

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

Unaudited Condensed Interim Consolidated Financial Statements

for the 1st quarter 2014



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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 Chairperson of the Supervisory Council Rubil Yilmaz (from April 3, 2014)
Mikhail Dvorak (until March 26, 2014)

Members of the Supervisory Council: Simon Boddy
Yulia Verschagina (from March 26, 2014)
Andrea Schlaepfer (from March 26, 2014)
Varvara Maximova (from March 26, 2014)
Olga Kurenkova (from March 26, 2014)
Giovanni Fagioli (from March 26, 2014)
Christophe Theophanis Matsacos (until March 26, 2014)
Rubil Yilmaz (until April 1, 2014)
Vladimir Egger (until 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 Ventpils nafta Supervisory Council since 20 January 2010. The chief Representative of Vitol Services B.V Moscow. Mr. Egger has almost 30 years experience in trade of raw materials. Before joining Vitol he was Managing Director of Lukoil Asia Pacific based in Singapore and Beijing (China). Professional education: Bachelor's Degree in Economics and Business Management Master's Degree. Vladimir Egger does not own shares of JSC Latvian Shipping Company.
- Rubil Yilmaz* Elected in the position of the Deputy Chairman of the Supervisory Council on April 3, 2014. Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Member of JSC Ventpils 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 Ventpils nafta termināls Ltd. Rubel Yilmaz does not own shares of JSC Latvian Shipping Company.
- Simon Boddy* Elected as a member of the Supervisory Council on March 26, 2014 for a 5 year term. Simon Boddy was until the end of 2013 Managing Director of Vitol Dubai in the United Arab Emirates. Previously for 3 years he was Chairman of the Supervisory Council of the JSC Latvian Shipping Company and Chairman of the JSC Ventpils 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.
- Yulia Verschagina* Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Julia Verschagina is a head of operations in distillates matrix at Vitol Services BV Moscow representative office since 2012, previously she took position of operator in logistic department at VNT SA, Moscow representative. J.Verschagina has graduated State University – Higher School of Economics in Moscow. J.Verschagina does not own shares of JSC Latvian Shipping Company.
- 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 Schrodgers 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.

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

- 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.
- 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.
- Ivars Girgensons* Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. A lawyer in the corporate finance company Confide and SIA Eurokonsults. His main area of specialization is civil law and commercial law. Previously he has managed Creative Consultation Centre Ltd, has worked for Baltijas Ofiss Ltd, Akvašips Ltd, and has been a manager of a branch of JSC SEB banka. I.Girgensons has a bachelor degree in law from University of Latvia and continues master studies in the University Turība. Ivars Girgensons does not own shares of JSC Latvian Shipping Company.
- Kristo Oidermaa* Elected in the position of the member of the Supervisory Council on March 26, 2013 for 5 years term. Kristo Oidermaa has been working in the financial sector since 2006 and currently hold the portfolio manager's position in LHV Asset Management. Previously he was working as a senior analyst in LHV Bank and also filled the analyst roles in Avaron Asset Management and Trigon Capital. K.Oidermaa have a BA Economics degree from the University of Manchester and he is also a CFA charterholder. Kristo Oidermaa does not own shares of JSC Latvian Shipping Company.

Management Board

Chairman of the Management Board

Robert Kirkup (from March 1, 2014)

Simon Richard Blaydes (until February 28, 2014)

