



**LATVIJAS KUĢNIECĪBA**

**Public Joint Stock Company  
“Latvian Shipping Company”**

## **Consolidated Financial Statements**

**31 December 2013**

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## Information about JSC “Latvian Shipping Company” in brief

### Mission

The mission of Latvian Shipping Company (LSC) is to service its customers with a modern tanker fleet run by a team of professional Latvian officers, crew and shore based staff that guarantees a highly professional service always in compliance with international safety standards. We endeavour to ensure that the cargo is always transported safely in accordance with strict environmental standards and punctually in accordance with customer requirements. A key element in the success of LSC is the professionalism of its “in-house” ship-management company which is a fully owned subsidiary of LSC Group.



### Strategy

It is our vision to continue to strengthen our reputation as a reliable and professional shipping company and continue to provide our valued customers with a highly qualified shipping service focused on their specific needs. In order to achieve our objectives we will continue to ensure that we proactively encourage our highly motivated, professional and dedicated Latvian workforce to share our vision.

### Latvian Shipping Company Group performance

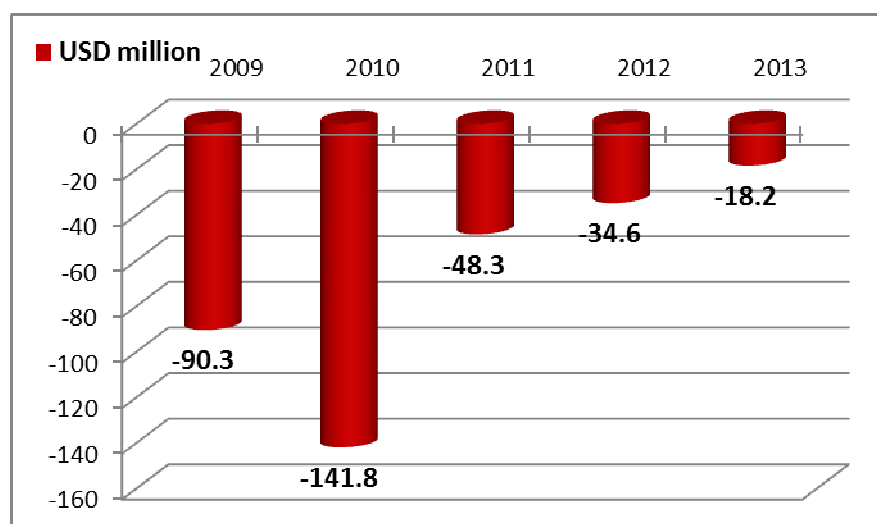
Latvian Shipping Company is a joint stock company listed on the NASDAQ OMX Riga and is primarily engaged in the transportation of oil products, chemicals and crude oil utilizing its handy size and medium range tanker fleet. The Company is proud of its professional and well-trained Latvian officers, crew and shore based staff in Riga. The LSC fleet trades worldwide ranging from the Baltic Sea and Northern Europe to the Black Sea, Mediterranean Sea, Atlantic Ocean, the Caribbean region as well as the far and Middle East. Additionally the tankers within the LSC fleet are specifically designed for trading in ice conditions giving its customers even greater trading flexibility during harsh winter periods.

## Management report

Dear shareholders and stakeholders,

The financial result of Latvian Shipping Company (hereafter – LSC or Company) and its subsidiaries (hereafter – LSC Group or Group) for 2013 amounted to a loss of 18.15 million USD mainly as a consequence of vessel impairments in the amount of 22.92 million USD, 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. By comparison in 2012 the Group suffered losses in the amount of 34.60 million USD.

LSC Group net loss for the period 01.01.2009. – 31.12.2013.:



Throughout 2013 EBITDA continued to increase and reached 47.33 million USD which was an improvement of 6.34 million USD when compared with the previous year.

The key financial indicators for the last five financial years are as follows:

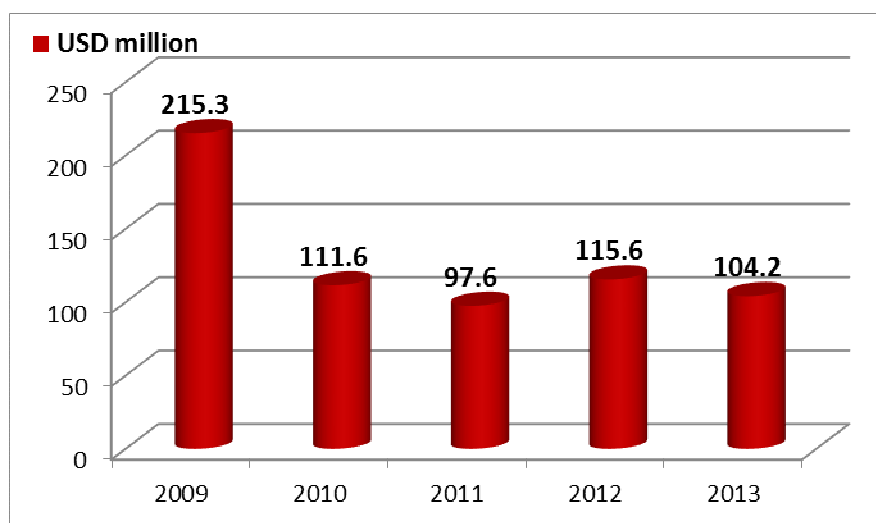
	2009	2010	2011	2012	2013
<b>Turnover (million USD)</b>	215.27	111.6	97.58	115.56	104.21
<b>Net loss (million USD)</b>	-90.26	-141.75	-48.27	-34.6	-18.15
<b>Gross profit before depreciation (million USD)</b>	61.37	35.89	41.58	52.22	54.32
<i>% of turnover</i>	28.51%	32.16%	42.61%	45.19%	52.42%
<b>EBITDA (million USD)</b>	30.91	14.15	26.39	40.99	47.33
<i>% of turnover</i>	14.36%	12.68%	27.04%	35.47%	45.42%
<b>EBIT (million USD)</b>	-7.46	-14.4	0.08	12.51	24.43
<i>% of turnover</i>	-3.47%	-12.90%	0.08%	10.83%	23.45%
<b>Return on Assets (%)</b>	-8.50%	-17.20%	-7.20%	-5.70%	-3.22%
<b>Return on Equity (%)</b>	-18.10%	-36.90%	-16.60%	-14.20%	-8.00%
<b>EPS (USD)</b>	-0.45	-0.71	-0.24	-0.18	-0.09
<b>Liquidity ratio</b>	1.5	1.7	2.2	1.5	1.6
<b>P/E ratio</b>	n/a	n/a	n/a	n/a	n/a

During 2013 the LSC Group improved its cash position significantly and as at 31st December 2013 the Group had cash and short-term deposits in the amount of 36.57 million USD, which is 10.44 million USD 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.

## Management report *(continued)*

As mentioned previously the substantial reduction in administrative costs continued throughout 2013 with total savings for 2013 as compared with 2012 in the amount of 2.21 million USD or 20% (2013: 8.78 million USD versus 2012: 10.99 million USD).

**LSC Group turnover for the period 01.01.2009. – 31.12.2013.**



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.

The total income of the fleet for 2013 was 103.54 million USD which was 10% less than the previous year (2012: 114.61 million USD). The LSC Group fleet's net voyage result for 2013 was 88.93 million USD which was a slight improvement when compared with the previous year (twelve months of 2012: 88.33 million USD) despite the fact that the number of vessels within the fleet has declined. The net voyage result is a more comparable indicator of fleet performance, rather than total income, as it is calculated by deducting voyage costs from voyage income and shows the Group's result, irrespective of whether the fleet is employed in the spot or time charter market. The fleet operating profit for 2013 before depreciation and dry-dock amortisation was 54.17 million USD; also a slight improvement on the previous period (2012: 51.39 million USD).

Average LSC Group's Fleet net TCE (Time charter equivalent) rates (USD/per day) are as follows:

Fleet	1Q 2012	2Q 2012	3Q 2012	4Q 2012	Y2012	1Q 2013 (A)	2Q 2013 (A)	3Q 2013 (A)	4Q 2013 (A)	Y2013 (A)
HS (7 vessels)*	13 003	12 131	12 776	13 239	12 703	12 331	13 323	14 301	14 876	13 468
MR (12 vessels)**	12 605	12 419	13 064	13 904	13 168	14 373	14 167	13 592	13 690	14 174
LR1 (1 vessel)	13 163	11 782	11 700	11 700	12 086	11 700	12 162	12 309	12 309	12 122

\*three HS vessel sold in 2013; remaining number of HS vessels in fleet – 4.

\*\*From 2013 m/t Latgale and m/t Zemgale removed from above statistics as they are employed on bareboat charter basis, i.e. responsibility for operating expenses and off hire periods resides with the Bareboat Charterer whereas the above figures are inclusive of opex and any offhire periods.

Explanations:

HS = handy size (37 dwt); MR = medium range (52 dwt); LR1 = long range (68 dwt).

Net TCE = a non IFRS measure which is used primarily to compare period to period changes in a shipping company's performance irrespective of changes in mix of charter. It is calculated after deduction of commissions payable to shipbrokers/charterers, port costs, bunker costs and any other applicable voyage related costs from vessel revenue and divided by the number of revenue days in the period. Revenue days are the number of days the vessel is trading less the number of days vessel is carrying out repairs or is in dry dock. The above figures reflect combined earnings of fleet for both time charters and spot market trading. The spot TCE is calculated on a pro-rata basis for the quarter after the voyage has commenced but completed prior the date of this report.

All previous 2013 Quarterly earnings have now been amended for this report from "estimated" to "actual" TCE as all voyages have now been completed and fully realized. For future reporting periods the previous quarter will be updated on a regular basis from (E) to (A) to reflect finalised TCE.

## Management report *(continued)*

Throughout 2013 the majority of the LSC Group's fleet was employed in time charter contracts with fixed guaranteed daily charter rates predominantly for periods of up to twelve months. Improving time charter and spot charter rates throughout the year have positively affected the Group's financial position. Additionally new time charter agreements have been negotiated throughout the year for twelve month period stretching into 2014 at improved TCE levels. The current strategy of the management is to continue to employ a large percentage of the fleet in time charter contracts to ensure a steady revenue stream however there will continue to be some exposure to the spot market.

At 31 December 2013 the total LSC Group's assets was 519.63 million USD. Total assets at 31 December 2012 was 605.78 million USD. 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 was 429.31 million USD which considerably exceeds the total value of the outstanding loans used for the fleet financing (252.67 million USD). 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 218.06 million USD (31 December 2012: 234.89 million USD).

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.

### *Prospects for 2014*

Throughout 2013 the LSC 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.

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Robert Kirkup  
Chairman of the Management Board of  
Joint Stock Company "Latvian Shipping Company"  
Riga, 7 April 2014

## Supervisory Council

### 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)

## Professional experience of the members of the Supervisory Council



*Vladimir Egger*

Elected in the position of the Chairman of the Supervisory Council on April 3, 2014. Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Member of JSC Ventspils nafta Supervisory Council since 20 January 2010. The chief Representative of Vitol Services B.V Moscow. Mr. Egger has almost 30 years experience in trade of raw materials. Before joining Vitol he was Managing Director of Lukoil Asia Pacific based in Singapore and Beijing (China). Professional education: Bachelor's Degree in Economics and Business Management Master's Degree. Vladimir Egger does not own shares of JSC Latvian Shipping Company.



*Rubil Yilmaz*

Elected in the position of the Deputy Chairman of the Supervisory Council on April 3, 2014. Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Member of JSC Ventspils nafta Supervisory Council since 20 January 2010, Financial Director of Vitol Tank Terminals International (VTTI). Holds the position of member of the Supervisory Council of Ventspils nafta termināls Ltd. Rubil Yilmaz does not own shares of JSC Latvian Shipping Company.



*Simon Boddy*

Elected as a member of the Supervisory Council on March 26, 2014 for a 5 year term. Simon Boddy was until the end of 2013 Managing Director of Vitol Dubai in the United Arab Emirates. Previously for 3 years he was Chairman of the Supervisory Council of the JSC Latvian Shipping Company and Chairman of the JSC Ventspils nafta Management Board. He has been working in the petroleum industry for over 30 years. He has worked for energy companies Shell and BP. In 1989, Simon Boddy joined the Vitol Group of companies, where he was involved in crude trading, refinery processing, supply and economic issues; from 2006 until 2008 he was Chief Representative of Vitol's Moscow office. He has been a board member of Vitol Tank Terminals International. He is also an English barrister. Professional education: Academic degree in mathematics from the University of Oxford, Postgraduate Diploma in Law from the College of Law of England and Wales. Simon Boddy does not own shares of JSC Latvian Shipping Company.



*Julia Verschagina*

Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Julia Verschagina is a head of operations in distillates matrix at Vitol Services BV Moscow representative office since 2012, previously she took position of operator in logistic department at VNT SA, Moscow representative. J.Verschagina has graduated State University – Higher School of Economics in Moscow. J.Verschagina does not own shares of JSC Latvian Shipping Company.



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



*Andrea Schlaepfer*

Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Andrea Schlaepfer is Head of Corporate Affairs at Vitol. She joined Vitol in February 2013. Prior to this she was Executive Director of Communications at LCH.Clearnet. She has over 15 years' experience in communications, primarily in the financial sector and has worked in an advisory capacity in communication firms, including Citigate Dewe Rogerson, and as head of European communications for Schroders Investment Management. She has a degree in Philosophy and Modern Languages from the University of Oxford. A.Schlaepfer does not own shares of JSC Latvian Shipping Company.



*Varvara Maximova*

Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Varvara Maximova is employed by Business Development Finance at Vitol since 2013. Previously she has worked for Natixis Bank and VTB Capital in Moscow. V.Maximova has degree in banking and finance from London School of Economics and Political Science and degree in economics from Russian State University "Higher School of Economics". V.Maximova does not own shares of JSC Latvian Shipping Company.



*Olga Kurenkova*

Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Olga Kurenkova works at representative office of "Vitol Services B.V., The Netherlands" since 2012. Since 2000 she was employed by representative office of "VNT S.A., Switzerland". O. Kurenkova has graduated Moscow Aircraft Institute (MAI), economical department in 1990. O. Kurenkova does not own shares of JSC Latvian Shipping Company.



