

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

Unaudited Condensed Consolidated Financial Statements

**for the year ended
31 December 2011**



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Supervisory Council

Chairman of the Council

Simon Digby Boddy

Deputy Chairperson of the Council

Mikhail Dvorak

Members of the Council:

Vladimir Egger

Javed Ahmed

Rubel Yilmaz

Mark Morell Ware

Christophe Theophanis Matsacos

Oļegs Stepanovs (from 28.01.2011)

Mārtiņš Kvēps (from 28.01.2011)

Jaakko Sakari Mikael Salmelin (from 27.07.2011)

Serguei Choutov (from 28.01.2011 until 27.07.2011, from 07.12.2011)

Ivars Girgensons (from 07.12.2011)

Olga Pētersone (from 28.01.2011 until 06.12.2011)

Professional experience of the members of the Supervisory Council

<i>Simon Boddy</i>	Since 1989, Simon Boddy has worked in various positions in the <i>Vitol Group</i> of companies. From 2006 until 2008 he was Chief Representative of <i>Vitol's</i> Moscow office and Chairman of <i>Vitol's</i> terminal in Kaliningrad (Russia). Since 2009 he has been the Managing Director of the company <i>ETOS Latvia</i> , responsible for <i>Vitol's</i> commercial activities in Latvia, as well as being a member of the <i>AS Ventspils nafta (VN)</i> Management Board. Simon Boddy currently holds the position of Chairman of the <i>VN</i> Management Board (since January 20, 2010). He does not own <i>Latvian Shipping Company</i> shares.
<i>Mikhail Dvorak</i>	The <i>Vitol Group's</i> Financial Controller, Financial Director in the Group's companies in the former USSR countries. Currently holds position of Deputy Chairman of the <i>VN</i> Supervisory Council, re-elected in the <i>VN</i> Supervisory Council in November 22, 2011. He does not own <i>Latvian Shipping Company</i> shares.
<i>Christophe Theophanis Matsacos</i>	Joined the <i>Vitol</i> financial group in 2008. He is working in the <i>Vitol's</i> representation office in Moscow and is responsible for business development in Russia and former CIS countries. Before working for <i>Vitol</i> , K.T.Matsacos has gained experience in the banking sector, working for <i>VTB Europe (London)</i> (previously – <i>Moscow Narodny Bank</i>) where he was responsible for oil business and financial area in Russia and former CIS countries. Since July, 2010, he is also a member of the <i>VN</i> Supervisory Council. He does not own <i>Latvian Shipping Company</i> shares.
<i>Rubel Yilmaz</i>	Member of the Supervisory Council of <i>Ventspils nafta termināls</i> Ltd, Manager of the Amsterdam terminal of the <i>Vitol Tank Terminals International (VTTI)</i> Group and Financial Director of <i>VTTI</i> . Since January 20, 2010 he holds the position of Supervisory Council member of <i>VN</i> . He does not own <i>Latvian Shipping Company</i> shares.
<i>Vladimir Egger</i>	The Chief Representative of the <i>Vitol Group's</i> company <i>VNT SA</i> in Moscow. Since January 20, 2010 he holds the position of Chairman of the <i>VN</i> Supervisory Council. He does not own <i>Latvian Shipping Company</i> shares.
<i>Javed Ahmed</i>	The Head of the <i>Vitol Group's</i> purchasing and investment division; Management Board member of the <i>Vitol Tank Terminals International</i> Group, Management Board member of <i>Blue Knight Energy Partners</i> , as well Since January 20, 2010 he holds the position of Supervisory Council member of <i>VN</i> . He does not own <i>Latvian Shipping Company</i> shares.
<i>Mark Morrel Ware</i>	The <i>Vitol Group's</i> Director in Corporate Matters, previously Corporate Communications Director of the company <i>BP</i> until 2008. Since January 20, 2010 he holds the position of Supervisory Council member of <i>VN</i> . He does not own <i>Latvian Shipping Company</i> shares.
<i>Jaakko Sakari Mikael Salmelin</i>	Jaakko Salmelin has worked over 8 years as an analyst and a portfolio manager in various equity markets. Since 2003 he has focused solely on emerging European equity markets first in <i>Danske Capital</i> , <i>Sampo Bank plc.</i> and subsequently in <i>KJK Capital Oy</i> , which he co-founded in 2010. He holds the positions of: Member of the Management Board of <i>KJK Fund SICAV SIF</i> , Member of the Board <i>KJK Management SA</i> , Member of the Board of <i>KJK Capital Oy</i> , Member of the Supervisory Board and member of the audit committee in <i>AS Baltika</i> . He owns 5.500 <i>Latvian Shipping Company</i> shares.
<i>Ivars Girgensons</i>	A lawyer in the corporate finance company <i>Confide</i> . His main area of specialization is civil law and commercial law. Previously he has managed <i>Creative Consultation Centre Ltd</i> , has worked for <i>Baltijas Ofiss Ltd</i> , <i>Akvašips Ltd</i> and has been a manager of a branch of <i>AS SEB banka</i> . He does not own <i>Latvian Shipping Company</i> shares.
<i>Mārtiņš Kvēps</i>	Sworn attorney since 1999, Deputy chairman of the Supervisory Council of <i>JSC Ventbunkers</i> from 2006 until 2010, Chairman of the Supervisory Council of <i>JSC Latvijas naftas tranzīts</i> from 2007 until 2010. He does not own <i>Latvian Shipping Company</i> shares.
<i>Ojēgs Stepanovs</i>	Doctor of Economic Sciences, Vice-president of the <i>Baltic Association – Transport and Logistics</i> from 2006 until 2011, Chairman of the Supervisory Board of <i>JSC Ventspils Commercial Port</i> from 2009 until 2010, Member of the Supervisory Council of <i>JSC Ventspils Nafta</i> from 2010 until 2011, Chairman of the Supervisory Council of <i>JSC SS&F Group</i> since 2008, Member of the Supervisory Council of <i>JSC Baltic Coal Terminal</i> since 2009. He does not own <i>Latvian Shipping Company</i> shares.
<i>Serguei Choutov</i>	Graduated the Moscow State Institute of International Relations and obtained a Doctor's degree in economic science in 1998. He is a member of the Transport Academy of Russia. In the 1980s he worked as a manager in the companies <i>Sovbunker</i> and <i>Soyuznefteexport</i> , later he was a managing director at <i>Navitank A.B.</i> , but since 2006 he is the Chairman of the Management Board of "Transgroup Ltd". He does not own <i>Latvian Shipping Company</i> shares.

