



**LATVIJAS KUĢNIECĪBA**

**Public Joint Stock Company  
“Latvijas Kuģniecība”**

**Separate Financial Statements  
31 December 2013**

## Content

General information.....	3
Management report.....	5
Statement of Management's responsibility .....	7
Separate Statement of Comprehensive Income .....	8
Separate Statement of Financial Position .....	9
Separate Statement of Changes in Shareholders' Equity .....	10
Separate Cash Flow Statement .....	11
Notes to the Separate Financial Statements.....	12
Independent Auditors' Report .....	42

## General information

### General information of the Company

Name	„Latvijas kuģniecība” (hereinafter also referred to as „Company”)
Legal status	Joint Stock Company
Registration number, place and date	40003021108, Riga, 13 September 1991 Reregistered in the Commercial Register on 17 November 2004
Registered Office	Elizabetes iela 1, Riga, LV-1010, Latvia
Main activity (NACE classificatory)	6420 – Activities of holding companies, 7010 – Activities of head offices
Reporting period	1 <sup>st</sup> January 2013 – 31 <sup>st</sup> December 2013
Previous reporting period	1 <sup>st</sup> January 2012 – 31 <sup>st</sup> December 2012

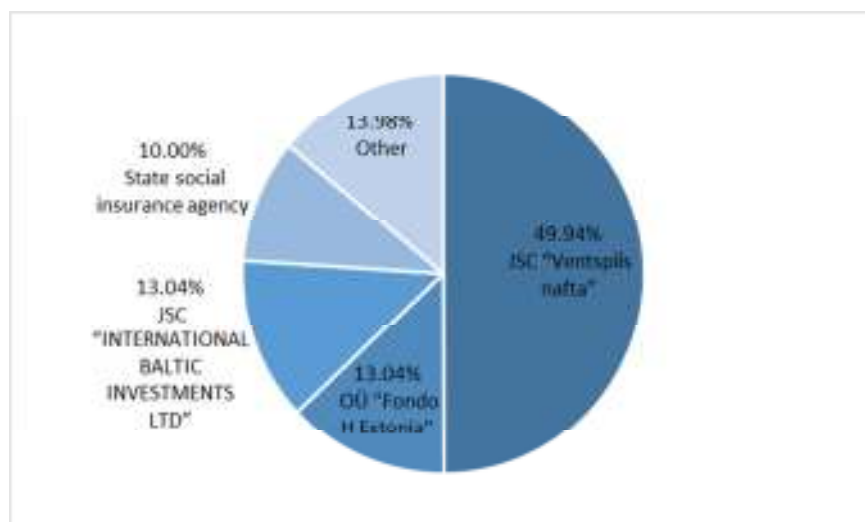
### Shareholders of the Company

JSC “Latvian Shipping Company” shareholders (over 5%) as of date when the report is released:

Name	Description	Ownership interest
JSC “Ventspils nafta”	Listed company	49.94%
OÜ “Fondo H Estonia”	Private company	13.04%
JSC “INTERNATIONAL BALTIC INVESTMENTS LTD”	Private company	13.04%
State social insurance agency	Government institution	10.00%

No individual shareholder has legal control, but JSC “Ventspils nafta” has *de facto* control; therefore JSC “Latvijas kuģniecība” and its subsidiaries are consolidated in to JSC “Ventspils nafta” Group financial statements.

Shareholders structure of the Company as of date when the report is released:



### The Auditors of the Company

Name and address of the Auditors:

PricewaterhouseCoopers SIA  
Commercial licence No. 5  
Krišjāņa Valdemāra street 21-21, Riga, LV-1010, Latvia

Certified auditor in charge  
Ilandra Lejiņa  
Sworn Auditor  
Certificate No. 168

## General information *(Continued)*

### The Supervisory Council of the Company

**Chairman of the Supervisory Council**

Vladimir Egger (from September 1, 2013 until October 17, 2013; from March 1, 2014 until March 26, 2014; from April 3, 2014)

Robert Kirkup (from October 23, 2013 until February 28, 2014)

Simon Boddy (until August 31, 2013)

**Deputy Chairman of the Supervisory Council**

Rubil Yilmaz (from April 3, 2014)

Mikhail Dvorak (until October 17, 2013 and from October 23, 2013 until March 26, 2014)

**Members of the Supervisory Council:**

Yulia Verschagina (from March 26, 2014)

Andrea Schlaepfer (from March 26, 2014)

Varvara Maximova (from March 26, 2014)

Olga Kurenkova (from March 26, 2014)

Giovanni Fagioli (from March 26, 2014)

Christophe Theophanis Matsacos (until March 26, 2014)

Rubil Yilmaz (until April 1, 2014)

Vladimir Egger (until August 31, 2013 and from October 17, 2013 until April 1, 2014)

Javed Ahmed (until March 26, 2014)

Mark Morrell Ware (until October 17, 2013)

Jaakko Sakari Mikael Salmelin (until October 17, 2013)

Ivars Girgensons

Mārtiņš Kvēps (until March 26, 2014)

Oļegs Stepanovs (until March 26, 2014)

Serguei Choutov (until October 17, 2013)

Simon Boddy (from September 1, 2013)

Kristo Oidermaa (from October 17, 2013)

Artūrs Lēmanis (from October 17, 2013 until March 26, 2014)

Robert Kirkup (from October 17, 2013 until October 23, 2013)

Mikhail Dvorak (from October 17, 2013 until October 23, 2013)

### The Management Board of the Company

**Chairman of the Management Board**

Robert Kirkup (from March 1, 2014)

Simon Richard Blaydes (until February 28, 2014)

**Members of the Management Board**

Paul Thomas

Christopher James Kernon

## Management report

### Dear Shareholders and Business Partners!

#### Type of operation

Basic activity of the Joint Stock Company "Latvian Shipping Company" (hereafter LSC or Company) is Group holding management and provision of vessel commercial management services. The LSC also provides other services to ensure everyday operation of the LSC Group companies.

#### Company's operation and results during the financial year

Net turnover of the LSC in 2013 was 2.26 million LVL that comparing with the previous year is by 11% less and mainly can be attributed to decrease of income from vessel commercial management and other management services. The decrease caused by decrease in costs used for provision of services and reduced number of the LSC Group's fleet during the year. In 2013 the Company operated with profit in amount of 286 thousand LVL comparing to profit in amount of 74 thousand LVL year before.

Total assets of LSC have not substantially changed being 41.61 million LVL as at 31 December 2013. The major part of assets conforms to 35.3 million LVL of investments in subsidiaries; the same as last year end.

During 2013 m/t "Kolka", m/t "Kaltene" and m/t "Kuldiga" were sold out of the Group as well as shares in LSC subsidiary SIA LSC Marine Training. At the end of the year the LSC Group fleet consisted of 17 tankers, which all are owned by the LSC Group. The average age of the fleet was 5.9 years. 15 tankers are under commercial management of the Company.

#### Group performance results

The financial result of LSC Group for 2013 amounted to a loss of 10.11 million LVL mainly as a consequence of vessel impairments in the amount of 12.39 million LVL, while the improvement in earnings continued. Impairments are noncash items which do not affect the cash position of the Group and are calculated using the higher of a vessel's fair value less costs of disposal or its value in use. The exception to this rule is when assets are held for sale within the next twelve months in which case the valuations are determined by independent international shipping experts. In comparison with 2012 the Group suffered losses in the amount of 18.65 million LVL.

Throughout 2013 EBITDA continued to increase and reached 25.06 million LVL which is an improvement if compared to 3.36 million LVL of the previous year.

During 2013 the LSC Group improved its cash position significantly and as at 31 December 2013 the Group had cash and short-term deposits in the amount of 18.83 million LVL, which is by 4.96 million LVL more than at the beginning of 2013. The cash position of the Group has increased due to improved earnings, reduction in administrative costs and sale of m/t "Kolka", m/t "Kaltene" and m/t "Kuldiga". Towards the end of the year, the LSC Group successfully restructured the m/t "Riga" sale and leaseback agreement originally concluded in 2009 by the previous management thereby limiting further losses.

At 31 December 2013 the total LSC Group's assets was 267.61 million LVL. Total assets as at 31 December 2012 was 321.67 million LVL. The decrease is mainly attributable to depreciation, impairment of the fleet and the sale of the three vessels as previously explained. The total value of the LSC Group's fleet at 31 December 2013 was 221.10 million LVL which considerably exceeds the total value of the outstanding loans used for the fleet financing (130.13 million LVL). With the sale of the three vessels the 75 million USD syndicated lending bank facility has now been closed. The total equity value of the Group at 31 December 2013 was 112.30 million LVL (31 December 2012: 124.73 million LVL).

#### Financial risk management

One of the main risks related to the Company's operation is a reduction of number of vessels of the LSC Group's fleet, because the LSC's main source of income is provision of vessel commercial management services to the vessels of the LSC Group's fleet.

A formal agreement on temporary waiver of EBITDA/ Debt service covenant and the reduction of minimum cash covenant down to USD 17 million for the entire year 2013 was reached with the lenders at the end of 2012. Therefore, as at 31 December 2013, there are no breaches that might lead to an event of default under the loan agreement. The financial covenants under the US \$360 million loan agreement have been revised with effect from 2014 throughout the remainder of the facility period by an agreement signed with the lenders in December 2013.