*Ivars Girgensons*

Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. A lawyer in the corporate finance company Confide and SIA Eurokonsults. His main area of specialization is civil law and commercial law. Previously he has managed Creative Consultation Centre Ltd, has worked for Baltijas Ofiss Ltd, Akvašips Ltd, and has been a manager of a branch of JSC SEB banka. I.Girgensons has a bachelor degree in law from University of Latvia and continues master studies in the University Turība. Ivars Girgensons does not own shares of JSC Latvian Shipping Company.

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



*Kristo Oidermaa*

Elected in the position of the member of the Supervisory Council on March 26, 2013 for 5 years term. Kristo Oidermaa has been working in the financial sector since 2006 and currently hold the portfolio manager's position in LHV Asset Management. Previously he was working as a senior analyst in LHV Bank and also filled the analyst roles in Avaron Asset Management and Trigon Capital. K.Oidermaa have a BA Economics degree from the University of Manchester and he is also a CFA charterholder. Kristo Oidermaa does not own shares of of JSC Latvian Shipping Company.



*Giovanni Fagioli*

Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Giovanni Fagioli is the chief executive officer of Finaval S.p.A. and BCC1 S.p.A. He has almost 25 years experience in the shipping sector. He is also Chairman of the private equity fund FH S.p.A. He was previously member of the Board of Directors of SACE (MEF), Meta S.p.A. and Fineco Bank. G.Fagioli does not own shares of JSC Latvian Shipping Company.

## Management Board

### 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

## Professional experience of the members of the Management board



*Robert Kirkup*

The Chairman of the Management Board since March 1, 2014, elected for 5 years term. Previously he took the position of the Chairman of the Supervisory Council since October 17, 2013. Robert Kirkup is also the Chairman of the JSC Ventspils nafta Management Board since 1 September 2013. R. Kirkup also holds positions in JSC Ventspils nafta subsidiaries - he is the Chairman of the Supervisory Council of LatRosTrans Ltd, as well as a member of the Supervisory Council of Ventspils nafta termināls Ltd. He has worked in the oil and sugar business for more than 17 years. In 1996 he joined the Vitol Group and has held several positions in trading. Since July 2006 he has been appointed as the Global Head of Sugar at Vitol S.A. In addition he was a member of the World Sugar Committee for the ICE No11 Raw Sugar Futures Contract and still is a member of the Council of the Sugar Association of London, where he is an Arbitrator. Professional education: BA Honours Degree in Business. Mr. Robert Kirkup does not own any shares of JSC Latvian Shipping Company.



*Paul Thomas*

Head of Vitol Group's World Wide Shipping, employed by Vitol Group since 1988, director of the shipping company Finaval Spa since 2007, Member of the Management Board of Latvian Shipping Company since July 2010, elected for 5 years term. Paul Thomas does not own shares of JSC Latvian Shipping Company.



*Christopher James Kernon*

With more than 20 years experience in the shipping industry. Previously C. Kernon was responsible for shipping and chartering in Asia and Australia for Vitol Group. Since 2003 he is responsible for projects and shipping time charters at Vitol Group. Member of the Management Board of Latvian Shipping Company since February, 2011, elected for 5 years term. Christopher Kernon does not own shares of the JSC Latvian Shipping Company.

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

### *Supervisory Council*

Current Supervisory Council of JSC "Latvian Shipping Company" was elected in the extraordinary shareholders meeting on 26 March 2014 and currently consists of ten members: Chairman Vladimir Egger, deputy chairman Rubil Yilmaz and members Simon Boddy, Andrea Schlaepfer, Varvara Maximova, Julia Verschagina, Olga Kurenkova, Giovanni Fagioli, Ivars Girgensons and Kristo Oidermaa.

### *Management Board*

Until 28 February 2014 the Management Board of JSC "Latvian Shipping Company" consisted of three members including Chairman Simon Richard Blaydes and members Paul Thomas and Christopher James Kernon. Robert Kirkup has been appointed as Chairman of the Management Board from 1 March 2014. He replaces Simon Richard Blaydes who left the company to take up a role within Vitol's African business.

### *Audit Committee*

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

## Shareholders

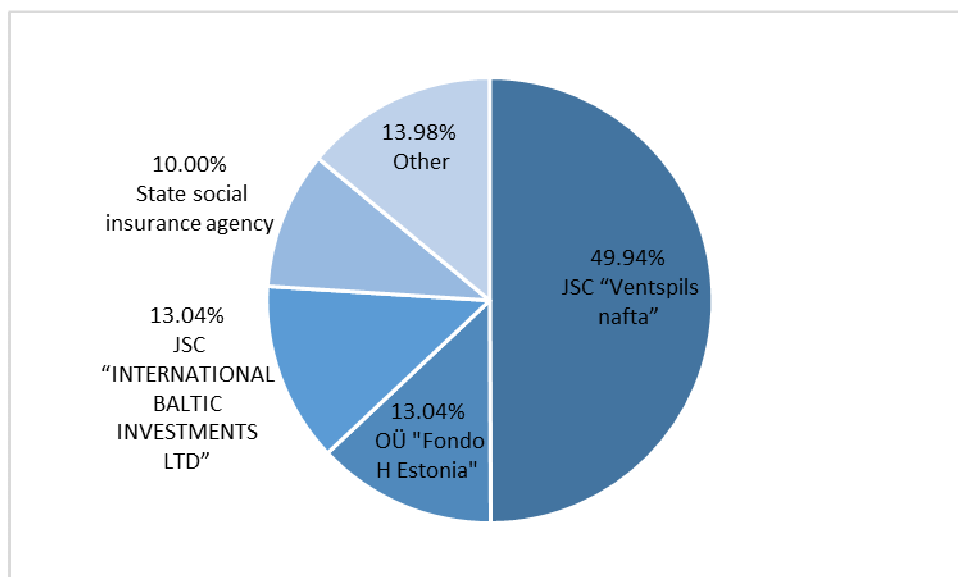
JSC "Latvian Shipping Company" shareholders (over 5%) as of date when the report is signed:

Name	Description	Ownership interest
JSC "Ventpils 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 of JSC "Latvian Shipping Company" has legal control.

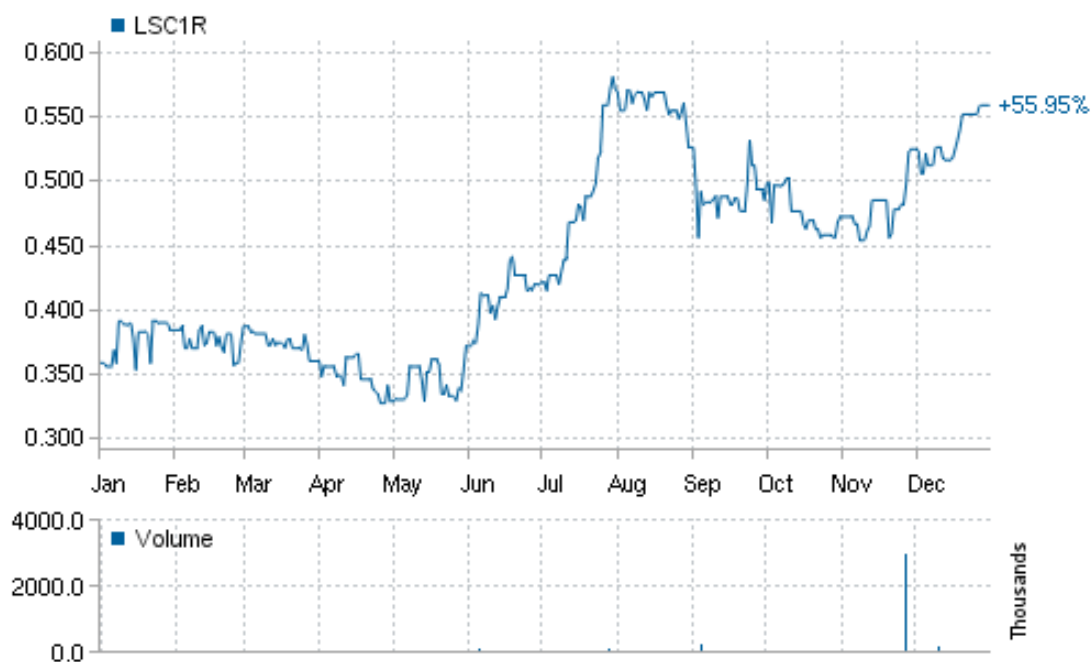
JSC "Ventpils Nafta" has de facto control, therefore JSC "Latvian Shipping Company" and its subsidiaries are consolidated into JSC "Ventpils nafta" consolidated financial statements.

JSC "Latvian Shipping Company" shareholders structure as of date when the report is signed:



## Review of shares

JSC "Latvian Shipping Company" share price development for the period 01.01.2013. – 31.12.2013.



### Securities information

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

### Securities trading history, LVL

Price	2009	2010	2011	2012	2013
Open	0.660	0.410	0.370	0.312	0.252
High	0.690	0.520	0.460	0.346	0.417
Low	0.360	0.340	0.301	0.203	0.230
Last	0.400	0.379	0.308	0.252	0.393
Average	0.487	0.404	0.342	0.285	0.307
Traded volume	3,961,245	5,058,251	13,526,230	985,943	4,575,982
Turnover, million	1.91	2.03	5.85	0.27	1.51
Capitalisation, million	80.00	75.80	61.60	50.40	78.60

Information source: JSC „NASDAQ OMX Riga” webpage [www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)

## Review of shares (continued)

JSC "Latvian Shipping Company" share price development for the period 01.01.2009. – 31.12.2013.



JSC "Latvian Shipping Company" share price development in comparison with OMX Baltic Benchmark GI index for the period 01.01.2009. – 31.12.2013.



Index	01.01.2009	31.12.2013	+/-%
—OMX Baltic Benchmark GI	228,12	613,50	168,94
—LSC1R	0,66 LVL	0,39 LVL	-40,45

Information source: JSC "NASDAQ OMX RIGA" web page [www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)



## Review of shares *(continued)*

### Characteristics of the shares

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

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

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

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

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

## Environment protection

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

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

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

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

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

## Personnel policy

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

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

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

## Statement of Management's responsibility

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 21 to 22, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of JSC "Latvian Shipping Company" and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present truly and fairly the financial position of the Group 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 consolidated financial statements, management is responsible for:**

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

**Management is also responsible for:**

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

For and on behalf of the Management Board

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Robert Kirkup  
Chairman of the Management Board of  
Joint Stock Company "Latvian Shipping Company"  
Riga, 7 April 2014



Translation from Latvian original\*

## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying consolidated financial statements of Latvian Shipping Company JSC and its subsidiaries ("the Group"), set out on pages 23 to 74 of the accompanying annual report which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated income statement and the consolidated 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 Consolidated Financial Statements*

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

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

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



#### *Basis for Qualified Opinion*

The Group's "Other financial assets" in the consolidated statement of financial position as at 31 December 2013 and 2012 includes the investment in JSC Latvijas Naftas Tranzits of USD 30 814 thousand (LVL 15 869 thousand) and USD 30 125 thousand (LVL 15 996 thousand), respectively. The Group has no access to the management or any financial information of the investee and, accordingly, is unable to reliably determine the fair value or recoverable value of the investment as of these dates. As a result, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the investment as at 31 December 2013 and 2012. Consequently, we were unable to determine whether any adjustments to the carrying amount were necessary.

#### *Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the 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 4 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 consolidated financial statements for 2013.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

A handwritten signature in blue ink, appearing to read "I. Lejina", is written over a light blue horizontal line.

Ilandra 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.

## Consolidated income statement

for the year ended 31 December 2013

	Notes	2013 USD'000	2012 USD'000	2013 LVL'000	2012 LVL'000
Voyage income	7	103 544	114 607	54 842	62 561
Income from other services		666	957	354	522
<b>Revenue</b>		<b>104 210</b>	<b>115 564</b>	<b>55 196</b>	<b>63 083</b>
Voyage costs	8	(14 612)	(26 275)	(7 711)	(14 301)
Cost of sales	9	(57 858)	(65 548)	(30 662)	(35 731)
<b>Gross profit</b>		<b>31 740</b>	<b>23 741</b>	<b>16 823</b>	<b>13 051</b>
Administrative expenses	10	(8 782)	(10 988)	(4 636)	(5 994)
Impairment of non-financial assets	11	(22 916)	(28 238)	(12 388)	(15 279)
Other operating income	12	1 929	351	789	192
Other operating expenses	13	(4 545)	(595)	(2 466)	(338)
<b>Operating loss</b>		<b>(2 574)</b>	<b>(15 729)</b>	<b>(1 878)</b>	<b>(8 368)</b>
Finance income	15	97	27	51	15
Finance costs	16	(15 531)	(18 743)	(8 208)	(10 204)
<b>Loss before tax</b>		<b>(18 008)</b>	<b>(34 445)</b>	<b>(10 035)</b>	<b>(18 557)</b>
Income tax	17	(139)	(152)	(74)	(93)
<b>Loss for the year</b>		<b>(18 147)</b>	<b>(34 597)</b>	<b>(10 109)</b>	<b>(18 650)</b>
Attributable to:					
Equity holders of the parent		(18 109)	(34 557)	(10 090)	(18 628)
Non-controlling interests		(38)	(40)	(19)	(22)
		<b>(18 147)</b>	<b>(34 597)</b>	<b>(10 109)</b>	<b>(18 650)</b>
Loss per share		USD (0.09)	USD (0.17)	LVL (0.05)	LVL (0.09)

The notes on pages 29 to 74 are integral part of these Consolidated Financial Statements.

These Consolidated 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  
Joint Stock Company "Latvian Shipping Company"  
Riga, 7 April 2014

## Consolidated statement of comprehensive income

for the year ended 31 December 2013

	2013 USD'000	2012 USD'000	2013 LVL'000	2012 LVL'000
<b>Loss for the year</b>	<b>(18 147)</b>	<b>(34 597)</b>	<b>(10 109)</b>	<b>(18 650)</b>
<b>Other comprehensive income:</b>				
Items that may be subsequently reclassified to profit or loss				
Exchange differences on translation of foreign operations	645	855	(2 693)	(2 784)
Net movement on cash flow hedges ( <i>Note 33</i> )	672	799	377	459
<b>Other comprehensive income/(expenses) for the year, net of tax</b>	<b>1 317</b>	<b>1 654</b>	<b>(2 316)</b>	<b>(2 325)</b>
<b>Total comprehensive loss for the year, net of tax</b>	<b>(16 830)</b>	<b>(32 943)</b>	<b>(12 425)</b>	<b>(20 975)</b>
Attributable to:				
Equity holders of the parent	(16 985)	(33 052)	(12 406)	(20 953)
Non-controlling interests	155	109	(19)	(22)
	<b>(16 830)</b>	<b>(32 943)</b>	<b>(12 425)</b>	<b>(20 975)</b>

The notes on pages 29 to 74 are integral part of these Consolidated Financial Statements.