Management Board

Chairman of the Management Board

Simon Richard Blaydes (from 15.11.2011)

Paul Thomas (until 15.11.2011)

Members of the Management Board

Michael Main King

Paul Thomas (from 15.11.2011)

Christopher James Kernon (from 05.01.2011)

Simon Richard Blaydes (from 01.06.2011 until
15.11.2011)

Ashley John Neale (until 01.06.2011)

Professional experience of the members of the Management Board

Simon Richard Blaydes Member of the Management Board of Latvian Shipping Company since June 2011. Previously from 2009 till 2010 CFO of the *Arawak Group* of companies. Before that he was a partner in the transaction support department of *Ernst & Young's* Energy practices in Beijing, London and Kazakhstan. He is a chartered accountant and an associate of the ICAEW. He does not own *Latvian Shipping Company* shares.

Paul Thomas *Head of Vitol Group's* World Wide Shipping since 1988, director of the shipping company *Finaval Spa* since 2007, member of the Management Board of Latvian Shipping Company since July 2010, chairman of the Management Board of Latvian Shipping Company until November 2011. He does not own *Latvian Shipping Company* shares.

Michael Main King *Head of Vitol Group's* World Wide Shipping Operations since 2004, prior to that General Manager Tankers at Ship owners *Zodiac Maritime London* for 8 years. He does not own *Latvian Shipping Company* shares.

Christopher James Kernon With more than 20 years experience in the shipping industry. Previously C.Kernon was responsible for shipping and chartering in Asia and Australia for *Vitol Group*. Last seven years he is responsible for projects and shipping timecharters at *Vitol Group*. He does not own *Latvian Shipping Company* shares.

Review of the shares

Information on share price/index dynamics for the period from 01.01.2011 till 31.12.2011



Index/Equity	01.01.2011	31.12.2011	+/-%
—OMX Baltic Benchmark GI	533.99	431.94	-19.11
—LSC1R	0.38 LVL	0.31 LVL	-18.73

Securities information

ISIN	LV0000101103
Ticker	LSC1R
Market	BALTIC MAIN LIST
Issuer	Latvijas kuģniecība (LSC)
Nominal value	1.00 LVL
Total number of securities	200,000,000
Number of listed securities	200,000,000
Listing date	26.06.2002