The Group considers that it will be able to comply with the revised covenants set under the US \$360 million loan agreement, as well as with all terms and conditions stipulated in other loan agreements, to which the Group is a party. Therefore, the management believes that going concern basis is applicable in the preparation of these financial statements.

The Company's operation is exposed to various financial risks, including foreign currency risk, liquidity risk and credit risk. The Company's Management tries to minimise the potential negative impact of the financial risks on the Company's financial position.

## Management report (*Continued*)

### Financial risk management (*continued*)

The Company is subject to foreign currency exchange rate fluctuation risk caused by various currencies, mainly because the largest part of the Company's income is in USD, but expenses – mainly in LVL in 2013. The Company's Management is considering possibility to apply risk-reduction instruments in order to reduce the impact of the USD exchange rate fluctuations. Company's issued loans are with variable interest rate. The Company observes prudent liquidity risk management ensuring that there are sufficient resources for settlement of liabilities within the set terms.

### Information on Company's securities

During 2013 the price of LSC shares quoted on the NASDAQ OMX Riga experienced growth of 55.95%. The OMX Baltic Benchmark GI index in 2013 increased by 12.16%. There were 1 862 trades of Latvian Shipping Company's shares during 2013 involving 4 575 982 shares worth 1 509 756 LVL which is 61% of total share turnover and 11% of trading volume in value terms of all the Latvian companies listed on the Baltic Main List. On 31 December 2013 the capitalization of Latvian Shipping Company shares at NASDAQ OMX Riga was 78.60 million LVL.

### Post balance conditions and events

As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto, except those disclosed in *Note 26* of these financial statements.

### Distribution of profit suggested by the Management Board

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

### Future prospects

The Company's results in 2014 will strongly depend on results of LSC Group. Throughout 2013 the LSC Group's fleet generated earnings in line with expectations and current market indicators suggest that the petroleum product tanker sector will continue to perform satisfactorily. However, the future profitability of the product tanker segment will depend on worldwide economic growth, which still remains finely balanced. Economic growth drives demand for refined oil and hence impacts on demand for product tankers. On the supply side, the more optimistic economic outlook has resulted in an increase in the number of new product tankers ordered. These future additions to the products tanker fleet, without the anticipated increase in oil demand, may act as a drag on any shipping recovery. Finally, it should be noted that the LSC Group's fleet is mainly financed by a syndicate of international banks on Libor (London interbank offered rate) related rates. Any future increase in this benchmark rate would have a negative impact on the Group's financial position.

---

Robert Kirkup  
Chairman of the Management Board of  
JSC "Latvijas kuģniecība"  
Riga, 7 April 2014

## Statement of Management's responsibility

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 42 to 43, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the separate financial statements of JSC "Latvian Shipping Company" (the "Company").

Management is responsible for the preparation of the separate financial statements that present truly and fairly the financial position of the Company as of 31 December 2013, 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 separate 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 Company's separate financial statements; and
- making an assessment of the Company'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 Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the separate financial position of the Company, and which enable them to ensure that the separate financial statements of the Company comply with IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.

For and on behalf of the Management Board

---

Robert Kirkup  
Chairman of the Management Board of  
JSC "Latvijas kuģniecība"  
Rīga, 7 April 2014

## Separate Statement of Comprehensive Income

for the year ended 31 December 2013

	Note	LVL	
		2013	2012
Revenue	4	2 256 544	2 524 356
Cost of sales	5	(1 067 957)	(1 142 092)
<b>Gross profit</b>		<b>1 188 587</b>	<b>1 382 264</b>
Administrative expenses	6	(851 206)	(1 134 409)
Other income	7	130 182	-
Other expenses		-	(613)
<b>Operating profit</b>		<b>467 563</b>	<b>247 242</b>
Finance income	8	13 879	8 136
Finance costs	9	(122 189)	(88 357)
<b>Profit before income tax</b>		<b>359 253</b>	<b>167 021</b>
Income tax expense	10	(73 633)	(93 082)
<b>Net profit for the year</b>		<b>285 620</b>	<b>73 939</b>
<b>Other comprehensive income/ (expenses) for the year, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>285 620</b>	<b>73 939</b>

The notes on pages 12 to 41 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 7 April 2014 and signed on its behalf by

\_\_\_\_\_  
Robert Kirkup  
Chairman of the Management Board of  
JSC "Latvijas kuģniecība"  
Riga, 7 April 2014



## Separate Statement of Financial Position

as at 31 December 2013

		LVL		
	Note	<u>31.12.2013.</u>	<u>31.12.2012.</u>	<u>01.01.2012.</u>
<b>Assets</b>				
<b>Non-Current Assets</b>				
Intangible Assets	11	21 664	14 715	120 052
Property, plant and equipment	12	1 668 030	1 785 739	1 885 990
Investment properties	13	984 488	998 541	1 012 594
Investments in subsidiaries	14	35 267 130	35 488 089	35 488 089
Investments in associates	15	7 553	7 553	7 553
Other non-current financial assets	16	1 825 437	-	14 290
<b>Total Non-Current Assets</b>		<b><u>39 774 302</u></b>	<b><u>38 294 637</u></b>	<b><u>38 528 568</u></b>
<b>Current Assets</b>				
Inventories	17	3 094	3 505	1 266
Trade and other receivables	18	793 140	1 515 519	1 514 115
Cash and Cash Equivalents	19	1 042 624	1 841 973	1 515 326
<b>Total Current Assets</b>		<b><u>1 838 858</u></b>	<b><u>3 360 997</u></b>	<b><u>3 030 707</u></b>
<b>Total Assets</b>		<b><u>41 613 160</u></b>	<b><u>41 655 634</u></b>	<b><u>41 559 275</u></b>
<b>Shareholders' equity and liabilities</b>				
<b>Shareholders' equity</b>				
Share capital		200 000 000	200 000 000	200 000 000
Accumulated deficit		(158 571 135)	(158 856 755)	(158 930 694)
<b>Total Shareholders' equity</b>		<b><u>41 428 865</u></b>	<b><u>41 143 245</u></b>	<b><u>41 069 306</u></b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	10	60 752	55 707	73 881
<b>Total non-current liabilities</b>		<b><u>60 752</u></b>	<b><u>55 707</u></b>	<b><u>73 881</u></b>
<b>Current Liabilities</b>				
Finance lease		-	1 021	-
Trade and other payables	20	123 543	455 661	416 088
<b>Total current liabilities</b>		<b><u>123 543</u></b>	<b><u>456 682</u></b>	<b><u>416 088</u></b>
<b>Total Shareholders' equity and liabilities</b>		<b><u>41 613 160</u></b>	<b><u>41 655 634</u></b>	<b><u>41 559 275</u></b>

The notes on pages 12 to 41 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 7 April 2014 and signed on its behalf by

Robert Kirkup  
Chairman of the Management Board of  
JSC "Latvijas kuģniecība"  
Riga, 7 April 2014

## Separate Statement of Changes in Shareholders' Equity

for the year ended 31 December 2013

	LVL		
	Share Capital	Accumulated deficit	Total
<b>At 31 December 2011</b>	<b>200 000 000</b>	<b>(158 930 694)</b>	<b>41 069 306</b>
Total comprehensive income for the year	-	73 939	73 939
<b>At 31 December 2012</b>	<b>200 000 000</b>	<b>(158 856 755)</b>	<b>41 143 245</b>
Total comprehensive income for the year	-	285 620	285 620
<b>At 31 December 2013</b>	<b>200 000 000</b>	<b>(158 571 135)</b>	<b>41 428 865</b>

As of 31 December 2013 the authorised, issued and fully paid share capital of the Company consists of 200 000 000 shares with nominal value of LVL 1 per share. All shares are publicly traded and listed on NASDAQ OMX Riga Official list. All shares are ordinary shares with voting rights.

The notes on pages 12 to 41 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 7 April 2014 and signed on its behalf by

---

Robert Kirkup  
Chairman of the Management Board of  
JSC "Latvijas kuģniecība"  
Riga, 7 April 2014

## Separate Cash Flow Statement

for the year ended 31 December 2013

	Note	LVL	
		2013	2012
<b>Cash Flow from Operating Activities</b>			
Profit before taxation		359 253	167 021
Adjustments for:			
Depreciation of property, plant and equipment	12	121 446	152 826
Intangible assets amortisation	11	12 569	122 562
Depreciation of investment properties	13	14 053	14 053
Income from investments in subsidiaries	7	(130 149)	-
Foreign exchange loss		82 966	88 508
Interest income	8	(13 879)	(8 136)
Interest expenses	9	230	879
(Profit)/loss from disposal of fixed assets	7	(33)	613
<b>Profit before adjustments for movements in net working capital</b>		<b>446 456</b>	<b>538 326</b>
Adjustments for:			
Decrease/(increase) in inventories		411	(2 239)
(Increase)/decrease in trade and other receivables		(156 721)	237 749
(Decrease)/increase in trade and other payables		(298 826)	40 623
<b>Gross Cash Flow from Operating Activities</b>		<b>(8 680)</b>	<b>814 459</b>
Corporate income tax paid	20	(38 500)	(327 994)
Corporate income tax received	20	226 375	-
<b>Net Cash Flow from Operating Activities</b>		<b>179 195</b>	<b>486 465</b>
<b>Cash Flow from Investing Activities</b>			
Acquisition of tangible and intangible assets	11,12	(23 255)	(60 207)
Loans issued	16	(1 026 000)	-
Proceeds from disposal of subsidiaries		188 185	-
Proceeds from sale of fixed assets		33	122
Interest received	8	2	12
<b>Net Cash Flow from Investing Activities</b>		<b>(861 035)</b>	<b>(60 073)</b>
<b>Cash Flow from Financial Activities</b>			
Repayment of borrowings received from subsidiaries		(33 520)	-
Payment of finance lease liabilities		(1 021)	(11 048)
Interest paid	9	(2)	(189)
<b>Net Cash Flow from Financial Activities</b>		<b>(34 543)</b>	<b>(11 237)</b>
<b>Currency Translation Difference</b>		<b>(82 966)</b>	<b>(88 508)</b>
<b>Net (decrease) / increase in Cash and Cash Equivalents</b>		<b>(799 349)</b>	<b>326 647</b>
Cash and Cash Equivalents at the beginning of the year		1 841 973	1 515 326
<b>Cash and Cash Equivalents at the end of the year</b>	19	<b>1 042 624</b>	<b>1 841 973</b>

The notes on pages 12 to 41 are integral part of these Financial Statements.