Members of the Management Board

Paul Thomas

Christopher James Kernon

Professional experience of the members of the Management Board

Robert Kirkup

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

Paul Thomas

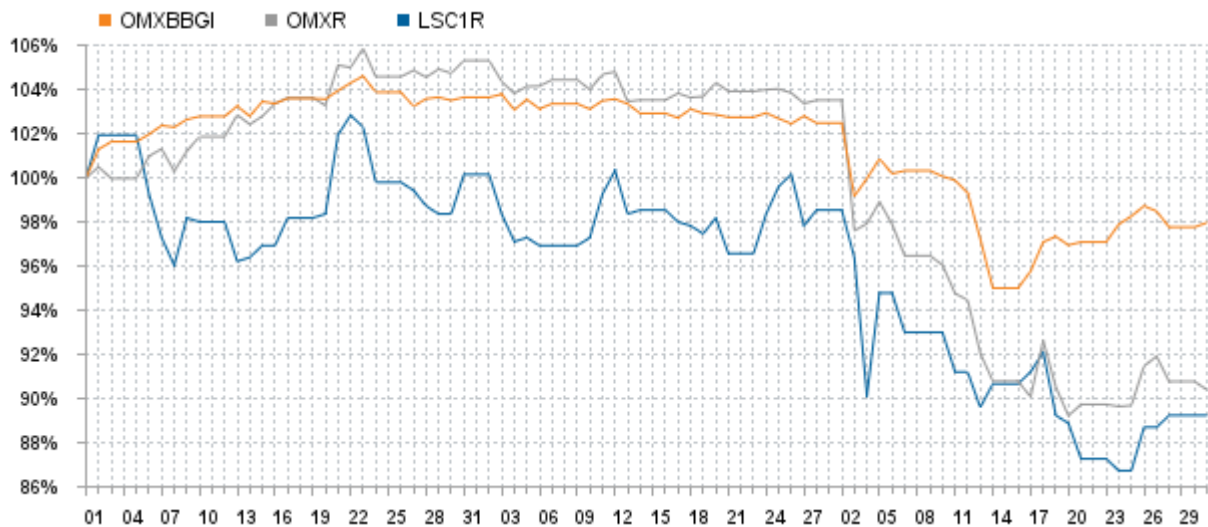
Head of Vitol Group's World Wide Shipping, employed by Vitol Group since 1988, director of the shipping company Finaval Spa since 2007, Member of the Management Board of Latvian Shipping Company since July 2010, elected for 5 years term. Paul Thomas does not own shares of JSC Latvian Shipping Company.

Christopher James Kernon

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

Review of the shares

Information on share price/index dynamics for the period from 01.01.2014 until 31.03.2014



Indekss	01.01.2014	31.03.2014	+/-%
—OMX Baltic Benchmark GI	613,50	601,00	-2,04
—OMX Riga	460,13	415,95	-9,60
—LSC1R	0,56 EUR	0,50 EUR	-10,76

Securities information

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

Securities trading history, EUR

Price	2010	2011	2012	2013	Q1/2014
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	0.470
Last	0.539	0.438	0.359	0.559	0.499
Average	0.575	0.487	0.406	0.437	0.495
Traded volume	5,058,251	13,526,230	985,943	4,575,982	435,876
Turnover, million	2.89	8.32	0.38	2.15	0.24
Capitalisation, million	107.85	87.65	71.71	111.84	99.80

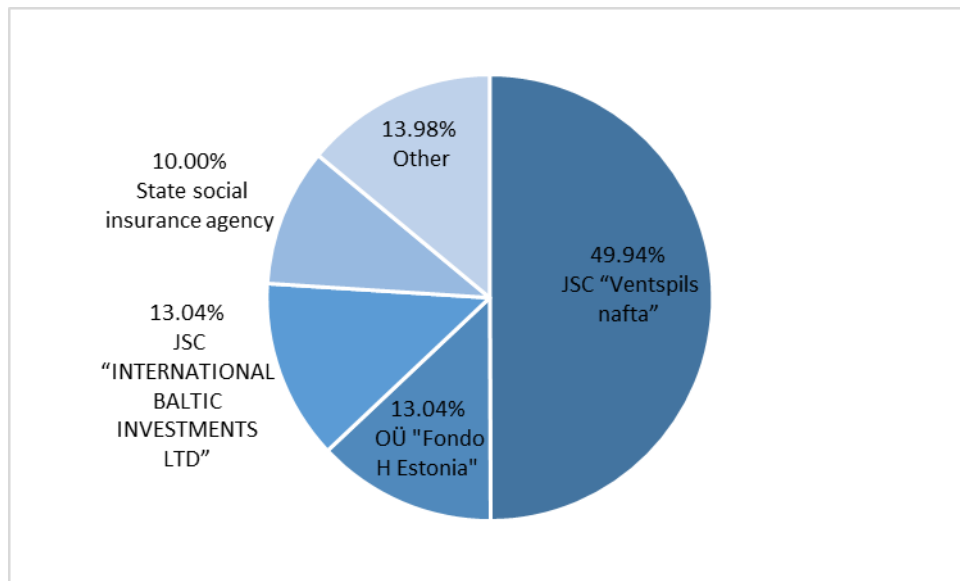
Information source: JSC „NASDAQ OMX Riga” webpage www.nasdaqomxbaltic.com