Securities trading history

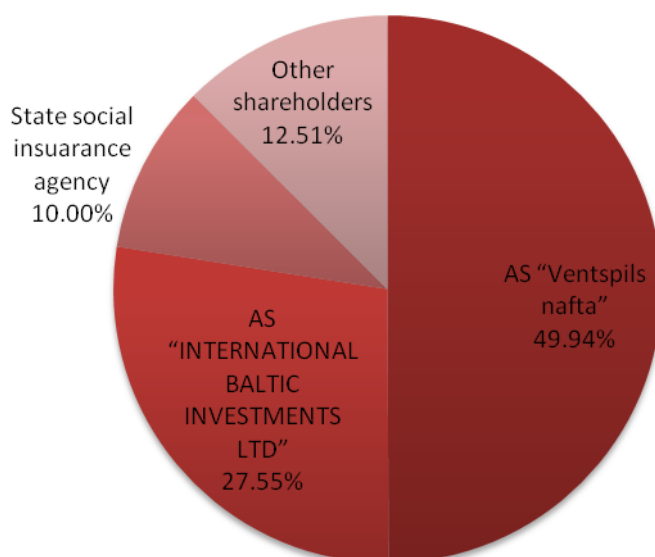
Price	2008	2009	2010	2011
Open	1.300	0.660	0.410	0.370
High	1.370	0.690	0.520	0.460
Low	0.560	0.360	0.340	0.301
Last	0.660	0.400	0.379	0.308
Traded volume	8,277,028	3,961,245	5,058,251	13,526,230
Turnover, million	8.62	1.91	2.03	5.85
Capitalisation, million	132.00	80.00	75.80	61.60

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Company's shareholders (over 5%) as of 31.12.2011

Name	Description	Ownership interest
AS "Ventspils nafta"	Listed company	49.94%
AS "INTERNATIONAL BALTIC INVESTMENTS LTD"	Private company	27.55%
State social insuarance agency	Government institution	10.00%

Company's shareholders structure as of 31.12.2011



Management report

Dear shareholders and stakeholders,

Latvian Shipping Company (hereafter – LSC) and its subsidiaries (hereafter – LSC Group or Group) present their financial results for year ended 31 December 2011 and report a net loss of USD49.70 million. Net loss for the year ended December 31, 2010 was USD142.44 million.

In both 2011 and 2010 a considerable amount of the net losses relates to the impairments, provisions for which are required to be made according to the International Financial Reporting Standards. The impairment provisions made in 2011 are as follows:

- (1) assets held for sale (3 older handy size vessels), in the amount of USD12.56 million,
- (2) total fleet value adjustment, in the amount of USD15.08 million,
- (3) value adjustment of investment in real estate properties in the amount of USD1.29 million.

This result reflects the difficult financial situation that ship-owners continue to experience in 2011, yet again, recording historically low market rates. The reasons for this are varied and complex but the main factors are less demand for oil products caused by the global economic downturn especially within the more developed western economies coupled with an increase in the number of new tankers. Prior to 2008 strong global economic growth stimulated demand for shipping and this encouraged the construction of new tankers. The consequence of this increase in vessel supply and current decrease in demand is lower earnings for ship-owners.

At the end of 2011 the fleet under the commercial management of LSC Group consisted of 20 tankers, 19 of which are owned by the LSC Group, with 1 vessel chartered in from a sale and leaseback deal. During 2011 the Group took delivery of two new build tankers, the “Latgale” and the “Zemgale” ordered in 2007 from “Hyundai Mipo Dockyard Co., Ltd” shipyard in Korea and sold the 17 year old vessel “Indra” for scrap. Further, LSC has reclassified three of its oldest vessels as assets for sale in order to ensure sustainable financing for the remaining fleet.

In 2011 total net voyage result from shipping was USD87.99 million (2010 - USD88.31 million) and shows stabilization in income. The net voyage result is calculated by deducting voyage costs (bunkers, port and agent charges, etc.) from voyage income and shows the company’s income, irrespective of whether the fleet is employed in the spot market or time charter market. Vessel operating profit was USD15.24 million, a 21% improvement on the previous year (2010 - USD12.69 million), however, the operating profit did not cover the fleet financing expenses (USD20.27 million).

At December 31, 2011 the total value of the LSC Group assets was USD650.30 million. The previous year the figure was USD680.47 million. The decrease is mainly attributed to the impairment provisions as explained above. The total value of the LSC Group fleet has decreased from USD570.50 million to USD508.05 million and in addition to the impairment provisions also reflects depreciation. The total equity value of the Group at December 31, 2011 was USD265.64 million (2010 - USD313.18 million).

During 2011 the price of LSC shares quoted on the NASDAQ OMX Riga decreased by 18.73%. The OMX Baltic Benchmark GI index in the same period decreased by 19.11%. Latvian Shipping Company’s shares were among the trading leaders during the reporting period; 1,600 transactions involving 13.52 million shares worth LVL5.85 million were conducted, representing 72% of all share transactions in terms of share amount and 27% of all share transactions in terms of value on the NASDAQ OMX Riga official list during the reporting period. On December 31, 2011 the capitalization of Latvian Shipping Company shares at NASDAQ OMX Riga was LVL61.60 million.