These Financial Statements were approved by the Management Board on 7 April 2014 and signed on its behalf by

---

Robert Kirkup  
Chairman of the Management Board of  
JSC "Latvijas kuģniecība"  
Riga, 7 April 2014

## Notes to the Separate Financial Statements

### 1. General information

The principal activity of JSC "Latvijas kuģniecība" (the Company) is management of the "Latvijas kuģniecība" Group. The Company was registered at the Enterprise register on 13 September 1991 and reregistered in the Commercial register on 17 November 2004. All the shares of the Company are publicly traded and listed on the NASDAQ OMX Riga Official list.

The separate financial statements of the Company for the year ended 31 December 2013 were authorized for issue in accordance with a resolution of the Management Board on 7 April, 2014.

The members of the Management Board are as follows: Robert Kirkup (Chairman from 01.03.2014.), (Simon Richard Blaydes (Chairman until 28.02.2014.), Paul Thomas (Member) and Christopher James Kernon (Member).

The Shareholders of the Company and the Group has the right to dispute the accuracy of the financial statement line items and to postpone the approval of the financial statements in the shareholder's meeting.

### 2. Basis of preparation and adoption of IFRS

The annual report of the Company represents only the financial results of JSC "Latvijas kuģniecība" as holding company standing alone. The financial results of the JSC "Latvijas kuģniecība" and its subsidiaries (the "Group") are represented in the consolidated financial statements of the Group.

#### 2.1. Statement of compliance

The separate financial statements represent the first annual financial statements of the Company standing alone prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by European Union (EU). The Company adopted IFRS in accordance with IFRS 1, *First – time Adoption of International Financial Reporting Standards*. The date of transition to IFRS is January 1, 2012.

In accordance with IFRS, the Company has:

- Applied the same accounting policies throughout all periods presented;
- Retrospectively applied all effective IFRS standards as of December 31, 2013, as required; and
- Applied certain optional exemptions and certain mandatory exceptions as applicable for the first time IFRS adopters.

The financial statements have been prepared on a historical cost basis. The reporting period for the annual report is from 1 January 2013 till 31 December 2013 and financial statements are prepared in Latvian lats (LVL).

#### 2.2. Summary of significant accounting policies

##### a) Revenue recognition

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

##### ***Revenue from services rendered or goods delivered***

Revenue from services rendered is recognised when the services is provided. Revenue from goods delivered is recognised upon delivery of goods.

##### ***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 Company's right to receive the dividend payment is established.

## Notes to the Separate Financial Statements *(Continued)*

### 2.2. Summary of significant accounting policies *(continued)*

#### b) Foreign currency conversion into Lats

The Company's financial statements are presented in Latvian Lats, which is also the Company's functional currency.

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

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

	<u>31.12.2013.</u> LVL	<u>31.12.2012.</u> LVL
1 USD	0.515	0.531
1 EUR	0.702804	0.702804

#### c) 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 Company 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 75.80% (2012: 76.20%) 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 Company 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 Company.

#### d) Intangible assets

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

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 separate statement of comprehensive income when the asset is derecognised.

#### e) Property, plant and equipment

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

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

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

The following depreciation rates were established and applied:

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

## Notes to the Separate Financial Statements *(Continued)*

### 2.2. Summary of significant accounting policies *(continued)*

#### e) Property, plant and equipment *(continued)*

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

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

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

#### f) Investment property

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 separate statement of comprehensive income 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 Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### g) Investments in subsidiaries

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

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

#### h) Investments in associates

The Company's investment in its associates is accounted for using the equity method. An associate is an entity in which the Company 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 Company'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 separate statement of comprehensive income 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 Company recognises its share of any changes and discloses this, when applicable, in the separate statement of other comprehensive income. Unrealised gains and losses resulting from transactions between the Company 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 Company.

## Notes to the Separate Financial Statements (*Continued*)

### 2.2. Summary of significant accounting policies (*continued*)

#### h) Investments in associates (*continued*)

After application of the equity method, the Company determines whether it is necessary to recognise impairment losses on the Company's investment in its associates.

The Company 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 Company 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 separate statement of comprehensive income.

Upon loss of significant influence over the associate, the Company 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 is recognised in the separate statement of comprehensive income.

#### i) Inventories

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

#### j) Financial assets

##### Initial recognition and measurement

Financial assets of the Company have been classified as loans and receivables. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus in the case of financial assets 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 Company's financial assets include cash and cash equivalents, trade and other receivables, and loans.

##### Subsequent measurement

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

##### 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 separate statement of comprehensive income in other operating expense.

##### 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 Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company 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 Company 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.

## Notes to the Separate Financial Statements (*Continued*)

### 2.2. Summary of significant accounting policies (*continued*)

#### j) Financial assets (*continued*)

##### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company 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 Company 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.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in *Note 25*.

#### k) Cash and cash equivalents

Cash and cash equivalents include cash in banks.

#### l) Provisions

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

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.

#### m) Financial liabilities

##### Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at amortised cost. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of a financial liability not at fair value through profit or loss directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and loans and borrowings.

##### 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 separate statement of comprehensive income 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 separate statement of comprehensive income.

##### 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 separate statement of comprehensive income.

##### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the 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.



## Notes to the Separate Financial Statements *(Continued)*

### 2.2. Summary of significant accounting policies *(continued)*

#### n) 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 country where the Company 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 separate statement of comprehensive income. 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.

##### **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 the income statement is recognised outside the 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.

## Notes to the Separate Financial Statements (*Continued*)

### 2.2. Summary of significant accounting policies (*continued*)

#### o) Leases

##### *Company as a lessee*

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

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company 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 separate statement of comprehensive income on a straight line basis over the lease term.

#### p) Impairment of non-financial assets

The Company 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 Company 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 of disposal 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 of disposal, 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 separate statement of comprehensive income 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 Company 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.

#### q) Use of estimates

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

##### Recoverable value of investment property

To determine the recoverable value of investment properties the Company engages independent certified valuation specialists. The valuator 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 at 31 December 2013 and 2012 is provided in *Note 13*.

##### Going Concern

As disclosed in Note 31 of LSC Group's consolidated financial statements, the Group has a significant balance of interest bearing loans as at 31 December 2013.

As at 31 December 2013, the specific financial covenants set under one of the loan agreements - US \$360 million loan agreement - were not met: particularly, the Group did not comply with EBITDA/Debt Service ratio and minimum cash covenant. A formal agreement on temporary waiver of EBITDA/ Debt service covenant and the reduction of minimum cash covenant down to USD 17 million for the entire year 2013 was reached with the lenders at the end of 2012. Therefore, as at 31 December 2013, there are no breaches that might lead to an event of default under the loan agreement. The financial covenants under the US \$360 million loan agreement have been revised with effect from 2014 throughout the remainder of the facility period by an agreement signed with the lenders in December 2013.

The Group considers that it will be able to comply with the revised covenants set under the US \$360 million loan agreement, as well as with all terms and conditions stipulated in other loan agreements, to which the Group is a party. Therefore, the management believes that going concern basis is applicable in the preparation of these financial statements.

## Notes to the Separate Financial Statements (Continued)

### 2.3. First time adoption of IFRS

These separate financial statements, for the year ended 31 December 2013, are the first the Company standing alone has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2012, the Company prepared its separate financial statements in accordance with in accordance with the Law of the Republic of Latvia On Annual Accounts and generally accepted accounting principles in Latvia (Latvian GAAP).

Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2013, together with the comparative period data as at and for the year ended 31 December 2013, as described in Note 2.1. Statement of compliance. In preparing these separate financial statements, the Company's opening separate statement of financial position was prepared as at 1 January 2012, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its Latvian GAAP separate financial statements, including the separate statement of financial position as at 1 January 2012 and the separate financial statements as at and for the year ended 31 December 2012.

The Company has not applied exemptions from the retrospective application of certain requirements under IFRS as allowed to first-time adopters under IFRS 1.

### Estimates

The estimates at 1 January 2012 and at 31 December 2012 are consistent with those made for the same dates in accordance with Latvian GAAP. The estimates used by the Company to present these amounts in accordance with IFRS reflect conditions at 1 January 2012, the date of transition to IFRS and as of 31 December, 2012.

### Cash flow statement

There are no differences between the previous Latvian GAAP accounting policies and current IFRS policies applied by the Company in respect of the cash flow statement. The only difference having an impact on the Company's cash flow statement is described below:

#### Profit before tax

Latvian GAAP: profit before tax includes profit before income tax and real estate tax calculated for the financial period;

IFRS: profit before tax includes profit before income tax only.

