping Company shares at NASDAQ OMX Riga was LVL50.40 million.

Towards the end of the reporting year LSC reached an agreement with the banking syndicates which finance the LSC fleet 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 "Ventspils nafta" to provide further financing, if required, in order to comply with a minimum cash reserve requirement of 17 million USD.

LSC 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, 15 February 2013

## **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 31 December 2012, changes in shareholders' equity, cash flows and the results of the Group for the twelve month period ended 31 December 2012.

The aforementioned financial statements are prepared in accordance with applicable legislation 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 the management to ensure that financial statements are drawn up pursuant to current legislation.

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 February 2013

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

## Interim consolidated income statement

for the period ended 31 December 2012

	2012 US \$'000	2011 US \$'000	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Freight and hire revenue	114 707	96 603	62 614	48 839	89 092	69 492
Income from other services	957	973	522	488	743	694
<b>Revenue</b>	<b>115 664</b>	<b>97 576</b>	<b>63 136</b>	<b>49 327</b>	<b>89 835</b>	<b>70 186</b>
Voyage costs	(26 257)	(8 616)	(14 291)	(4 392)	(20 333)	(6 249)
Cost of sales	(65 685)	(73 688)	(35 805)	(36 980)	(50 948)	(52 618)
<b>Gross profit</b>	<b>23 722</b>	<b>15 272</b>	<b>13 040</b>	<b>7 955</b>	<b>18 554</b>	<b>11 319</b>
Selling costs	-	(7)	-	(3)	-	(4)
Administrative expenses	(11 415)	(14 840)	(6 220)	(7 532)	(8 850)	(10 718)
Impairment of non-financial assets	(28 238)	(26 863)	(15 279)	(14 262)	(21 740)	(20 293)
Other operating income	351	388	192	201	273	287
Other operating expenses	(595)	(1 313)	(338)	(684)	(481)	(974)
<b>Operating loss</b>	<b>(16 175)</b>	<b>(27 363)</b>	<b>(8 605)</b>	<b>(14 325)</b>	<b>(12 244)</b>	<b>(20 383)</b>
Finance income	27	574	15	1 038	21	1 477
Finance costs	(18 742)	(20 733)	(10 203)	(10 434)	(14 517)	(14 847)
<b>Loss before tax</b>	<b>(34 890)</b>	<b>(47 522)</b>	<b>(18 793)</b>	<b>(23 721)</b>	<b>(26 740)</b>	<b>(33 753)</b>
Income tax	(780)	(751)	(427)	(373)	(608)	(530)
<b>Loss for the period</b>	<b>(35 670)</b>	<b>(48 273)</b>	<b>(19 220)</b>	<b>(24 094)</b>	<b>(27 348)</b>	<b>(34 283)</b>
Attributable to:						
Equity holders of the parent	(35 630)	(48 239)	(19 198)	(24 076)	(27 318)	(34 257)
Non-controlling interests	(40)	(34)	(22)	(18)	(30)	(26)
	<b>(35 670)</b>	<b>(48 273)</b>	<b>(19 220)</b>	<b>(24 094)</b>	<b>(27 348)</b>	<b>(34 283)</b>
<b>Loss per share</b>	<b>US\$ (0.18)</b>	<b>US\$ (0.24)</b>	<b>LVL (0.10)</b>	<b>LVL (0.12)</b>	<b>EUR (0.14)</b>	<b>EUR (0.17)</b>

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

## Interim consolidated statement of comprehensive income

for the period ended 31 December 2012

	2012 US \$'000	2011 US \$'000	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
<b>Loss for the period</b>	<b>(35 670)</b>	<b>(48 273)</b>	<b>(19 220)</b>	<b>(24 094)</b>	<b>(27 348)</b>	<b>(34 283)</b>
<b>Other comprehensive income/ (expenses)</b>						
Exchange differences on translation of foreign operations	854	665	(2 784)	(51)	(3 960)	(72)
Net movement on cash flow hedges	722	1 519	418	788	594	1 122
<b>Other comprehensive income/ (expenses) for the period, net of tax</b>	<b>1 576</b>	<b>2 184</b>	<b>(2 366)</b>	<b>737</b>	<b>(3 366)</b>	<b>1 050</b>
<b>Total comprehensive (loss) for the period, net of tax</b>	<b>(34 094)</b>	<b>(46 089)</b>	<b>(21 586)</b>	<b>(23 357)</b>	<b>(30 714)</b>	<b>(33 233)</b>
Attributable to:						
Equity holders of the parent	(34 203)	(46 321)	(21 564)	(23 339)	(30 684)	(33 207)
Non-controlling interests	109	232	(22)	(18)	(30)	(26)
	<b>(34 094)</b>	<b>(46 089)</b>	<b>(21 586)</b>	<b>(23 357)</b>	<b>(30 714)</b>	<b>(33 233)</b>

