LATVIJAS KUĢNIECĪBA

Public Joint Stock Company
“Latvian Shipping Company”

Consolidated Financial Statements

31 December 2014

Contents

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

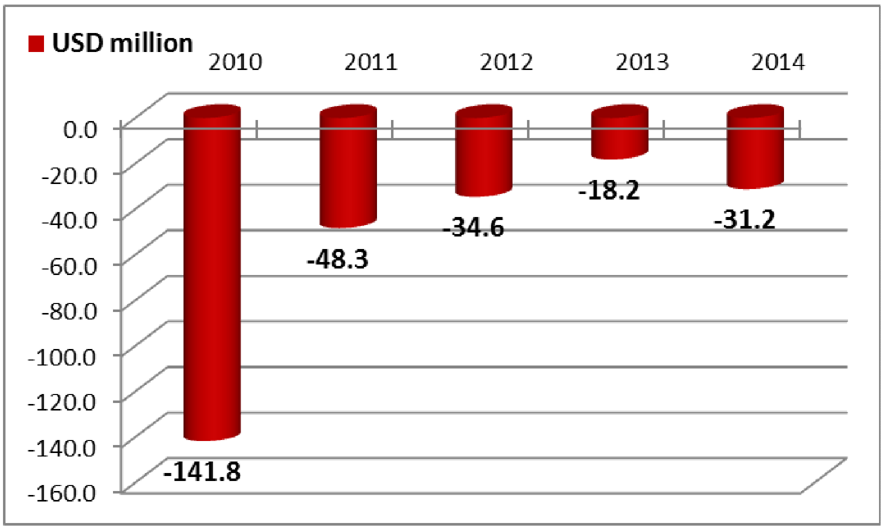
Latvian Shipping Company is a joint stock company listed on the NASDAQ OMX Riga and is primarily engaged in the transportation of oil products, chemicals and crude oil utilizing its handy size and medium range tanker fleet. The Company is proud of its professional and well-trained Latvian officers, crew 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 the twelve months of 2014 amounted to a loss of 31.16 million USD predominantly as a consequence of vessel impairments in the amount of 55.25 million USD. The accumulated result for the twelve months of 2014 was positively affected by income from a partial settlement in respect of the Antonio Gramsi Corporation court case in the High Court in London in the amount of 20.05 million USD, sale of real estate property located on Jēkaba street, Riga, and disposal of the investment in the medical clinic SIA "Via Una". The other negative factors were losses from the sale of the vessel "Riga" in the amount of 0.34 million USD as well as impairment of the investment in AS "Latvijas Naftas tranzīts" in the amount of 8.34 million USD.

LSC Group net loss for the period 01.01.2010. – 31.12.2014.:



Throughout 2014 the LSC Group was able to achieve a positive result from its chartering and other activities achieving a net profit before tax and exceptionals of 12.68 million USD which is 3.68 million USD more than in the previous reporting period even with fewer vessels in the LSC Group's fleet. The EBITDA margin as a percentage of turnover remained at a similar level to the previous year with an actual EBITDA of 39.59 million USD which was 7.74 million USD lower than the previous year.

The key financial indicators for the last five financial years are as follows (million USD):

	2010	2011	2012	2013	2014
Turnover (million USD)	111.16	97.58	115.56	104.21	91.29
Net loss (million USD)	-141.75	-48.27	-34.60	-18.15	-31.16
Gross profit before depreciation (million USD)	35.89	41.58	52.22	54.32	46.57
% of turnover	*32.28%*	*42.61%*	*45.19%*	*52.13%*	*51.01%*
EBITDA (million USD)	14.15	26.84	40.99	47.33	39.59
% of turnover	*12.72%*	*27.51%*	*35.47%*	*45.42%*	*43.37%*
EBIT (million USD)	-14.4	0.53	12.51	24.43	20.85
% of turnover	*-12.95%*	*0.54%*	*10.83%*	*23.44%*	*22.84%*
Profit before tax and exceptionals (million USD)	*-42.11*	*-19.63*	*-6.21*	*9.00*	*12.68*
% of turnover	*-37.87%*	*-20.12%*	*-5.37%*	*8.64%*	*13.89%*
Return on Assets (%)	-17.20%	-7.20%	-5.70%	-3.22%	-6.62%
Return on Equity (%)	-36.90%	-16.60%	-14.20%	-8.00%	-16.33%
EPS (USD)	-0.71	-0.24	-0.18	-0.09	-0.16
Liquidity ratio (quick)	1.7	2.2	1.5	1.5	1.3
P/E ratio	n/a	n/a	n/a	n/a	n/a

Management report *(continued)*

During 2014 the LSC Group continued to improve its cash position significantly and as at 31st December 2014 the Group had cash and deposits with maturity up to twelve months in the amount of 45.58 million USD, which is 7.04 million USD more than at the beginning of 2014. This was achieved due to positive cash flow from shipping activities as well as from the sale of non-shipping assets.

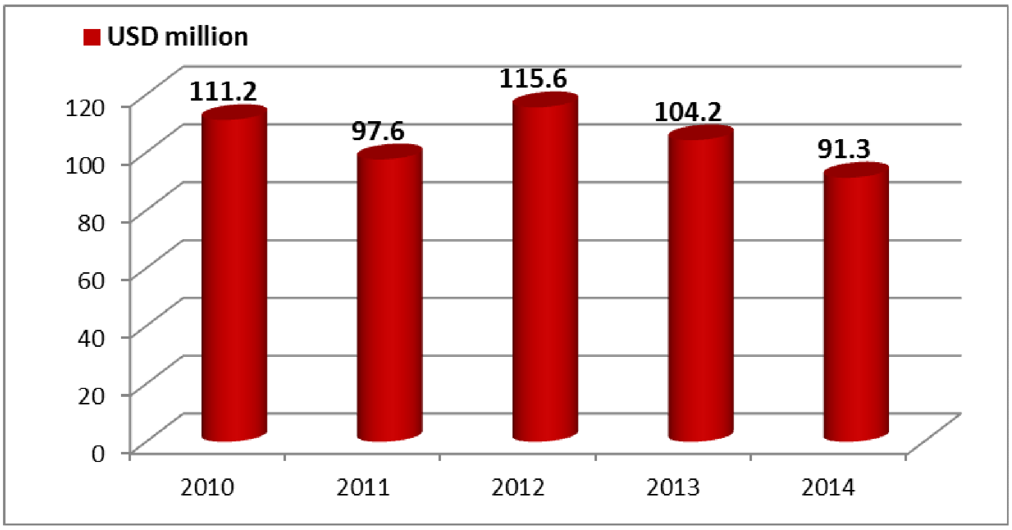
Despite active cost cutting total administrative costs in 2014 were at the same level as the previous year due to additional one off legal costs related to the partial settlement in respect of the Antonio Gramsi Corporation court case in the High Court in London (2014: 8.44 million USD versus 2013: 8.78 million USD).

During 2014 the LSC Group fleet was reduced from seventeen to sixteen vessels. The sale of the vessel “Riga” was concluded in March, 2014 which as previously explained, was required in order to limit the losses originating from the vessel “Riga” sale – leaseback – repurchase agreement concluded back in 2009 by the previous management of LSC Group. The vessel was delivered to the buyer in June, 2014. No further sales are currently planned from the LSC Group’s commercial fleet, thus the fleet as of the 31th December 2014 consisted of sixteen medium range and handy size tankers with an average age of 7 years.

During the last quarter of 2014 the LSC Group technical management company SIA “LSC Shipmanagement” contracted the technical management of two third party tankers with the possibility to extend this arrangement by a further two tankers in 2015. Apart from improving the company’s income stream it is testament to the quality of the LSC Group services and competence of its staff.

At the end of the reporting period all sixteen vessels of the LSC fleet were employed on period business. The average employment period for the portion of the fleet on time charter, plus bareboat charter, at the end of the reporting period was approximately eight months, excluding the bareboat charters (fourteen vessels) – almost seven months.

LSC Group turnover for the period 01.01.2010. – 31.12.2014.



The LSC Group turnover mainly consisted of income from the fleet as well as a small portion of income generated from third party tanker technical management and real estate rent. The total income of the fleet for 2014 was 90.71 million USD which was 13% less than the previous year (2013: 103.54 million USD) due to the gradual decrease in the number of vessels in the LSC fleet throughout 2013/2014. At the beginning of 2013 there were twenty vessels within the fleet whereas there were sixteen vessels at the end of 2014.

Management report *(continued)*

The LSC Group fleet's net voyage result for 2014 was 77.44 million USD which was lower than in the previous year (2013: 88.93 million USD). 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 2014 before depreciation and dry-dock amortisation was 46.28 million USD; also lower than the previous period (2013: 54.17 million USD) due to the decrease in the number of vessels in the LSC fleet.

LSC continues to release average quarterly TCE (Time charter equivalent) rates achieved by LSC Group's fleet:
Average LSC Group's Fleet net TCE (time charter equivalent) USD/per day

Fleet	Y 2010	Y 2011	Y 2012	Y 2013	Q1 2014 (A)	Q2 2014 (A)	Q3 2014 (A)	Q4 2014 (E)	Y2014 (E)
HS (4 vessels)*	10 271	11 216	12 703	13 468	12 885	13 017	13 769	13 317	13 594
MR (12 vessels)**	11 849	12 882	13 168	14 174	14 421	13 725	14 075	14 203	14 130
LR1 (1 vessel) ***	16 826	13 623	12 086	12 122	12 309	12 309	n/a	n/a	n/a

**3 HS vessels sold in 2013; remaining number of HS vessels in fleet – 4.*
***From Q3 2013 m/t Latgale and m/t Zemgale removed from above statistics as they are employed on bareboat charter basis.*
****Vessel delivered to new owner in June 2014*

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

Net TCE (time charter equivalent) is 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 the vessel is carrying out repairs or is in dry dock. The above figures reflect combined earnings of the 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 to the date of this report.

Throughout 2014 the majority of the LSC Group fleet were 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 contributed to the Group's financial position both in terms of turnover and profit. Additionally new time charter agreements were negotiated towards the end of the year for twelve month periods at slightly improved TCE levels. The management's commercial strategy throughout 2014 was to employ a large percentage of the fleet in time charter contracts to ensure a steady and transparent revenue stream. This policy will continue always subject to acceptable financial terms and conditions. However there was and will periodically be some exposure to the spot market.

At 31st December 2014 the total of the LSC Group assets was 421.82 million USD. The figure at 31st December 2013 was 519.63 million USD. This decrease in Group assets is, as previously explained, mainly attributable to depreciation and impairments of the fleet. At year end the total value of the LSC Group fleet was 344.00 million USD which considerably exceeds the total value of the outstanding loan facility (215.52 million USD). The total equity of the Group at 31st December 2014 was 163.46 million USD (31st December 2013: 218.06 million USD).

During 2014 the price of LSC shares quoted on the NASDAQ OMX Riga experienced a decrease of 35.62%. The OMX Baltic Benchmark GI index in 2014 increased by 7.65%. There were 1,112 trades of Latvian Shipping Company's shares during 2014 involving 1 449 529 shares worth 656 886 EUR which is 40% of the total share turnover and 5% of trading volume in value terms of all the Latvian companies listed on the Baltic Main List. On 31st December 2014 the capitalization of Latvian Shipping Company shares at NASDAQ OMX Riga was 72.00 million EUR.