The difference did not have any impact to the net cash flow from operating activities.

Transition to IFRS resulted only in changed presentation/classification of line items in the statement of financial position.

### Company reconciliation of Statement of financial position as at 1 January 2012 (transition to IFRS)

	LVL		
	Latvian GAAP	Adjustment	IFRS
	<u>01.01.2012.</u>	<u></u>	<u>01.01.2012.</u>
<b>Assets</b>			
<b>Non-Current Assets</b>			
<b>Intangible Assets</b>			
Concessions, patents, licenses, trademarks and other	120 052	(120 052)	-
<b>Total Intangible Assets</b>	<b>120 052</b>	<b>(120 052)</b>	-
Intangible Assets	-	120 052	120 052
<b>Tangible Assets</b>			
Land, buildings and constructions	1 718 918	(1 718 918)	-
Other fixed assets	167 072	(167 072)	-
<b>Total Tangible Assets</b>	<b>1 885 990</b>	<b>(1 885 990)</b>	-
Property, plant and equipment	-	1 885 990	1 885 990
<b>Investment properties</b>	<b>1 012 594</b>	-	1 012 594
<b>Non-Current Financial Assets</b>			
Investments in subsidiaries	35 488 089	-	35 488 089
Investments in associates	7 553	-	7 553
Other long term debtors	14 290	(14 290)	-
Other non-current financial assets	-	14 290	14 290
<b>Total Non-Current Financial Assets</b>	<b>35 509 932</b>	-	-
<b>Total Non-Current Assets</b>	<b>38 528 568</b>	-	<b>38 528 568</b>
<b>Current Assets</b>			
<b>Inventories</b>	<b>1 266</b>	-	1 266
<b>Accounts receivable and prepayments</b>			
Trade receivables	1 410	(1 410)	-
Amounts due from related companies	1 338 307	(1 338 307)	-
Other receivables	140 434	(140 434)	-
Deferred expenses	33 964	(33 964)	-
<b>Total Accounts Receivable</b>	<b>1 514 115</b>	<b>(1 514 115)</b>	-
Trade and other receivables	-	1 514 115	1 514 115
<b>Cash and Cash Equivalents</b>	<b>1 515 326</b>	-	1 515 326
<b>Total Current Assets</b>	<b>3 030 707</b>	-	<b>3 030 707</b>
<b>Total Assets</b>	<b>41 559 275</b>	-	<b>41 559 275</b>

## Notes to the Separate Financial Statements *(Continued)*

### 2.3. First time adoption of IFRS *(continued)*

#### Company reconciliation of Statement of financial position as at 1 January 2012 (transition to IFRS) *(continued)*

	LVL		
	Latvian GAAP	Adjustment	IFRS
	<u>01.01.2012.</u>		<u>01.01.2012.</u>
<b>Shareholders' Equity and Liabilities</b>			
<b>Shareholders' Equity</b>			
Share capital	200 000 000	-	200 000 000
Accumulated deficit			
a) accumulated deficit for the prior years	(159 785 560)	159 785 560	-
b) profit for the reporting year	854 866	(854 866)	-
<b>Total Shareholders' Equity</b>	<b>41 069 306</b>		
Accumulated deficit		(158 930 694)	(158 930 694)
<b>Total Shareholders' Equity</b>			<b>41 069 306</b>
<b>Liabilities</b>			
<b>Non-current Liabilities</b>			
Deferred tax liabilities	73 881	-	73 881
<b>Total Non-current Liabilities</b>	<b>73 881</b>	-	<b>73 881</b>
<b>Current Liabilities</b>			
Trade payables	51 398	(51 398)	-
Amounts due to related companies	166 821	(166 821)	-
Taxes and social security contributions	42 858	(42 858)	-
Other accounts payable	45 457	(45 457)	-
Accrued liabilities	109 554	(109 554)	-
Trade and other payables	-	416 088	416 088
<b>Total Current Liabilities</b>	<b>416 088</b>	-	<b>416 088</b>
<b>Total Liabilities</b>	<b>489 969</b>	-	-
<b>Total Shareholders' Equity and Liabilities</b>	<b>41 559 275</b>	-	<b>41 559 275</b>

## Notes to the Separate Financial Statements *(Continued)*

### 2.3. First time adoption of IFRS *(continued)*

#### Company reconciliation of Statement of financial position as at 31 December 2012

	LVL		
	Latvian GAAP	Adjustment	IFRS
	<u>31.12.2012.</u>		<u>31.12.2012.</u>
<b>Assets</b>			
<b>Non-Current Assets</b>			
<b>Intangible Assets</b>			
Concessions, patents, licenses, trademarks and similar rights	14 715	(14 715)	-
<b>Total Intangible Assets</b>	<b>14 715</b>	<b>(14 715)</b>	-
Intangible assets	-	14 715	14 715
<b>Tangible Assets</b>			
Land, buildings and constructions	1 665 808	(1 665 808)	-
Other fixed assets	119 931	(119 931)	-
<b>Total Tangible Assets</b>	<b>1 785 739</b>	<b>(1 785 739)</b>	-
Property, plant and equipment	-	1 785 739	1 785 739
<b>Investment properties</b>	<b>998 541</b>	-	998 541
<b>Non-Current Financial Assets</b>			
Investments in subsidiaries	35 488 089	-	35 488 089
Investments in associates	7 553	-	7 553
<b>Total Non-Current Financial Assets</b>	<b>35 495 642</b>	-	-
<b>Total Non-Current Assets</b>	<b>38 294 637</b>	-	<b>38 294 637</b>
<b>Current Assets</b>			
<b>Inventories</b>	<b>3 505</b>	-	3 505
<b>Accounts receivable and prepayments</b>			
Amounts due from related companies	1 116 484	(1 116 484)	-
Other receivables	358 589	(358 589)	-
Deferred expenses	40 446	(40 446)	-
<b>Total Accounts Receivable</b>	<b>1 515 519</b>	<b>(1 515 519)</b>	-
Trade and other receivables	-	1 515 519	1 515 519
<b>Cash and Cash Equivalents</b>	<b>1 841 973</b>	-	1 841 973
<b>Total Current Assets</b>	<b>3 360 997</b>	-	<b>3 360 997</b>
<b>Total Assets</b>	<b>41 655 634</b>	-	<b>41 655 634</b>

## Notes to the Separate Financial Statements *(Continued)*

### 2.3. First time adoption of IFRS *(continued)*

#### Company reconciliation of Statement of financial as at 31 December 2012 *(continued)*

	LVL		
	Latvian GAAP	Adjustment	IFRS
	<u>31.12.2012.</u>		<u>31.12.2012.</u>
<b>Shareholders' Equity and Liabilities</b>			
<b>Shareholders' Equity</b>			
Share capital	200 000 000	-	200 000 000
Accumulated deficit			
a) accumulated deficit for the prior years	(158 930 694)	158 930 694	-
b) profit for the reporting year	<u>73 939</u>	<u>(73 939)</u>	-
<b>Total Shareholders' Equity</b>	<b>41 143 245</b>		
Accumulated deficit		(158 856 755)	<u>(158 856 755)</u>
<b>Total Shareholders' Equity</b>			<b>41 143 245</b>
<b>Liabilities</b>			
<b>Non-current Liabilities</b>			
Deferred tax liabilities	<u>55 707</u>	-	<u>55 707</u>
<b>Total Non-current Liabilities</b>	<b>55 707</b>	-	<b>55 707</b>
<b>Current Liabilities</b>			
<b>Finance lease</b>	1 021	-	1 021
Trade payables	52 158	(52 158)	-
Amounts due to related companies	199 391	(199 391)	-
Taxes and social security contributions	40 034	(40 034)	-
Other accounts payable	52 132	(52 132)	-
Accrued liabilities	111 946	(111 946)	-
Trade and other payables	-	455 661	455 661
<b>Total Current Liabilities</b>	<b>456 682</b>	-	<b>456 682</b>
<b>Total Liabilities</b>	<b>512 389</b>	-	-
<b>Total Shareholders' Equity and Liabilities</b>	<b>41 655 634</b>	-	<b>41 655 634</b>

## Notes to the Separate Financial Statements *(Continued)*

### 2.3. First time adoption of IFRS *(continued)*

#### Company reconciliation of Statement of comprehensive income for 2012

	LVL		
	Latvian GAAP 2012	Adjustment	IFRS 2012
Net sales	2 524 356	(2 524 356)	-
Revenue	-	2 524 356	2 524 356
Cost of sales	(1 142 092)	-	(1 142 092)
<b>Gross profit</b>	<b>1 382 264</b>	-	<b>1 382 264</b>
Administrative expenses	(1 106 812)	(27 597)	(1 134 409)
Other operating expenses	(613)	-	(613)
Interest and similar income	8 136	(8 136)	-
Interest and similar expenses	(88 357)	88 357	-
<b>Operating profit</b>	<b>-</b>	<b>52 624</b>	<b>247 242</b>
Finance income	-	8 136	8 136
Finance costs	-	(88 357)	(88 357)
<b>Profit before income tax</b>	<b>194 618</b>	<b>(27 597)</b>	<b>167 021</b>
Corporate income tax	(93 082)	-	(93 082)
Real estate tax	(27 597)	27 597	-
<b>Net profit for the year</b>	<b>73 939</b>	<b>-</b>	<b>73 939</b>
<b>Other comprehensive income/ (expenses) for the year, net of tax</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>73 939</b>

Position in Latvian GAAP "Real estate tax" according to IFRS was reclassified to Administrative expenses.