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

## Interim consolidated statement of financial position

as at 31 December 2012

	<u>31.12.2012</u> US \$'000	<u>31.12.2011</u> US \$'000	<u>31.12.2012</u> LVL'000	<u>31.12.2011</u> LVL'000	<u>31.12.2012</u> EUR'000	<u>31.12.2011</u> EUR'000
<b>Assets</b>						
<b>Non-current assets</b>						
Other intangible assets	37	237	20	129	28	184
Fleet	517 823	509 973	274 964	277 425	391 239	394 740
Other property, plant and equipment	3 527	3 669	1 873	1 996	2 665	2 840
Investment properties	1 880	1 861	999	1 013	1 421	1 441
Investments in associates	14	14	7	7	10	10
Other non-current financial assets	<u>4 402</u>	<u>7 857</u>	<u>2 337</u>	<u>4 274</u>	<u>3 326</u>	<u>6 081</u>
<b>Total non-current assets</b>	<b>527 683</b>	<b>523 611</b>	<b>280 200</b>	<b>284 844</b>	<b>398 689</b>	<b>405 296</b>
<b>Current assets</b>						
Inventories	4 767	3 804	2 531	2 069	3 601	2 944
Trade and other receivables	13 662	7 208	7 255	3 921	10 323	5 579
Prepayments	1 661	1 317	882	717	1 255	1 020
Other current financial assets	31 450	29 595	16 700	16 100	23 762	22 908
Cash and short term deposits	<u>26 132</u>	<u>26 983</u>	<u>13 876</u>	<u>14 679</u>	<u>19 744</u>	<u>20 886</u>
<b>Total current assets</b>	<b>77 672</b>	<b>68 907</b>	<b>41 244</b>	<b>37 486</b>	<b>58 685</b>	<b>53 337</b>
Assets classified as held for sale	<u>-</u>	<u>59 400</u>	<u>-</u>	<u>32 314</u>	<u>-</u>	<u>45 979</u>
<b>Total assets</b>	<b><u>605 355</u></b>	<b><u>651 918</u></b>	<b><u>321 444</u></b>	<b><u>354 644</u></b>	<b><u>457 374</u></b>	<b><u>504 612</u></b>

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**Interim consolidated statement of financial position (continued)**

as at 31 December 2012

	<u>31.12.2012</u> <u>US \$'000</u>	<u>31.12.2011</u> <u>US \$'000</u>	<u>31.12.2012</u> <u>LVL'000</u>	<u>31.12.2011</u> <u>LVL'000</u>	<u>31.12.2012</u> <u>EUR'000</u>	<u>31.12.2011</u> <u>EUR'000</u>
<b>Equity and liabilities</b>						
<b>Equity</b>						
Issued capital	362 319	362 319	200 000	200 000	284 574	284 574
Accumulated deficit	(120 352)	(84 722)	(65 237)	(46 039)	(92 908)	(65 590)
Other components of equity	(14 449)	(15 876)	(13 951)	(11 585)	(19 767)	(16 401)
Equity attributable to equity holders of the parent	227 518	261 721	120 812	142 376	171 899	202 583
Non-controlling interests	6 223	6 114	3 304	3 326	4 702	4 732
<b>Total equity</b>	<b>233 741</b>	<b>267 835</b>	<b>124 116</b>	<b>145 702</b>	<b>176 601</b>	<b>207 315</b>
<b>Non-current liabilities</b>						
Interest bearing loans	266 246	297 204	141 377	161 678	201 161	230 047
Finance lease	24 360	25 775	12 935	14 021	18 405	19 950
Derivative financial instruments	1 211	919	643	500	915	711
Trade and other payables	28 781	1 942	15 283	1 056	21 746	1 503
Deferred tax liability	139	136	74	74	105	105
<b>Total non-current liabilities</b>	<b>320 737</b>	<b>325 976</b>	<b>170 312</b>	<b>177 329</b>	<b>242 332</b>	<b>252 316</b>
<b>Current liabilities</b>						
Trade and other payables	15 323	13 635	8 137	7 419	11 578	10 556
Interest bearing loans	30 925	31 180	16 421	16 962	23 365	24 135
Finance lease	1 447	1 262	768	687	1 093	978
Derivative financial instruments	757	1 769	402	963	572	1 370
Deferred revenue	2 425	10 261	1 288	5 582	1 833	7 942
<b>Total current liabilities</b>	<b>50 877</b>	<b>58 107</b>	<b>27 016</b>	<b>31 613</b>	<b>38 441</b>	<b>44 981</b>
<b>Total equity and liabilities</b>	<b>605 355</b>	<b>651 918</b>	<b>321 444</b>	<b>354 644</b>	<b>457 374</b>	<b>504 612</b>