During 2011 significant litigation has continued in the UK Courts with regard to substantial losses suffered in previous years by LSC Group. A series of transactions concluded by the previous management were also challenged through the courts in Latvia regarding the dissipation of funds and other assets during 2010 and before.

Prospects for 2012

Given the very difficult financial environment the global shipping market remains very challenging. Ship-owners in all market segments are experiencing severe liquidity problems. LSC has also been exposed to these difficult conditions but has been cushioned from the worst effects with a majority of the fleet being employed on time charter thus ensuring a more predictable income stream.

Management report (continued)

However there are some signs for optimism for the product tanker market. The level of recent closures of uneconomic refineries in Western Europe and the USA is likely to increase demand for oil products which will need to be supplied by the more modern refineries that have been built, and will continue to be built, in the middle and far-east. Additionally, economic growth in emerging economies, for example South America and Africa, is also expected to increase demand for product tankers.

Lastly it is expected that due to the current economic environment, and with less banking finance available, that fewer product tankers will be built. This should help to improve the current in-balance between the number of product tankers and product movements.



Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 17 February 2012

Statement of Management's Responsibilities

The Management Board of JSC "Latvian Shipping Company" prepares consolidated financial statements for each reporting period which give a true and fair view of the state of affairs of the JSC "Latvian Shipping Company" and its subsidiaries (hereafter – the Group) as of 31 December 2011, changes in shareholders' equity, cash flows and the results of the Group for the period ended of 31 December 2011.

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

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

For and on behalf of the Management Board



Simon Richard Blaydes
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 17 February 2012

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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FOR THE YEAR ENDED 31 DECEMBER 2011

Consolidated income statement

for the period ended 31 December 2011

	2011 US \$'000	2010 US \$'000	2011 LVL'000	2010 LVL'000	2011 EUR'000	2010 EUR'000
Voyage income	96 603	108 803	48 839	57 601	69 492	81 959
Income from printing and publishing	-	32	-	16	-	23
Income from management of real estate	-	1 229	-	656	-	933
Rendering of services	973	1 096	488	567	694	807
Revenue	97 576	111 160	49 327	58 840	70 186	83 722
Voyage costs	(8 616)	(20 496)	(4 392)	(11 034)	(6 249)	(15 700)
Cost of sales	(75 886)	(83 324)	(38 078)	(44 348)	(54 180)	(63 102)
Gross profit	13 074	7 340	6 857	3 458	9 757	4 920
Selling costs	(6)	(14)	(3)	(6)	(4)	(8)
Administrative expenses	(12 244)	(20 335)	(6 221)	(10 801)	(8 851)	(15 368)
Result from disposal of non-financial assets	(450)	(1 952)	(261)	(1 162)	(372)	(1 653)
Impairment of non-financial assets	(28 927)	(96 612)	(15 345)	(51 687)	(21 834)	(73 544)
Other operating income	63	1 219	33	490	47	697
Other operating expenses	(64)	(88 998)	(34)	(47 546)	(49)	(67 652)
Operating loss	(28 554)	(199 352)	(14 974)	(107 254)	(21 306)	(152 608)
Deconsolidation of net financial liabilities	-	85 416	-	43 735	-	62 229
Finance income	597	2 235	1 049	1 196	1 493	1 702
Finance costs	(20 846)	(29 923)	(10 492)	(15 563)	(14 929)	(22 144)
Loss before tax	(48 803)	(141 624)	(24 417)	(77 886)	(34 742)	(110 821)
Income tax	(931)	(870)	(471)	(465)	(670)	(662)
Loss for the period	(49 734)	(142 494)	(24 888)	(78 351)	(35 412)	(111 483)
Attributable to:						
Equity holders of the parent	(49 700)	(142 435)	(24 870)	(78 320)	(35 386)	(111 439)
Non-controlling interests	(34)	(59)	(18)	(31)	(26)	(44)
	(49 734)	(142 494)	(24 888)	(78 351)	(35 412)	(111 483)
Loss per share	US\$ (0.25)	US\$ (0.72)	LVL (0.12)	LVL (0.40)	EUR (0.18)	EUR (0.56)