Management report *(continued)*

When assessing the performance of LSC throughout 2014 one can reflect on the fact that the company was able to achieve it's main aims of ensuring sufficient funds were generated from trading activities. As a result, debt repayment obligations to our lending bank syndicate were fulfilled and the cash position of the company was increased. The policy of selling non-core assets continued throughout the year and will continue throughout 2015. Looking forward, external economic and geo-political factors will continue to have an impact, for better or worse, on the financial status of LSC; factors which, as already highlighted, are beyond the control of the company. However, that being said, it will be the aim of LSC to continue to ensure its prudent and conservative economic business module will continue to ensure that all its' debt obligations are fulfilled throughout 2015.

Although the fourth quarter of 2014 was encouraging there remains an underlying weakness to the shipping market that has been reflected in LSC Group reporting impairments to the fleet throughout 2014. This decrease in the value of the LSC Group's fleet is determined by comparing third party shipping expert valuations with the "value in use" model is a reflection of the uncertainties that the general worldwide economic and geo-political climate has created. Economic growth drives demand for refined oil and hence increases demand, or not, for oil tankers. Two other factors have also contributed to this decrease in vessel values throughout the period in question. Firstly on the supply side we have seen an increase in the number of new eco design product tankers ordered which have now started to be delivered which might act as a drag on any future market improvement and secondly we continue to see ship owners selling their vessels at distressed levels as they cannot fulfil their debt obligations to their lending banks or to support other loss making areas of their shipping activities.

To summarise, the worldwide economic and geo-political climate will continue to have a major influence, for better or worse, on the future direction of shipping and with particular reference to LSC Group it will be key to see if the recent dramatic drop in the price of crude oil is a reflection of crude oversupply or more negatively a consequence of a lack of demand for refined products.

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Robert Kirkup
Chairman of the Management Board of
Joint Stock Company "Latvian Shipping Company"
Riga, 12 March 2015

Supervisory Council

Chairman of the Supervisory Council	Vladimir Egger (from March 1, 2014 until March 26, 2014; from April 3, 2014) Robert Kirkup (until February 28, 2014)
Deputy Chairman of the Supervisory Council	Rubel Yilmaz (from April 3, 2014) Mikhail Dvorak (until March 26, 2014)
Members of the Supervisory Council:	Simon Boddy Julia Vereschagina (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) Rubel Yilmaz (until April 1, 2014) Vladimir Egger (until April 1, 2014) Ivars Girgensons Kristo Oidermaa Javed Ahmed (until March 26, 2014) Mārtiņš Kvēps (until March 26, 2014) Oļegs Stepanovs (until March 26, 2014) Artūrs Lēmanis (until March 26, 2014)

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.

Rubel 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. Rubel Yilmaz does not own shares of JSC Latvian Shipping Company.

Simon Boddy

Re-elected as a member of the Supervisory Council on March 26, 2014 for a 5 year term. Until the end of 2013 Simon Boddy was a 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 Vereschagina

Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Julia Vereschagina 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.Vereschagina has graduated State University – Higher School of Economics in Moscow. J.Vereschagina 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

Re-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 he 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

Re-elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Kristo Oidermaa has been working in the financial sector since 2006 and currently holds 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

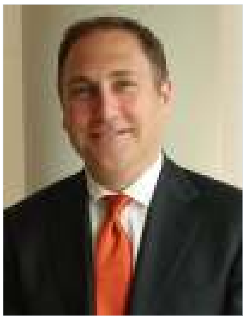
Professional experience of the members of the Management board

Robert Kirkup

The Chairman of the Management Board since March 1, 2014, elected for 5 years term. Previously he held the position of the Chairman of the Supervisory Council from 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. 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

Christopher Kernon holds 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 Rubel Yilmaz and members Simon Boddy, Andrea Schlaepfer, Varvara Maximova, Julia Vereschagina, 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 in 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

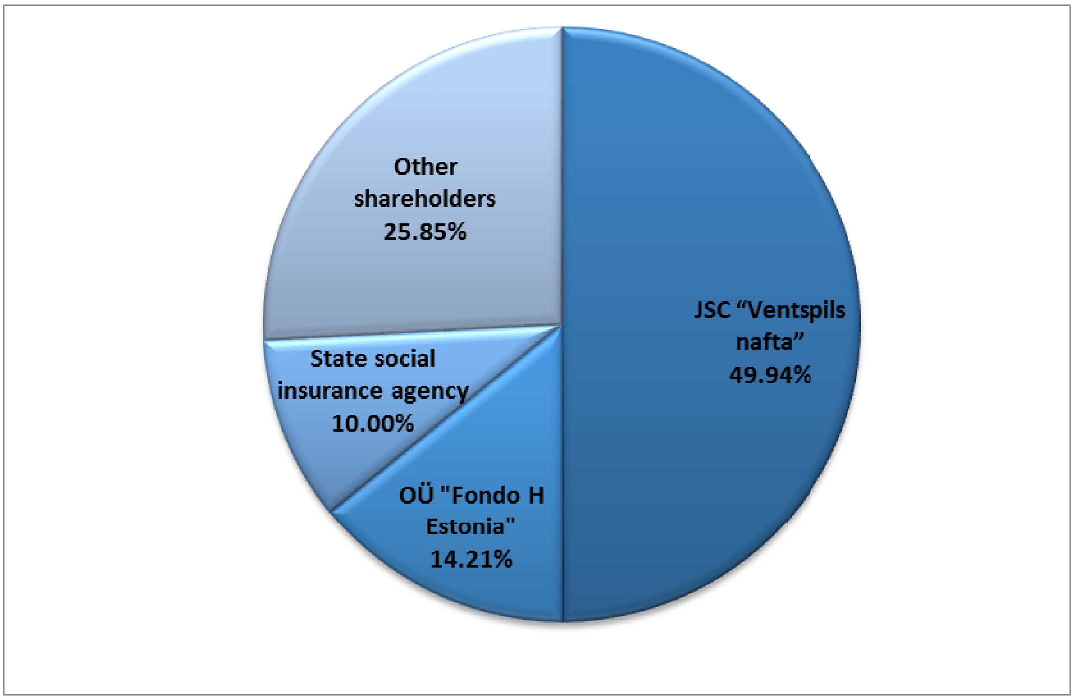
JSC "Latvian Shipping Company" shareholders (over 5%) as of the date when the report is signed:

Name	Description	Ownership interest
JSC "Ventspils nafta"	Listed company	49.94%
OÜ "Fondo H Estonia"	Private company	14.21%
State social insurance agency	Government institution	10.00%

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

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

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 01.01.2014. – 31.12.2014.

Securities information

ISIN	LV0000101103
Ticker	LSC1R
Market	BALTIC MAIN LIST
Issuer	Latvijas kuģniecība (LSC)
Nominal value	0.30 EUR
Total number of securities	200 000 000
Number of listed securities	200 000 000
Listing date	26.06.2002
Liquidity providers	None
Indexes	B2000GI, B2000PI, B2700GI, B2700PI, OMXBBCAPGI, OMXBBCAPPI, OMXBBGI, OMXBBPI OMXBGI, OMXBPI, OMXRGI

Securities trading history, EUR

Price	**2010**	**2011**	**2012**	**2013**	**2014**
Open	0.583	0.526	0.444	0.359	0.550
High	0.740	0.655	0.492	0.593	0.580
Low	0.484	0.428	0.289	0.327	0.352
Last	0.539	0.438	0.359	0.559	0.360
Average	0.575	0.487	0.406	0.437	0.453
Traded volume	5,058,251	13,526,230	985,943	4,575,982	1,449,529
Turnover, million	2.89	8.32	0.38	2.15	0.66
Capitalisation, million	107.85	87.65	71.71	111.84	72.00

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

Review of shares *(continued)*

JSC "Latvian Shipping Company" share price development for the period 01.01.2010. – 31.12.2014.

JSC "Latvian Shipping Company" share price development
in comparison with OMX Baltic Benchmark GI index and OMX Riga index for the period 01.01.2010. – 31.12.2014.

Index/Equity	01.01.2010	31.12.2014	+/-%
OMX Baltic Benchmark GI	314.42	566.56	80.19
OMX Riga	278.94	408.03	46.28
LSC1R	0.569 EUR	0.360 EUR	-36.75

Information source: JSC "NASDAQ OMX RIGA" web page 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 EUR 0.30 (thirty euro cents). 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 agreements that may cause restrictions to the shareholders in respect of use of their voting rights.

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 Group. JSC "Latvian Shipping Company" Group's Personnel Policy aims to ensure equal development opportunities for all the employees and personnel potential development and utilisation thereof for achievement of maximum performance results of the JSC "Latvian Shipping Company" Group. To reach the objectives set, the Group expects its employees to apply their skills and competence to efficient and dynamic work, as well as further development of professional knowledge and skills.

The personnel evaluation policy implemented in the Group provides setting annual objectives for each employee as well as the evaluation of achievement of the objectives and overall participation in meeting the Group'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, 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 22 to 23, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of JSC "Latvian Shipping Company" and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present truly and fairly the financial position of the Group as of 31 December 2014, 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

____

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company "Latvian Shipping Company"
Riga, 12 March 2015

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC "Latvian Shipping Company"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of JSC "Latvian Shipping Company" and its subsidiaries (the "Group") set out on pages 24 to 73 of the accompanying annual report, which comprise the consolidated statement of financial position as of 31 December 2014 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.

PricewaterhouseCoopers SIA, Kr. Valdemāra iela 21-21, Riga, LV-1010, Latvia, LV40003142793
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv

Basis for Qualified Opinion

The Group's "Other financial assets" in the consolidated statement of financial position as at 31 December 2014 and 2013 include the investment in JSC Latvijas Naftas Tranzits with a carrying value of USD 19 931 thousand (EUR 16 416 thousand) and USD 30 747 thousand (EUR 22 531 thousand), respectively. In 2014, the Group has recognised impairment loss on the investment in the amount of USD 8 344 thousand (EUR 6 126 thousand). Based on the financial information of the investee made available to us it is, in our opinion, not possible to reliably determine the fair value or recoverable value of the investment as at 31 December 2014 or 2013. As a result, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the investment as at 31 December 2014 and 2013 or the impairment loss recognised in 2014. Consequently, we were unable to determine whether any adjustments to the carrying amounts at these dates, or to the impairment loss recognised in 2014, were necessary. Our audit opinion on the consolidated financial statements of the year ended 31 December 2013 was modified accordingly.