These Consolidated 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  
Joint Stock Company "Latvian Shipping Company"  
Riga, 7 April 2014



## Consolidated statement of financial position

as of 31 December 2013

	Notes	2013 USD'000	2012 USD'000	2013 LVL'000	2012 LVL'000
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	19	44	37	22	20
Fleet	20	429 313	517 823	221 096	274 964
Property, plant and equipment	21	3 279	3 527	1 689	1 873
Investment properties	22	1 912	1 880	984	999
Investment in associates	23	15	14	7	7
Other non-current financial assets	28	4 403	4 403	2 268	2 338
<b>Total non-current assets</b>		<b>438 966</b>	<b>527 684</b>	<b>226 066</b>	<b>280 201</b>
<b>Current assets</b>					
Inventories	25	3 284	4 766	1 691	2 531
Trade and other receivables	26	4 976	13 595	2 563	7 218
Prepayments	27	789	1 619	407	859
Other current financial assets	28	35 048	31 980	18 050	16 981
Cash and short-term deposits	29	36 568	26 133	18 833	13 876
<b>Total current assets</b>		<b>80 665</b>	<b>78 093</b>	<b>41 544</b>	<b>41 465</b>
<b>Total assets</b>		<b>519 631</b>	<b>605 777</b>	<b>267 610</b>	<b>321 666</b>

## Consolidated statement of financial position *(continued)*

as of 31 December 2013

	Notes	2013 USD'000	2012 USD'000	2013 LVL'000	2012 LVL'000
<b>Equity and liabilities</b>					
<b>Equity</b>					
Share capital		362 319	362 319	200 000	200 000
Accumulated deficit		(137 388)	(119 279)	(74 757)	(64 667)
Other components of equity		(13 247)	(14 371)	(16 226)	(13 910)
<b>Equity attributable to equity holders of the parent</b>	30	<b>211 684</b>	<b>228 669</b>	<b>109 017</b>	<b>121 423</b>
Non-controlling interests		6 378	6 223	3 285	3 304
<b>Total equity</b>		<b>218 062</b>	<b>234 892</b>	<b>112 302</b>	<b>124 727</b>
<b>Non-current liabilities</b>					
Interest bearing loans	31	215 591	265 965	111 030	141 227
Finance lease	32	-	24 360	-	12 935
Derivative financial instruments	33	570	1 212	293	643
Trade and other payables	36	31 986	28 781	16 473	15 283
Deferred tax liabilities	34	118	105	61	56
<b>Total non-current liabilities</b>		<b>248 265</b>	<b>320 423</b>	<b>127 857</b>	<b>170 144</b>
<b>Current liabilities</b>					
Trade and other payables	36	13 490	14 628	6 947	7 768
Interest bearing loans	31	37 077	31 206	19 095	16 570
Finance lease	32	-	1 447	-	768
Derivative financial instruments	33	1 010	756	520	401
Deferred income	35	1 727	2 425	889	1 288
<b>Total current liabilities</b>		<b>53 304</b>	<b>50 462</b>	<b>27 451</b>	<b>26 795</b>
<b>Total equity and liabilities</b>		<b>519 631</b>	<b>605 777</b>	<b>267 610</b>	<b>321 666</b>

The notes on pages 29 to 74 are integral part of these Consolidated Financial Statements.

These Consolidated 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  
Joint Stock Company "Latvian Shipping Company"  
Riga, 7 April 2014

## Consolidated statement of changes in equity

for the year ended 31 December 2013

	Attributable to the equity holders of the parent										Non-controlling interests		Total equity	
	Share capital (Note 30)		Accumulated deficit		Cash flow hedge reserve		Foreign currency translation reserve		Total		USD'000	LVL'000	USD'000	LVL'000
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000				
<b>As at 1 January 2013</b>	<b>362 319</b>	<b>200 000</b>	<b>(119 279)</b>	<b>(64 667)</b>	<b>(1 890)</b>	<b>(1 004)</b>	<b>(12 481)</b>	<b>(12 906)</b>	<b>228 669</b>	<b>121 423</b>	<b>6 223</b>	<b>3 304</b>	<b>234 892</b>	<b>124 727</b>
Loss for the period	-	-	(18 109)	(10 090)	-	-	-	-	(18 109)	(10 090)	(38)	(19)	(18 147)	(10 109)
Other comprehensive income/(loss)	-	-	-	-	672	377	452	(2 693)	1 124	(2 316)	193	-	1 317	(2 316)
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>(18 109)</b>	<b>(10 090)</b>	<b>672</b>	<b>377</b>	<b>452</b>	<b>(2 693)</b>	<b>(16 985)</b>	<b>(12 406)</b>	<b>155</b>	<b>(19)</b>	<b>(16 830)</b>	<b>(12 425)</b>
<b>At 31 December 2013</b>	<b>362 319</b>	<b>200 000</b>	<b>(137 388)</b>	<b>(74 757)</b>	<b>(1 218)</b>	<b>(627)</b>	<b>(12 029)</b>	<b>(15 599)</b>	<b>211 684</b>	<b>109 017</b>	<b>6 378</b>	<b>3 285</b>	<b>218 062</b>	<b>112 302</b>

for the year ended 31 December 2012

	Attributable to the equity holders of the parent										Non-controlling interests		Total equity	
	Share capital (Note 30)		Accumulated deficit		Cash flow hedge reserve		Foreign currency translation reserve		Total		USD'000	LVL'000	USD'000	LVL'000
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000				
<b>As at 1 January 2012</b>	<b>362 319</b>	<b>200 000</b>	<b>(84 722)</b>	<b>(46 039)</b>	<b>(2 689)</b>	<b>(1 463)</b>	<b>(13 187)</b>	<b>(10 122)</b>	<b>261 721</b>	<b>142 376</b>	<b>6 114</b>	<b>3 326</b>	<b>267 835</b>	<b>145 702</b>
Loss for the period	-	-	(34 557)	(18 628)	-	-	-	-	(34 557)	(18 628)	(40)	(22)	(34 597)	(18 650)
Other comprehensive income/(loss)	-	-	-	-	799	459	706	(2 784)	1 505	(2 325)	149	-	1 654	(2 325)
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>(34 557)</b>	<b>(18 628)</b>	<b>799</b>	<b>459</b>	<b>706</b>	<b>(2 784)</b>	<b>(33 052)</b>	<b>(20 953)</b>	<b>109</b>	<b>(22)</b>	<b>(32 943)</b>	<b>(20 975)</b>
<b>At 31 December 2012</b>	<b>362 319</b>	<b>200 000</b>	<b>(119 279)</b>	<b>(64 667)</b>	<b>(1 890)</b>	<b>(1 004)</b>	<b>(12 481)</b>	<b>(12 906)</b>	<b>228 669</b>	<b>121 423</b>	<b>6 223</b>	<b>3 304</b>	<b>234 892</b>	<b>124 727</b>

The notes on pages 29 to 74 are integral part of these Consolidated Financial Statements.

These Consolidated 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  
Joint Stock Company "Latvian Shipping Company"  
Riga, 7 April 2014

## Consolidated statement of cash flows

for the year ended 31 December 2013

	Notes	2013 USD'000	2012 USD'000	2013 LVL'000	2012 LVL'000
<b>Operating activities</b>					
<b>Loss before tax</b>		<b>(18 008)</b>	<b>(34 445)</b>	<b>(10 035)</b>	<b>(18 557)</b>
Non-cash adjustment to reconcile loss before tax to net cash flows:					
Depreciation of property, plant and equipment and fleet	20,21	22 835	28 211	12 145	15 381
Amortisation of intangible assets	19	32	241	17	130
Depreciation of investment properties	22	27	26	15	14
Decrease in value of financial instruments	12	(413)	-	(213)	-
Net loss on disposal of non-financial assets	13	4 091	1	2 223	1
Net profit from disposal of subsidiary	12	(619)	-	(99)	-
Currency translation difference		303	181	(242)	44
Finance income	15	(97)	(27)	(51)	(15)
Finance costs	16	14 719	17 978	7 792	9 805
Impairment loss of the fleet	11	22 916	28 238	12 388	15 279
Impairment loss of goodwill at acquisition	5	38	-	19	-
Working capital adjustments:					
Decrease/(increase) in trade and other receivables and prepayments		9 327	(2 406)	5 122	(1 316)
Decrease/(increase) in inventories		1 482	(962)	840	(526)
Decrease in trade and other payables		(5 439)	(9 101)	(3 188)	(4 978)
Income tax received/(paid)		355	(600)	188	(328)
<b>Net cash flows generated from operating activities</b>		<b>51 549</b>	<b>27 335</b>	<b>26 921</b>	<b>14 934</b>
<b>Investing activities</b>					
Proceeds from sale of non-current assets		41 669	2	22 061	1
Purchase of non-current assets		(1 368)	(4 957)	(725)	(2 711)
Acquisition of subsidiary	5	(12 636)	-	(6 444)	-
Costs due to sale of subsidiary		(15)	-	(8)	-
Placement of deposits with maturity more than three months	28b	(606)	(1 294)	(321)	(703)
Loans issued		(1 534)	(517)	(812)	(281)
Interest received		17	23	9	13
<b>Net cash flows generated from/(used in) investing activities</b>		<b>25 527</b>	<b>(6 743)</b>	<b>13 760</b>	<b>(3 681)</b>
<b>Financing activities</b>					
Payments on finance lease liabilities		(1 340)	(1 445)	(709)	(791)
Proceeds from borrowings		3 586	28 796	1 876	15 774
Repayment of borrowings		(56 538)	(32 431)	(29 933)	(17 738)
Interest paid		(11 756)	(15 998)	(6 224)	(8 750)
Prepaid financing expenses		(689)	(404)	(365)	(221)
<b>Net cash flows used in financing activities</b>		<b>(66 737)</b>	<b>(21 482)</b>	<b>(35 355)</b>	<b>(11 726)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>10 339</b>	<b>(890)</b>	<b>5 326</b>	<b>(473)</b>
Cash and cash equivalents at the beginning of the year		26 133	26 983	13 876	14 679
Result of currency exchange transactions		96	40	(369)	(330)
<b>Cash and cash equivalents at the end of the year</b>	29	<b>36 568</b>	<b>26 133</b>	<b>18 833</b>	<b>13 876</b>

The notes on pages 29 to 74 are integral part of these Consolidated Financial Statements.

These Consolidated 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  
Joint Stock Company "Latvian Shipping Company"  
Riga, 7 April 2014

## Notes to the consolidated financial statements

### 1. Corporate information

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

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

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

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

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

### 2. Basis of preparation

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

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

In 2013 the Group has made certain reclassifications between different positions of the consolidated statement of financial position. The comparatives have been restated to conform to the new presentation. The reclassifications had no effect on the consolidated statement of financial position as of 1 January 2013.

#### 2.1. Statement of compliance

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

#### 2.2. Basis of consolidation

##### *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of 31 December 2013.

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

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

If the Group loses control over a subsidiary, it:

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

## Notes to the consolidated financial statements (*continued*)

### 2.3. Summary of significant accounting policies

#### a) Investment in associates

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

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

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

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

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

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

#### b) Non-current assets held for sale

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

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

#### c) Foreign currency translation

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

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

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

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised in other comprehensive income.

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

## Notes to the consolidated financial statements (*continued*)

### 2.3 Summary of significant accounting policies (*continued*)

#### c) Foreign currency translation (*continued*)

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

LB rate of exchange as at 31.12.2013 USD/LVL - 0.515 (average – 0.529434)

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

#### d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow into the Group 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:

##### **Voyage income**

Revenue from time charters and bareboat charters, which are of operating lease in nature, is recognised on a straight-line basis over the period of each charter. Revenue from voyage charter on spot market is recognised on a percentage-of-completion basis, which is determined on the time proportion method of each individual voyage. The percentage is calculated based on the number of days completed of the estimated voyage period. Based on previous experience, initially 80% of the estimated revenue from demurrage is recognized in the income statement.

##### **Other income**

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

##### **Interest income**

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

##### **Dividends**

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

##### **Deferred revenue**

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

#### e) Voyage costs and commissions/ Cost of sales

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

#### f) Employee benefits

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

The Group pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. In accordance with the Rules of the Cabinet of Ministers of Latvia Republic 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 Group pays fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the Group.

#### g) Taxes

##### **Current income tax**

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

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

## Notes to the consolidated financial statements (*continued*)

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

#### g) Taxes (*continued*)

##### **Deferred tax**

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

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

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

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

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

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

Deferred tax relating to items recognised outside 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.

#### h) Financial assets

##### **Initial recognition and measurement**

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

All financial assets are recognised initially at fair value plus in the case of 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 Group's financial assets include cash and short-term deposits, trade and other receivables, loans, other receivables and unquoted financial instruments.



## Notes to the consolidated financial statements (*continued*)

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

#### h) Financial assets (*continued*)

##### Subsequent measurement

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

##### **Financial assets at fair value through profit or loss**

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

##### **Loans and receivables**

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

##### **Financial assets available for sale**

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

##### **Derecognition**

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

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

##### **Impairment of financial assets**

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

##### **Financial assets carried at amortised cost**

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

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

## Notes to the consolidated financial statements (*continued*)

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

#### h) Financial assets (*continued*)

##### Financial assets carried at amortised cost (*continued*)

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

##### Financial assets available for sale

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

An analysis of fair values of financial instruments and further details as to how they are measured is provided in *Note 28*.