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Consolidated statement of comprehensive income

for the period ended 31 December 2011

	2011 US \$'000	2010 US \$'000	2011 LVL'000	2010 LVL'000	2011 EUR'000	2010 EUR'000
Loss for the period	<u>(49 734)</u>	<u>(142 494)</u>	<u>(24 888)</u>	<u>(78 351)</u>	<u>(35 412)</u>	<u>(111 483)</u>
Other comprehensive income/ (expenses)						
Exchange differences on translation of foreign operations	677	(4 679)	(52)	21 623	(74)	30 766
Net movement on cash flow hedges	<u>1 519</u>	<u>(363)</u>	<u>788</u>	<u>(371)</u>	<u>1 121</u>	<u>(528)</u>
Other comprehensive income/ (expenses) for the period, net of tax	<u>2 196</u>	<u>(5 042)</u>	<u>736</u>	<u>21 252</u>	<u>1 047</u>	<u>30 238</u>
Total comprehensive (loss) for the period, net of tax	<u>(47 538)</u>	<u>(147 536)</u>	<u>(24 152)</u>	<u>(57 099)</u>	<u>(34 365)</u>	<u>(81 245)</u>
Attributable to:						
Equity holders of the parent	(47 770)	(147 477)	(24 134)	(57 068)	(34 339)	(81 201)
Non-controlling interests	<u>232</u>	<u>(59)</u>	<u>(18)</u>	<u>(31)</u>	<u>(26)</u>	<u>(44)</u>
	<u>(47 538)</u>	<u>(147 536)</u>	<u>(24 152)</u>	<u>(57 099)</u>	<u>(34 365)</u>	<u>(81 245)</u>

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Consolidated statement of financial position

as at 31 December 2011

	<u>31.12.2011</u> US \$'000	<u>31.12.2010</u> US \$'000	<u>31.12.2011</u> LVL'000	<u>31.12.2010</u> LVL'000	<u>31.12.2011</u> EUR'000	<u>31.12.2010</u> EUR'000
Assets						
Non-current assets						
Other intangible assets	237	540	129	289	183	411
Fleet	508 052	570 502	276 380	305 219	393 254	434 288
Other property, plant and equipment	3 668	4 049	1 996	2 166	2 840	3 082
Investment properties	1 776	3 138	966	1 679	1 374	2 389
Investments in associates	14	26	8	13	11	18
Other non-current financial assets	<u>7 898</u>	<u>7 720</u>	<u>4 296</u>	<u>4 130</u>	<u>6 113</u>	<u>5 876</u>
Total non-current assets	521 645	585 975	283 775	313 496	403 775	446 064
Current assets						
Inventories	3 803	2 028	2 069	1 085	2 944	1 544
Trade and other receivables	7 601	10 166	4 135	5 438	5 884	7 738
Prepayments	1 274	2 203	693	1 179	986	1 678
Other current financial assets	29 595	31 866	16 100	18 160	22 908	25 839
Cash and short term deposits	<u>26 983</u>	<u>42 471</u>	<u>14 679</u>	<u>22 722</u>	<u>20 886</u>	<u>32 330</u>
Total current assets	69 256	88 734	37 676	48 584	53 608	69 129
Assets classified as held for sale	<u>59 400</u>	<u>5 760</u>	<u>32 314</u>	<u>3 082</u>	<u>45 979</u>	<u>4 385</u>
Total assets	<u>650 301</u>	<u>680 469</u>	<u>353 765</u>	<u>365 162</u>	<u>503 362</u>	<u>519 578</u>

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Consolidated statement of financial position (continued)

as at 31 December 2011

	<u>31.12.2011</u> US \$'000	<u>31.12.2010</u> US \$'000	<u>31.12.2011</u> LVL'000	<u>31.12.2010</u> LVL'000	<u>31.12.2011</u> EUR'000	<u>31.12.2010</u> EUR'000
Equity and liabilities						
Equity						
Issued capital	362 319	362 319	200 000	200 000	284 574	284 574
Accumulated deficit	(86 930)	(37 230)	(47 232)	(22 362)	(67 286)	(31 900)
Other components of equity	<u>(15 864)</u>	<u>(17 794)</u>	<u>(11 586)</u>	<u>(12 322)</u>	<u>(16 404)</u>	<u>(17 451)</u>
Equity attributable to equity holders of the parent	259 525	307 295	141 182	165 316	200 884	235 223
Non-controlling interests	6 114	5 882	3 326	3 344	4 732	4 758
Total equity	<u>265 639</u>	<u>313 177</u>	<u>144 508</u>	<u>168 660</u>	<u>205 616</u>	<u>239 981</u>
Non-current liabilities						
Interest bearing loans	297 203	281 949	161 679	150 843	230 048	214 630
Finance lease	25 775	27 094	14 022	14 495	19 951	20 625
Other financial liabilities	1 494	1 416	812	757	1 156	1 077
Trade and other payables	2 238	300	1 217	161	1 732	229
Deferred tax liability	203	207	111	111	158	158
Total non-current liabilities	<u>326 913</u>	<u>310 966</u>	<u>177 841</u>	<u>166 367</u>	<u>253 045</u>	<u>236 719</u>
Current liabilities						
Trade and other payables	13 757	15 934	7 484	8 525	10 649	12 130
Interest bearing loans	31 180	31 230	16 962	16 708	24 135	23 773
Finance lease	1 262	1 105	687	591	978	841
Other financial liabilities	1 289	2 792	701	1 494	997	2 126
Deferred revenue	10 261	5 265	5 582	2 817	7 942	4 008
Total current liabilities	<u>57 749</u>	<u>56 326</u>	<u>31 416</u>	<u>30 135</u>	<u>44 701</u>	<u>42 878</u>
Total equity and liabilities	<u><u>650 301</u></u>	<u><u>680 469</u></u>	<u><u>353 765</u></u>	<u><u>365 162</u></u>	<u><u>503 362</u></u>	<u><u>519 578</u></u>