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

## Interim consolidated statement of changes in equity

for the period ended 31 December 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		
<b>At 31 December 2010</b>	<b>362 319</b>	<b>(36 483)</b>	<b>(4 208)</b>	<b>(13 586)</b>	<b>308 042</b>	<b>5 882</b>	<b>313 924</b>
Loss for the period	-	(48 239)	-	-	(48 239)	(34)	(48 273)
Other comprehensive income/(expenses)	-	-	1 519	399	1 918	266	2 184
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(48 239)</b>	<b>1 519</b>	<b>399</b>	<b>(46 321)</b>	<b>232</b>	<b>(46 089)</b>
<b>At 31 December 2011</b>	<b>362 319</b>	<b>(84 722)</b>	<b>(2 689)</b>	<b>(13 187)</b>	<b>261 721</b>	<b>6 114</b>	<b>267 835</b>
Loss for the period	-	(35 630)	-	-	(35 630)	(40)	(35 670)
Other comprehensive income/(expenses)	-	-	722	705	1 427	149	1 576
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(35 630)</b>	<b>722</b>	<b>705</b>	<b>(34 203)</b>	<b>109</b>	<b>(34 094)</b>
<b>At 31 December 2012</b>	<b>362 319</b>	<b>(120 352)</b>	<b>(1 967)</b>	<b>(12 482)</b>	<b>227 518</b>	<b>6 223</b>	<b>233 741</b>



**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**Interim consolidated statement of changes in equity (continued)**

for the period ended 31 December 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		
<b>At 31 December 2010</b>	<b>200 000</b>	<b>(21 963)</b>	<b>(2 251)</b>	<b>(10 071)</b>	<b>165 715</b>	<b>3 344</b>	<b>169 059</b>
Loss for the period	-	(24 076)	-	-	(24 076)	(18)	(24 094)
Other comprehensive income/(expenses)	-	-	788	(51)	737	-	737
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(24 076)</b>	<b>788</b>	<b>(51)</b>	<b>(23 339)</b>	<b>(18)</b>	<b>(23 357)</b>
<b>At 31 December 2011</b>	<b>200 000</b>	<b>(46 039)</b>	<b>(1 463)</b>	<b>(10 122)</b>	<b>142 376</b>	<b>3 326</b>	<b>145 702</b>
Loss for the period	-	(19 198)	-	-	(19 198)	(22)	(19 220)
Other comprehensive income	-	-	418	(2 784)	(2 366)	-	(2 366)
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(19 198)</b>	<b>418</b>	<b>(2 784)</b>	<b>(21 564)</b>	<b>(22)</b>	<b>(21 586)</b>
<b>At 31 December 2012</b>	<b>200 000</b>	<b>(65 237)</b>	<b>(1 045)</b>	<b>(12 906)</b>	<b>120 812</b>	<b>3 304</b>	<b>124 116</b>

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES  
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012

**Interim consolidated statement of changes in equity (continued)**

for the period ended 31 December 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		
<b>At 31 December 2010</b>	<b>284 574</b>	<b>(31 333)</b>	<b>(3 203)</b>	<b>(14 248)</b>	<b>235 790</b>	<b>4 758</b>	<b>240 548</b>
Loss for the period	-	(34 257)	-	-	(34 257)	(26)	(34 283)
Other comprehensive income	-	-	1 122	(72)	1 050	-	1 050
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(34 257)</b>	<b>1 122</b>	<b>(72)</b>	<b>(33 207)</b>	<b>(26)</b>	<b>(33 233)</b>
<b>At 31 December 2011</b>	<b>284 574</b>	<b>(65 590)</b>	<b>(2 081)</b>	<b>(14 320)</b>	<b>202 583</b>	<b>4 732</b>	<b>207 315</b>
Loss for the period	-	(27 318)	-	-	(27 318)	(30)	(27 348)
Other comprehensive income	-	-	594	(3 960)	(3 366)	-	(3 366)
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>(27 318)</b>	<b>594</b>	<b>(3 960)</b>	<b>(30 684)</b>	<b>(30)</b>	<b>(30 714)</b>
<b>At 31 December 2012</b>	<b>284 574</b>	<b>(92 908)</b>	<b>(1 487)</b>	<b>(18 280)</b>	<b>171 899</b>	<b>4 702</b>	<b>176 601</b>