#### i) Financial liabilities

##### Initial recognition and measurement

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

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

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

##### Subsequent measurement

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

##### **Financial liabilities at amortised cost**

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

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

##### **Derecognition**

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

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

##### **Offsetting of financial instruments**

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

##### **Fair value of financial instruments**

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

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

## Notes to the consolidated financial statements (*continued*)

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

#### i) Financial liabilities (*continued*)

##### ***Derivative financial instruments and hedge accounting***

###### **Initial recognition and subsequent measurement**

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

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

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

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

###### ***Cash flow hedges***

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

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

###### **Current versus non-current classification**

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

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

#### j) Fleet

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

Depreciation has been provided on the basis that the carrying value of the vessels, less recognised impairment, less an estimated scrap value of USD 450 per lightweight ton (2012: USD 450), is written off on a straight line basis over the remainder of their anticipated useful lives - 25 years from the date of construction.

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

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

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

## Notes to the consolidated financial statements (*continued*)

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

#### j) Fleet (*continued*)

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

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

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

#### k) Property, plant and equipment

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

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

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

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

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

#### l) Intangible assets

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

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

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

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

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

##### Licences

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

#### m) Leases

##### **Group as a lessee**

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

## Notes to the consolidated financial statements (*continued*)

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

#### m) Leases (*continued*)

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

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

#### n) Borrowing costs

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

The Group capitalises borrowing costs for all eligible assets.

#### o) Investment properties

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

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

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

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

#### p) Inventories

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

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

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs 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 income statement as impairment of non-financial assets.

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

#### r) Cash and short-term deposits

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

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

## Notes to the consolidated financial statements (*continued*)

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

#### s) Provisions

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

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

### 2.4. Changes in accounting policy and disclosures

The following new and amended IFRS and interpretations became effective in 2013, but did not have significant impact on these consolidated 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).

## Notes to the consolidated financial statements (*continued*)

### 3. Standards issued but not yet effective (*continued*)

**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 Group.

### 4. Significant accounting judgments, estimates and assumptions

#### Judgments

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

#### Estimates and assumptions

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

##### Anticipated useful economic life of the fleet

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

Management have made sensitivity analysis of residual value by increasing/decreasing expected life of fleet by 5 years. The effect of this change in estimate would decrease depreciation expenses by USD 3.9 million (2012: USD 5.0 million) or increase depreciation expenses by USD 6.8 million (2012: USD 8.4 million).

##### Recoverable value of fleet

The recoverable amount is the most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in *Note 20*.

##### Recoverable value of investment property

To determine the recoverable value of investment properties the Group engages independent certified valuation specialists. The valuer uses valuation techniques based on a discounted cash flow model and comparable market data. The estimated recoverable value of the investment properties is the most sensitive to the estimated rent rates, discount rates as well as other assumptions applied. The key assumptions used in determining the recoverable value of the investment properties as of 31 December 2013 and 2012 is provided in *Note 22*.

## Notes to the consolidated financial statement *(continued)*

### 4. Significant accounting judgments, estimates and assumptions *(continued)*

#### Going Concern

As disclosed in Note 31, 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 consolidated financial statements.



## Notes to the consolidated financial statement *(continued)*

### 5. Acquisition of assets

On 18 December 2013 the Group acquired 100% of Riga Maritime LLC shares for USD 13.0 million cash consideration. The contribution was paid in cash.

In August 2009 one of the LSC Group's companies entered into a Purchase Agreement with the terms and conditions based on a sale and leaseback transaction (USD 30 million) in respect of Riga Maritime LLC which owns m.t. Riga with final payment date in August 2014. As a result of the acquisition of Riga Maritime LLC in 2013 the Purchase Agreement in respect of sales and leaseback transaction of m.t. Riga was terminated.

The consideration paid was allocated to the purchased assets and liabilities based on their fair values as follows:

	Fair value recognised on acquisition 2013	
	USD'000	LVL'000
Other assets acquired on acquisition	412	210
LSC Group receivable acquired on acquisition	24 432	12 460
	<b>24 844</b>	<b>12 670</b>
Interest bearing bank loan	(11 213)	(5 718)
Trade and other payables	(669)	(341)
	<b>(11 882)</b>	<b>(6 059)</b>
<b>Net assets acquired, 100%</b>	<b>12 962</b>	<b>6 611</b>
Impairment loss of goodwill arising on acquisition and written off to the income statement	38	19
<b>Total consideration</b>	<b>13 000</b>	<b>6 630</b>
<b>Cash outflow on acquisition</b>		
Net cash acquired with the subsidiary	364	186
Cash paid in 2013	(13 000)	(6 630)
<b>Net cash outflow</b>	<b>(12 636)</b>	<b>(6 444)</b>

## Notes to the consolidated financial statement *(continued)*

### 6. Corporate Structure

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

Name	Country of Incorporation	Activity /Vessels
Latmar Holdings Corporation	Liberia	Holding company
Abava Shipping Company Limited	Malta	Liquidated in May 2013
Amata Shipping Company Limited	Malta	In liquidation
Antonio Gramsi Shipping Corporation	Liberia	Dormant
Apollo Holdings Corporation	Cayman Islands	Dormant
Arctic Seal Shipping Company Limited	Cyprus	Dormant
Atlantic Leader Shipping Company Limited	Cyprus	Dormant
Cape Wind Trading Company	Liberia	Dormant
Clipstone Navigation S. A.	Liberia	Dormant
Dawnlight Shipping Company Limited	Cyprus	Dormant
Faroship Navigation Company Limited	Cyprus	Dormant
Gaida Shipping Corporation	Liberia	Dormant
Gevostar Shipping Company Limited	Cyprus	Dormant
Juris Avots Shipping Company Limited	Cyprus	Liquidated in July 2013
Kemeri Navigation Corporation	Liberia	Dormant
Klements Gotvalds Shipping Corporation	Liberia	Dormant
Latalpha Holdings Corporation	Liberia	Intermediate Holding company
Latgale Shipping Company Limited	Malta	Dormant
Latmar Shipping Company Limited	Cyprus	In liquidation
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Lattankers Holdings Corporation	Liberia	Intermediate holding company
Limetree Shipping Company Limited	Malta	m.t. Riga (bareboat charterer)
"LSC Shipmanagement" SIA	Latvia	Ship management services
Noella Maritime Company Limited	Cyprus	Dormant
Pinewood Shipping Corporation	Liberia	Dormant
Radar Shipping Limited	Liberia	Liquidated in September 2013
Razna Shipping Corporation	Liberia	Dormant
Reeferlat Holdings Corporation	Liberia	Intermediate holding company
Rhodos Shipping Company Limited	Cyprus	In liquidation
Riga Maritime LLC	Marshall Islands	m.t. Riga (acquired in December 2013)
Rundale Shipping Company Limited	Cyprus	Liquidated in July 2013
Sagewood Trading Inc.	Liberia	Investment company
<i>Subsidiary of Sagewood Trading Inc.</i>		
"NAFTA Invest" SIA	Latvia	Investment company
<i>Subsidiary of "NAFTA Invest" SIA</i>		
"Skonto Nafta" SIA (71.43%)	Latvia	Investment company
Samburga Shipping Company Limited	Cyprus	Dormant
Saturn Trading Corporation	Liberia	Dormant
S. Tomskis Shipping Co. Ltd.	Malta	Liquidated in May 2013
Taganroga Shipping Corporation	Liberia	Dormant
Tangent Shipping Company Limited	Cyprus	Dormant
Viktorio Shipping Corporation	Liberia	Dormant
Wilcox Holdings Limited	Liberia	Dormant
World Reefer Corporation	Liberia	Liquidated in September 2013
Zemgale Shipping Company Limited	Malta	Dormant
Zoja Shipping Company Limited	Cyprus	Dormant

## Notes to the consolidated financial statement *(continued)*

### 6. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
Lattankers Holdings Corporation	Liberia	Intermediate holding company
Dauids Sikeiros Shipping Corporation	Liberia	Liquidated in September 2013
Dzons Rids Shipping Corporation	Liberia	Dormant
Hose Marti Shipping Corporation	Liberia	Dormant
Imanta Shipping Company Limited	Malta	Dormant
Majori Shipping Company Limited	Malta	Dormant
Pablo Neruda Shipping Company Limited	Cyprus	In liquidation
Talava Shipping Company Limited	Malta	Dormant
Reeferlat Holdings Corporation	Liberia	Intermediate holding company
Akademikis Bocvars Shipping Company Limited	Malta	In liquidation
Akademikis Celomejs Shipping Company Limited	Malta	Liquidated in May 2013
Belgoroda Shipping Co. Ltd.	Malta	Liquidated in May 2013
Juris Avots Shipping Company Limited	Malta	Liquidated in May 2013
Kamilo Sjenfuegoss Shipping Company Limited	Malta	Liquidated in May 2013
Kurska Shipping Company Limited	Malta	Liquidated in May 2013
Pure Shipping Company Limited	Malta	In liquidation
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Latalpha Holdings Corporation	Liberia	Intermediate holding company
Akademikis Vavilovs Shipping Company Limited	Malta	Liquidated in May 2013
Akademikis Zavarickis Shipping Company Limited	Malta	Liquidated in May 2013
Dzintari Shipping Corporation	Liberia	Liquidated in September 2013
Griva Maritime Corporation	Liberia	Liquidated in September 2013
Mahoe Shipping Company Limited	Cyprus	In liquidation
O. Vacietis Shipping Co. Limited	Cyprus	Liquidated in July 2013
Perle Reefer Shipping Company Limited	Malta	Liquidated in June 2013
Rosewood Shipping Corporation	Liberia	Liquidated in October 2012

## Notes to the consolidated financial statement *(continued)*

### 6. Corporate Structure *(continued)*

Name	Country of Incorporation	Activity /Vessels
LSC Holdings Limited	Isle of Man	Holding company
Kabile Navigation Inc.	Marshall Islands	m.t. Krisjanis Valdemars
Kaltene Navigation Inc.	Marshall Islands	Dormant/m.t. Kaltene sold in April 2013
Kandava Navigation Inc.	Marshall Islands	m.t. Kandava
Kazdanga Navigation Inc.	Marshall Islands	m.t. Kazdanga
Kolka Navigation Inc.	Marshall Islands	Dormant/m.t. Kolka sold in November 2013
Kuldiga Navigation Inc.	Marshall Islands	Dormant/m.t. Kuldiga sold in December 2013
Kursa Navigation Inc.	Marshall Islands	m.t. Kraslava
Sabile Navigation Inc.	Marshall Islands	m.t. Ugale
Salacgriva Navigation Inc.	Marshall Islands	m.t. Jurkalne
Saldus Navigation Inc.	Marshall Islands	m.t. Ainazi
Saulkrasti Navigation Inc.	Marshall Islands	m.t. Puze
Sigulda Navigation Inc.	Marshall Islands	m.t. Uzava
Skrunda Navigation Inc.	Marshall Islands	m.t. Piltene
Sloka Navigation Inc.	Marshall Islands	m.t. Ance
Smiltene Navigation Inc.	Marshall Islands	m.t. Usma
Stende Navigation Inc.	Marshall Islands	m.t. Targale
Straupe Navigation Inc.	Marshall Islands	m.t. Salacgriva
Arctic Holding Corporation	Marshall Islands	Holding company
Brasla Shipping Corporation	Marshall Islands	m.t. Latgale
Ritupe Shipping Corporation	Marshall Islands	Liquidated in July 2012
Misa Shipping Corporation	Marshall Islands	Liquidated in July 2012
Imula Shipping Corporation	Marshall Islands	m.t. Zemgale
Latvian Shipping Corporation	Liberia	Liquidated in October 2012
Michelle Finance Corporation	Liberia	Liquidated in October 2012
"LSC Marine Training" SIA	Latvia	Sold in August 2013
Santomar Holdings Company Limited	Cyprus	Investment Holding Company (in liquidation)

## Notes to the consolidated financial statement (*continued*)

### 7. Segment information

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

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

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

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

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

Revenues of approximately USD 29 309 thousand and USD 9 810 thousand (2012: USD 29 006 thousand and USD 8 855 thousand respectively) are derived from two external customers. These revenues are attributable to the shipping segment.

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

## Notes to the consolidated financial statement *(continued)*

### 7. Segment information *(continued)*

Year ended 31 December 2013

	2013 USD '000	2012 USD '000	2013 LVL '000	2012 LVL '000
Time charter hire income	72 950	66 583	38 690	36 535
Freight income	30 594	48 024	16 152	26 026
<b>Voyage income from external customers</b>	<b>103 544</b>	<b>114 607</b>	<b>54 842</b>	<b>62 561</b>
Voyage costs	(14 612)	(26 275)	(7 711)	(14 301)
<b>Net voyage result</b>	<b>88 932</b>	<b>88 332</b>	<b>47 131</b>	<b>48 260</b>
Vessel operating costs	(34 767)	(36 947)	(18 381)	(20 139)
<b>Vessel operating profit</b>	<b>54 165</b>	<b>51 385</b>	<b>28 750</b>	<b>28 121</b>
Other revenues	666	957	354	522
Cost of sales (Vessel operating costs excluding)	(514)	(697)	(273)	(380)
Administrative expenses	(8 308)	(10 228)	(4 384)	(5 580)
Result from disposal of non-financial assets	(4 091)	(1)	(2 223)	(1)
Depreciation and amortisation	(22 892)	(28 476)	(12 176)	(15 524)
Impairment of non-financial assets	(22 916)	(28 238)	(12 388)	(15 279)
Other operating income	1 929	351	789	192
Other operating expenses	(454)	(594)	(243)	(337)
<b>Result before financial items</b>	<b>(2 415)</b>	<b>(15 541)</b>	<b>(1 794)</b>	<b>(8 266)</b>
Interest income	88	25	46	14
Interest expense	(14 678)	(17 977)	(7 771)	(9 805)
Finance expenses, net	(818)	(765)	(419)	(397)
<b>Net result before tax</b>	<b>(17 823)</b>	<b>(34 258)</b>	<b>(9 938)</b>	<b>(18 454)</b>
<b>Segment assets</b>	<b>480 747</b>	<b>567 514</b>	<b>247 586</b>	<b>301 348</b>
Including additions to non-current assets	1 251	4 714	661	2 578

## Notes to the consolidated financial statement *(continued)*

### 7. Segment information *(continued)*

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

	USD '000		LVL '000	
	2013	2012	2013	2012
Net result before taxes for reportable segment	(17 823)	(34 258)	(9 938)	(18 454)
Administrative expenses	(159)	(188)	(84)	(102)
Interest income	9	-	5	-
Interest expense	(41)	-	(21)	-
Finance income/(expenses)	6	1	3	(1)
<b>Loss before tax</b>	<b>(18 008)</b>	<b>(34 445)</b>	<b>(10 035)</b>	<b>(18 557)</b>