Following positions in Latvian GAAP: "Interest and similar income" and "Interest and similar expenses" were reclassified according to IFRS to positions "Finance income" and "Finance costs" respectively.

## Notes to the Separate Financial Statements (*Continued*)

### 2.4. Changes in accounting policy and disclosures

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

The following new and amended IFRS and interpretations became effective in 2013, but did not have significant impact on these separate financial statements, except additional disclosures:

- **IFRS 13 "Fair value measurement"** (effective for annual periods beginning on or after 1 January 2013);
- **Annual improvements 2011** (effective for annual periods beginning on or after 1 January 2013);
- **Amendment to IFRS 1, "First time adoption", on government loans** (effective for annual periods beginning on or after 1 January 2013);
- **Amendment to IFRS 7, "Financial instruments: Disclosures", on offsetting financial assets and financial liabilities** (effective for annual periods beginning on or after 1 January 2013);
- **Amendment to IAS 12, "Income taxes" on deferred tax** (effective for annual periods beginning on or after 1 January 2012, endorsed by EU for annual periods beginning on or after 1 January 2013);
- **Amendment to IAS 19, "Employee benefits"** (effective for annual periods beginning on or after 1 January 2013);
- **Amendment to IAS 1 "Presentation of Financial Statements"** (effective for annual periods beginning on or after 1 July 2013);
- **IFRIC 20, "Stripping costs in the production phase of a surface mine"** (effective for annual periods beginning on or after 1 January 2013).

### 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 2014.

**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).

**Amendments to IFRS 11, "Joint arrangements"** (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014).

**IFRS 10 "Consolidated financial statements"** (effective for annual periods beginning 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 2014).

**Amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities** (effective for annual periods beginning on or after 1 January 2014).

**Amendments to IFRS 12 "Disclosures of interests in other entities" and IAS 27 "Separate financial statements"** (effective for annual periods beginning on or after 1 January 2014).

**IFRS 9 "Financial Instruments Classification and Measurement"** (effective date to be determined).

**Amendments to IAS 28 "Associates and joint ventures"** (effective for annual periods beginning on or after 1 January 2014).

**Amendments to IAS 36 "Impairment of assets"** (effective for annual periods beginning on or after 1 January 2014).

**Amendments to IAS 39 "Financial instruments: Recognition and measurement", on novation of derivatives and hedge accounting** (effective for annual periods beginning on or after 1 January 2014).

**Improvements to IFRS** (issued in 2012; most of the amendments are effective for annual periods beginning on or after 1 July 2014, not yet endorsed by the EU):

- IFRS 2 "Share-based payment";
- IFRS 3 "Business Combinations";
- IFRS 8 "Operating segments";
- IFRS 13 "Fair value measurement";
- IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets";
- Consequential amendments to IFRS 9 "Financial instruments", IAS 37 "Provisions, contingent liabilities and contingent assets";
- IAS 39 "Financial instruments – Recognition and measurement".

**Improvements to IFRS** (issued in 2013; most of the amendments are effective for annual periods beginning on or after 1 July 2014, not yet endorsed by the EU):

- IFRS 1 "First time adoption";
- IFRS 3 "Business combinations";
- IFRS 13 "Fair value measurement";
- IAS 40 "Investment property".

**IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

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 Company.



## Notes to the Separate Financial Statements (Continued)

### 4. Revenue

	LVL	
	2013	2012
Revenue from commercial management, management and IT services worldwide	2 122 983	2 374 847
Revenue from IT and other services in Latvia	68 009	83 942
Revenue from rent and management of real estate in Latvia	65 552	65 567
<b>Total</b>	<b>2 256 544</b>	<b>2 524 356</b>

### 5. Cost of sales

	LVL	
	2013	2012
Salaries, training and other personnel costs	(507 226)	(456 750)
Social security contributions	(121 739)	(109 928)
Professional charges and legal costs	(151 680)	(174 515)
IT and communication	(91 916)	(126 054)
Maintenance expenditure	(72 831)	(77 458)
Depreciation and amortisation	(60 241)	(140 311)
Transport and travelling expenses	(32 493)	(25 729)
Advertising and marketing	(5 236)	(5 708)
Other costs	(24 595)	(25 639)
<b>Total</b>	<b>(1 067 957)</b>	<b>(1 142 092)</b>

### 6. Administrative expenses

	LVL	
	2013	2012
Salaries, training, health insurance and other personnel costs	(322 547)	(338 958)
Social security contributions	(73 018)	(76 060)
Maintenance expenditure	(115 190)	(210 668)
Depreciation and amortisation	(87 827)	(149 130)
Professional fees	(81 719)	(90 082)
IT and communication	(29 822)	(59 143)
Real estate tax	(25 323)	(27 597)
Transport and travelling expenses	(19 250)	(16 395)
Advertising and marketing	(1 309)	(1 427)
Other expenses	(95 201)	(164 949)
<b>Total</b>	<b>(851 206)</b>	<b>(1 134 409)</b>

### 7. Other income

	LVL	
	2013	2012
Income from sale of SIA LSC Marine Training shares	130 149	-
Income on disposal of fixed assets	33	-
<b>Total</b>	<b>130 182</b>	<b>-</b>

## Notes to the Separate Financial Statements (Continued)

### 8. Finance income

	LVL	
	2013	2012
Interest income from loans advanced to subsidiaries	13 877	8 124
Other interest income	2	12
<b>Total</b>	<b>13 879</b>	<b>8 136</b>

### 9. Finance costs

	LVL	
	2013	2012
Net loss from foreign currency rate fluctuations/ translation	(120 194)	(85 543)
Financial institutions charges	(1 765)	(1 935)
Interest expenses	(228)	(690)
Interest on lease	(2)	(189)
<b>Total</b>	<b>(122 189)</b>	<b>(88 357)</b>

### 10. Corporate income tax

	LVL	
	2013	2012
Current income tax charge	(68 588)	(111 256)
Deferred income tax	(5 045)	18 174
<b>Income tax expense reported in the income statement</b>	<b>(73 633)</b>	<b>(93 082)</b>

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

	LVL	
	2013	2012
<b>Profit before taxes</b>	<b>359 253</b>	<b>167 021</b>
Tax calculated at tax rate of 15%	53 888	25 053
Expenses not deductible for tax purposes	38 397	86 503
Income not subject to corporate income tax	(18 567)	-
Expenses reducing taxable income	-	(1 474)
Tax discount for donations	(85)	(17 000)
<b>Income tax expense</b>	<b>73 633</b>	<b>93 082</b>

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred income tax in 2013 in amount of LVL 60 752 is recoverable within one year:

	LVL		
	31.12.2013.	31.12.2012.	01.01.2012.
Excess of tax allowances over depreciation	69 720	72 433	90 314
Temporary difference on provisions for unused vacations	(7 217)	(13 368)	(14 669)
Other temporary differences	(1 751)	(3 358)	(1 764)
<b>Deferred tax liabilities</b>	<b>60 752</b>	<b>55 707</b>	<b>73 881</b>

## Notes to the Separate Financial Statements *(Continued)*

### 11. Intangible assets

	<b>Software and licences LVL</b>
	<b>LVL</b>
<b>Cost</b>	
At 1 January 2012	747 208
Additions	17 225
<b>At 31 december 2012</b>	<b>764 433</b>
Additions	19 518
Disposals/ write off	(88 268)
<b>At 31 december 2013</b>	<b>695 683</b>
 <b>Accumulated amortisation</b>	
At 1 January 2012	627 156
Amortisation	122 562
<b>At 31 december 2012</b>	<b>749 718</b>
Amortisation	12 569
Disposals/ write off	(88 268)
<b>At 31 december 2013</b>	<b>674 019</b>
 <b>Net book value:</b>	
At 1 January 2012	120 052
<b>At 31 december 2012</b>	<b>14 715</b>
<b>At 31 december 2013</b>	<b>21 664</b>

## Notes to the Separate Financial Statements *(Continued)*

### 12. Property, plant and equipment

	LVL		
	Land, buildings and construction	Other fixed assets	Total
<b>Cost</b>			
At 1 January 2012	2 118 069	1 180 944	3 299 013
Additions	-	53 310	53 310
Disposals/ write off	-	(45 378)	(45 378)
<b>At 31 december 2012</b>	<b>2 118 069</b>	<b>1 188 876</b>	<b>3 306 945</b>
Additions	-	3 737	3 737
Disposals/ write off	-	(82 310)	(82 310)
<b>At 31 december 2013</b>	<b>2 118 069</b>	<b>1 110 303</b>	<b>3 228 372</b>
<b>Accumulated depreciation</b>			
At 1 January 2012	399 151	1 013 872	1 413 023
Depreciation	53 110	99 716	152 826
Disposals/ write off	-	(44 643)	(44 643)
<b>At 31 december 2012</b>	<b>452 261</b>	<b>1 068 945</b>	<b>1 521 206</b>
Depreciation	53 110	68 336	121 446
Disposals/ write off	-	(82 310)	(82 310)
<b>At 31 december 2013</b>	<b>505 371</b>	<b>1 054 971</b>	<b>1 560 342</b>
<b>Net book value</b>			
<b>At 1 January 2012</b>	<b>1 718 918</b>	<b>167 072</b>	<b>1 885 990</b>
<b>At 31 december 2012</b>	<b>1 665 808</b>	<b>119 931</b>	<b>1 785 739</b>
<b>At 31 december 2013</b>	<b>1 612 698</b>	<b>55 332</b>	<b>1 668 030</b>

As at 31 December 2013 the fair value of real estate owned by the Company was estimated based on a certified appraiser's valuation. The market value of the real estate was determined in the amount of LVL 2 598 000 (31 December 2012: LVL 2 615 000; 1 January 2012: LVL 2 620 000).