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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JSC “Latvian Shipping Company” shareholders (over 5%) as of date when the report is released:

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

JSC “Latvian Shipping Company” shareholders structure as of date when the report is released:



Management report

Dear shareholders and stakeholders,

I am delighted to announce that Latvian Shipping Company has achieved a positive result for the first quarter of 2014. The interim financial result of Latvian Shipping Company (hereafter – LSC or Company) and its subsidiaries (hereafter – LSC Group or Group) resulted in a net profit in the amount of 7.26 million USD. This figure includes income from a partial settlement in respect of the Antonio Gramsci Corporation court case in the High Court in London in the amount of 20.05 million USD as well as vessel impairments in the amount of 13.30 million USD. Last year in the same period the Group profit was 77 thousand USD.

The key financial indicators for Q1 for the last three financial years are as follows (million USD):

	Q1 2012	Q1 2013	Q1 2014
Sales	28.03	26.83	23.66
EBITDA	9.32	12.57	8.69
Profit (loss) before exceptionals	(2.02)	1.78	0.52
Exceptionals (income from financial assets)	-	-	20.05
Exceptionals (fleet impairment)	(15.75)	(1.70)	(13.30)
Net profit (loss)	(17.77)	0.08	7.26

During the reporting period the LSC Group fleet consisted of seventeen vessels. However, 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. The vessel is planned to be delivered to the buyer in Q2/2014. No further sales are planned from the LSC fleet, thus it will consist of sixteen modern tankers with an average age of 6.5 years.

At the end of the reporting period 82% (fourteen 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 as at the end of reporting period was 10.7 months; excluding the bareboat charters (twelve vessels) – 7.8 months.

The total income for the fleet for Q1/2014 was USD 23.66 million which is less than for the same period in the previous year (Q1/2013: USD 26.83 million) as a consequence of having less vessels employed within the fleet. The LSC Group fleet’s net voyage result for Q1/2014 was USD 19.49 million which is a decrease in comparison to the previous year (Q1/2013: USD 22.22 million). The net voyage result is a more comparable indicator for the fleet performance analysis as it is calculated by deducting voyage costs from voyage income and shows the income, irrespective of whether the fleet is employed in the spot or time charter market. At the same time vessel operating profit for Q1/2014 after depreciation and dry-dock amortisation was USD 6.96 million, a slight improvement on the previous period (Q1/2013: USD 6.51 million).

As advised above the majority of the LSC fleet is employed on a time charter basis with fixed charter rates for all the chartering period thus the cash flow is afforded some protection against market fluctuations.

LSC continues to release average quarterly chartering 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 (E)
HS (4 vessels)*	10 271	11 216	12 703	13 468	12 971
MR (12 vessels)**	11 849	12 882	13 168	14 174	14 308
LR1 (1 vessel)	16 826	13 623	12 086	12 122	12 309

*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, i.e. responsibility for operating expenses and off hire periods resides with the Bareboat Charterer whereas the above figures are inclusive of opex and any offhire periods.

Explanations:

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

Management report (continued)

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

For future reporting periods the previous quarter will be updated on a regular basis from estimate (E) to actual (A) to reflect finalised TCE when voyages will be completed and fully realized.

The administrative costs were substantially higher in Q1/2014 as compared with the same period in the previous year (USD 2.06 million in Q1/2013 versus USD 3.42 million in Q1/2014). The increase is exclusively attributable to the legal costs related to the partial settlement in respect of the Antonio Gramsci Corporation court case in the High Court in London.

At the end of the first quarter the LSC Group cash position has remained stable and the Group had cash and short term deposits in the amount of 36.54 million USD.

At 31st March 2014 the total value of LSC Group assets was USD 522.39 million. The figure at 31st December, 2013 was USD 519.63 million. The income from a partial settlement in respect of the Antonio Gramsci Corporation court case in the High Court in London has had a positive impact on group assets. This was partly negated by a further impairment of the fleet. This impairment arose as a result of the decision to reassess the useful life of the fleet from twenty to fifteen years in the light of more stringent major oil company vetting procedures; especially in respect of vessel age. The total value of the LSC fleet was USD 399.19 million. The total equity value of the Group at 31 March 2014 was USD 225.75 million (31.12.2013: USD 218.06 million).