	USD '000		LVL '000	
	2013	2012	2013	2012
Segment assets for reportable segment	480 747	567 514	247 586	301 348
<b>Unallocated:</b>				
Investment properties	1 912	1 880	984	999
Other assets of subsidiaries not included in segment	6 158	6 258	3 171	3 323
Available-for-sale financial assets	30 814	30 125	15 869	15 996
<b>Total assets</b>	<b>519 631</b>	<b>605 777</b>	<b>267 610</b>	<b>321 666</b>

### 8. Voyage costs

	USD '000		LVL '000	
	2013	2012	2013	2012
Fuel (Bunkering)	(9 333)	(18 521)	(4 928)	(10 066)
Port expenses	(3 532)	(5 637)	(1 863)	(3 080)
Commissions	(1 747)	(2 117)	(920)	(1 155)
<b>Total</b>	<b>(14 612)</b>	<b>(26 275)</b>	<b>(7 711)</b>	<b>(14 301)</b>

### 9. Cost of sales

	USD '000		LVL '000	
	2013	2012	2013	2012
Crew expenses (Expenses related to wages see in <i>Note 14</i> )	(20 952)	(21 626)	(11 085)	(11 790)
Fleet depreciation (See <i>Note 20</i> )	(20 454)	(25 090)	(10 885)	(13 684)
Repairs and spares	(5 313)	(5 332)	(2 797)	(2 908)
Equipment maintenance expenses	(2 859)	(3 061)	(1 511)	(1 672)
Dry-docking depreciation (See <i>Note 20</i> )	(2 099)	(2 766)	(1 111)	(1 502)
Insurance	(1 874)	(2 181)	(992)	(1 185)
Luboil	(1 776)	(1 923)	(939)	(1 047)
Victualling	(1 207)	(1 288)	(639)	(702)
Staff costs (Expenses related to wages see in <i>Note 14</i> )	(347)	(416)	(184)	(226)
Depreciation and amortisation of other assets	(24)	(49)	(13)	(27)
Other	(953)	(1 816)	(506)	(988)
<b>Total</b>	<b>(57 858)</b>	<b>(65 548)</b>	<b>(30 662)</b>	<b>(35 731)</b>

## Notes to the consolidated financial statement *(continued)*

### 10. Administrative expenses

	USD '000		LVL '000	
	2013	2012	2013	2012
Staff costs <i>(See Note 14)</i>	(4 589)	(4 250)	(2 429)	(2 312)
Professional fees	(2 704)	(4 542)	(1 419)	(2 487)
Occupancy and repairs	(443)	(622)	(234)	(339)
Depreciation and amortisation of other assets	(317)	(573)	(168)	(312)
IT and communication	(238)	(339)	(126)	(185)
Travel and transport	(105)	(83)	(55)	(45)
Mortgage insurance fees	(79)	(98)	(42)	(53)
Real estate tax	(48)	(51)	(25)	(28)
Advertising and marketing	(14)	(15)	(8)	(8)
Other	(245)	(415)	(130)	(225)
<b>Total</b>	<b>(8 782)</b>	<b>(10 988)</b>	<b>(4 636)</b>	<b>(5 994)</b>

### 11. Impairment of non-financial assets

	USD '000		LVL '000	
	2013	2012	2013	2012
Impairment of fleet <i>(See Note 20)</i>	(17 239)	(28 238)	(9 321)	(15 279)
Impairment of assets classified as held for sale <i>(See Note 24)</i>	(5 677)	-	(3 067)	-
<b>Total</b>	<b>(22 916)</b>	<b>(28 238)</b>	<b>(12 388)</b>	<b>(15 279)</b>

### 12. Other operating income

	USD '000		LVL '000	
	2013	2012	2013	2012
Result from sale of subsidiary	619	-	99	-
Income from financial instruments at fair value through profit or loss	413	-	213	-
Income received from previously written off receivables	9	160	4	88
Other income	888	191	473	104
<b>Total</b>	<b>1 929</b>	<b>351</b>	<b>789</b>	<b>192</b>

### 13. Other operating expenses

	USD '000		LVL '000	
	2013	2012	2013	2012
Result from disposal of fleet	(4 089)	-	(2 222)	-
Impairment loss of goodwill arising on acquisition <i>(See Note 5)</i>	(38)	-	(19)	-
Result from disposal of other non-financial assets	(2)	(1)	(1)	(1)
Other operating expenses	(416)	(594)	(224)	(337)
<b>Total</b>	<b>(4 545)</b>	<b>(595)</b>	<b>(2 466)</b>	<b>(338)</b>



## Notes to the consolidated financial statement (continued)

### 14. Employment costs and staff numbers

	USD '000		LVL '000	
	2013	2012	2013	2012
Wages and salaries, included in				
- cost of sales	18 535	19 196	9 808	10 461
- administrative expenses	3 665	3 383	1 940	1 840
Social security costs, included in				
- cost of sales	64	77	34	42
- administrative expenses	874	812	463	442
Other staff costs				
- cost of sales	2	5	1	3
- administrative expenses	50	55	26	30
<b>Total</b>	<b>23 190</b>	<b>23 528</b>	<b>12 272</b>	<b>12 818</b>

The number of the Group's employees as of 31 December 2013 was 380 (2012: 425).

### 15. Finance income

	USD '000		LVL '000	
	2013	2012	2013	2012
Interest income from bank account balances and deposits	17	25	9	14
Interest income from loans issued	80	2	42	1
<b>Total financial income</b>	<b>97</b>	<b>27</b>	<b>51</b>	<b>15</b>
Of which: from financial instruments relating to financial instrument categories (according to IAS 39):				
Loans and receivables	97	27	51	15
<b>Total</b>	<b>97</b>	<b>27</b>	<b>51</b>	<b>15</b>

### 16. Finance costs

	USD '000		LVL '000	
	2013	2012	2013	2012
Interest expense	(14 719)	(17 978)	(7 792)	(9 805)
Bank charges	(238)	(248)	(126)	(136)
Currency exchange transactions/difference, net	(574)	(517)	(290)	(263)
<b>Total financial costs</b>	<b>(15 531)</b>	<b>(18 743)</b>	<b>(8 208)</b>	<b>(10 204)</b>
Of which: from financial instruments relating to financial instrument categories:				
Financial liabilities measured at a mortised cost	(14 719)	(17 978)	(7 792)	(9 805)
<b>Total</b>	<b>(14 719)</b>	<b>(17 978)</b>	<b>(7 792)</b>	<b>(9 805)</b>

## Notes to the consolidated financial statement (continued)

### 17. Income tax

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

	USD '000		LVL '000	
	2013	2012	2013	2012
<b>Current income tax:</b>				
Current income tax charge	(129)	(186)	(69)	(111)
<b>Deferred tax:</b>				
Relating to origination and reversal of temporary differences	(10)	34	(5)	18
<b>Income tax expense reported in the income statement</b>	<b>(139)</b>	<b>(152)</b>	<b>(74)</b>	<b>(93)</b>

Reconciliation between tax expense and accounting loss multiplied by the statutory income tax rate for the years ended 31 December 2013 and 2012 is as follows:

	USD '000		LVL '000	
	2013	2012	2013	2012
<b>Accounting loss before income tax</b>	<b>(18 008)</b>	<b>(34 445)</b>	<b>(10 035)</b>	<b>(18 557)</b>
At statutory income tax rate of 15%	(2 701)	(5 167)	(1 505)	(2 784)
Loss from foreign subsidiaries at 0%	2 669	5 184	1 413	2 835
Non-taxable income/ non-deductible expense	151	130	155	40
Increase in unrecognised deferred tax asset	20	5	11	2
<b>Income tax expense</b>	<b>139</b>	<b>152</b>	<b>74</b>	<b>93</b>

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

### 18. Earnings per share

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

	2013	2012
Net loss for the year attributable to shareholders, USD'000	(18 109)	(34 557)
Weighted average number of ordinary shares in issue, thousand	200 000	200 000
<b>Basic loss per share (USD)</b>	<b>(0.09)</b>	<b>(0.17)</b>
Net loss for the year attributable to shareholders, LVL'000	(10 090)	(18 628)
Weighted average number of ordinary shares in issue, thousand	200 000	200 000
<b>Basic loss per share (LVL)</b>	<b>(0.05)</b>	<b>(0.09)</b>

## Notes to the consolidated financial statement *(continued)*

### 19. Intangible assets

	Patents and licences		Total	
	USD'000	LVL'000	USD'000	LVL'000
<b>Cost</b>				
At 1 January 2012	1 529	832	1 529	832
Additions	37	21	37	21
Disposals/write off	(136)	(74)	(136)	(74)
Exchange differences	34	-	34	-
<b>At 31 December 2012</b>	<b>1 464</b>	<b>779</b>	<b>1 464</b>	<b>779</b>
Additions	37	19	37	19
Disposals/write off	(170)	(92)	(170)	(92)
Exchange differences	42	-	42	-
<b>At 31 December 2013</b>	<b>1 373</b>	<b>706</b>	<b>1 373</b>	<b>706</b>
<b>Amortisation</b>				
At 1 January 2012	1 292	703	1 292	703
Amortisation	241	130	241	130
Disposals/write off	(136)	(74)	(136)	(74)
Exchange differences	30	-	30	-
<b>At 31 December 2012</b>	<b>1 427</b>	<b>759</b>	<b>1 427</b>	<b>759</b>
Amortisation	32	17	32	17
Disposals/write off	(170)	(92)	(170)	(92)
Exchange differences	40	-	40	-
<b>At 31 December 2013</b>	<b>1 329</b>	<b>684</b>	<b>1 329</b>	<b>684</b>
<b>Net book value:</b>				
<b>At 31 December 2012</b>	<b>37</b>	<b>20</b>	<b>37</b>	<b>20</b>
<b>At 31 December 2013</b>	<b>44</b>	<b>22</b>	<b>44</b>	<b>22</b>

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Notes to the consolidated financial statement (continued)

20. Fleet

	Vessels		Capitalised dry-docking expenses		Total fleet in use		Dry-dock in progress		Total fleet	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
<b>Cost</b>										
At 1 January 2012	642 873	349 723	7 247	3 943	650 120	353 666	199	108	650 319	353 774
Additions	-	-	4 536	2 481	4 536	2 481	8	4	4 544	2 485
Disposals/ write off	-	-	(3 119)	(1 706)	(3 119)	(1 706)	-	-	(3 119)	(1 706)
Reclassification	99 441	54 388	1 486	813	100 927	55 201	(77)	(42)	100 850	55 159
Exchange differences	-	(9 941)	-	(140)	-	(10 081)	-	(1)	-	(10 082)
<b>At 31 December 2012</b>	<b>742 314</b>	<b>394 170</b>	<b>10 150</b>	<b>5 391</b>	<b>752 464</b>	<b>399 561</b>	<b>130</b>	<b>69</b>	<b>752 594</b>	<b>399 630</b>
Additions	-	-	977	517	977	517	199	105	1 176	622
Disposals/ write off	(66 294)	(35 098)	(1 698)	(899)	(67 992)	(35 997)	-	-	(67 992)	(35 997)
Reclassification	(33 147)	(17 549)	-	-	(33 147)	(17 549)	(329)	(174)	(33 476)	(17 723)
Exchange differences	-	(10 444)	-	(153)	-	(10 597)	-	-	-	(10 597)
<b>At 31 December 2013</b>	<b>642 873</b>	<b>331 079</b>	<b>9 429</b>	<b>4 856</b>	<b>652 302</b>	<b>335 935</b>	<b>-</b>	<b>-</b>	<b>652 302</b>	<b>335 935</b>
<b>Depreciation and impairment</b>										
At 1 January 2012	137 882	75 008	2 464	1 341	140 346	76 349	-	-	140 346	76 349
Depreciation	25 090	13 684	2 766	1 502	27 856	15 186	-	-	27 856	15 186
Disposals/ write off	-	-	(3 119)	(1 706)	(3 119)	(1 706)	-	-	(3 119)	(1 706)
Reclassification	40 794	22 312	656	359	41 450	22 671	-	-	41 450	22 671
Impairment	28 238	15 279	-	-	28 238	15 279	-	-	28 238	15 279
Exchange differences	-	(3 088)	-	(25)	-	(3 113)	-	-	-	(3 113)
<b>At 31 December 2012</b>	<b>232 004</b>	<b>123 195</b>	<b>2 767</b>	<b>1 471</b>	<b>234 771</b>	<b>124 666</b>	<b>-</b>	<b>-</b>	<b>234 771</b>	<b>124 666</b>
Depreciation	20 454	10 885	2 099	1 111	22 553	11 996	-	-	22 553	11 996
Disposals/ write off	(35 274)	(18 675)	(1 251)	(662)	(36 525)	(19 337)	-	-	(36 525)	(19 337)
Reclassification	(15 049)	(7 967)	-	-	(15 049)	(7 967)	-	-	(15 049)	(7 967)
Impairment	17 239	9 321	-	-	17 239	9 321	-	-	17 239	9 321
Exchange differences	-	(3 782)	-	(58)	-	(3 840)	-	-	-	(3 840)
<b>At 31 December 2013</b>	<b>219 374</b>	<b>112 977</b>	<b>3 615</b>	<b>1 862</b>	<b>222 989</b>	<b>114 839</b>	<b>-</b>	<b>-</b>	<b>222 989</b>	<b>114 839</b>
<b>Net book value:</b>										
<b>At 31 December 2012</b>	<b>510 310</b>	<b>270 975</b>	<b>7 383</b>	<b>3 920</b>	<b>517 693</b>	<b>274 895</b>	<b>130</b>	<b>69</b>	<b>517 823</b>	<b>274 964</b>
<b>At 31 December 2013</b>	<b>423 499</b>	<b>218 102</b>	<b>5 814</b>	<b>2 994</b>	<b>429 313</b>	<b>221 096</b>	<b>-</b>	<b>-</b>	<b>429 313</b>	<b>221 096</b>
<b>Impairment</b>										
<b>At 31 December 2012</b>	<b>82 940</b>	<b>44 041</b>	<b>-</b>	<b>-</b>	<b>82 940</b>	<b>44 041</b>	<b>-</b>	<b>-</b>	<b>82 940</b>	<b>44 041</b>
<b>At 31 December 2013</b>	<b>82 912</b>	<b>42 700</b>	<b>-</b>	<b>-</b>	<b>82 912</b>	<b>42 700</b>	<b>-</b>	<b>-</b>	<b>82 912</b>	<b>42 700</b>

As at 31 December 2013 there is no more vessel based on finance lease terms and conditions. As of 31 December 2012 the net book value of vessel under the finance lease was USD 24.2 million.