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Attributable to the equity holders of the parent					Non-controlling interests	Total equity
	Issued capital	Retained earnings/ (accumulated deficit)	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000		
At 31 December 2009	362 319	105 205	(3 845)	(8 907)	454 772	-	454 772
Loss for the period	-	(142 435)	-	-	(142 435)	(59)	(142 494)
Other comprehensive income	-	-	(363)	(4 679)	(5 042)	-	(5 042)
Total comprehensive income/(expenses)	-	(142 435)	(363)	(4 679)	(147 477)	(59)	(147 536)
Non-controlling interests	-	-	-	-	-	5 941	5 941
At 31 December 2010	362 319	(37 230)	(4 208)	(13 586)	307 295	5 882	313 177
Loss for the period	-	(49 700)	-	-	(49 700)	(34)	(49 734)
Other comprehensive income/(expenses)	-	-	1 519	411	1 930	266	2 196
Total comprehensive income/(expenses)	-	(49 700)	1 519	411	(47 770)	232	(47 538)
Non-controlling interests	-	-	-	-	-	-	-
At 31 December 2011	362 319	(86 930)	(2 689)	(13 175)	259 525	6 114	265 639

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2011

	Attributable to the equity holders of the parent					Non-controlling interests	Total equity
	Issued capital	Retained earnings/ (accumulated deficit)	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000		
At 31 December 2009	200 000	55 958	(1 880)	(31 694)	222 384	-	222 384
Loss for the period	-	(78 320)	-	-	(78 320)	(31)	(78 351)
Other comprehensive income	-	-	(371)	21 623	21 252	-	21 252
Total comprehensive income/(expenses)	-	(78 320)	(371)	21 623	(57 068)	(31)	(57 099)
Non-controlling interests	-	-	-	-	-	3 375	3 375
At 31 December 2010	200 000	(22 362)	(2 251)	(10 071)	165 316	3 344	168 660
Loss for the period	-	(24 870)	-	-	(24 870)	(18)	(24 888)
Other comprehensive income/(expenses)	-	-	788	(52)	736	-	736
Total comprehensive income/(expenses)	-	(24 870)	788	(52)	(24 134)	(18)	(24 152)
Non-controlling interests	-	-	-	-	-	-	-
At 31 December 2011	200 000	(47 232)	(1 463)	(10 123)	141 182	3 326	144 508

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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Consolidated statement of changes in equity (continued)

for the year ended 31 December 2011

	Attributable to the equity holders of the parent					Non-controlling interests	Total equity
	Issued capital	Retained earnings/ (accumulated deficit)	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000		
At 31 December 2009	284 574	79 539	(2 675)	(45 014)	316 424	-	316 424
Loss for the period	-	(111 439)	-	-	(111 439)	(44)	(111 483)
Other comprehensive income	-	-	(528)	30 766	30 238	-	30 238
Total comprehensive income/(expenses)	-	(111 439)	(528)	30 766	(81 201)	(44)	(81 245)
Non-controlling interests	-	-	-	-	-	4 802	4 802
At 31 December 2010	284 574	(31 900)	(3 203)	(14 248)	235 223	4 758	239 981
Loss for the period	-	(35 386)	-	-	(35 386)	(26)	(35 412)
Other comprehensive income/(expenses)	-	-	1 121	(74)	1 047	-	1 047
Total comprehensive income/(expenses)	-	(35 386)	1 121	(74)	(34 339)	(26)	(34 365)
Non-controlling interests	-	-	-	-	-	-	-
At 30 September 2011	284 574	(67 286)	(2 082)	(14 322)	200 884	4 732	205 616