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 2014, 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 2014 set out on pages 4 to 7 of the accompanying annual report for 2014 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2014.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
18 March 2015

* 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 2014

	Notes	2014 USD'000	2013 USD'000	2014 EUR'000	2013 EUR'000
Voyage income	7	90 711	103 544	68 147	78 033
Income from other services		577	666	443	504
Revenue		**91 288**	**104 210**	**68 590**	**78 537**
Voyage costs	8	(13 270)	(14 612)	(9 990)	(10 972)
Cost of sales	9	(49 969)	(57 858)	(37 851)	(43 628)
Gross profit		**28 049**	**31 740**	**20 749**	**23 937**
Administrative expenses	10	(8 437)	(8 782)	(6 274)	(6 596)
Impairment of non-financial assets	11	(55 247)	(22 916)	(42 942)	(17 627)
Other operating income	12	21 840	1 929	15 980	1 123
Other operating expenses	13	(8 856)	(4 545)	(6 517)	(3 509)
Operating loss		**(22 651)**	**(2 574)**	**(19 004)**	**(2 672)**
Finance income	15	2 839	97	2 234	73
Finance costs	16	(11 012)	(15 531)	(8 323)	(11 680)
Loss before tax		**(30 824)**	**(18 008)**	**(25 093)**	**(14 279)**
Income tax	17	(332)	(139)	(261)	(105)
Loss for the year		**(31 156)**	**(18 147)**	**(25 354)**	**(14 384)**
Attributable to:					
Equity holders of the parent		(31 034)	(18 109)	(25 264)	(14 357)
Non-controlling interests		(122)	(38)	(90)	(27)
		(31 156)	**(18 147)**	**(25 354)**	**(14 384)**
Loss per share		USD (0.16)	USD (0.09)	EUR (0.13)	EUR (0.07)

The notes on pages 30 to 73 are integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on 12 March 2015 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company "Latvian Shipping Company"
Riga, 12 March 2015

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	2014 USD'000	2013 USD'000	2014 EUR'000	2013 EUR'000
Loss for the year	**(31 156)**	**(18 147)**	**(25 354)**	**(14 384)**
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Exchange differences on translation of foreign operations	(3 926)	645	14 480	(3 832)
Net movement on cash flow hedges (*Note 32*)	527	672	323	536
Other comprehensive (expenses)/income for the year, net of tax	**(3 399)**	**1 317**	**14 803**	**(3 296)**
Total comprehensive loss for the year, net of tax	**(34 555)**	**(16 830)**	**(10 551)**	**(17 680)**
Attributable to:				
Equity holders of the parent	(33 742)	(16 985)	(10 461)	(17 653)
Non-controlling interests	(813)	155	(90)	(27)
	(34 555)	**(16 830)**	**(10 551)**	**(17 680)**

The notes on pages 30 to 73 are integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on 12 March 2015 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company “Latvian Shipping Company”
Riga, 12 March 2015

Consolidated statement of financial position

as at 31 December 2014

	Notes	2014 USD'000	2013 USD'000	2014 EUR'000	2013 EUR'000
Assets					
Non-current assets					
Intangible assets	19	16	44	13	31
Fleet	20	343 997	429 313	283 335	314 591
Property, plant and equipment	21	2 814	3 279	2 318	2 403
Investment properties	22	4	1 912	4	1 400
Investment in associates	23	-	15	-	10
Other non-current financial assets	28	24 226	4 403	19 954	3 227
Total non-current assets		**371 057**	**438 966**	**305 624**	**321 662**
Current assets					
Inventories	25	1 575	3 284	1 297	2 406
Trade and other receivables	26	2 312	4 976	1 904	3 647
Prepayments	27	737	789	607	579
Other current financial assets	28	18 209	35 048	14 998	25 684
Cash and cash equivalents	29	27 925	36 568	23 001	26 797
Total current assets		**50 758**	**80 665**	**41 807**	**59 113**
Total assets		**421 815**	**519 631**	**347 431**	**380 775**
Equity and liabilities					
Equity					
Share capital		76 392	362 319	60 000	284 574
Retained earnings/(accumulated deficit)		111 681	(137 388)	88 366	(106 370)
Other components of equity		(30 181)	(13 247)	(18 317)	(23 087)
Equity attributable to equity holders of the parent	30	**157 892**	**211 684**	**130 049**	**155 117**
Non-controlling interests		5 565	6 378	4 584	4 674
Total equity		**163 457**	**218 062**	**134 633**	**159 791**
Non-current liabilities					
Interest bearing loans	31	189 649	215 591	156 205	157 981
Derivative financial instruments	32	145	570	119	417
Trade and other payables	35	29 661	31 986	24 431	23 439
Deferred tax liabilities	33	109	118	90	86
Total non-current liabilities		**219 564**	**248 265**	**180 845**	**181 923**
Current liabilities					
Trade and other payables	35	9 612	13 490	7 916	9 886
Interest bearing loans	31	25 867	37 077	21 306	27 170
Derivative financial instruments	32	619	1 010	510	740
Deferred income	34	2 696	1 727	2 221	1 265
Total current liabilities		**38 794**	**53 304**	**31 953**	**39 061**
Total equity and liabilities		**421 815**	**519 631**	**347 431**	**380 775**

The notes on pages 30 to 73 are integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on 12 March 2015 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company “Latvian Shipping Company”
Riga, 12 March 2015

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Attributable to the equity holders of the parent								
	Share capital	Reserve of share capital denomination	Cash flow hedge reserve	Foreign currency translation reserve	Other reserves	(Accumulated deficit)/retained earnings	Total	Non-controlling interests	Total equity
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
As at 1 January 2013	**362 319**	**-**	**(1 890)**	**(12 481)**	**-**	**(119 279)**	**228 669**	**6 223**	**234 892**
Loss for the period	-	-	-	-	-	(18 109)	**(18 109)**	(38)	**(18 147)**
Other comprehensive income	-	-	672	452	-	-	**1 124**	193	**1 317**
Total comprehensive loss	**-**	**-**	**672**	**452**	**-**	**(18 109)**	**(16 985)**	**155**	**(16 830)**
As at 31 December 2013	**362 319**	**-**	**(1 218)**	**(12 029)**	**-**	**(137 388)**	**211 684**	**6 378**	**218 062**
Loss for the period	-	-	-	-	-	(31 034)	**(31 034)**	(122)	**(31 156)**
Other comprehensive loss	-	-	527	(3 235)	-	-	**(2 708)**	(691)	**(3 399)**
Total comprehensive loss	**-**	**-**	**527**	**(3 235)**	**-**	**(31 034)**	**(33 742)**	**(813)**	**(34 555)**
Other reserves	-	-	-	-	(20 050)	-	**(20 050)**	-	**(20 050)**
Decrease of nominal value of shares	(280 103)	-	-	-	-	280 103	**-**	-	**-**
Reserve of share capital denomination	(5 824)	5 824	-	-	-		**-**	-	**-**
As at 31 December 2014	**76 392**	**5 824**	**(691)**	**(15 264)**	**(20 050)**	**111 681**	**157 892**	**5 565**	**163 457**

Consolidated statement of changes in equity *(continued)*

for the year ended 31 December 2014

	Attributable to the equity holders of the parent								
	Share capital	Reserve of share capital denomination	Cash flow hedge reserve	Foreign currency translation reserve	Other reserves	(Accumulated deficit)/retained earnings	Total	Non-controlling interests	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 1 January 2013	**284 574**	**-**	**(1 428)**	**(18 363)**	**-**	**(92 013)**	**172 770**	**4 701**	**177 471**
Loss for the period	-	-	-	-	-	(14 357)	**(14 357)**	(27)	**(14 384)**
Other comprehensive loss	-	-	536	(3 832)	-	-	**(3 296)**	-	**(3 296)**
Total comprehensive loss	**-**	**-**	**536**	**(3 832)**	**-**	**(14 357)**	**(17 653)**	**(27)**	**(17 680)**
As at 31 December 2013	**284 574**	**-**	**(892)**	**(22 195)**	**-**	**(106 370)**	**155 117**	**4 674**	**159 791**
Loss for the period	-	-	-	-	-	(25 264)	**(25 264)**	(90)	**(25 354)**
Other comprehensive income	-	-	323	14 480	-	-	**14 803**	-	**14 803**
Total comprehensive loss	**-**	**-**	**323**	**14 480**	**-**	**(25 264)**	**(10 461)**	**(90)**	**(10 551)**
Other reserves	-	-	-	-	(14 607)	-	**(14 607)**	-	**(14 607)**
Decrease of nominal value of shares	(220 000)	-	-	-	-	220 000	**-**	-	**-**
Reserve of share capital denomination	(4 574)	4 574	-	-	-		**-**	-	**-**
As at 31 December 2014	**60 000**	**4 574**	**(569)**	**(7 715)**	**(14 607)**	**88 366**	**130 049**	**4 584**	**134 633**

The notes on pages 30 to 73 are integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on 12 March 2015 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company "Latvian Shipping Company"
Riga, 12 March 2015

Consolidated statement of cash flows

for the year ended 31 December 2014

	Notes	2014 USD'000	2013 USD'000	2014 EUR'000	2013 EUR'000
Operating activities					
Loss before tax		**(30 824)**	**(18 008)**	**(25 093)**	**(14 279)**
Non-cash adjustment to reconcile loss before tax to net cash flows:					
Depreciation of property, plant and equipment and fleet	20,21	18 692	22 835	14 133	17 281
Amortisation of intangible assets	19	25	32	18	24
Depreciation of investment properties	22	18	27	13	21
Change in value of financial instruments	12	(250)	(413)	(183)	(303)
Net (profit)/loss on disposal of non-financial assets	12,13	(207)	4 091	(162)	3 163
Net profit from disposal of subsidiary	12	(498)	(619)	(391)	(141)
Income from settlement of court case in London	12	(20 050)	-	(14 607)	-
Currency translation difference		(2 116)	303	(2 702)	(343)
Finance income	15	(463)	(97)	(353)	(73)
Finance costs	16	10 523	14 719	7 953	11 087
Impairment loss of the fleet	11	55 247	22 916	42 942	17 627
Impairment of asset available-for-sale	13	8 344	-	6 126	-
Impairment of loans receivable	13	167	-	137	-
Impairment loss of goodwill at acquisition	5	-	38	-	27
Working capital adjustments:					
Decrease in trade and other receivables and prepayments		2 614	9 327	1 636	7 288
Decrease in inventories		1 709	1 482	1 109	1 195
Decrease in trade and other payables		(2 033)	(5 439)	(386)	(4 536)
Income tax (paid)/received		(123)	355	(93)	267
Net cash flows generated from operating activities		**40 775**	**51 549**	**30 097**	**38 305**
Investing activities					
Proceeds from sale of non-current assets		14 786	41 669	11 129	31 390
Purchase of non-current assets		(353)	(1 368)	(266)	(1 032)
Acquisition of subsidiary	5	-	(12 636)	-	(9 169)
Income/(costs) of sale of subsidiary		514	(15)	403	(11)
Placement of deposits with maturity more than three months	28a	(15 687)	(606)	(11 824)	(457)
Loans received/(issued)		1 565	(1 534)	1 275	(1 155)
Interest received		237	17	178	13
Net cash flows generated from investing activities		**1 062**	**25 527**	**895**	**19 579**
Financing activities					
Payments on finance lease liabilities		-	(1 340)	-	(1 009)
Proceeds from borrowings		-	3 586	-	2 669
Repayment of borrowings		(41 966)	(56 538)	(31 703)	(42 591)
Interest paid		(8 211)	(11 756)	(6 179)	(8 856)
Prepaid financing expenses		(269)	(689)	(202)	(519)
Net cash flows used in financing activities		**(50 446)**	**(66 737)**	**(38 084)**	**(50 306)**
Net (decrease)/increase in cash and cash equivalents		**(8 609)**	**10 339**	**(7 092)**	**7 578**
Cash and cash equivalents at the beginning of the year		**36 568**	**26 133**	**26 797**	**19 744**
Result of currency exchange transactions		(34)	96	3 296	(525)
Cash and cash equivalents at the end of the year	29	**27 925**	**36 568**	**23 001**	**26 797**

The notes on pages 30 to 73 are integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Management Board on 12 March 2015 and signed on its behalf by

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company “Latvian Shipping Company”
Riga, 12 March 2015

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, however is dependent on global geo-politic climate and demand for refined oil and hence for oil tankers.