Reclassification in 2013 and 2012 represents transfer of the vessels back to/from fleet from/to assets held for sale. See Note 24.

The recoverable amount was estimated based on the higher of calculated value in use and fair value less cost of disposal.

## Notes to the consolidated financial statement *(continued)*

### 20. Fleet *(continued)*

Fleet with the net book value of USD 429.3 million (31.12.2012: USD 517.8 million, excluding m.t. Riga) has been used as security for long term bank loans. *See Note 31.*

Total number of vessels as of 31 December 2013 was 17 (31.12.2012: 20).

In 2013 the Group sold three products tankers with a total deadweight of 111.71 thousand tons (m.t. Kolka, m.t. Kaltene, m.t. Kuldiga built 2003) resulting in a loss from sale in amount of USD 4.1 million.

At 31 December 2013 the Group's own fleet comprises:

	<u>Year of Building</u>	<u>DWT</u>
<b>Product Tankers:</b>		
1 Ainazi	2008	52 606
2 Ance	2006	52 600
3 Jurkalne	2006	52 620
4 Kandava	2007	37 258
5 Kazdanga	2007	37 312
6 Kraslava	2007	37 258
7 Kr.Valdemars	2007	37 266
8 Piltene	2007	52 622
9 Puze	2006	52 622
10 Riga	2001	68 467
11 Salacgriva	2008	52 622
12 Targale	2007	52 622
13 Ugale	2007	52 600
14 Usma	2007	52 684
15 Uzava	2008	52 650
16 Latgale	2011	51 408
17 Zemgale	2011	51 406
<b>Total DWT</b>		<b><u>846 623</u></b>

## Notes to the consolidated financial statement (*continued*)

### 20. Fleet (*continued*)

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

As at 31 December 2013 the recoverable value of fleet was assessed against the higher of fair value less costs of disposal and value in use.

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

The impairment test was performed by comparing the carrying amounts with the value in use of the fleet. Value in use is calculated as the present value of total expected cash flows until age of the vessel is 20 years. Value in use is determined based on discounted cash flow projections. The key assumptions used as of 31 December 2013 are as follows: the Group has used vessels historical (starting from the year of delivery) time charter equivalent rates and operating costs; operating costs are increased every 5 years considering necessary dry-docking; discount rate applied is 7.48% (2012: 8.29%); and the scrap value applied is USD 450 per light weight ton.

With regard to the assessment of recoverable value of the vessel, in 2013 management recognised impairment of four vessels as the carrying value of vessels in use exceeds their recoverable value by USD 17.2 million.

#### **Sensitivity to changes in assumptions**

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

The following individual change in each of the key assumptions would make vessels recoverable amount approximate its carrying amount as of 31 December 2013:

- Decrease in time charter rates by 6.8% in average per day.
- Average increase in operating costs by 16.9%.
- Increase of discount rate by 1.86pp.

## Notes to the consolidated financial statement *(continued)*

### 21. Property, plant and equipment

	Land and building		Other fixed assets		Total	
	USD'000	LVL'000	USD'000	LVL'000	USD'000	LVL'000
<b>Cost</b>						
At 1 January 2012	3 953	2 150	2 924	1 591	6 877	3 741
Additions	-	-	133	72	133	72
Disposals/ write off	-	-	(204)	(111)	(204)	(111)
Exchange differences	96	-	70	-	166	-
<b>At 31 December 2012</b>	<b>4 049</b>	<b>2 150</b>	<b>2 923</b>	<b>1 552</b>	<b>6 972</b>	<b>3 702</b>
Additions	-	-	38	20	38	20
Disposals/ write off	(61)	(32)	(743)	(393)	(804)	(425)
Exchange differences	124	-	70	-	194	-
<b>At 31 December 2013</b>	<b>4 112</b>	<b>2 118</b>	<b>2 288</b>	<b>1 179</b>	<b>6 400</b>	<b>3 297</b>
<b>Depreciation</b>						
At 1 January 2012	793	431	2 415	1 314	3 208	1 745
Depreciation	97	53	258	142	355	195
Disposals/ write off	-	-	(201)	(111)	(201)	(111)
Exchange differences	22	-	61	-	83	-
<b>At 31 December 2012</b>	<b>912</b>	<b>484</b>	<b>2 533</b>	<b>1 345</b>	<b>3 445</b>	<b>1 829</b>
Depreciation	100	53	182	96	282	149
Disposals/ write off	(61)	(32)	(641)	(338)	(702)	(370)
Exchange differences	30	-	66	-	96	-
<b>At 31 December 2013</b>	<b>981</b>	<b>505</b>	<b>2 140</b>	<b>1 103</b>	<b>3 121</b>	<b>1 608</b>
<b>Net book value:</b>						
<b>At 31 December 2012</b>	<b>3 137</b>	<b>1 666</b>	<b>390</b>	<b>207</b>	<b>3 527</b>	<b>1 873</b>
<b>At 31 December 2013</b>	<b>3 131</b>	<b>1 613</b>	<b>148</b>	<b>76</b>	<b>3 279</b>	<b>1 689</b>

The real estate property is pledged as collateral under the received loan on behalf of major shareholder of Parent Company. Carrying value of that property as at 31 December 2013 is USD 3.131 million (31.12.2012: USD 3.137 million).

## Notes to the consolidated financial statement (continued)

### 22. Investment properties

	Land, buildings and other property, plant and equipment		Total	
	USD'000	LVL'000	USD'000	LVL'000
<b>Cost</b>				
At 1 January 2012	5 119	2 785	5 119	2 785
Exchange differences	125	-	125	-
<b>At 31 December 2012</b>	<b>5 244</b>	<b>2 785</b>	<b>5 244</b>	<b>2 785</b>
Exchange differences	164	-	164	-
<b>At 31 December 2013</b>	<b>5 408</b>	<b>2 785</b>	<b>5 408</b>	<b>2 785</b>
<b>Depreciation and impairment</b>				
At 1 January 2012	3 258	1 772	3 258	1 772
Depreciation	26	14	26	14
Exchange differences	80	-	80	-
<b>At 31 December 2012</b>	<b>3 364</b>	<b>1 786</b>	<b>3 364</b>	<b>1 786</b>
Depreciation	27	15	27	15
Exchange differences	105	-	105	-
<b>At 31 December 2013</b>	<b>3 496</b>	<b>1 801</b>	<b>3 496</b>	<b>1 801</b>
<b>Net book value:</b>				
<b>At 31 December 2012</b>	<b>1 880</b>	<b>999</b>	<b>1 880</b>	<b>999</b>
<b>At 31 December 2013</b>	<b>1 912</b>	<b>984</b>	<b>1 912</b>	<b>984</b>
<b>Impairment</b>				
<b>At 31 December 2012</b>	<b>3 135</b>	<b>1 665</b>	<b>3 135</b>	<b>1 665</b>
<b>At 31 December 2013</b>	<b>3 232</b>	<b>1 665</b>	<b>3 232</b>	<b>1 665</b>

One investment property is pledged as collateral under the received loan from major shareholder of Parent Company. The carrying value of that property as at 31 December 2013 is USD 1.907 million (31.12.2012: USD 1.878 million).

There is no income recognised from investment properties in 2013 and 2012. Expenses related to investment properties represent real estate tax, depreciation and minor maintenance expenses.

The fair value of Investment Property as of 31 December 2013 and 31 December 2012 is disclosed in *Note 41*.

At the end of 2013 and 2012 the Group engaged independent certified valuation specialist to determine fair value of assets.

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

In 2013, no impairment was recognised on investment properties. For the valuation of the respective investment properties where discounted cash flow method was used, has been carried out based on following assumptions:

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



## Notes to the consolidated financial statement (continued)

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

Name of the Company	Share	Country of registration
"Via Una" SIA	45.45%	La tvia
"Futbola klubs "Ventspils"" SIA	23.06%	La tvia

### 24. Assets classified as held for sale

	Assets classified as held for sale	
	USD'000	LVL'000
<b>Cost</b>		
At 1 January 2012	71 964	39 149
Reclassification	(71 964)	(39 360)
Exchange differences	-	211
<b>At 31 December 2012</b>	-	-
Reclassification	18 427	9 756
Disposals	(18 427)	(9 756)
<b>At 31 December 2013</b>	-	-
<b>Depreciation and impairment</b>		
At 1 January 2012	12 564	6 835
Reclassification	(12 564)	(6 872)
Exchange differences	-	37
<b>At 31 December 2012</b>	-	-
Impairment	5 677	3 067
Disposals	(5 677)	(3 006)
Exchange differences	-	(61)
<b>At 31 December 2013</b>	-	-
<b>Carrying amount:</b>		
<b>At 31 December 2012</b>	-	-
<b>At 31 December 2013</b>	-	-

In 2012 the Parent company of the Group issued several loans to the Group's subsidiary which resulted in compliance with the necessary minimum cash covenant for the JSC Latvian Shipping Company and its subsidiaries. Therefore decision was taken to reclassify the three vessels back to the fleet in 2012. All three vessels are pledged as collateral under the syndicated loan facility.

In 2013 the Group sold all three vessels. One of the vessels had been classified as assets held for sale during 2013 with completed sales transaction in November 2013. See Note 20.

### 25. Inventories

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
Luboil, provision and slopchest	1 861	2 223	958	1 180
Fuel (bunkers)	1 379	2 488	710	1 321
Other (at cost)	44	55	23	30
<b>Total</b>	<b>3 284</b>	<b>4 766</b>	<b>1 691</b>	<b>2 531</b>

Bunker balances represents bunker on board of vessels employed on SPOT market as at 31 December 2013 and 2012.

## Notes to the consolidated financial statement (continued)

### 26. Trade and other receivables

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

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
Trade receivables*	2 226	8 155	1 146	4 331
Allowance for doubtful debts*	(104)	(101)	(54)	(54)
Due from related parties*	337	441	174	234
Other debtors, net	1 416	3 162	729	1 679
Tax receivable	137	639	71	339
Deferred expenses	885	1 185	456	629
Claims receivable	79	114	41	60
<b>Total</b>	<b>4 976</b>	<b>13 595</b>	<b>2 563</b>	<b>7 218</b>

\*As at 31 December 2012 the following positions "Trade receivables", "Allowance for doubtful debts" and "Due from related parties" are reclassified to "Other current financial assets" (See Note 28).

The analysis of credit quality of financial assets represented below:

	Total USD '000	Neither past due nor impaired USD '000	Past due				Impaired USD '000
			up to 90 days USD '000	91 to 180 days USD '000	181 to 365 days USD '000	More than 365 days USD '000	
			<b>At 31 December 2013</b>	4 058	3 943	-	
<b>At 31 December 2012</b>	11 872	11 277	8	6	474	6	101

	Total LVL '000	Neither past due nor impaired LVL '000	Past due				Impaired LVL '000
			up to 90 days LVL '000	91 to 180 days LVL '000	181 to 365 days LVL '000	More than 365 days LVL '000	
			<b>At 31 December 2013</b>	2 090	2 030	-	
<b>At 31 December 2012</b>	6 304	5 988	4	3	252	3	54

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

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

## Notes to the consolidated financial statement *(continued)*

### 26. Trade and other receivables *(Continued)*

Counterparties

	USD '000		LVL '000	
	2013	2012	2013	2012
Group 1	3 943	11 277	2 030	5 988
Group 2	11	494	6	262
	<b>3 954</b>	<b>11 771</b>	<b>2 036</b>	<b>6 250</b>

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

Group 2 – existing customers with some defaults in the past. All defaults were fully recovered.

Carrying value of the trade and other receivables approximates their fair value (See Note 41). The maximum exposure to credit risk at the reporting date is the carrying value of the receivables. As at 31 December 2013 The Group holds first commercial pledge as a security of trade receivables in amount of USD 272 thousand.

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

	USD '000		LVL '000	
	2013	2012	2013	2012
<b>At 1 January</b>	<b>101</b>	<b>11 987</b>	<b>54</b>	<b>6 521</b>
Write-off	-	(11 269)	-	(6 164)
Reclassification (See Note 28)	-	(623)	-	(330)
Currency translation difference	3	6	-	27
<b>At 31 December</b>	<b>104</b>	<b>101</b>	<b>54</b>	<b>54</b>

### 27. Prepayments

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

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
Prepayments	3 961	4 695	2 040	2 492
Allowances for doubtful prepayments	(3 172)	(3 076)	(1 633)	(1 633)
<b>Prepayments, net</b>	<b>789</b>	<b>1 619</b>	<b>407</b>	<b>859</b>

## Notes to the consolidated financial statement (continued)

### 28. Other financial assets

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
<b>Other non-current financial assets</b>	<b>4 403</b>	<b>4 403</b>	<b>2 268</b>	<b>2 338</b>
Loans issued to LASCO Investment Group	85 672	84 214	44 121	44 717
Allowance for doubtful debt	(81 519)	(80 061)	(41 982)	(42 512)
Other*	250	250	129	133
<b>Other current financial assets</b>	<b>35 048</b>	<b>31 980</b>	<b>18 050</b>	<b>16 981</b>
Loans issued to other companies	2 338	623	1 205	330
Allowance for doubtful debt	(628)	(623)	(324)	(330)
Due from related parties **	553	530	285	282
Deposits with maturity more than three months	1 971	1 325	1 015	703
Available-for-sale financial assets	30 814	30 125	15 869	15 996
<b>Total other financial assets</b>	<b>39 451</b>	<b>36 383</b>	<b>20 318</b>	<b>19 319</b>

#### Information on "Loans issued to LASCO Investment Group"

In 2010 the Group lost control over the "LASCO Investment" SIA Group. As at 31 December 2013 the amount due from "LASCO Investment" SIA Group of USD 86.14 million (2012: USD 84.68 million) represents loans issued with an interest at a margin linked to USD LIBOR with a short term repayment term. The net value of the loans issued has been decreased to the fair value of assets pledged as of 31 December 2013 representing USD 4.2 million (2012: USD 4.2 million).