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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Consolidated statement of cash flows

for the year ended 31 December 2011

	2011 US \$'000	2010 US \$'000	2011 LVL'000	2010 LVL'000	2011 EUR'000	2010 EUR'000
Operating activities						
Loss before taxation	(48 803)	(141 624)	(24 417)	(77 886)	(34 742)	(110 821)
<u>Adjustments for:</u>						
Depreciation and amortisation	26 250	28 553	13 130	15 237	18 682	21 680
Result on disposal of non-financial assets	450	1 952	261	1 162	372	1 653
Other adjustments	47 229	125 746	23 508	73 589	33 449	104 711
<u>Working capital adjustments:</u>						
Changes in trade and other receivables and prepayments	1 887	(1 306)	954	(693)	1 357	(986)
Changes in inventories	(1 775)	4 165	(897)	2 211	(1 276)	3 146
Changes in trade and other payables	2 240	(7 944)	1 132	(4 217)	1 611	(6 000)
Net cash flows from/(used in) operating activities	27 478	9 542	13 671	9 403	19 453	13 383
Net cash flows used in investing activities	(39 050)	45 601	(19 735)	23 188	(28 081)	32 991
Cash flows before financing activities	(11 572)	55 143	(6 064)	32 591	(8 628)	46 374
Net cash flows from financing activities	(3 916)	(87 767)	(1 979)	(46 591)	(2 816)	(66 294)
Net decrease in cash and cash equivalents	(15 488)	(32 624)	(8 043)	(14 000)	(11 444)	(19 920)
Cash and cash equivalents at 1 January	42 471	75 095	22 722	36 722	32 330	52 250
Cash and cash equivalents at 31 December	26 983	42 471	14 679	22 722	20 886	32 330

Notes to the unaudited condensed consolidated financial statements

1. Accounting policies

These unaudited condensed consolidated financial statements are prepared in accordance with and comply with accounting policies applied in preparation of the consolidated financial statements of Latvian Shipping Company and its Subsidiaries for the year ended 31 December 2010, which were prepared in accordance with International Financial Reporting Standards.

The Financial Statements are prepared in U.S. dollars which is the functional currency of the Group and Latvian lats which is the presentation currency of the Group in accordance with legislation of the Republic of Latvia.

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

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

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

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

LB rate of exchange as at 31.12.2010 USD/LVL - 0.535 (average – 0.530847)

These financial statements are translated into Euros using the rate of exchange set by the Bank of Latvia prevailing at the 31.12.2011: 1 EUR = 0.702804 LVL, 31.12.2010: 1 EUR = 0.702804 LVL.

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

2. Segment information

for the year ended 31 December 2011

	Shipping		Other		Adjustments and eliminations		Total	
	2011 US \$'000	2010 US \$'000	2011 US \$'000	2010 US \$'000	2011 US \$'000	2010 US \$'000	2011 US \$'000	2010 US \$'000
External customers	97 576	109 894	-	1 266	-	-	97 576	111 160
Inter-segment	6	136	-	336	(6)	(472)	-	-
Revenue	97 582	110 030	-	1 602	(6)	(472)	97 576	111 160
Voyage costs	(8 616)	(20 496)	-	-	-	-	(8 616)	(20 496)
Vessel operating costs	(47 292)	(51 389)	-	-	-	-	(47 292)	(51 389)
Cost of sales (Fleet excluding)	(3 030)	(3 235)	-	(1 183)	-	187	(3 030)	(4 231)
Selling costs	(6)	(6)	-	(8)	-	-	(6)	(14)
Administrative expenses	(11 314)	(18 473)	(250)	(1 298)	6	285	(11 558)	(19 486)
Result from disposal of non-financial assets	(450)	(1 615)	-	(337)	-	-	(450)	(1 952)
Depreciation and amortisation	(26 249)	(27 612)	(1)	(941)	-	-	(26 250)	(28 553)
Impairment of non-financial assets	(28 927)	(50 478)	-	(46 134)	-	-	(28 927)	(96 612)
Other operating income	63	657	-	562	-	-	63	1 219
Other operating expenses	(64)	-	-	(88 998)	-	-	(64)	(88 998)
Result before financial items	(28 303)	(62 617)	(251)	(136 735)	-	-	(28 554)	(199 352)
Financial income	696	3 036	(23)	-	(76)	(801)	597	2 235
Financial expense	(20 845)	(24 496)	(77)	(6 228)	76	801	(20 846)	(29 923)
Deconsolidation of net financial liabilities	-	-	-	85 416	-	-	-	85 416
Income tax	(931)	(870)	-	-	-	-	(931)	(870)
Segment result	(49 383)	(84 947)	(351)	(57 547)	-	-	(49 734)	(142 494)
Segment assets	626 361	643 358	36 098	37 111	(12 158)	-	650 301	680 469
Segment liabilities	384 264	367 292	12 556	-	(12 158)	-	384 662	367 292

Adjustments and eliminations represent consolidation entries (intercompany equity holdings, outstanding balances and transactions).