The consolidated financial statements of the Group for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Management Board on 12 March 2015.

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 Euro which is the presentation currency of the Group, both values are rounded to the nearest thousand (USD'000) and (EUR'000) except when otherwise indicated.

In accordance with the requirements of the ''Law on the Procedure for "Introduction of EUR"", the financial information in these consolidated financial statements is represented in national currency of Latvia – euro (EUR). The comparative data as at 31 December 2013 has been translated from LVL to EUR using rate as defined by the European Union Council - 1 EUR = 0.702804 LVL and rounded to the nearest euro cent.

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 2014.

Subsidiaries are all entities over which the group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 to Income Statement 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 associates 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 associates. 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 associates 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 an 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 euro (EUR) which is the presentation currency of the Group in accordance with the legislation of the Republic of Latvia. Functional currency of non-primary businesses is EUR, which is translated to the functional currency (USD) 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 EUR is done using exchange rate set by the European Central Bank (ECB) and the Bank of Latvia (LB) according to the following rates:

ECB rate as at 31.12.2014 EUR/USD – 1.2141 (average for 2014 – 1.329065)

LB rate as at 31.12.2013 USD/LVL – 0.515 (average for 2013 – 0.529434)

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.

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 73.80% (2013: 75.80%) 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

Corporate income tax

Corporate 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.

Corporate 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 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:

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.
- If the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset. This policy by analogy is applied to equity instruments.
- In case of entering into put and call option agreements over equity instruments; and if the terms and conditions of put/call options are identical, the options are treated as a forward contract. The equity instruments are carried in that party's financial statements who has the risks and rewards with regard to the underlying equity instruments.

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 ton (2013: 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 assumed dry-docking costs 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.

Notes to the consolidated financial statements *(continued)*

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

j) Fleet *(continued)*

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.

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.

Notes to the consolidated financial statements *(continued)*

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

m) Leases

Group as a lessee

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 cash equivalents

Cash and cash equivalents 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 2014, but did not have significant impact on these consolidated financial statements, except additional disclosures:

- **IFRS 10 "Consolidated financial statements"** (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 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 12 "Disclosures of interests in other entities"** (effective for annual periods beginning on or after 1 January 2013, endorsed by EU 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 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);
- **IAS 27 (revised in 2011) "Separate financial statements"** (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);
- **IAS 28 (revised in 2011) "Associates and joint ventures"** (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);
- **Amendments to IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities** (effective for annual 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 IAS 36 "Impairment of assets" on recoverable amount disclosures** (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);
- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

3. Standards issued but not yet effective

Certain new standards and interpretations have been published and come into force on financial periods beginning on or after 1 January 2015, and are not endorsed by the European Union:

Amendments to IAS 19 "Employee benefits plans" regarding defined benefit plans (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU)**.**

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in 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", and
- IAS 39 "Financial instruments – Recognition and measurement".

Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU):

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

Amendment to IFRS 11 "Joint arrangements" on acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

Amendment to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" on depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

Notes to the consolidated financial statements *(continued)*

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

Amendments to IAS 16 "Property, plant and **equipment" and IAS 41 "Agriculture" regarding bearer plants** (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

Amendments to IAS 27 "Separate financial statements" on the equity method (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU).

Annual improvements 2014 (effective for annual periods beginning on or after 1 July 2016, not yet endorsed in the EU):

- IFRS 5 "Non-current assets held for sale and discontinued operations";
- IFRS 7 "Financial instruments: Disclosures" with consequential amendments to IFRS 1;
- IAS 19 "Employee benefits";
- IAS 34 "Interim financial reporting".

IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU).

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

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 3.5 million (2013: USD 3.9 million) or increase depreciation expenses by USD 6.1 million (2013: USD 6.8 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 are further explained in *Note 20*.

Recoverable value of available for sale financial assets

The value of available for sale financial assets was assessed by the management of the Group based on all available information as at the date of preparation of these financial statements.

Notes to the consolidated financial statement *(continued)*

5. Business combination

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	**EUR'000**
Other assets acquired on acquisition	412	299
LSC Group receivable acquired on acquisition	24 432	17 729
	24 844	**18 028**
Interest bearing bank loan	(11 213)	(8 136)
Derivative financial instruments	(663)	(481)
Trade and other payables	(6)	(4)
	(11 882)	**(8 621)**
Net assets acquired, 100%	**12 962**	**9 407**
Impairment loss of goodwill arising on acquisition and written off to the income statement	38	27
Total consideration	**13 000**	**9 434**
Cash outflow on acquisition		
Net cash acquired with the subsidiary	364	265
Cash paid in 2013	(13 000)	(9 434)
Net cash outflow	**(12 636)**	**(9 169)**

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	Liquidated in June 2014
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	Dormant/m.t. Riga (bareboat charterer) sold in June 2014
"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	Liquidated in March 2014
Riga Maritime LLC	Marshall Islands	Dormant/m.t. Riga (owner) sold in June 2014
Rundale Shipping Company Limited	Cyprus	Liquidated in July 2013
Sagewood Trading Inc.	Liberia	Investment company
Subsidiary of Sagewood Trading Inc.		
"NAFTA Invest" SIA	Latvia	Investment company
Subsidiary of "NAFTA Invest" SIA		
"Skonto Nafta" SIA (71.43%)	Latvia	Investment company
Samburga Shipping 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
Davids Sikeiross 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	Liquidated in June 2014
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	Liquidated in June 2014
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

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
Imula Shipping Corporation	Marshall Islands	m.t Zemgale
“LSC Marine Training” SIA	Latvia	Sold in August 2013
Santomar Holdings Company Limited	Cyprus	Investment Holding Company (in liquidation)
“Medical Invest” SIA*	Latvia	Sold in November 2014

*held 45.45% shares of “Via Una” SIA

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.

Revenues of approximately USD 25 825 thousand and USD 9 545 thousand (2013: USD 29 309 thousand and USD 9 810 thousand respectively) are derived from two customers.

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

Year ended 31 December 2014

	USD '000		EUR '000	
	2014	**2013**	**2014**	**2013**
Time charter hire income	66 044	72 950	49 574	55 051
Freight income	24 667	30 594	18 573	22 982
Voyage income from external customers	**90 711**	**103 544**	**68 147**	**78 033**
Voyage costs	(13 270)	(14 612)	(9 990)	(10 972)
Net voyage result	**77 441**	**88 932**	**58 157**	**67 061**
Vessel operating costs	(31 158)	(34 767)	(23 591)	(26 154)
Vessel operating profit	**46 283**	**54 165**	**34 566**	**40 907**
Other revenues	577	666	443	504
Cost of sales (Vessel operating costs excluding)	(292)	(514)	(259)	(388)
Administrative expenses	(8 065)	(8 308)	(5 993)	(6 237)
Result from disposal of non-financial assets	207	(4 091)	162	(3 163)
Depreciation and amortisation	(18 733)	(22 892)	(14 162)	(17 325)
Impairment of non-financial assets	(55 247)	(22 916)	(42 942)	(17 627)
Other operating income	1 238	1 929	957	1 123
Other operating expenses	-	(454)	-	(346)
Result before financial items	**(34 032)**	**(2 415)**	**(27 228)**	**(2 552)**
Interest income	457	88	348	65
Interest expense	(10 467)	(14 678)	(7 911)	(11 057)
Finance expenses, net	1 922	(818)	1 539	(596)
Net result before tax	**(42 120)**	**(17 823)**	**(33 252)**	**(14 140)**
Segment assets	**397 235**	**480 747**	**327 184**	**352 283**
Including additions to non-current assets	339	1 251	279	941

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		EUR '000	
	2014	**2013**	**2014**	**2013**
Net result before taxes for reportable segment	(42 120)	(17 823)	(33 252)	(14 140)
Administrative expenses	(158)	(159)	(120)	(120)
Other operating income	20 050	-	14 607	-
Other operating expenses	(8 511)	-	(6 263)	-
Interest income	6	9	5	7
Interest expense	(56)	(41)	(42)	(30)
Finance (expenses)/income	(35)	6	(28)	4
Loss before tax	**(30 824)**	**(18 008)**	**(25 093)**	**(14 279)**

	USD '000		EUR '000	
	2014	**2013**	**2014**	**2013**
Segment assets for reportable segment	397 235	480 747	327 184	352 283
Unallocated:				
Investment properties	4	1 912	4	1 400
Other assets of subsidiaries not included in segment	4 586	6 158	3 778	4 512
Available-for-sale financial assets	19 990	30 814	16 465	22 580
Total assets	**421 815**	**519 631**	**347 431**	**380 775**

8. Voyage costs

	USD '000		EUR '000	
	2014	**2013**	**2014**	**2013**
Fuel (Bunkering)	(8 417)	(9 333)	(6 289)	(7 012)
Port expenses	(3 452)	(3 532)	(2 632)	(2 651)
Commissions	(1 382)	(1 747)	(1 057)	(1 309)
Other	(19)	-	(12)	-
Total	**(13 270)**	**(14 612)**	**(9 990)**	**(10 972)**

9. Cost of sales

	USD '000		EUR '000	
	2014	**2013**	**2014**	**2013**
Crew expenses (Expenses related to wages see in *Note 14*)	(18 950)	(20 952)	(14 351)	(15 773)
Fleet depreciation (See *Note 20*)	(16 899)	(20 454)	(12 774)	(15 488)
Repairs and spares	(4 415)	(5 313)	(3 348)	(3 980)
Equipment maintenance expenses	(2 487)	(2 859)	(1 875)	(2 150)
Dry-docking depreciation (See *Note 20*)	(1 619)	(2 099)	(1 226)	(1 581)
Luboil	(1 517)	(1 776)	(1 147)	(1 336)
Insurance	(1 444)	(1 874)	(1 102)	(1 411)
Victualling	(1 059)	(1 207)	(802)	(909)
Staff costs (Expenses related to wages see in *Note 14)*	(288)	(347)	(255)	(262)
Depreciation and amortisation of other assets	(2)	(24)	(2)	(18)
Other	(1 289)	(953)	(969)	(720)
Total	**(49 969)**	**(57 858)**	**(37 851)**	**(43 628)**

Notes to the consolidated financial statement *(continued)*

10. Administrative expenses

	USD '000		EUR '000	
	2014	2013	2014	2013
Staff costs *(See Note 14)*	(4 525)	(4 589)	(3 360)	(3 456)
Professional fees	(2 461)	(2 704)	(1 816)	(2 019)
Occupancy and repairs	(514)	(443)	(391)	(333)
IT and communication	(225)	(238)	(169)	(179)
Depreciation and amortisation of other assets	(215)	(317)	(162)	(239)
Travel and transport	(81)	(105)	(61)	(78)
Mortgages interest insurance	(59)	(79)	(45)	(60)
Real estate tax	(50)	(48)	(37)	(36)
Advertising and marketing	(8)	(14)	(6)	(11)
Other	(299)	(245)	(227)	(185)
Total	**(8 437)**	**(8 782)**	**(6 274)**	**(6 596)**