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

## Interim consolidated statement of cash flows

for the period ended 31 December 2012

	2012 US \$'000	2011 US \$'000	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
<b>Operating activities</b>						
<b>Loss before taxation</b>	<b>(34 890)</b>	<b>(47 522)</b>	<b>(18 793)</b>	<b>(23 721)</b>	<b>(26 740)</b>	<b>(33 753)</b>
<u>Adjustments for:</u>						
Depreciation and amortisation	28 477	26 308	15 525	13 163	22 090	18 729
Result on disposal of non-financial assets	1	450	1	222	1	316
Impairment of non-financial assets	28 238	26 863	15 279	14 262	21 740	20 293
Other adjustments	18 762	18 232	9 820	8 156	13 974	11 607
<u>Working capital adjustments:</u>						
Changes in trade and other receivables and prepayments	(3 343)	2 100	(1 828)	1 061	(2 601)	1 510
Changes in inventories	(963)	(1 776)	(527)	(898)	(750)	(1 278)
Changes in trade and other payables	(8 795)	2 566	(4 810)	1 297	(6 844)	1 845
<b>Net cash flows from operating activities</b>	<b>27 487</b>	<b>27 221</b>	<b>14 667</b>	<b>13 542</b>	<b>20 870</b>	<b>19 269</b>
Net cash flows used in investing activities	(6 855)	(38 793)	(3 745)	(19 606)	(5 329)	(27 897)
<b>Cash flows before financing activities</b>	<b>20 632</b>	<b>(11 572)</b>	<b>10 922</b>	<b>(6 064)</b>	<b>15 541</b>	<b>(8 628)</b>
Net cash flows used in financing activities	(21 483)	(3 916)	(11 725)	(1 979)	(16 683)	(2 816)
<b>Net decrease in cash and cash equivalents</b>	<b>(851)</b>	<b>(15 488)</b>	<b>(803)</b>	<b>(8 043)</b>	<b>(1 142)</b>	<b>(11 444)</b>
<b>Cash and cash equivalents at 1 January</b>	<b>26 983</b>	<b>42 471</b>	<b>14 679</b>	<b>22 722</b>	<b>20 886</b>	<b>32 330</b>
<b>Cash and cash equivalents at 31 December</b>	<b>26 132</b>	<b>26 983</b>	<b>13 876</b>	<b>14 679</b>	<b>19 744</b>	<b>20 886</b>

## **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.

In 2012 the Group has made certain reclassifications between different captions of the consolidated income statement. The comparatives have been restated conform to the new presentation. The reclassifications had no effect on the consolidated income statement and consolidated statement of financial position as of 31 December 2011.

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 31.12.2012 USD/LVL - 0.531 (average – 0.546937)

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

These financial statements are translated into Euros using the rate of exchange set by the Bank of Latvia prevailing at the 31.12.2012: 1 EUR = 0.702804 LVL, 31.12.2011: 1 EUR = 0.702804 LVL due to requirements of JSC „NASDAQ OMX Riga”.