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Notes to the unaudited condensed financial statements (continued)

2. Segment information (continued)

for the year ended 31 December 2011

	Shipping		Other		Adjustments and eliminations		Total	
	2011 LVL'000	2010 LVL'000	2011 LVL'000	2010 LVL'000	2011 LVL'000	2010 LVL'000	2011 LVL'000	2010 LVL'000
External customers	49 327	58 165	-	675	-	-	49 327	58 840
Inter-segment	3	73	-	180	(3)	(253)	-	-
Revenue	49 330	58 238	-	855	(3)	(253)	49 327	58 840
Voyage costs	(4 392)	(11 034)	-	-	-	-	(4 392)	(11 034)
Vessel operating costs	(23 771)	(27 335)	-	-	-	-	(23 771)	(27 335)
Cost of sales (Fleet excluding)	(1 522)	(1 703)	-	(626)	-	101	(1 522)	(2 228)
Selling costs	(3)	(2)	-	(4)	-	-	(3)	(6)
Administrative expenses	(5 754)	(9 809)	(125)	(692)	3	152	(5 876)	(10 349)
Result from disposal of non-financial assets	(261)	(993)	-	(169)	-	-	(261)	(1 162)
Depreciation and amortisation	(13 129)	(14 736)	(1)	(501)	-	-	(13 130)	(15 237)
Impairment of non-financial assets	(15 345)	(27 005)	-	(24 682)	-	-	(15 345)	(51 687)
Other operating income	33	209	-	281	-	-	33	490
Other operating expenses	(34)	-	-	(47 546)	-	-	(34)	(47 546)
Result before financial items	(14 848)	(34 170)	(126)	(73 084)	-	-	(14 974)	(107 254)
Financial income	1 102	1 622	(14)	-	(39)	(426)	1 049	1 196
Financial expense	(10 492)	(12 556)	(39)	(3 433)	39	426	(10 492)	(15 563)
Deconsolidation of net financial liabilities	-	-	-	43 735	-	-	-	43 735
Income tax	(471)	(465)	-	-	-	-	(471)	(465)
Segment result	(24 709)	(45 569)	(179)	(32 782)	-	-	(24 888)	(78 351)
Segment assets	340 741	344 196	19 638	20 966	(6 614)	-	353 765	365 162
Segment liabilities	209 040	196 502	6 831	-	(6 614)	-	209 257	196 502

Adjustments and eliminations represent consolidation entries (intercompany equity holdings, outstanding balances and transactions).

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Notes to the unaudited condensed financial statements (continued)

2. Segment information (continued)

for the year ended 31 December 2011

	Shipping		Other		Adjustments and eliminations		Total	
	2011 EUR'000	2010 EUR'000	2011 EUR'000	2010 EUR'000	2011 EUR'000	2010 EUR'000	2011 EUR'000	2010 EUR'000
External customers	70 186	82 761	-	961	-	-	70 186	83 722
Inter-segment	4	104	-	256	(4)	(360)	-	-
Revenue	70 190	82 865	-	1 217	(4)	(360)	70 186	83 722
Voyage costs	(6 249)	(15 700)	-	-	-	-	(6 249)	(15 700)
Vessel operating costs	(33 823)	(38 894)	-	-	-	-	(33 823)	(38 894)
Cost of sales (Fleet excluding)	(2 166)	(2 423)	-	(891)	-	144	(2 166)	(3 170)
Selling costs	(4)	(3)	-	(5)	-	-	(4)	(8)
Administrative expenses	(8 186)	(13 957)	(178)	(985)	4	216	(8 360)	(14 726)
Result from disposal of non-financial assets	(372)	(1 413)	-	(240)	-	-	(372)	(1 653)
Depreciation and amortisation	(18 681)	(20 967)	(1)	(713)	-	-	(18 682)	(21 680)
Impairment of non-financial assets	(21 834)	(38 425)	-	(35 119)	-	-	(21 834)	(73 544)
Impairment of financial assets	47	297	-	400	-	-	47	697
Other operating income	(49)	-	-	(67 652)	-	-	(49)	(67 652)
Result before financial items	(21 127)	(48 620)	(179)	(103 988)	-	-	(21 306)	(152 608)
Financial income	1 568	2 308	(20)	-	(55)	(606)	1 493	1 702
Financial expense	(14 929)	(17 865)	(55)	(4 885)	55	606	(14 929)	(22 144)
Deconsolidation of net financial liabilities	-	-	-	62 229	-	-	-	62 229
Income tax	(670)	(662)	-	-	-	-	(670)	(662)
Segment result	(35 158)	(64 839)	(254)	(46 644)	-	-	(35 412)	(111 483)
Segment assets	488 458	489 746	24 315	29 832	(9 411)	-	503 362	519 578
Segment liabilities	297 436	279 597	9 721	-	(9 411)	-	297 746	279 597

Adjustments and eliminations represent consolidation entries (intercompany equity holdings, outstanding balances and transactions).

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

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