11. Impairment of non-financial assets

	USD '000		EUR '000	
	2014	2013	2014	2013
Impairment of fleet *(See Note 20)*	(55 160)	(17 239)	(42 879)	(13 263)
Impairment of assets classified as held for sale *(See Note 24)*	(87)	(5 677)	(63)	(4 364)
Total	**(55 247)**	**(22 916)**	**(42 942)**	**(17 627)**

12. Other operating income

	USD '000		EUR '000	
	2014	2013	2014	2013
Income from settlement of court case in London	20 050	-	14 607	-
Result from sale of investment property	552	-	416	-
Result from sale of subsidiary	498	619	391	141
Income from liabiliaties written off	460	-	361	-
Income from financial instruments	250	413	183	303
Income received from previously written off receivables	-	9	-	6
Other income	30	888	22	673
Total	**21 840**	**1 929**	**15 980**	**1 123**

13. Other operating expenses

	USD '000		EUR '000	
	2014	2013	2014	2013
Impairment of available-for sale financial asset	(8 344)	-	(6 126)	-
Result from disposal of fleet	(341)	(4 089)	(251)	(3 162)
Impairment of loans receivable	(167)	-	(137)	-
Result from disposal of other non-financial assets	(4)	(2)	(3)	(1)
Impairment loss of goodwill arising on acquisition *(See Note 5)*	-	(38)	-	(27)
Other operating expenses	-	(416)	-	(319)
Total	**(8 856)**	**(4 545)**	**(6 517)**	**(3 509)**

Notes to the consolidated financial statement *(continued)*

14. Employment costs and staff numbers

	USD '000		EUR '000	
	2014	2013	2014	2013
Wages and salaries, included in				
- cost of sales	16 719	18 535	12 698	13 956
- administrative expenses	3 805	3 665	2 831	2 760
Social security costs, included in				
- cost of sales	38	64	35	48
- administrative expenses	677	874	497	659
Other staff costs				
- cost of sales	-	2	-	1
- administrative expenses	42	50	32	37
Total	**21 281**	**23 190**	**16 093**	**17 461**

The number of the Group's employees as of 31 December 2014 was 356 (2013: 380).

15. Finance income

	USD '000		EUR '000	
	2014	2013	2014	2013
Interest income from bank account balances and deposits	291	17	223	13
Interest income from loans issued	172	80	130	60
Currency exchange transactions/difference, net	2 376	-	1 881	-
Total financial income	**2 839**	**97**	**2 234**	**73**
Of which: from financial instruments relating to financial instrument categories (according to IAS 39):				
Loans and receivables	463	97	353	73
Total	**463**	**97**	**353**	**73**

16. Finance costs

	USD '000		EUR '000	
	2014	2013	2014	2013
Interest expense	(10 523)	(14 719)	(7 953)	(11 087)
Bank charges	(489)	(238)	(370)	(179)
Currency exchange transactions/difference, net	-	(574)	-	(414)
Total financial costs	**(11 012)**	**(15 531)**	**(8 323)**	**(11 680)**
Of which: from financial instruments relating to financial instrument categories:				
Financial liabilities measured at amortised cost	(10 523)	(14 719)	(7 953)	(11 087)
Total	**(10 523)**	**(14 719)**	**(7 953)**	**(11 087)**

Notes to the consolidated financial statement *(continued)*

17. Income tax

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

	USD '000		EUR '000	
	2014	**2013**	**2014**	**2013**
Current income tax:				
Current income tax charge	(328)	(129)	(257)	(98)
Deferred tax:				
Relating to origination and reversal of temporary differences	(4)	(10)	(4)	(7)
Income tax expense reported in the income statement	**(332)**	**(139)**	**(261)**	**(105)**

Reconciliation between tax expense and accounting loss multiplied by the statutory income tax rate for the years ended 31 December 2014 and 2013 is as follows:

	USD '000		EUR '000	
	2014	**2013**	**2014**	**2013**
Accounting loss before income tax	**(30 824)**	**(18 008)**	**(25 093)**	**(14 279)**
At statutory income tax rate of 15%	(4 624)	(2 701)	(3 764)	(2 142)
Loss from foreign subsidiaries at 0%	4 884	2 669	3 675	2 010
Non-taxable income/ non-deductible expense	72	151	350	221
Increase in unrecognised deferred tax asset	-	20	-	16
Income tax expense	**332**	**139**	**261**	**105**

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. Diluted number of shares is equal to number of ordinary shares.

	2014	**2013**
Net loss for the year attributable to shareholders, USD'000	(31 304)	(18 109)
Weighted average number of ordinary shares in issue, thousand	200 000	200 000
Basic loss per share (USD)	**(0.16)**	**(0.09)**
Net loss for the year attributable to shareholders, EUR'000	(25 264)	(14 357)
Weighted average number of ordinary shares in issue, thousand	200 000	200 000
Basic loss per share (EUR)	**(0.13)**	**(0.07)**

Notes to the consolidated financial statement *(continued)*

19. Intangible assets

	Patents and licences		Total	
	USD'000	EUR'000	USD'000	EUR'000
Cost				
At 1 January 2013	1 464	1 108	1 464	1 108
Additions	37	27	37	27
Disposals/write off	(170)	(131)	(170)	(131)
Exchange differences	42	-	42	-
At 31 December 2013	**1 373**	**1 004**	**1 373**	**1 004**
Disposals/write off	(57)	(42)	(57)	(42)
Exchange differences	(147)	-	(147)	-
At 31 December 2014	**1 169**	**962**	**1 169**	**962**
Amortisation				
At 1 January 2013	1 427	1 080	1 427	1 080
Amortisation	32	24	32	24
Disposals/write off	(170)	(131)	(170)	(131)
Exchange differences	40	-	40	-
At 31 December 2013	**1 329**	**973**	**1 329**	**973**
Amortisation	25	18	25	18
Disposals/write off	(57)	(42)	(57)	(42)
Exchange differences	(144)	-	(144)	-
At 31 December 2014	**1 153**	**949**	**1 153**	**949**
Net book value:				
At 31 December 2013	**44**	**31**	**44**	**31**
At 31 December 2014	**16**	**13**	**16**	**13**

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	EUR'000	USD'000	EUR'000	USD'000	EUR'000	USD'000	EUR'000	USD'000	EUR'000
Cost										
At 1 January 2013	742 314	560 853	10 150	7 671	752 464	568 524	130	98	752 594	568 622
Additions	-	-	977	736	977	736	199	149	1 176	885
Disposals/ write off	(66 294)	(49 940)	(1 698)	(1 279)	(67 992)	(51 219)	-	-	(67 992)	(51 219)
Reclassification	(33 147)	(24 970)	-	-	(33 147)	(24 970)	(329)	(247)	(33 476)	(25 217)
Exchange differences	-	(14 860)	-	(218)	-	(15 078)	-	-	-	(15 078)
At 31 December 2013	**642 873**	**471 083**	**9 429**	**6 910**	**652 302**	**477 993**	**-**	**-**	**652 302**	**477 993**
Additions	-	-	258	194	258	194			258	194
Reclassification	(41 300)	(31 074)	(1 993)	(1 500)	(43 293)	(32 574)			(43 293)	(32 574)
Exchange differences	-	55 479	-	733	-	56 212	-	-	-	56 212
At 31 December 2014	**601 573**	**495 488**	**7 694**	**6 337**	**609 267**	**501 825**	**-**	**-**	**609 267**	**501 825**
Depreciation and impairment										
At 1 January 2013	232 004	175 291	2 767	2 093	234 771	177 384	-	-	234 771	177 384
Depreciation	20 454	15 488	2 099	1 581	22 553	17 069	-	-	22 553	17 069
Disposals/ write off	(35 274)	(26 572)	(1 251)	(942)	(36 525)	(27 514)	-	-	(36 525)	(27 514)
Reclassification	(15 049)	(11 336)	-	-	(15 049)	(11 336)	-	-	(15 049)	(11 336)
Impairment	17 239	13 263	-	-	17 239	13 263	-	-	17 239	13 263
Exchange differences	-	(5 382)	-	(82)	-	(5 464)	-	-	-	(5 464)
At 31 December 2013	**219 374**	**160 752**	**3 615**	**2 650**	**222 989**	**163 402**	**-**	**-**	**222 989**	**163 402**
Depreciation	16 899	12 774	1 619	1 226	18 518	14 000	-	-	18 518	14 000
Reclassification	(30 235)	(22 749)	(1 162)	(875)	(31 397)	(23 624)	-	-	(31 397)	(23 624)
Impairment	55 160	42 879	-	-	55 160	42 879	-	-	55 160	42 879
Exchange differences	-	21 481	-	352	-	21 833	-		-	21 833
At 31 December 2014	**261 198**	**215 137**	**4 072**	**3 353**	**265 270**	**218 490**	**-**	**-**	**265 270**	**218 490**
Net book value:										
At 31 December 2013	**423 499**	**310 331**	**5 814**	**4 260**	**429 313**	**314 591**	**-**	**-**	**429 313**	**314 591**
At 31 December 2014	**340 375**	**280 351**	**3 622**	**2 984**	**343 997**	**283 335**	**-**	**-**	**343 997**	**283 335**
Impairment										
At 31 December 2013	**82 912**	**60 757**	**-**	**-**	**82 912**	**60 757**	**-**	**-**	**82 912**	**60 757**
At 31 December 2014	**125 747**	**103 572**	**-**	**-**	**125 747**	**103 572**	**-**	**-**	**125 747**	**103 572**

Reclassification in 2014 and 2013 represents transfer of the vessels from fleet 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 344.0 million (31.12.2013: USD 429.3 million) has been used as security for long term bank loans. *See Note 31.*

Total number of vessels as of 31 December 2014 was 16 (31.12.2013: 17).

In 2014 the Group sold tanker m.t. Riga with deadweight of 68.467 thousand tons resulting in a loss from sale in the amount of USD 341 thousand. In 2013 the three product tankers with a total deadweight of 111.71 thousand tons were sold (m.t. Kolka, m.t. Kaltene, m.t. Kuldiga built 2003) were sold resulting in a loss from sale in amount of USD 4.1 million. *(Note 13)*

At 31 December 2014 the Group's own fleet comprises:

	Year of Building	DWT
Product Tankers:		
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 Salacgriva	2008	52 622
11 Targale	2007	52 622
12 Ugale	2007	52 600
13 Usma	2007	52 684
14 Uzava	2008	52 650
15 Latgale	2011	51 408
16 Zemgale	2011	51 406
Total DWT		**778 156**

As at 31st December 2014 and 2013 the recoverable amount of the fleet was assessed against the higher of the fair value less costs of disposal and value in use. Each single vessel is considered a separate cash generating unit (CGU) as each vessel generates cash inflows that are largely independent of those from other assets.

The recoverable amount of several CGUs has been determined based on fair value less costs of disposal where value in use calculations resulted in lower amount than the fair value, while the recoverable amount of the remaining CGUs was determined based on value in use where value in use calculations resulted in higher amounts than the fair value.