The part of the loans in amount of USD 470 thousand represented as "Other current financial assets".

Part of the loans due from "LASCO Investment" SIA Group are not past due, however, the loans were impaired. The fair value of the loan issued to "LASCO Investment" SIA is disclosed in Note 41;

#### Information on "Loans issued to Other companies"

The rest of the balance in amount of USD 1.7 million as at 31 December represents short term loan issued with an interest at a margin linked to USD LIBOR (See Note 41).

\* Fair value of the other financial assets is disclosed in Note 41.

\*\*The position includes loan issued to related party with no maturity term, therefore it would be ineffective and impracticable to determine its fair value and as a result the loan is not included in Note 41.

### 28 (a) Deposits with maturity more than three months

During the reporting period the effective interest rate on deposits with maturity of more than three months from the date of placement amounted to 0.44 % for the period of deposit in 2013 (in 2012: 0.45%).

	USD '000		LVL '000	
	2013	2012	2013	2012
<b>At 1 January</b>	<b>1 325</b>	-	<b>703</b>	-
Additions	606	1 294	321	703
Interest accrued	-	1	-	-
Exchange differences	40	30	(9)	-
<b>At 31 December</b>	<b>1 971</b>	<b>1 325</b>	<b>1 015</b>	<b>703</b>

Fair value of the deposits with maturity more than three month is disclosed in Note 41.

### 28 (b) Available – for – sale financial assets

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
Shares in "Latvijas Naftas Tranzits" JSC	30 814	30 125	15 869	15 996
<b>Total other current financial assets</b>	<b>30 814</b>	<b>30 125</b>	<b>15 869</b>	<b>15 996</b>

Due to lack of information the Management was not able to assess the fair value of shares in JSC "Latvijas Naftas Tranzits". As of 31 December 2013 and 2012 the investment is accounted at cost less any impairment charge recognised.

The maximum exposure to credit risk at the reporting date is the carrying value of the Other financial assets. The Group holds shares of "Latvijas Naftas Tranzits" JSC collateral as security on behalf of major shareholder of the LSC.

## Notes to the consolidated financial statement (continued)

### 29. Cash and short-term deposits

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
Cash at banks and on hand	36 163	25 117	18 624	13 336
Bank deposits with maturity less than 3 months at the date of placement	405	1 016	209	540
<b>Cash and cash equivalents total</b>	<b>36 568</b>	<b>26 133</b>	<b>18 833</b>	<b>13 876</b>

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

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
AAA	26 384	13 980	13 588	7 423
A+	8 634	11 380	4 447	6 043
A	1 366	669	703	355
B	100	-	52	-
Cash on board of vessels	84	104	43	55
<b>Cash and cash equivalents total</b>	<b>36 568</b>	<b>26 133</b>	<b>18 833</b>	<b>13 876</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The maximum exposure to credit risk at the reporting date is the carrying value of the Cash and short term deposits. The Group does not hold any collateral as security. See also *Note 41*.

### 30. Share capital and reserves

#### Share capital

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

#### Other components of equity

##### Cash flow hedge reserve

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

##### Foreign currency translation reserve

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

## Notes to the consolidated financial statement (continued)

### 31. Interest bearing loans

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
Repayments due within the next twelve months	38 287	32 431	19 718	17 220
Unamortised prepaid financing expenses *	(1 210)	(1 225)	(623)	(650)
<b>Net current portion</b>	<b>37 077</b>	<b>31 206</b>	<b>19 095</b>	<b>16 570</b>
Non-current portion	218 283	269 465	112 416	143 085
Unamortised prepaid financing expenses *	(2 692)	(3 500)	(1 386)	(1 858)
<b>Net non-current portion</b>	<b>215 591</b>	<b>265 965</b>	<b>111 030</b>	<b>141 227</b>
Total loans outstanding	256 570	301 896	132 134	160 305
Total unamortised prepaid financing expenses*	(3 902)	(4 725)	(2 009)	(2 508)
<b>Total loans, net of unamortised financing costs</b>	<b>252 668</b>	<b>297 171</b>	<b>130 125</b>	<b>157 797</b>

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

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 years 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.

There are no undrawn loan balances as at the end of 2013 and 2012.

The loans are denominated in US dollars.

The loans are repayable in equal quarterly instalments and a balloon payment due together with the last instalment. Interest is calculated based on US\$ LIBOR plus margin. See also section *Capital management in Note 41*.

The loans are scheduled to be repaid as follows:

Year	USD million	LVL million
2014	38.3	19.7
2015	27.1	14.0
2016	59.1	30.4
2017	132.1	68.0
<b>Total</b>	<b>256.6</b>	<b>132.1</b>

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

	USD' 000		LVL' 000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
Borrowings bearing fixed interest rate (considering effect of SWAP agreements)	41 285	44 365	21 262	23 558
Borrowings bearing variable interest rate reprised in 3 months	215 285	257 531	110 872	136 747
<b>Total</b>	<b>256 570</b>	<b>301 896</b>	<b>132 134</b>	<b>160 305</b>

## Notes to the consolidated financial statement (continued)

### 32. Finance lease

In August 2009 one of the LSC Group's Companies entered into a Purchase Agreement with the terms and conditions based on sales and leaseback transaction (USD 30 million) with Riga Maritime LLC with repayment date in August 2014.

On 18 December 2013 the LSC Group acquired 100% of Riga Maritime LLC (see Note 5). As a result of acquisition the Purchase Agreement was terminated in respect of sale and leaseback of m.t. Riga, therefore at the end of the reporting year finance lease liabilities amounted to USD nil (2012: USD 25.807 million).

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

	Minimum payments		Present value of payments		Minimum payments		Present value of payments	
	USD '000		USD '000		LVL '000		LVL '000	
	2013	2012	2013	2012	2013	2012	2013	2012
Within one year	-	4 577	-	1 607	-	2 430	-	853
Unamortised prepaid financing expenses	-	(160)	-	(160)	-	(85)	-	(85)
<b>Net current portion</b>	<b>-</b>	<b>4 417</b>	<b>-</b>	<b>1 447</b>	<b>-</b>	<b>2 345</b>	<b>-</b>	<b>768</b>
After one year but not more than five years	-	26 156	-	24 456	-	13 889	-	12 986
Unamortised prepaid financing expenses	-	(96)	-	(96)	-	(51)	-	(51)
<b>Net non-current portion</b>	<b>-</b>	<b>26 060</b>	<b>-</b>	<b>24 360</b>	<b>-</b>	<b>13 838</b>	<b>-</b>	<b>12 935</b>
Minimum lease payments	-	30 477	-	25 807	-	16 183	-	13 703
Less amounts representing finance charges	-	(4 670)	-	-	-	(2 480)	-	-
<b>Present value of minimum lease payments</b>	<b>-</b>	<b>25 807</b>	<b>-</b>	<b>25 807</b>	<b>-</b>	<b>13 703</b>	<b>-</b>	<b>13 703</b>

### 33. Derivative financial instruments

	Start date	Maturity date	Notional amount, USD'000	Rate receivable
Interest rate swap	29.12.2008.	28.12.2012.	91 000	2.3950%
Interest rate swap	22.06.2011.	22.06.2016.	24 300	1.9200%
Interest rate swap	21.07.2011.	21.07.2016.	24 300	1.8900%
Interest rate swap	05.01.2010.	11.08.2014.	19 255	2.8500%

These interest rate swaps are used to hedge the Group's cash flow risk from fluctuation of the LIBOR rates and bareboat charter rate fluctuation in case of interest rate swap agreement acquired in 2013.

As at 31 December 2013 the negative fair value of the swaps was USD 1.58 million (31.12.2012.: USD 1.97 million) including USD 250 thousand (acquired in 2013) recognised as derivative financial instruments within current liabilities together with accrued interest in amount of USD 112 thousand and USD 1.22 million (2012: 78 thousand and USD 1.89 million) recognised in equity within Cash flow hedge reserve (change during the period is USD 0.7 million (2012: USD 0.8 million)). Changes in the fair value of the interest rate swap agreement acquired in 2013 are recognised in the consolidated income statement line "Other operating income" USD 413 thousand as the hedge has been assessed as ineffective.

Income and loss recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2013 will be continuously released to comprehensive income statement within net movement of cash flow hedges until the date of swap agreements maturity.

In 2013 the Group acquired interest rate swap agreement with maturity date on 11 August 2014 as a result of purchase of Riga Maritime LLC (See Note 5).

## Notes to the consolidated financial statement (continued)

### 34. Deferred tax liabilities

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

The Group has a total tax loss of USD 3.115 million (2012: USD 3.572) available for the offset against future taxable profits of the Group companies in which the losses arose.

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
Deferred tax liabilities:				
- Deferred tax liabilities to be settled after more than 12 months	-	-	-	-
- Deferred tax liabilities to be settled within 12 months	118	105	61	56
<b>Deferred tax liabilities, net</b>	<b>118</b>	<b>105</b>	<b>61</b>	<b>56</b>

	31.12.2013.		Expiry date
	USD '000	LVL '000	
Tax loss for 2006	2 038	1 049	Year 2014
Tax loss for 2007	31	16	Year 2015
Tax loss for 2008 - 2013	1 046	539	Unlimited

The deferred income tax of Group companies has been calculated from the following temporary differences between value of assets and liabilities in the financial statements and their tax base (tax effect 15% from temporary differences):

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
Temporary difference on depreciation of tangible and intangible assets	138	153	71	81
Gross deferred tax liabilities	138	153	71	81
Other temporary differences	(29)	(50)	(15)	(25)
Tax loss	(467)	(536)	(240)	(285)
Gross deferred tax assets	(496)	(586)	(255)	(310)
Unrecognised deferred tax asset*	476	538	245	285
<b>Net deferred tax liability</b>	<b>118</b>	<b>105</b>	<b>61</b>	<b>56</b>

\*Unrecognised deferred tax asset as at 31 December 2012 includes unrecognised deferred tax asset in amount of USD 96 thousand (LVL 51 thousand) of the Group's company disposed during 2013.

### 35. Deferred revenue

	USD '000		LVL '000	
	2013	2012	2013	2012
<b>At 1 January</b>	<b>2 425</b>	<b>10 261</b>	<b>1 288</b>	<b>5 582</b>
Deferred during the year	1 727	2 425	914	1 326
Released to the income statement	(2 425)	(10 261)	(1 284)	(5 612)
Currency exchange differences	-	-	(29)	(8)
<b>At 31 December</b>	<b>1 727</b>	<b>2 425</b>	<b>889</b>	<b>1 288</b>



## Notes to the consolidated financial statement *(continued)*

### 36. Trade and other payables

	USD '000		LVL '000	
	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
<b>Non-current liabilities</b>				
Due to related parties	31 986	28 781	16 473	15 283
<b>Total non-current liabilities</b>	<b>31 986</b>	<b>28 781</b>	<b>16 473</b>	<b>15 283</b>
<b>Current liabilities</b>				
Due to related parties	1 658	58	854	30
Accrued expenses	2 515	4 204	1 295	2 233
Trade payables	3 740	4 565	1 926	2 424
Loans from other companies	3 029	2 947	1 560	1 565
Other payables	2 548	2 854	1 312	1 516
<b>Total current liabilities</b>	<b>13 490</b>	<b>14 628</b>	<b>6 947</b>	<b>7 768</b>

As at 31 December 2013 "Loans from other companies" represents following:

- Loan in amount of USD 2 729 thousand (31.12.2012: USD 2 647 thousand) with interest linked to margin.
- Non-interest bearing loan in amount of USD 300 thousand (31.12.2012: USD 300 thousand).

Terms and conditions on the above financial liabilities:

- Trade and other payables due to related parties are non-interest bearing and have an average terms of repayment within one month, except for the loan advanced from the Group's major shareholder, which bears variable interest rate with maturity in 2017; *see also Note 39*;
- For explanations on the Group's liquidity risk management processes, *refer to Note 41*;
- Trade and other payables are non-interest bearing and have an average term of six months.

### 37. Contingent liabilities

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

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 Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

### 38. Commitments

#### a) Capital commitments

No capital commitments entered into as at 31 December 2013.

#### b) Operating lease commitments – Group as a lessor

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

## Notes to the consolidated financial statement (continued)

### 39. Related party transactions

The major Shareholders (above 5%) as at 31 December 2013 of JSC "Latvian Shipping Company" are:

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

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

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

	USD '000		LVL '000	
	2013	2012	2013	2012
Salary and bonuses	168	172	89	95
Social insurance	40	41	21	23
Outsourcing fees	106	109	56	59
<b>Total</b>	<b>314</b>	<b>322</b>	<b>166</b>	<b>177</b>

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

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

Information on members of the Supervisory Council or Management Board owned shares of the Parent company or its subsidiaries disclosed on pages 8 to 12 of this report. Detailed information about shareholdings of the members of the Supervisory Council and the Management Board as well as on their positions in other companies is available in the Parent company's office upon request.

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

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

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

The total amounts due from/to the shareholder and the entities under joint control of the shareholder were as follows in 2013 and as at 31 December:

	Income	Expenses	Amounts due from related parties	Amounts due to related parties
	USD '000	USD '000	USD '000	USD '000
Freight and hire revenue/Outstanding balances	36 212	-	327	(1 295)
Technical management fee and IT services/Outstanding balances	397	-	9	-
Interest income/(expenses)/Outstanding balances	6	(930)	553	(33 629)
Consulting services/Outstanding balances	-	(77)	-	(15)
Other services/Outstanding balances	41	-	1	-
<b>Total</b>	<b>36 656</b>	<b>(1 007)</b>	<b>890</b>	<b>(34 939)</b>
Including:				
Non-current			-	(31 986)
Current			890	(1 658)
Deferred income			-	(1 295)
<b>Total</b>			<b>890</b>	<b>(34 939)</b>

## Notes to the consolidated financial statement (continued)

### 39. Related party transactions (continued)

	<u>Income</u>	<u>Expenses</u>	<u>Amounts due from related parties</u>	<u>Amounts due to related parties</u>
	<u>LVL '000</u>	<u>LVL '000</u>	<u>LVL '000</u>	<u>LVL '000</u>
Freight and hire revenue/Outstanding balances	19 171	-	168	(667)
Technical management fee and IT services/Outstanding balances	211	-	5	-
Interest income/(expenses)/Outstanding balances	3	(491)	285	(17 319)
Consulting services/Outstanding balances	-	(41)	-	(8)
Other services/Outstanding balances	22	-	1	-
<b>Total</b>	<b>19 407</b>	<b>(532)</b>	<b>459</b>	<b>(17 994)</b>
Including:				
Non-current			-	(16 473)
Current			459	(854)
Deferred income			-	(667)
<b>Total</b>			<b>459</b>	<b>(17 994)</b>

The total amounts due from/to the shareholder and the entities under joint control of the shareholder were as follows in 2012 and as at 31 December:

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

## Notes to the consolidated financial statement *(continued)*

### 39. Related party transactions *(continued)*

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

Parties are considered to be related if one party can and does influence on another party's financial and operating decisions. The related parties include the significant shareholders of Group's major shareholder and parties related to these entities. Transactions with related parties are carried out on the arm's length terms and conditions.