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

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

**2. Shipping segment information**

**for the period ended 31 December 2012**

	<b>2012</b> <b>US \$'000</b>	<b>2011</b> <b>US \$'000</b>	<b>2012</b> <b>LVL'000</b>	<b>2011</b> <b>LVL'000</b>	<b>2012</b> <b>EUR'000</b>	<b>2011</b> <b>EUR'000</b>
Time charter hire income	66 683	83 990	36 588	42 353	52 059	60 263
Freight income	48 024	12 613	26 026	6 486	37 033	9 229
<b>Operating income from external customers</b>	<b>114 707</b>	<b>96 603</b>	<b>62 614</b>	<b>48 839</b>	<b>89 092</b>	<b>69 492</b>
Voyage costs	(26 257)	(8 616)	(14 291)	(4 392)	(20 333)	(6 249)
<b>Net voyage result</b>	<b>88 450</b>	<b>87 987</b>	<b>48 323</b>	<b>44 447</b>	<b>68 759</b>	<b>63 243</b>
Vessels' running costs	(37 085)	(41 870)	(20 213)	(21 014)	(28 762)	(29 900)
Chartering expenses	-	(5 489)	-	(2 794)	-	(3 976)
Other revenue	957	973	522	488	743	694
Cost of sales (vessels' running costs excluding)	(697)	(762)	(380)	(383)	(540)	(545)
Selling costs	-	(7)	-	(3)	-	(4)
Administrative expenses	(10 654)	(13 855)	(5 806)	(7 037)	(8 262)	(10 012)
Result from disposal of non-financial assets	(1)	(450)	(1)	(222)	(1)	(316)
Depreciation and amortisation	(28 476)	(26 307)	(15 524)	(13 162)	(22 089)	(18 728)
Impairment of non-financial assets	(28 238)	(25 664)	(15 279)	(13 610)	(21 740)	(19 365)
Other operating income	351	116	192	61	273	86
Other operating expenses	(594)	(54)	(337)	(29)	(480)	(41)
<b>Result before financial items</b>	<b>(15 987)</b>	<b>(25 382)</b>	<b>(8 503)</b>	<b>(13 258)</b>	<b>(12 099)</b>	<b>(18 864)</b>
Interest income	27	72	15	37	21	52
Interest expenses	(17 979)	(20 526)	(9 798)	(10 331)	(13 940)	(14 700)
Finance (expenses)/income, net	(765)	319	(397)	912	(565)	1 298
<b>Net result before taxes</b>	<b>(34 704)</b>	<b>(45 517)</b>	<b>(18 683)</b>	<b>(22 640)</b>	<b>(26 583)</b>	<b>(32 214)</b>
<b>Segment assets</b>	<b>567 092</b>	<b>616 266</b>	<b>301 126</b>	<b>335 249</b>	<b>428 465</b>	<b>477 016</b>
Including additions to non-current assets	4 913	75 830	2 687	38 324	3 823	54 530

**LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

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

**2. Shipping segment information (continued)**

**for the period ended 31 December 2012**

	<b>2012</b> <b>US \$'000</b>	<b>2011</b> <b>US \$'000</b>	<b>2012</b> <b>LVL'000</b>	<b>2011</b> <b>LVL'000</b>	<b>2012</b> <b>EUR'000</b>	<b>2011</b> <b>EUR'000</b>
Net result before taxes for reportable segments	(34 704)	(45 517)	(18 683)	(22 640)	(26 583)	(32 214)
Administrative expenses	(188)	(245)	(102)	(122)	(145)	(175)
Impairment of investment properties	-	(1 199)	-	(652)	-	(928)
Other operating expenses	-	(537)	-	(293)	-	(417)
Finance income/(expenses)	2	(24)	(8)	(14)	(12)	(19)
<b>Loss before tax</b>	<b>(34 890)</b>	<b>(47 522)</b>	<b>(18 793)</b>	<b>(23 721)</b>	<b>(26 740)</b>	<b>(33 753)</b>
	<b><u>31.12.2012</u></b>	<b><u>31.12.2011</u></b>	<b><u>31.12.2012</u></b>	<b><u>31.12.2011</u></b>	<b><u>31.12.2012</u></b>	<b><u>31.12.2011</u></b>
Segment assets for reportable segments	567 092	616 266	301 126	335 249	428 465	477 016
<b>Unallocated:</b>						
Investment properties	1 880	1 861	999	1 013	1 421	1 441
Other assets of subsidiaries not included in segment	6 258	4 196	3 323	2 282	4 728	3 247
Available – for – sale financial assets	30 125	29 595	15 996	16 100	22 760	22 908
<b>Total assets</b>	<b><u>605 355</u></b>	<b><u>651 918</u></b>	<b><u>321 444</u></b>	<b><u>354 644</u></b>	<b><u>457 374</u></b>	<b><u>504 612</u></b>

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

### 3. Related party transactions

for the period ended 31 December 2012

	Income USD'000	Expenses USD'000	Amounts due from related parties USD'000	Amounts due to related parties USD'000
Interest income	1	-	529	-
Freight and hire revenue	37 580	-	552	(1 409)
Technical management fee and IT services	396	-	8	-
Interest expense	-	(601)	-	(28 781)
Consulting services	-	(218)	-	(58)
Real estate rent	-	(138)	-	-
Other services	-	(36)	-	-
<b>Total</b>	<b>37 977</b>	<b>(993)</b>	<b>1 089</b>	<b>(30 248)</b>