Fair value was determined by an independent shipbroker acceptable to the Group's lending bank syndicate. Each vessel valuation was assessed on a "willing seller willing buyer" basis at the prevailing market levels at the time the valuation was requested; subject to the vessel being in sound condition and being available for delivery.

The value in use was calculated by determining the total expected cash flow of each vessel in the fleet until the vessel reached the age of fifteen (2013: twenty). Value in use was determined based on discounted cash flow projections using a combination of the latest forecasted time charter rates for the next three years (determined by using the average time charter assessments of two independent shipbrokers from USD 13 900 – 14 700 daily TC-rate); thereafter for the period until the vessels reached the age of fifteen years the historical time charter equivalent rates were used (daily TC-rate from USD 13 700 – 15 100). In 2013 only the average historical time charter equivalent rates were used from USD 13 500 – 16 600.

Historical annual operating costs from USD 2.17 – 2.41 million (2013: USD 2.17 – 2.41 million) from the date of delivery were used and increased every 5th year in order to provide for necessary dry-docking costs. The discount rate applied was 7.05% (2013: 7.48%); and the scrap value applied was USD 450 per ton (2013: USD 450 per ton).

With regard to assessment of recoverable amount of the vessels, the carrying value of the vessels exceeded their recoverable amount as at 31st December 2014 and impairment charge of USD 55.16 million was recognised (2013: USD 17.2 million).

Notes to the consolidated financial statement *(continued)*

21. Property, plant and equipment

	Land and building		Other fixed assets		Total	
	USD'000	EUR'000	USD'000	EUR'000	USD'000	EUR'000
Cost						
At 1 January 2013	4 049	3 059	2 923	2 208	6 972	5 267
Additions	-	-	38	28	38	28
Disposals/ write off	(61)	(45)	(743)	(559)	(804)	(604)
Exchange differences	124	-	70	-	194	-
At 31 December 2013	**4 112**	**3 014**	**2 288**	**1 677**	**6 400**	**4 691**
Additions	6	4	75	56	81	60
Disposals/ write off	-	-	(591)	(445)	(591)	(445)
Exchange differences	(454)	-	(208)	-	(662)	-
At 31 December 2014	**3 664**	**3 018**	**1 564**	**1 288**	**5 228**	**4 306**
Depreciation						
At 1 January 2013	912	689	2 533	1 914	3 445	2 603
Depreciation	100	75	182	137	282	212
Disposals/ write off	(61)	(45)	(641)	(482)	(702)	(527)
Exchange differences	30	-	66	-	96	-
At 31 December 2013	**981**	**719**	**2 140**	**1 569**	**3 121**	**2 288**
Depreciation	102	77	72	56	174	133
Disposals/ write off	-	-	(573)	(433)	(573)	(433)
Exchange differences	(117)	-	(191)	-	(308)	-
At 31 December 2014	**966**	**796**	**1 448**	**1 192**	**2 414**	**1 988**
Net book value:						
At 31 December 2013	**3 131**	**2 295**	**148**	**108**	**3 279**	**2 403**
At 31 December 2014	**2 698**	**2 222**	**116**	**96**	**2 814**	**2 318**

The real estate property is pledged as collateral under the loan received on behalf of major shareholder of the Parent Company. Carrying value of that property as at 31 December 2014 is USD 2.698 million (31.12.2013: USD 3.131 million).

Notes to the consolidated financial statement *(continued)*

22. Investment properties

	Land, buildings and other property, plant and equipment		Total	
	USD'000	EUR'000	USD'000	EUR'000
Cost				
At 1 January 2013	5 244	3 963	5 244	3 963
Exchange differences	164	-	164	-
At 31 December 2013	**5 408**	**3 963**	**5 408**	**3 963**
Disposals	(2 114)	(1 591)	(2 114)	(1 591)
Exchange differences	(415)	-	(415)	-
At 31 December 2014	**2 879**	**2 372**	**2 879**	**2 372**
Depreciation and impairment				
At 1 January 2013	3 364	2 542	3 364	2 542
Depreciation	27	21	27	21
Exchange differences	105	-	105	-
At 31 December 2013	**3 496**	**2 563**	**3 496**	**2 563**
Depreciation	18	13	18	13
Disposals	(275)	(208)	(275)	(208)
Exchange differences	(364)	-	(364)	-
At 31 December 2014	**2 875**	**2 368**	**2 875**	**2 368**
Net book value:				
At 31 December 2013	**1 912**	**1 400**	**1 912**	**1 400**
At 31 December 2014	**4**	**4**	**4**	**4**
Impairment				
At 31 December 2013	**3 232**	**2 368**	**3 232**	**2 368**
At 31 December 2014	**2 875**	**2 368**	**2 875**	**2 368**

One investment property is pledged as collateral under the loan received from the major shareholder of the Parent Company. The carrying value of that property as at 31 December 2013 was USD 1.907 million. In August 2014 the pledged property was sold.

There is no income recognised from investment properties in 2014 and 2013. Expenses related to investment properties represent real estate tax, depreciation and minor maintenance expenses.

The fair value of investment property as of 31 December 2014 and 31 December 2013 is disclosed in *Note 40*.

At the end of 2014 and 2013 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 2014, no impairment was recognised on investment properties. The following assumptions were used:

- Rent rates: USD 1.8 per square meter (2013: USD 2 per square meter);
- Occupancy: May – September (2013: May – September);
- Capitalisation rate: 11% (2013: 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
"Futbola klubs "Ventspils"" SIA	23.06%	Latvia

The investment in the shares of "Futbola klubs "Ventspils"" SIA has been fully impaired as at 31 December 2014 and as at 31 December 2013.

24. Assets classified as held for sale

	Assets classified as held for sale	
	USD'000	EUR'000
Cost		
At 1 January 2013	-	-
Reclassification	18 427	13 881
Disposals	(18 427)	(13 881)
At 31 December 2013	-	-
Reclassification	11 896	8 950
Disposals	(11 896)	(8 951)
Exchange differences	-	1
At 31 December 2014	-	-
Depreciation and impairment		
At 1 January 2013	-	-
Impairment	5 677	4 364
Disposals	(5 677)	(4 277)
Exchange differences	-	(87)
At 31 December 2013	-	-
Impairment	87	63
Disposals	(87)	(65)
Exchange differences	-	2
At 31 December 2014	-	-
Carrying amount:		
At 31 December 2013	-	-
At 31 December 2014	-	-

In 2014 the Group sold one vessel. The vessel was classified as asset held for sale during 2014 with completed sales transaction in June 2014.

In 2013 the Group sold three vessels. One of the vessels was classified as asset held for sale during 2013 with completed sales transaction in November 2013. See *Note 20.*

25. Inventories

	USD '000		EUR '000	
	31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
Luboil, provisions and slopchest	1 549	1 861	1 275	1 363
Fuel (bunkers)	-	1 379	-	1 010
Other (at cost)	26	44	22	33
Total	**1 575**	**3 284**	**1 297**	**2 406**

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

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		EUR '000	
	31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
Trade receivables	1 377	2 226	1 134	1 630
Allowance for doubtful debts	*(20)*	*(104)*	*(16)*	*(76)*
Due from related parties	119	337	98	248
Other debtors, net	6	1 416	6	1 037
Tax receivable	2	137	1	101
Deferred expenses	828	885	681	649
Claims receivable	-	79	-	58
Total	**2 312**	**4 976**	**1 904**	**3 647**

The analysis of credit quality of financial assets is presented below:

	Total	Neither past due nor impaired	Past due				
			up to 90 days	91 to 180 days	181 to 365 days	More than 365 days	Impaired
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
At 31 December 2014	1 502	1 482	-	-	-	-	20
At 31 December 2013	4 058	3 943	-	4	-	7	104

	Total	Neither past due nor impaired	Past due				
			up to 90 days	91 to 180 days	181 to 365 days	More than 365 days	Impaired
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
At 31 December 2014	1 238	1 222	-	-	-	-	16
At 31 December 2013	2 973	2 888	-	3	-	6	76

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		EUR '000	
	31.12.2014.	**31.12.2013.**	**31.12.2014.**	**31.12.2013.**
Group 1	1 482	3 943	1 222	2 888
Group 2	-	11	-	9
	1 482	**3 954**	**1 222**	**2 897**

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 40*). The maximum exposure to credit risk at the reporting date is the carrying value of the receivables. As at 31 December 2014 the Group holds first commercial pledge as a security of trade receivables in amount of USD 189 thousand (31.12.2013: USD 272 thousand).

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

	USD '000		EUR '000	
	2014	**2013**	**2014**	**2013**
At 1 January	**104**	**101**	**76**	**76**
Write-off	(80)	-	(60)	-
Currency translation difference	(4)	3	-	-
At 31 December	**20**	**104**	**16**	**76**

27. Prepayments

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

	USD '000		EUR '000	
	31.12.2014.	**31.12.2013.**	**31.12.2014.**	**31.12.2013.**
Prepayments	3 559	3 961	2 931	2 903
Allowances for doubtful prepayments	*(2 822)*	*(3 172)*	*(2 324)*	*(2 324)*
Prepayments, net	**737**	**789**	**607**	**579**

Notes to the consolidated financial statement *(continued)*

28. Other financial assets

	USD '000		EUR '000	
	31.12.2014.	**31.12.2013.**	**31.12.2014.**	**31.12.2013.**
Other non-current financial assets	**24 226**	**4 403**	**19 954**	**3 227**
Loans issued to LASCO Investment Group	80 337	85 672	66 170	62 779
Allowance for doubtful debt	*(76 351)*	*(81 519)*	*(62 887)*	*(59 736)*
Available-for-sale financial assets *(see 28b)*	19 990	-	16 465	-
Other*	250	250	206	184
Other current financial assets	**18 209**	**35 048**	**14 998**	**25 684**
Loans issued to other companies	610	2 338	503	1 714
Allowance for doubtful debt	*(610)*	*(628)*	*(503)*	*(460)*
Due from related parties**	498	553	410	406
Deposits with maturity more than three months *(see 28a)*	17 709	1 971	14 586	1 444
Available-for-sale financial assets	-	30 814	-	22 580
Other	2	-	2	-
Total other financial assets	**42 435**	**39 451**	**34 952**	**28 911**

Information on "Loans issued to LASCO Investment Group"

In 2010 the Group lost control over the "LASCO Investment" SIA Group. As at 31 December 2014 the amount due from "LASCO Investment" SIA Group of USD 80.81 million (31.12.2013: USD 86.14 million) represents loans issued with an interest at a margin linked to USD LIBOR with a short term repayment term. Loans were originally issued in EUR and USD currencies of EUR 35.44 million and USD 37.78 million respectively. The net value of the loans issued has been decreased to the fair value of assets pledged as of 31 December 2014 representing USD 3.986 million (2013: USD 4.153 million).

The part of the loans in amount of USD 470 thousand is 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. In 2014 additional impairment USD 167 thousand was recognised, however the balance of allowance for doubtful debt has decreased due to impact of currency rate fluctuations in amount of USD 5.335 million.

The fair value of the loan issued to "LASCO Investment" SIA is disclosed in *Note 40*.

Information on "Loans issued to Other companies"

The balance in amount of USD 1.7 million as at 31 December 2013 represents short term loan issued with an interest at a margin linked to USD LIBOR which has been repaid during 2014. (See *Note 40*).