For valuation purposes the appraiser used a comparable deal method.

As at 31 December 2013 the real estate owned by the Company in Riga on Elizabetes street 1 is pledged on behalf of JSC Ventspils nafta.

Part of the fully depreciated Other fixed assets is still used in operating activities of the Company. Total cost value of those Other fixed assets as at 31 December 2013 is LVL 1 005 thousand (31 December 2012: LVL 652 thousand).

## Notes to the Separate Financial Statements *(Continued)*

### 13. Investment properties

	<b>Investment properties LVL</b>
<b>Cost</b>	
At 1 January 2012	2 784 899
<b>At 31 december 2012</b>	<b>2 784 899</b>
<b>At 31 december 2013</b>	<b>2 784 899</b>
<b>Accumulated depreciation and impairment</b>	
At 1 January 2012	1 772 305
Depreciation	14 053
<b>At 31 december 2012</b>	<b>1 786 358</b>
Depreciation	14 053
<b>At 31 december 2013</b>	<b>1 800 411</b>
<b>Net book value</b>	
<b>At 1 January 2012</b>	<b>1 012 594</b>
<b>At 31 december 2012</b>	<b>998 541</b>
<b>At 31 december 2013</b>	<b>984 488</b>

As at 31 December 2013 the fair value of investment properties owned by the Company was estimated based on a certified appraiser's valuation. The market value of the real estate was determined in the amount of LVL 1 513 400 (31 December 2012: LVL 1 515 500; 1 January 2012: LVL 1 536 500).

The fair value of investment properties as at 31 December 2013, 31 December 2012 and as at 1 January 2012 is disclosed in *Note 25*.

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

As at 31 December 2013 the investment property owned by the Company in Riga on Jekaba street 30 is pledged on behalf of JSC Ventspils nafta.

In 2013, no impairment was recognised on investment properties. The valuation of the respective investment properties was based on the following assumptions:

- Rent rates: EUR 1.5 per square meter;
- Occupancy: May - September;
- Capitalisation rate: 12%.

## Notes to the Separate Financial Statements *(Continued)*

### 14. Information on the subsidiaries and investments in those

#### (a) Investments in subsidiaries

Name and address	Percentage holding %	LVL		
		31.12.2013.	31.12.2012.	01.01.2012.
<b><i>Latmar Holdings Corporation</i></b>				
80 Broad Street, Monrovia, Liberia	100	35 255 000	35 255 000	35 255 000
<b><i>LSC Holdings Limited</i></b>				
Manning House, 21 Bucks Road, Douglas, Isle of Man	100	10 920	10 920	10 920
<b><i>Arctic Holding Corporation</i></b>				
Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	100	-	-	-
<b><i>Santomar Holdings Company Ltd.</i></b>				
284 Archbishop Makarios III Avenue, Fortuna Court block B, 2nd floor, 3105, Limassol, Cyprus	100	1 210	1 210	1 210
<b><i>MSIA „LASCO Investment“</i></b>				
Berzaunes iela 11A, Riga, LV-1039, Latvia	100	-	-	-
<b><i>SIA „LSC Marine Training“</i></b>				
Ganibu dambis 24D, Riga, LV-1005, Latvia	100	-	220 959	220 959
		<b>35 267 130</b>	<b>35 488 089</b>	<b>35 488 089</b>

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

The shares of the SIA „LSC Marine Training“ owned by the Company were sold in August 2013.

## Notes to the Separate Financial Statements *(Continued)*

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

#### (b) Information on subsidiaries

Name and address	LVL			
	Shareholders' Equity of the subsidiaries		(Loss)/ Profit of the subsidiaries	
	31.12.2013.	31.12.2012.	2013	2012
<b>Latmar Holdings Corporation</b>				
80 Broad Street, Monrovia, Liberia	106 577 902	118 307 037	(8 836 586)	(4 269 535)
<b>LSC Holdings Limited</b>				
Manning House, 21 Bucks Road, Douglas, Isle of Man	8 691 470	10 777 570	(1 982 577)	(8 310 567)
<b>Arctic Holding Corporation</b>				
Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands	(9 056 474)	(10 231 089)	516 970	(6 093 464)
<b>Santomar Holdings Company Ltd.</b>				
284 Archbishop Makarios III Avenue, Fortuna Court block B, 2nd floor, 3105, Limassol, Cyprus	17 522	18 066	-	-
<b>SIA „LSC Marine Training“</b>				
Ganibu dambis 24D, Riga, LV-1005, Latvia	-	298 060	-	(32 917)

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

LSC Holdings Limited (holding company) has 14 100% owned subsidiaries (active single vessel companies) registered in Marshall Islands.

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

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

The shares of the SIA „LSC Marine Training“ owned by the Company were sold in August 2013. SIA „LSC Marine Training“ – company registered in Latvia who provides seafarers training services.

## Notes to the Separate Financial Statements (Continued)

### 15. Investments in associated undertakings

Name and address	Percentage holding	LVL		
		Investment Value, net 31.12.2013.	Investment Value, net 31.12.2012.	Investment Value, net 01.01.2012.
<b>SIA „Via Una”</b> Katrinas dambis 10, Riga, LV-1045, Latvia	45.45%	7 553	7 553	7 553
<b>SIA „Futbola klubs „Ventspils””</b> Dzintaru iela 54, Ventspils, LV-3602, Latvia	23.06%	-	-	-
		<b>7 553</b>	<b>7 553</b>	<b>7 553</b>

Name and address	LVL			
	Shareholders' Equity of the associated		(Loss)/ Profit of the associated	
	31.12.2013.	31.12.2012.	2013	2012
<b>SIA „Via Una”</b> Katrinas dambis 10, Riga, LV-1045, Latvia	(11 869)	31 606	(43 475)	1 000
<b>SIA „Futbola klubs „Ventspils””</b> Dzintaru iela 54, Ventspils, LV-3602, Latvia	(27 349)	76 588	(103 937)	(337 917)

### 16. Other non-current financial assets

	LVL		
	31.12.2013.	31.12.2012.	01.01.2012.
Latmar Holdings Corporation	1 825 437	-	-
AS "Ventspils nafta"	-	-	14 290
<b>Total</b>	<b>1 825 437</b>	<b>-</b>	<b>14 290</b>

Other financial assets represents loan issued to related party Latmar Holdings Corporation in 2013 in amount of 2 000 000 US dollars (LVL 1 026 000). As at 31 December 2013 loan balance together with accrued interest was 2 007 482 US dollars (LVL 1 033 853) and bears an interest at a margin 5.88% linked to 3m USD LIBOR.

As at 31 December 2013 Other financial assets also represents loan to Latmar Holdings Corporation in amount of 1 537 055 US dollars (LVL 791 584) which were reclassified from short term assets to long term assets as at 31 December 2013 and bears an interest at a margin 5.88% linked to 3m USD LIBOR. (For additional information see Note 18)

Information on transactions with related parties see Note 24.

### 17. Inventories

	LVL		
	31.12.2013.	31.12.2012.	01.01.2012.
Other materials and inventories	3 069	3 473	1 151
Fuel	25	32	115
<b>Total</b>	<b>3 094</b>	<b>3 505</b>	<b>1 266</b>



## Notes to the Separate Financial Statements (Continued)

### 18. Trade and other receivables

	LVL		
	31.12.2013.	31.12.2012.	01.01.2012.
Trade receivables, gross	184 542	42 376	45 318
Provision for doubtful debts	(42 376)	(42 376)	(43 908)
Amounts due from related companies	517 794	1 116 484	1 338 307
Overpaid taxes (see Note 20)	65 137	327 930	107 573
Deferred expenses	34 039	40 446	33 964
Other receivables, net	34 004	30 659	32 861
<b>Total</b>	<b>793 140</b>	<b>1 515 519</b>	<b>1 514 115</b>

The analysis of credit quality of financial assets represented below:

	Total	Neither past due nor impaired	Past due				Impaired
			up to 90 days	91 to 180 days	181 to 365 days	More than 365 days	
<b>At 31 December 2013</b>	736 340	320 380	24 972	34 787	32 570	281 255	42 376
<b>At 31 December 2012</b>	1 189 519	890 082	45 505	32 480	58 114	120 962	42 376
<b>At 1 January 2012</b>	1 416 486	1 042 184	165 648	162 777	560	1 409	43 908

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.

### Counterparties

	LVL		
	31.12.2013.	31.12.2012.	01.01.2012.
Group 1	320 380	890 082	1 042 184
Group 2	373 584	257 061	330 394
<b>Kopā</b>	<b>693 964</b>	<b>1 147 143</b>	<b>1 372 578</b>

Group 1 – existing customers with no defaults in the past.

Group 2 – existing customers with some defaults in the past. All defaults are fully recoverable in accordance to management assessment.