The loans advanced from the Group's major shareholder bears variable interest rate with maturity in 2017 (*Note 36*).

### 40. Fees paid to external auditors

	<u>USD '000</u>		<u>LVL '000</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Audit of the financial statements	138	164	73	89
Other consulting services	-	27	-	15
<b>Total</b>	<b><u>138</u></b>	<b><u>191</u></b>	<b><u>73</u></b>	<b><u>104</u></b>

## Notes to the consolidated financial statement (continued)

### 41. Financial instruments and financial risk management

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

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

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

	USD '000		USD '000	
	31.12.2013. Carrying amount	31.12.2013. Fair value	31.12.2012. Carrying amount	31.12.2012. Fair value
<b>Assets at amortized cost/ cost less accumulated depreciation and impairment</b>				
Investment properties	1 912	2 939	1 880	2 854
Trade and other receivables	3 954	3 954	11 771	11 771
Other financial assets	8 084	8 543	5 728	5 934
Cash and cash equivalents	36 568	36 568	26 133	26 133
<b>Total assets</b>	<b>50 518</b>	<b>52 004</b>	<b>45 512</b>	<b>46 692</b>
<b>Liabilities at fair value</b>				
Derivative financial instruments	1 580	1 580	1 968	1 968
<b>Liabilities at amortized cost</b>				
Interest bearing loans	252 668	252 668	297 171	297 171
Finance lease	-	-	25 807	25 807
Trade and other payables	44 002	44 002	41 338	41 338
<b>Total liabilities</b>	<b>298 250</b>	<b>298 250</b>	<b>366 284</b>	<b>366 284</b>

	LVL '000		LVL '000	
	31.12.2013. Carrying amount	31.12.2013. Fair value	31.12.2012. Carrying amount	31.12.2012. Fair value
<b>Assets at amortized cost/ cost less accumulated depreciation and impairment</b>				
Investment properties	984	1 513	999	1 516
Trade and other receivables	2 036	2 036	6 250	6 250
Other financial assets	4 164	4 400	3 041	3 151
Cash and cash equivalents	18 833	18 833	13 876	13 876
<b>Total assets</b>	<b>26 017</b>	<b>26 782</b>	<b>24 166</b>	<b>24 793</b>
<b>Liabilities at fair value</b>				
Derivative financial instruments	813	813	1 044	1 044
<b>Liabilities at amortized cost</b>				
Interest bearing loans	130 125	130 125	157 797	157 797
Finance lease	-	-	13 703	13 703
Trade and other payables	22 661	22 661	21 951	21 951
<b>Total liabilities</b>	<b>153 599</b>	<b>153 599</b>	<b>194 495</b>	<b>194 495</b>

## Notes to the consolidated financial statement (continued)

### 41. Financial instruments and financial risk management (continued)

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

The Group 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 remaining maturity (less than 1 year). As a result the Group assumes that the fair value of those assets approximates to their carrying amount.

Level 2 contain derivative financial instruments.

Level 3 contains investment properties, trade and other receivables, other financial assets, loans, trade and other payables and other liabilities. Trade and other receivables, other financial assets trade and other payables and other liabilities are assets and liabilities with short term remaining maturity (less than 1 year). As a result the Group assumes that the fair value of those assets and liabilities approximates to their carrying amount.

Loans received from credit institutions are at arm's length and carry margin plus USD LIBOR rate; therefore the Group assumes that the carrying value of the loans approximates their fair value.

The fair value of investment properties are assessed according to independent certified real estate valuations of the properties.

The Group's assets and liabilities according to the hierarchy of input data for determining fair value are as follows (disclosed in amortised cost and where mentioned in fair value):

	<b>31.12.2013.</b>			
	<b>USD '000</b>	<b>USD '000</b>	<b>USD '000</b>	<b>USD '000</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets at amortized cost/ cost less accumulated depreciation and impairment</b>				
Investment properties	-	-	1 912	1 912
Trade and other receivables	-	-	3 954	3 954
Other financial assets	1 971	-	6 113	8 084
Cash and cash equivalents	36 568	-	-	36 568
<b>Total assets</b>	<b>38 539</b>	<b>-</b>	<b>11 979</b>	<b>50 518</b>
<b>Liabilities at fair value</b>				
Derivative financial instruments	-	1 580	-	1 580
<b>Liabilities at amortized cost</b>				
Interest bearing loans	-	-	252 668	252 668
Trade and other payables	-	-	44 002	44 002
<b>Total liabilities</b>	<b>-</b>	<b>1 580</b>	<b>296 670</b>	<b>298 250</b>
	<b>31.12.2013.</b>			
	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets at amortized cost/ cost less accumulated depreciation and impairment</b>				
Investment properties	-	-	984	984
Trade and other receivables	-	-	2 036	2 036
Other financial assets	1 015	-	3 149	4 164
Cash and cash equivalents	18 833	-	-	18 833
<b>Total assets</b>	<b>19 848</b>	<b>-</b>	<b>6 169</b>	<b>26 017</b>
<b>Liabilities at fair value</b>				
Derivative financial instruments	-	813	-	813
<b>Liabilities at amortized cost</b>				
Interest bearing loans	-	-	130 125	130 125
Trade and other payables	-	-	22 661	22 661
<b>Total liabilities</b>	<b>-</b>	<b>813</b>	<b>152 786</b>	<b>153 599</b>

## Notes to the consolidated financial statement *(continued)*

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

	31.12.2012.			
	USD '000	USD '000	USD '000	USD '000
	Level 1	Level 2	Level 3	Total
<b>Assets at amortized cost/ cost less accumulated depreciation and impairment</b>				
Investment properties	-	-	1 880	1 880
Trade and other receivables	-	-	11 771	11 771
Other financial assets	1 325	-	4 403	5 728
Cash and cash equivalents	26 133	-	-	26 133
<b>Total assets</b>	<b>27 458</b>	<b>-</b>	<b>18 054</b>	<b>45 512</b>
<b>Liabilities at fair value</b>				
Derivative financial instruments	-	1 968	-	1 968
<b>Liabilities at amortized cost</b>				
Interest bearing loans	-	-	297 171	297 171
Finance lease	-	-	25 807	25 807
Trade and other payables	-	-	41 338	41 338
<b>Total liabilities</b>	<b>-</b>	<b>1 968</b>	<b>364 316</b>	<b>366 284</b>

	31.12.2012.			
	LVL '000	LVL '000	LVL '000	LVL '000
	Level 1	Level 2	Level 3	Total
<b>Assets at amortized cost/ cost less accumulated depreciation and impairment</b>				
Investment properties	-	-	999	999
Trade and other receivables	-	-	6 250	6 250
Other financial assets	703	-	2 338	3 041
Cash and cash equivalents	13 876	-	-	13 876
<b>Total assets</b>	<b>14 579</b>	<b>-</b>	<b>9 587</b>	<b>24 166</b>
<b>Liabilities at fair value</b>				
Derivative financial instruments	-	1 044	-	1 044
<b>Liabilities at amortized cost</b>				
Interest bearing loans	-	-	157 797	157 797
Finance lease	-	-	13 703	13 703
Trade and other payables	-	-	21 951	21 951
<b>Total liabilities</b>	<b>-</b>	<b>1 044</b>	<b>193 451</b>	<b>194 495</b>

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

## Notes to the consolidated financial statement (continued)

### 41. Financial instruments and financial risk management (continued)

#### Foreign currency risk

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

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

#### Credit risk

The Group is exposed to credit risk through its trade accounts receivable, deposits with maturity more than 3 months and cash and cash equivalents. The Group's cash equivalents have been invested in secure financial institutions. The Group manages its credit risk by continuously assessing the credit history of customers. In addition, receivable balances are monitored on an on-going basis to ensure that the Group's exposure to bad debts is minimised. The Group's policy is to trade only with well recognised, creditworthy third parties. Two largest debtors comprise 11% of total trade accounts receivable as of 31 December 2013 (2012: 21%). Both debtors have no history of defaults.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. See *Notes 26, 28 and 29* for further disclosure on credit risk.

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

#### Interest rate risk

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

During year 2008 Group started to manage its interest rate risk by having a balanced portfolio of fixed and variable rate loans. The Group is monitoring market trends and fix the interest rates for loans for the subsequent period based on the market expectations, when it is considered to be reasonable. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2013, after taking into account the effect of interest rate swaps USD 41 million (2012: USD 44 million), approximately 16% (2012: 15%) of the Group's borrowings are at a fixed rate of interest. A general rise in the interest rate by 0.25 or decrease by 0.1 percentage point would, all other things being equal, have no effect on the financial result related to hedged portfolio.

#### Interest rate sensitivity

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

	2013		2012	
	Increase/(decrease) in basic points	Effect on profit before tax (USD'000)	Increase/(decrease) in basic points	Effect on profit before tax (USD'000)
US \$ - LIBOR	0.25%	(646)	0.50%	(1 099)
	-0.10%	258	-0.10%	220
EUR - LIBOR	0.10%	(13)	0.50%	(39)
	-0.10%	13	-0.10%	8

	2013		2012	
	Increase/(decrease) in basic points	Effect on profit before tax (LVL'000)	Increase/(decrease) in basic points	Effect on profit before tax (LVL'000)
US \$- LIBOR	0.25%	(342)	0.50%	(601)
	-0.10%	137	-0.10%	120
EUR - LIBOR	0.10%	(9)	0.50%	(21)
	-0.10%	9	-0.10%	4



## Notes to the consolidated financial statement *(continued)*

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

#### Liquidity and cash management risk

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

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

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

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

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

<b>USD '000</b>					
<b>As at 31 December 2013</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
Bank loans	-	9 119	36 460	233 009	278 588
Trade and other payables	3 080	8 768	1 706	35 861	49 415
<b>Total</b>	<b>3 080</b>	<b>17 887</b>	<b>38 166</b>	<b>268 870</b>	<b>328 003</b>

<b>As at 31 December 2012</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
Bank loans	-	10 388	31 836	296 948	339 172
Finance lease	-	1 088	3 505	25 763	30 356
Trade and other payables	2 656	11 972	-	34 133	48 761
<b>Total</b>	<b>2 656</b>	<b>23 448</b>	<b>35 341</b>	<b>356 844</b>	<b>418 289</b>

<b>LVL '000</b>					
<b>As at 31 December 2013</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
Bank loans	-	4 696	18 777	120 000	143 473
Trade and other payables	1 587	4 516	879	18 468	25 450
<b>Total</b>	<b>1 587</b>	<b>9 212</b>	<b>19 656</b>	<b>138 468</b>	<b>168 923</b>

<b>As at 31 December 2012</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
Bank loans	-	5 516	16 905	157 679	180 100
Finance lease	-	578	1 861	13 680	16 119
Trade and other payables	1 410	6 358	-	18 125	25 893
<b>Total</b>	<b>1 410</b>	<b>12 452</b>	<b>18 766</b>	<b>189 484</b>	<b>222 112</b>

## Notes to the consolidated financial statement (continued)

### 41. Financial instruments and financial risk management (continued)

#### Liquidity and cash management risk (continued)

The table below summarises the maturity profile of the Group's derivatives at 31 December 2013 and 2012 based on contractual undiscounted payments settled on net basis:

USD '000					
As at 31 December 2013	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Outgoing undiscounted payments	-	(313)	(768)	(1 133)	(2 214)
Incoming undiscounted payments	-	33	113	499	645
<b>Net undiscounted cash flow</b>	<b>-</b>	<b>(280)</b>	<b>(655)</b>	<b>(634)</b>	<b>(1 569)</b>
As at 31 December 2012	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Outgoing undiscounted payments	-	(121)	(621)	(1 908)	(2 650)
Incoming undiscounted payments	-	21	109	614	744
<b>Net undiscounted cash flow</b>	<b>-</b>	<b>(100)</b>	<b>(512)</b>	<b>(1 294)</b>	<b>(1 906)</b>

LVL '000					
As at 31 December 2013	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Outgoing undiscounted payments	-	(161)	(396)	(583)	(1 140)
Incoming undiscounted payments	-	17	58	257	332
<b>Net undiscounted cash flow</b>	<b>-</b>	<b>(144)</b>	<b>(338)</b>	<b>(326)</b>	<b>(808)</b>
As at 31 December 2012	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Outgoing undiscounted payments	-	(64)	(330)	(1 013)	(1 407)
Incoming undiscounted payments	-	11	58	326	395
<b>Net undiscounted cash flow</b>	<b>-</b>	<b>(53)</b>	<b>(272)</b>	<b>(687)</b>	<b>(1 012)</b>

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value. The appropriate provisions for asset impairment have been made and the recoverable (market) value of the assets approximates their carrying value. According to the corporate guarantee issued by the Parent Company (see also Note 31) the Group should maintain various capital requirements which are met at the 31 December 2013.

### 42. Legal cases

The Group is involved in several court cases as defendant, mainly in Latvia and United Kingdom. According to the Management's assessment it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

### 43. Subsequent events

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 February 2014 Latvian Shipping Company announced a partial settlement in respect of the Antonio Gramsci Corporation court case in the High Court in London. The value of the structured settlement is receivable of Euro 14 million. The terms of the settlement are subject to a confidentiality agreement.

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".

On 24 March 2014 m.t. "Riga" (68 467 DWT; built 2001) memorandum of agreement on sale of vessel was signed with expected delivery in Q2 2014.

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