* Fair value of the other financial assets is disclosed in *Note 40*.

**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 40*.

28 (a) Deposits with maturity more than three months

Interest for deposits with maturity more than three months is calculated at the respective short-term deposit rates.

	USD '000		EUR '000	
	2014	**2013**	**2014**	**2013**
At 1 January	**1 971**	**1 325**	**1 444**	**1 000**
Bank deposits maturing more than 3 months from the date of placement	17 650	606	13 280	457
Deposits settled at maturity	(1 963)	-	(1 456)	-
Interest accrued	59	-	49	-
Exchange differences	(8)	40	1 269	(13)
At 31 December	**17 709**	**1 971**	**14 586**	**1 444**

Fair value of the deposits with maturity more than three month is disclosed in *Note 40*.

Notes to the consolidated financial statement *(continued)*

28. Other financial assets *(continued)*

28 (b) Available – for – sale financial assets

	USD '000		EUR '000	
	31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
Shares in "Latvijas Naftas Tranzits" JSC	28 233	30 747	23 254	22 531
Impairment of shares in "Latvijas Naftas Tranzits" JSC	*(8 302)*	-	*(6 838)*	-
Shares in "Ventspils ekspedīcija" SIA	59	67	49	49
Total other current financial assets	**19 990**	**30 814**	**16 465**	**22 580**

Accordance to available information on financial data of JSC "Latvijas Naftas Tranzits" the Management of the Group made an assessment of the recoverable amount of the investment and recognised impairment in amount of USD 8.344 million. As of 31 December 2014 the investment is accounted at cost less any impairment charge recognised.

Changes in allowances for impairment of available-for-sale financial assets:

	USD '000		EUR '000	
	2014	2013	2014	2013
At 1 January	-	-	-	-
Recognised impairment	8 344	-	6 126	-
Currency translation difference	(42)	-	712	-
At 31 December	**8 302**	**-**	**6 838**	**-**

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 as a collateral on behalf of the major shareholder of the LSC.

29. Cash and cash equivalents

	USD '000		EUR '000	
	31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
Cash at banks and on hand	27 531	36 163	22 676	26 500
Bank deposits with maturity less than 3 months at the date of placement	394	405	325	297
Cash and cash equivalents total	**27 925**	**36 568**	**23 001**	**26 797**

Credit quality of cash and cash equivalents (Fitch's):

	USD '000		EUR '000	
	31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
F1	27 839	36 484	22 930	26 736
Cash on board of vessels	86	84	71	61
Cash and cash equivalents total	**27 925**	**36 568**	**23 001**	**26 797**

Under Fitch's classification F1 indicates the strongest intrinsic capacity for timely payment of financial commitments.

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 cash equivalents. The Group does not hold any collateral as security. See also *Note 40*.

Notes to the consolidated financial statement *(continued)*

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, which are publicly traded on NASDAQ OMX Nordic Exchange.

In 2014 the Parent Company decreased its share capital in order to cover the accumulated losses in amount of EUR 220 million (USD 280 million). The share capital before the reduction was EUR 280 million (USD 356 million) (nominal value of one share was EUR 1.40) and was decreased accordingly by the accumulated losses in amount of EUR 220 million (USD 280 million); as a result, the share capital of the Parent Company as at 31 December 2014 is EUR 60 million (USD 76 million).

The Parent Company has decreased share capital by decreasing the nominal value of the shares. The nominal value of the Parent Company's bearer share was reduced by EUR 1.10, and after the reduction the nominal value of share is EUR 0.30. The number of the Parent Company's bearer shares was not changed and the Parent Company's share capital consists of 200 million bearer shares.

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 movement on cash flow hedges recognised in other comprehensive income reflect 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.

Reserve of share capital denomination

On 1 January 2014 Latvia entered into Euro Zone. Therefore the denomination of the Parent Company's bearer shares was changed from LVL to EUR with the nominal value of EUR 1.40. As a result reserve of share capital denomination in amount of USD 5 824 thousand was recognised. The reserve can be distributed based on the shareholders decision.

Other reserves

This reserve was established to reflect the substance over legal form of the option agreements in respect of own equity instruments received as a settlement in the court case in London in 2014.

Notes to the consolidated financial statement *(continued)*

31. Interest bearing loans

	USD '000		EUR '000	
	31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
Repayments due within the next twelve months	27 074	38 287	22 300	28 056
Unamortised prepaid financing expenses *	(1 207)	(1 210)	(994)	(886)
Net current portion	**25 867**	**37 077**	**21 306**	**27 170**
Non-current portion	191 209	218 283	157 491	159 954
Unamortised prepaid financing expenses *	(1 560)	(2 692)	(1 286)	(1 973)
Net non-current portion	**189 649**	**215 591**	**156 205**	**157 981**
Total loans outstanding	218 283	256 570	179 791	188 010
Total unamortised prepaid financing expenses*	(2 767)	(3 902)	(2 280)	(2 859)
Total loans, net of unamortised financing costs	**215 516**	**252 668**	**177 511**	**185 151**

* 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 USD 360 million with the purpose of financing the construction of 14 newbuildings and another for the maximum amount of USD 75 million to finance the purchase of 3 modern second-hand vessels, all forming the LSC Holdings fleet. The USD 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. The USD 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. The guarantees require the Group to maintain specified financial ratios and satisfy financial covenants.

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

In 2013, as a result of the acquisition of Riga Maritime LLC on 18 December 2013, the Group acquired a loan agreement with DVB Bank SE with an outstanding balance of USD 11.2 million. The loan was fully repaid in 2014 as a result of the sale of the vessel (m.t. Riga) securing the loan.

There are no undrawn loan balances as at the end of 2014 and 2013.

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 as follows:

Year	USD million	EUR million
2015	27.1	22.3
2016	59.1	48.7
2017	132.1	108.8
Total	**218.3**	**179.8**

The USD 48.6 million facility is hedged through interest rate swaps. *See Note 32*.

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

	USD' 000		EUR' 000	
	31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
Borrowings bearing fixed interest rate (considering effect of SWAP agreements)	38 205	41 285	31 468	30 253
Borrowings bearing variable interest rate repriced in 3 months	180 078	215 285	148 323	157 757
Total	**218 283**	**256 570**	**179 791**	**188 010**

The weighted average effective interest rate in 2014 was 3.65% (2013: 3.66%). See also section Capital management in *Note 40*.

Interest is calculated based on USD LIBOR plus margin.

As at 31 December 2014 the Group was in compliance with all financial covenants stipulated by the corporate guarantees issued under the USD 360 million loan agreement.

Notes to the consolidated financial statement *(continued)*

32. Derivative financial instruments

	Start date	Maturity date	Notional amount, USD'000	Rate receivable
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 a result of purchase of Riga Maritime LLC.

As at 31 December 2014 the negative fair value of the swaps of USD 764 thousand (31.12.2013.: USD 1.58 million including USD 250 thousand acquired in 2013) was recognised as derivative financial instruments within current liabilities including accrued interest in amount of USD 73 thousand (31.12.2013: 112 thousand).

Fair valuation result of USD 691 thousand (31.12.2013: USD 1.22 million) was recognised in equity within Cash flow hedge reserve (change during the period is USD 527 thousand (2013: USD 672 thousand). 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 250 thousand (2013: USD 413 thousand) and the hedge agreement term ended in August 2014.

Income and loss recognised in the hedge reserve in equity on interest rate swap contracts as of 31 December 2014 will be continuously released to comprehensive income statement within net movement of cash flow hedges until the forecast transaction affects income statement.

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*).

The weighted average interest rate for the fixed legs of the swap agreements in 2014 was 2.28% (2013: 1.94%).

Notes to the consolidated financial statement *(continued)*

33. Deferred tax liabilities

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

	USD '000		EUR '000	
	31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
Deferred tax liabilities:				
- Deferred tax liabilities to be settled after more than 12 months	-	-	-	-
- Deferred tax liabilities to be settled within 12 months	109	118	90	86
Deferred tax liabilities, net	**109**	**118**	**90**	**86**

The Group has a total tax loss of USD 1.092 million as at 31 December 2014 (31.12.2013: USD 3.115) available for the offset against future taxable profits of the Group companies in which the losses arose.

	31.12.2014.		
	USD '000	EUR '000	Expiry date
Tax loss for 2007	27	23	Year 2015
Tax loss for 2008 - 2013	1 065	876	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		EUR '000	
	31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
Temporary difference on depreciation of tangible and intangible assets	125	138	103	101
Gross deferred tax liabilities	125	138	103	101
Other temporary differences	(25)	(29)	(20)	(22)
Tax loss	(164)	(467)	(135)	(342)
Gross deferred tax assets	(189)	(496)	(155)	(364)
Unrecognised deferred tax asset	173	476	142	349
Net deferred tax liability	**109**	**118**	**90**	**86**

The Group did not recognise deferred tax asset as at 31 December 2014 and as at 31 December 2013 due to uncertainty of its recoverability.

34. Deferred revenue

	USD '000		EUR '000	
	2014	2013	2014	2013
At 1 January	**1 727**	**2 425**	**1 265**	**1 833**
Deferred during the year	2 696	1 727	2 028	1 301
Released to the income statement	(1 727)	(2 425)	(1 299)	(1 827)
Currency exchange differences	-	-	227	(42)
At 31 December	**2 696**	**1 727**	**2 221**	**1 265**

Notes to the consolidated financial statement *(continued)*

35. Trade and other payables

	USD '000		EUR '000	
	31.12.2014.	**31.12.2013.**	**31.12.2014.**	**31.12.2013.**
Non-current liabilities				
Due to related parties	29 660	31 986	24 430	23 439
Trade payables	1	-	1	-
Total non-current liabilities	**29 661**	**31 986**	**24 431**	**23 439**
Current liabilities				
Due to related parties	3	1 658	3	1 215
Accrued expenses	2 607	2 515	2 147	1 843
Trade payables	1 519	3 740	1 251	2 740
Loans from other companies	2 728	3 029	2 247	2 220
Other payables	2 755	2 548	2 268	1 868
Total current liabilities	**9 612**	**13 490**	**7 916**	**9 886**

As at 31 December 2014 "Loans from other companies" represents following:

- Loan in amount of USD 2 428 thousand (31.12.2013: USD 2 729 thousand) with interest linked to margin.
- Non-interest bearing loan in amount of USD 300 thousand (31.12.2013: 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 38;*
- For explanations on the Group's liquidity risk management processes, *refer to Note 40*;
- Trade and other payables are non-interest bearing and have an average term of six months.

36. Contingent liabilities

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

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.

37. Commitments

a) Capital commitments

No capital commitments entered into as at 31 December 2014.

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 year period.