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. As at 31 December 2013 The Company holds first commercial pledge as a security of trade receivables in amount of LVL 140 066.

Changes in provisions for doubtful debts:

	LVL		
	2013	2012	2011
At 1 January	42 376	43 908	46 484
Decrease due to write off	-	(1 532)	(2 576)
<b>At 31 December</b>	<b>42 376</b>	<b>42 376</b>	<b>43 908</b>

## Notes to the Separate Financial Statements (Continued)

### 18. Trade and other receivables (continued)

#### Amounts due from related companies

	LVL		
	31.12.2013.	31.12.2012.	01.01.2012.
Limetree Shipping Co. Ltd.	371 142	267 736	154 189
SIA „LSC Shipmanagement”	11 574	13 760	7 245
Stende Navigation Inc.	8 424	-	22 543
Kursa Navigation Inc.	8 351	-	21 719
Kandava Navigation Inc.	8 249	-	20 456
Straupe Navigation Inc.	8 233	-	22 981
Sabile Navigation Inc.	8 197	-	27 724
Salacgriva Navigation Inc.	8 097	-	22 690
Smiltene Navigation Inc.	7 997	-	21 405
Kabile Navigation Inc.	7 861	-	19 920
Saulkrasti Navigation Inc.	7 861	-	20 878
Skrunda Navigation Inc.	7 761	-	21 508
Sigulda Navigation Inc.	7 761	-	21 668
Sloka Navigation Inc.	7 761	-	25 244
Saldus Navigation Inc.	7 761	-	21 166
Kazdanga Navigation Inc.	7 761	-	-
Kuldiga Navigation Inc.	7 674	-	20 622
Brasla Shipping Corporation	5 087	2 903	-
Imula Shipping Corporation	4 941	2 805	-
Mansel Ltd.	4 807	3 243	15 319
Latmar Holdings Corporation	382	787 956	657 937
Kolka Navigation Inc.	112	-	-
Smiltene Navigation Inc.	-	19 601	-
Kazdanga Navigation Inc.	-	10 969	21 616
Sabile Navigation Inc.	-	7 191	-
SIA "Skonto Nafta"	-	160	161
SIA "Nafta Invest"	-	160	161
Dzons Rids Shipping Corporation	-	-	73 347
Hose Marti Shipping Corporation	-	-	35 353
Cape Wind Trading Company	-	-	26 245
Kaltene Navigation Inc.	-	-	18 225
Kolka Navigation Inc.	-	-	16 234
AS "Ventspils nafta"	-	-	720
SIA "LatRosTrans"	-	-	990
SIA "LSC Marine Training"	-	-	41
<b>Kopā</b>	<b>517 794</b>	<b>1 116 484</b>	<b>1 338 307</b>

As at 31 December 2012 due from related parties includes loan issued to Latmar Holdings Corporation in amount of USD 1 460 235 (LVL 775 385); (01.01.2012: USD 1 000 000 or LVL 544 000) and accrued interest in amount of USD 19 488 (LVL 10 348); (01.01.2012: USD 4 576 or LVL 2 490). In December 2013 capitalisation of accounts receivable as a result of commercial operations from Latmar Holdings Corporation was performed in amount of USD 38 402 and accrued interest in amount of USD 38 418. As a result loan balance as at 31 December 2013 was USD 1 537 055 (LVL 791 584). In December 2013 parties agreed to set term of the agreement to December 2017 which resulted in reclassification of the short term loan represented in Trade and other receivables as at 31 December 2013 to long term assets. (See note 16).

Information on transactions with related parties see Note 24.

### 19. Cash and Cash Equivalents

	LVL		
	31.12.2013.	31.12.2012.	31.12.2012.
Cash in banks	1 042 624	1 841 973	1 515 326
<b>Total</b>	<b>1 042 624</b>	<b>1 841 973</b>	<b>1 515 326</b>

Credit quality of cash according to Fitch's is A+.

## Notes to the Separate Financial Statements (Continued)

### 20. Trade and other payables

	LVL		
	<u>31.12.2013.</u>	<u>31.12.2012.</u>	<u>01.01.2012.</u>
Trade payables	41 308	52 158	51 398
Amounts due to related companies	7 543	199 391	166 821
Taxes and social security contribution	-	40 034	42 858
Other accounts payable	14 907	52 132	45 457
Accrued liabilities	59 785	111 946	109 554
<b>Total</b>	<b><u>123 543</u></b>	<b><u>455 661</u></b>	<b><u>416 088</u></b>

### Amounts due to related parties

	LVL		
	<u>31.12.2013.</u>	<u>31.12.2012.</u>	<u>01.01.2012.</u>
AS "Ventspils nafta"	7 543	25 372	41 185
SIA „LSC Marine Training”	-	47 229	79 033
Straupe Navigation Inc.	-	16 581	-
Kabile Navigation Inc.	-	16 131	-
Kolka Navigation Inc.	-	15 318	-
Kaltene Navigation Inc.	-	11 605	-
Sloka Navigation Inc.	-	11 212	-
Salacgriva Navigation Inc.	-	10 302	-
Kuldiga Navigation Inc.	-	8 895	-
Kursa Navigation Inc.	-	8 488	-
Sigulda Navigation Inc.	-	7 086	-
Skrunda Navigation Inc.	-	5 193	-
Saldus Navigation Inc.	-	5 105	-
Saulkrasti Navigation Inc.	-	4 980	-
Kandava Navigation Inc.	-	2 577	-
Stende Navigation Inc.	-	2 374	-
LSC Holdings Limited	-	943	1 489
Latmar Holdings Corporation	-	-	45 114
	<b><u>7 543</u></b>	<b><u>199 391</u></b>	<b><u>166 821</u></b>

As at 31 December 2012 and 1 January 2012 the amounts due to related parties include loan from SIA „LSC Marine Training” with agreement concluded in 2007 on financial resource management. The interest rates applied are linked to the LIBOR. The loan is fully recovered during 2013.

Information on transactions with related parties see *Note 24*.

## Notes to the Separate Financial Statements (Continued)

### 20. Trade and other payables (continued)

#### Taxes and social security contributions

	LVL						Total
	Income tax	Value added tax	Real estate tax	Social security contribution	Personal income tax	State business risk duty	
(Payable) 01.01.2012.	-	-	-	(26 705)	(16 145)	(8)	(42 858)
Overpaid 01.01.2012.	103 393	4 180	-	-	-	-	107 573
(Payable) 31.12.2012.	-	-	-	(25 024)	(15 002)	(8)	(40 034)
Overpaid 31.12.2012.	<b>318 185</b>	<b>9 745</b>	-	-	-	-	<b>327 930</b>
Charge	(68 588)	70 576	(25 323)	(295 147)	(173 933)	(93)	(492 508)
Charge (non-residents)	(8 362)	-	-	-	-	-	(8 362)
Reimbursed	(226 375)	(83 094)	-	-	-	-	(309 469)
Penalties	-	(23)	-	-	-	-	(23)
Paid (non-residents)	8 362	-	-	-	-	-	8 362
Paid	38 500	5 742	25 323	320 241	189 334	101	579 241
Overpaid 31.12.2013.	<b>61 722</b>	<b>2 946</b>	-	<b>70</b>	<b>399</b>	-	<b>65 137</b>

The overpaid tax positions represented in Statement of financial position line „Trade and other receivables“. (See Note 18).

#### Other accounts payable

	LVL		
	31.12.2013.	31.12.2012.	01.01.2012.
Salaries	12 728	52 104	43 333
Deductions from salaries	-	28	18
Other payables	2 179	-	2 106
<b>Total</b>	<b>14 907</b>	<b>52 132</b>	<b>45 457</b>

#### Accrued liabilities

	LVL			
	Accruals for employee vacations	Accruals for other expenses	Other accruals	Total
01.01.2012.	<b>97 796</b>	<b>11 758</b>	-	<b>109 554</b>
Increase	-	22 385	440	22 825
Decrease	(8 675)	(11 758)	-	(20 433)
31.12.2012.	<b>89 121</b>	<b>22 385</b>	<b>440</b>	<b>111 946</b>
Increase	-	10 662	1 010	11 672
Decrease	(41 008)	(22 385)	(440)	(63 833)
31.12.2013.	<b>48 113</b>	<b>10 662</b>	<b>1 010</b>	<b>59 785</b>

## Notes to the Separate Financial Statements (Continued)

### 21. Fees paid to external auditors

	LVL	
	2013	2012
Audit of the financial statements	14 990	18 662
Management consulting	-	14 835
<b>Total</b>	<b>14 990</b>	<b>33 497</b>

### 22. Off balance sheet liabilities

#### Guarantees issued

In 2004, the Group entered into two long term loan agreements - one for the maximum amount of US\$ 360 million with the purpose of financing the construction of 14 newbuildings and another for the maximum amount of US\$ 75 million to finance the purchase of 3 modern second-hand vessels, all forming the LSC Holdings fleet. The US\$ 75 million loan facility was fully repaid in 2013 as a result of the sale of the vessels financed through the facility – m.t. Kolka, m.t. Kaltene and m.t. Kuldiga.

US\$ 360 million loan has been advanced to single vessel companies, 100% subsidiaries of LSC Holdings Limited. As security for the loan, the lenders hold first preferred mortgages over the financed vessels together with common assignments and pledges. The debt is also secured by two corporate guarantees issued in the normal course of business – one by LSC Holdings Limited and one by JSC Latvian Shipping Company.