Including:

Non-current			-	(28 781)
Current			1 089	(58)
Deferred income			-	(1 409)
<b>Total</b>			<b>1 089</b>	<b>(30 248)</b>

	Income LVL'000	Expense LVL'000	Amounts due from related parties LVL'000	Amounts due from related parties LVL'000
Interest income	1	-	281	-
Freight and hire revenue	20 554	-	293	(748)
Technical management fee and IT services	216	-	4	-
Interest expense	-	(334)	-	(15 283)
Consulting services	-	(119)	-	(31)
Real estate rent	-	(75)	-	-
Other services	-	(20)	-	-
<b>Total</b>	<b>20 771</b>	<b>(548)</b>	<b>578</b>	<b>(16 062)</b>

Including:

Non-current			-	(15 283)
Current			578	(31)
Deferred income			-	(748)
<b>Total</b>			<b>578</b>	<b>(16 062)</b>

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

### 3. Related party transactions (continued)

for the period ended 31 December 2012

	Income EUR'000	Expense EUR'000	Amounts due from related parties EUR'000	Amounts due from related parties EUR'000
Interest income	1	-	400	-
Freight and hire revenue	29 246	-	417	(1 064)
Technical management fee and IT services	307	-	6	-
Interest expense	-	(476)	-	(21 746)
Consulting services	-	(170)	-	(44)
Real estate rent	-	(107)	-	-
Other services	-	(28)	-	-
<b>Total</b>	<b>29 554</b>	<b>(781)</b>	<b>823</b>	<b>(22 854)</b>

Including:

Non-current			-	(21 746)
Current			823	(44)
Deferred income			-	(1 064)
<b>Total</b>			<b>823</b>	<b>(22 854)</b>

for the period ended 31 December 2011

	Income USD'000	Expenses USD'000	Amounts due from related parties USD'000	Amounts due to related parties USD'000
Freight and hire revenue	26 142	-	-	(8 518)
Bunkering	-	(643)	-	-
Technical management fee and IT services	160	-	56	-
Interest expense	-	(13)	-	(1 942)
Consulting services	-	(471)	-	(76)
Real estate rent	-	(15)	26	-
Other services	3	(50)	3	-
<b>Total</b>	<b>26 305</b>	<b>(1 192)</b>	<b>85</b>	<b>(10 536)</b>

Including:

Non-current			26	(1 942)
Current			59	(76)
Deferred income			-	(8 518)
<b>Total</b>			<b>85</b>	<b>(10 536)</b>



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

### 3. Related party transactions (continued)

for the period ended 31 December 2011

	Income LVL'000	Expenses LVL'000	Amounts due from related parties LVL'000	Amounts due to related parties LVL'000
Freight and hire revenue	13 212	-	-	(4 634)
Bunkering	-	(325)	-	-
Technical management fee and IT services	81	-	30	-
Interest expense	-	(7)	-	(1 056)
Consulting services	-	(238)	-	(41)
Real estate rent	-	(8)	14	-
Other services	2	(25)	2	-
<b>Total</b>	<b>13 295</b>	<b>(603)</b>	<b>46</b>	<b>(5 731)</b>

Including:

Non-current			14	(1 056)
Current			32	(41)
Deferred income			-	(4 634)
<b>Total</b>			<b>46</b>	<b>(5 731)</b>

	Income EUR'000	Expenses EUR'000	Amounts due from related parties EUR'000	Amounts due to related parties EUR'000
Freight and hire revenue	18 799	-	-	(6 594)
Bunkering	-	(462)	-	-
Technical management fee and IT services	115	-	43	-
Interest expense	-	(10)	-	(1 503)
Consulting services	-	(339)	-	(58)
Real estate rent	-	(11)	20	-
Other services	3	(35)	3	-
<b>Total</b>	<b>18 917</b>	<b>(857)</b>	<b>66</b>	<b>(8 155)</b>

Including:

Non-current			20	(1 503)
Current			46	(58)
Deferred income			-	(6 594)
<b>Total</b>			<b>66</b>	<b>(8 155)</b>

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

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

Ilze Nagla  
Manager of Public Relations  
JSC Latvian Shipping Company  
Phone +371 29267454, +371 67715914  
e-mail: ilze.nagla@vnafta.lv

### 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, dry-docking 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.