Notes to the consolidated financial statement *(continued)*

38. Related party transactions

The major Shareholders (above 5%) as at 31 December 2014 of JSC "Latvian Shipping Company" are:

- JSC "Ventspils nafta" - 49.94%
- OÜ "Fondo H Estonia" - 14.21 %
- 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		EUR '000	
	2014	2013	2014	2013
Salary and bonuses	168	168	126	127
Social insurance	28	40	21	30
Outsourcing fees	103	106	77	80
Total	**299**	**314**	**224**	**237**

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 13 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 Parent 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 2014 and as at 31 December:

	2014		31.12.2014.	
	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	30 088	-	11	(61)
Technical management fee and IT services/Outstanding balances	339	-	4	-
Interest income/(expenses)/Outstanding balances	6	(1 052)	498	(29 660)
Real estate rent/Outstanding balances	163	-	102	-
Consulting services/Outstanding balances	-	(14)	-	(3)
Other services/Outstanding balances	39	-	2	-
Total	**30 635**	**(1 066)**	**617**	**(29 724)**
Including:				
Non-current			-	(29 660)
Current			617	(3)
Deferred income			-	(61)
Total			**617**	**(29 724)**

Notes to the consolidated financial statement *(continued)*

38. Related party transactions *(continued)*

	2014		31.12.2014.	
	Income	Expenses	Amounts due from related parties	Amounts due to related parties
	EUR '000	EUR '000	EUR '000	EUR '000
Freight and hire revenue/Outstanding balances	22 638	-	9	(50)
Technical management fee and IT services/Outstanding balances	256	-	3	-
Interest income/(expenses)/Outstanding balances	5	(799)	410	(24 430)
Real estate rent /Outstanding balances	122	-	84	-
Consulting services/Outstanding balances	-	(10)	-	(3)
Other services/Outstanding balances	29	-	2	-
Total	**23 050**	**(809)**	**508**	**(24 483)**
Including:				
Non-current			-	(24 430)
Current			508	(3)
Deferred income			-	(50)
Total			**508**	**(24 483)**

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:

	2013		31.12.3013.	
	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	-
Total	**36 656**	**(1 007)**	**890**	**(34 939)**
Including:				
Non-current			-	(31 986)
Current			890	(1 658)
Deferred income			-	(1 295)
Total			**890**	**(34 939)**

Notes to the consolidated financial statement *(continued)*

38. Related party transactions *(continued)*

	2013		31.12.2013.	
	Income	Expenses	Amounts due from related parties	Amounts due to related parties
	EUR '000	EUR '000	EUR '000	EUR '000
Freight and hire revenue/Outstanding balances	27 278	-	240	(949)
Technical management fee and IT services/Outstanding balances	300	-	7	-
Interest income/(expenses)/Outstanding balances	4	(699)	406	(24 643)
Consulting services/Outstanding balances	-	(58)	-	(11)
Other services/Outstanding balances	31	-	1	-
Total	**27 613**	**(757)**	**654**	**(25 603)**
Including:				
Non-current			-	(23 439)
Current			654	(1 215)
Deferred income			-	(949)
Total			**654**	**(25 603)**

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

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

39. Fees paid to external auditors

	USD '000		EUR '000	
	2014	2013	2014	2013
Audit of the financial statements	121	138	91	104
Total	**121**	**138**	**91**	**104**

Notes to the consolidated financial statement *(continued)*

40. Financial instruments and financial risk management

The Group's principal financial instruments comprise cash, trade and other accounts receivable, equity instruments, bank loans, 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 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	
	31.12.2014. Carrying amount	31.12.2014. Fair value	31.12.2013. Carrying amount	31.12.2013. Fair value
Assets at amortized cost/ cost less accumulated depreciation and impairment				
Investment properties	4	4	1 912	2 939
Trade and other receivables	1 482	1 482	3 954	3 954
Other financial assets	21 945	21 945	8 084	8 543
Cash and cash equivalents	27 925	27 925	36 568	36 568
Total assets	**51 356**	**51 356**	**50 518**	**52 004**
Liabilities at fair value				
Derivative financial instruments	764	764	1 580	1 580
Liabilities at amortized cost				
Interest bearing loans	215 516	215 516	252 668	252 668
Trade and other payables	37 714	37 714	44 002	44 002
Total liabilities	**253 994**	**253 994**	**298 250**	**298 250**

	EUR '000		EUR '000	
	31.12.2014. Carrying amount	31.12.2014. Fair value	31.12.2013. Carrying amount	31.12.2013. Fair value
Assets at amortized cost/ cost less accumulated depreciation and impairment				
Investment properties	4	4	1 400	2 153
Trade and other receivables	1 222	1 222	2 897	2 897
Other financial assets	18 075	18 075	5 925	6 261
Cash and cash equivalents	23 001	23 001	26 797	26 797
Total assets	**42 302**	**42 302**	**37 019**	**38 108**
Liabilities at fair value				
Derivative financial instruments	629	629	1 157	1 157
Liabilities at amortized cost				
Interest bearing loans	177 511	177 511	185 151	185 151
Trade and other payables	31 063	31 063	32 244	32 244
Total liabilities	**209 203**	**209 203**	**218 552**	**218 552**

Notes to the consolidated financial statement *(continued)*

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

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

The Group uses 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 and deposits with maturity more than three months. Cash and cash equivalents and deposits with maturity more than three months 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, interest bearing 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 and long term loan received from related party 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 "LASCO Investment" SIA Group debt is assessed based on the fair values of properties pledged as security for the loans issued.

The fair value of investment properties and properties described above 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 at amortised cost and where mentioned in fair value):

	31.12.2014.			
	USD '000 Level 1	USD '000 Level 2	USD '000 Level 3	USD '000 Total
Assets at amortized cost/ cost less accumulated depreciation and impairment				
Investment properties	-	-	4	4
Trade and other receivables	-	-	1 482	1 482
Other financial assets	17 709	-	4 236	21 945
Cash and cash equivalents	27 925	-	-	27 925
Total assets	**45 634**	**-**	**5 722**	**51 356**
Liabilities at fair value				
Derivative financial instruments	-	764	-	764
Liabilities at amortized cost				
Interest bearing loans	-	-	215 516	215 516
Trade and other payables	-	-	37 714	37 714
Total liabilities	**-**	**764**	**253 230**	**253 994**

	31.12.2014.			
	EUR '000 Level 1	EUR '000 Level 2	EUR '000 Level 3	EUR '000 Total
Assets at amortized cost/ cost less accumulated depreciation and impairment				
Investment properties	-	-	4	4
Trade and other receivables	-	-	1 222	1 222
Other financial assets	14 586	-	3 489	18 075
Cash and cash equivalents	23 001	-	-	23 001
Total assets	**37 587**	**-**	**4 715**	**42 302**
Liabilities at fair value				
Derivative financial instruments	-	629	-	629
Liabilities at amortized cost				
Interest bearing loans	-	-	177 511	177 511
Trade and other payables	-	-	31 063	31 063
Total liabilities	**-**	**629**	**208 574**	**209 203**

Notes to the consolidated financial statement *(continued)*

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

	31.12.2013.			
	USD '000	USD '000	USD '000	USD '000
	Level 1	Level 2	Level 3	Total
Assets at amortized cost/ cost less accumulated depreciation and impairment				
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
Total assets	**38 539**	**-**	**11 979**	**50 518**
Liabilities at fair value				
Derivative financial instruments	-	1 580	-	1 580
Liabilities at amortized cost				
Interest bearing loans	-	-	252 668	252 668
Trade and other payables	-	-	44 002	44 002
Total liabilities	**-**	**1 580**	**296 670**	**298 250**

	31.12.2013.			
	EUR '000	EUR '000	EUR '000	EUR '000
	Level 1	Level 2	Level 3	Total
Assets at amortized cost/ cost less accumulated depreciation and impairment				
Investment properties	-	-	1 400	1 400
Trade and other receivables	-	-	2 897	2 897
Other financial assets	1 444	-	4 481	5 925
Cash and cash equivalents	26 797	-	-	26 797
Total assets	**28 241**	**-**	**8 778**	**37 019**
Liabilities at fair value				
Derivative financial instruments	-	1 157	-	1 157
Liabilities at amortized cost				
Interest bearing loans	-	-	185 151	185 151
Trade and other payables	-	-	32 244	32 244
Total liabilities	**-**	**1 157**	**217 395**	**218 552**

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

Notes to the consolidated financial statement *(continued)*

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

Foreign currency risk

The Group operates both in Europe and the Americas and is thus exposed to foreign exchange risk. However, the majority of the Group's income and expenses are denominated in U.S. dollars as this is the generally 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 47% of total trade accounts receivable as of 31 December 2014 (31.12.2013.: 11%). 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 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 the Group started to manage its interest rate risk by having a balanced portfolio of fixed and variable rate loans. The Group is monitoring market trends and fix the interest rates for loans for the subsequent period based on the market expectations, when it is considered to be reasonable. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2014, after taking into account the effect of interest rate swaps USD 38 million (31.12.2013.: USD 41 million), approximately 18% (2013: 16%) of the Group's borrowings are at a fixed rate of interest. A general rise in the interest rate by 0.1 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.

	2014		2013	
	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	0.10%	(214)	0.25%	(646)
	-0.10%	214	-0.10%	258
EUR - LIBOR	0.10%	(15)	0.10%	(13)
	-0.10%	15	-0.10%	13

	2014		2013	
	Increase/(decrease) in basic points	**Effect on profit before tax (EUR'000)**	**Increase/(decrease) in basic points**	**Effect on profit before tax (EUR'000)**
US $- LIBOR	0.10%	(161)	0.25%	(487)
	-0.10%	161	-0.10%	195
EUR - LIBOR	0.10%	(11)	0.10%	(13)
	-0.10%	11	-0.10%	13

Notes to the consolidated financial statement *(continued)*

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

Liquidity and cash management risk

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

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

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

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

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

USD '000

As at 31 December 2014	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Bank loans	-	8 554	25 457	199 134	233 145
Trade and other payables	3 002	6 788	-	32 743	42 533
Total	**3 002**	**15 342**	**25 457**	**231 877**	**275 678**

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

EUR '000

As at 31 December 2014	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Bank loans	-	7 046	20 968	164 018	192 032
Trade and other payables	2 473	5 590	-	26 969	35 032
Total	**2 473**	**12 636**	**20 968**	**190 987**	**227 064**

As at 31 December 2013	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Bank loans	-	6 682	26 717	170 745	204 144
Trade and other payables	2 258	6 426	1 251	26 278	36 213
Total	**2 258**	**13 108**	**27 968**	**197 023**	**240 357**

Notes to the consolidated financial statement *(continued)*

40. 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 2014 and 2013 based on contractual undiscounted payments settled on net basis:

USD '000

As at 31 December 2014	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Outgoing undiscounted payments	-	(185)	(530)	(417)	(1 132)
Incoming undiscounted payments	-	23	116	227	366
Net undiscounted cash flow	**-**	**(162)**	**(414)**	**(190)**	**(766)**

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
Net undiscounted cash flow	**-**	**(280)**	**(655)**	**(634)**	**(1 569)**

EUR '000

As at 31 December 2014	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Outgoing undiscounted payments	-	(152)	(437)	(343)	(932)
Incoming undiscounted payments	-	19	96	187	302
Net undiscounted cash flow	**-**	**(133)**	**(341)**	**(156)**	**(630)**

As at 31 December 2013	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Outgoing undiscounted payments	-	(229)	(563)	(830)	(1 622)
Incoming undiscounted payments	-	24	82	367	473
Net undiscounted cash flow	**-**	**(205)**	**(481)**	**(463)**	**(1 149)**

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 2014.

41. Legal cases

The Group is involved in several court cases as defendant, mainly in Latvia and England. 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.

42. Subsequent events

The shares in "Futbola klubs "Ventspils" were disposed in January 2015.

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.