In 2011, the Group signed a long term loan agreement for the maximum amount of US\$ 48.6 million in order to finance the construction of 2 newbuildings, forming the Arctic Holding fleet. The loan has been advanced to single vessel companies, 100% subsidiaries of Arctic Holding Corporation. As security for the loan agreement, the lenders hold first preferred mortgages over the financed vessels together with common assignments and pledges. Pursuant to the terms and conditions of the loan agreement, there is a bareboat charter guarantee issued by the bareboat charterer in favour of each borrower guaranteeing the performance of the bareboat charterer's obligations under the bareboat charter party entered into by each borrower for a minimum period of 5 year and 30 days as per the loan agreement.

In 2013, as a result of the acquisition of Riga Maritime LLC on 18 December 2013, the Group acquired a loan agreement with DVB Bank SE with an outstanding balance of US\$ 11.2 million. The agreement is dated 5 August 2009. The loan is secured by a first preferred mortgage over the financed vessel Riga together with common assignments and pledges. The debt is also secured by two corporate guarantees issued in the normal course of business – one by LSC Holdings Limited and one by JSC Latvian Shipping Company.

#### Legal cases

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

#### Contingent liabilities

The tax authorities have the right to inspect the tax computations for the last three taxation years. Potentially the tax computations of unaudited taxes may be reassessed by the tax authorities. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

### 23. Average number of employees

The average number of the Company's employees during 2013 and 2012 was 32.

### 24. Transactions with related parties

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

#### a) Compensation of the Management Board and Supervisory Council

Management Board remuneration for 2013 was LVL 72 000 (2012: LVL 72 500), social security contributions amounted to LVL 17 345 (2012: LVL 17 465). There were no remuneration paid for Supervisory Council members in 2013 and 2012, accordingly no social security contributions paid.

During 2013 no loans or guarantees were issued to the members of Supervisory Council and Management Board.

## Notes to the Separate Financial Statements *(Continued)*

### 24. Transactions with related parties *(continued)*

#### 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 are disclosed on pages 8 to 12 of LSC consolidated financial 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 subsidiaries and subsidiaries owned by those subsidiaries

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

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

	LVL	
	2013	2012
Income from commercial management, management and IT services	2 071 020	2 342 008
Income from the goods sold and services rendered	132 695	149 494
Interest income on borrowings to subsidiaries	13 877	8 124
<b>Total</b>	<b>2 217 592</b>	<b>2 499 626</b>
Interest expenses	(228)	(690)
Cost of goods and services received	-	(642)
<b>Total</b>	<b>(228)</b>	<b>(1 332)</b>

#### d) Transactions with Shareholders and other related parties

In 2013 the Company has received services from related party – JSC "Ventspils nafta" in amount of LVL 40 829 (2012: LVL 194 697).

Income from services provided to other related parties in 2013 amounted to LVL 51 963 (2012: LVL 32 839).

The related parties include the significant shareholders of Company's major shareholder and parties related to these entities.

*See also Notes 16, 18 and 20 for outstanding balances of related parties.*

## Notes to the Separate Financial Statements (Continued)

### 25. Financial instruments and financial risk management

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

#### *Fair value*

The Company's principal financial instruments comprise cash and cash equivalents, trade and other receivables, other non-current financial assets, bank loans, finance lease and trade and other payables. The main purpose of these financial instruments which mainly arise directly from operations is to raise finance for the Company's operations

#### *Fair value of financial assets and liabilities*

The carrying amounts and fair values of the Company's financial assets and liabilities by categories are as follows:

	LVL			LVL		
	31.12.2013. Carrying amount	31.12.2012. Carrying amount	01.01.2012. Carrying amount	31.12.2013. Fair value	31.12.2012. Fair value	01.01.2012. Fair value
<b>Assets at amortized cost/ cost less accumulated depreciation and impairment</b>						
Investment properties	984 488	998 541	1 012 594	1 513 400	1 515 500	1 536 500
Trade and other receivables	759 101	1 475 073	1 480 151	759 101	1 475 073	1 480 151
Other financial assets	1 825 437	-	14 290	2 212 537	-	14 290
Cash and cash equivalents	1 042 624	1 841 973	1 515 326	1 042 624	1 841 973	1 515 326
<b>Total assets</b>	<b>4 611 650</b>	<b>4 315 587</b>	<b>4 022 361</b>	<b>5 527 662</b>	<b>4 832 546</b>	<b>4 546 267</b>
<b>Liabilities at amortized cost</b>						
Finance lease	-	1 021	-	-	1 021	-
Trade and other payables	110 815	403 557	372 755	110 815	403 557	372 755
<b>Total liabilities</b>	<b>110 815</b>	<b>404 578</b>	<b>372 755</b>	<b>110 815</b>	<b>404 578</b>	<b>372 755</b>

#### *Hierarchy of input data for determining the fair value of assets and liabilities*

The Company use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities.

Level 1: Quoted prices in active markets;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable;

Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Level 1 contains cash and cash equivalents. Cash and cash equivalents are assets with short term maturity, as a result the Company assumes that the fair value of those assets and liabilities approximates to their carrying amount.

There are no financial assets or financial liabilities, which are included in Level 2.

Level 3 contains investment properties, trade and other receivables, other financial assets, finance lease, loans and trade and other payables. Assets and liabilities mentioned before, except for loan issued to related party, are assets/ liabilities with short term remaining maturity (less than 1 year). As a result the Company assumes that the fair value of those assets and liabilities approximates to their carrying amount.

Fair value of the investment property is determined according to the valuations performed by independent and certified real estate valuers.

Loan issued to related party is at arm's length and carry margin plus USD LIBOR rate; therefore the Company assumes that the carrying value of the loan approximates its fair value.

## Notes to the Separate Financial Statements *(Continued)*

### 25. Financial instruments and financial risk management *(continued)*

#### Fair value *(continued)*

The Company's assets and liabilities according to the hierarchy of input data for determining fair value (disclosed in the carrying value):

	31.12.2013.			
	LVL Level 1	LVL Level 2	LVL Level 3	LVL Total
<b>Assets at amortized cost/ cost less accumulated depreciation and impairment</b>				
Investment properties	-	-	984 488	984 488
Trade and other receivables	-	-	759 101	759 101
Other financial assets	-	-	1 825 437	1 825 437
Cash and cash equivalents	1 042 624	-	-	1 042 624
<b>Total assets</b>	<b>1 042 624</b>	<b>-</b>	<b>3 569 026</b>	<b>4 611 650</b>
<b>Liabilities at amortized cost</b>				
Trade and other payables	-	-	110 815	110 815
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>110 815</b>	<b>110 815</b>
<b>31.12.2012.</b>				
	LVL Level 1	LVL Level 2	LVL Level 3	LVL Total
<b>Assets at amortized cost/ cost less accumulated depreciation and impairment</b>				
Investment properties	-	-	998 541	998 541
Trade and other receivables	-	-	1 475 073	1 475 073
Cash and cash equivalents	1 841 973	-	-	1 841 973
<b>Total assets</b>	<b>1 841 973</b>	<b>-</b>	<b>2 473 614</b>	<b>4 315 587</b>
<b>Liabilities at amortized cost</b>				
Finance lease	-	-	1 021	1 021
Trade and other payables	-	-	403 557	403 557
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>404 578</b>	<b>404 578</b>

There have been no transfers (in or out) from Level 3 during 2013 and 2012.

The Company has a policy of regularly reviewing its approach to risk management. The main financial risks arising from the Company'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 Separate Financial Statements *(Continued)*

### 25. Financial instruments and financial risk management *(continued)*

#### **Financial risks**

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

#### Foreign currency risk

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

	LVL		
	31.12.2013.	31.12.2012.	01.01.2012.
Financial assets USD	6 684 345	5 376 388	4 196 912
Financial liabilities USD	(10 848)	(337 404)	(162 655)
<b>Net financial position, USD</b>	<b>6 673 497</b>	<b>5 038 984</b>	<b>4 034 257</b>
<b>Net financial position, LVL</b>	<b>3 436 851</b>	<b>2 675 701</b>	<b>2 194 636</b>

#### Liquidity risk

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

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

#### Credit risk

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

#### **Capital management**

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

### **26. Events after the reporting period**

Latvia has joined the Euro Zone and its national currency is Euro since 1st of January 2014 as a result the presentation currency of the Group from that date will be changed from Latvian lats to Euros.

In March 2014 Latvian Shipping Company received a notification from OÜ Fondo H Estonia regarding acquisition of significant shareholding, and also a notification from JSC "INTERNATIONAL BALTIC INVESTMENTS LTD" regarding disposing of 13.04% interest in the share capital of JSC "Latvian Shipping Company".

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



Translation from Latvian original\*

## **INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders of Latvian Shipping Company JSC**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Latvian Shipping Company JSC set out on pages 8 to 41 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2013 and the statements of 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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



*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Latvian Shipping Company JSC as of 31 December 2013, 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.

**Report on Other Legal and Regulatory Requirements**

We have read the Management Report for 2013 set out on pages 5 to 6 of the accompanying annual report for 2013 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2013.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

A handwritten signature in blue ink, appearing to read 'Handra Lejiņa', is written over a light blue horizontal line.

Handra Lejiņa  
Certified auditor in charge  
Certificate No. 168

Member of the Board

Riga, Latvia  
24 April 2014

\* 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.