During Q1/2014 the price of LSC shares quoted on the NASDAQ OMX Riga decreased by 10.76%. The OMX Baltic Benchmark GI index in Q1/2014 decreased by 2.04%. There were 463 trades of Latvian Shipping Company's shares during Q1/2014 involving 435 876 shares worth 235 560 EUR which is 37% of total share turnover and 20% of trading volume in value terms of all the Latvian companies listed on the Baltic Main List. On 31 March 2014 the capitalization of Latvian Shipping Company shares at NASDAQ OMX Riga was 99.80 million EUR.

The first quarter of 2014 proved disappointing for the products tanker segment especially within the medium range tanker segment particularly within the Atlantic basin. However having the vast majority of the LSC medium range fleet on time charter enabled LSC to escape this unexpected seasonal downturn in earnings. The Second quarter of 2014 has continued to prove disappointing and there must be some concern that the balance of 2014 will not be as positive as some commentators had predicted. This could negatively impact on both earnings and fleet values. Once again the strategy to employ the majority of the LSC fleet on timecharter should provide some protection from this potential downturn in earnings in the short term.

The future profitability of LSC and other ship-owners specialising in the product tanker segment will continue to depend on worldwide economic growth, which as mentioned in previous statements remains finely balanced. Economic growth drives demand for refined oil and hence impacts on demand for product tankers. Currently that demand is lacking. On the vessel supply side, the more optimistic economic outlook did result in an increase in the number of new product tankers ordered. These new product tankers are now beginning to be delivered and without the predicted increase in oil demand, may act as a drag on any shipping recovery in our core market segment. Finally, although it is not currently a concern, it should be noted that the LSC fleet is mainly financed by a syndicate of international banks on Libor (London interbank offered rate) related rates. Any future increase in this benchmark rate would have a negative impact on the Group's financial position.

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 19 May 2014

Statement of Management's Responsibilities

The Management Board of JSC "Latvian Shipping Company" prepares condensed consolidated financial statements for each reporting period. These condensed consolidated financial statements give a true and fair view of the state of affairs of the JSC "Latvian Shipping Company" and its subsidiaries (hereafter – the Group) as at 31 March 2014, changes in shareholders' equity, cash flows and the results of the Group for the three month period ended 31 March 2014.

The aforementioned financial statements are prepared in accordance with applicable legislation on a going concern basis. During the reporting period, appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Group and enable the Management to ensure that financial statements are drawn up pursuant to current legislation.

For and on behalf of the Management Board

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 19 May 2014

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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Consolidated income statement

for the period ended 31 March 2014

	2014 US \$'000	2013 US \$'000	2014 EUR'000	2013 EUR'000
Voyage income	23 655	26 828	17 276	20 321
Income from other services	96	227	70	175
Revenue	23 751	27 055	17 346	20 496
Voyage costs	(4 164)	(4 604)	(3 042)	(3 483)
Cost of sales	(12 634)	(15 897)	(9 228)	(12 043)
Gross profit	6 953	6 554	5 076	4 970
Administrative expenses	(3 415)	(2 062)	(2 493)	(1 565)
Impairment of non-financial assests	(13 297)	(1 700)	(9 712)	(1 288)
Other operating income	20 138	858	14 708	650
Other operating expenses	(21)	-	(15)	-
Operating profit	10 358	3 650	7 564	2 767
Finance income	71	379	52	292
Finance costs	(3 108)	(3 922)	(2 270)	(2 971)
Profit before tax	7 321	107	5 346	88
Income tax	(63)	(30)	(46)	(24)
Profit for the period	7 258	77	5 300	64
Attributable to:				
Equity holders of the parent	7 269	81	5 308	67
Non-controlling interests	(11)	(4)	(8)	(3)
	7 258	77	5 300	64
Profit per share	US \$ 0.04	US \$ 0.00	EUR 0.03	EUR 0.00

Consolidated statement of comprehensive income

for the period ended 31 March 2014

	2014 US \$'000	2013 US \$'000	2014 EUR'000	2013 EUR'000
Profit for the period	7 258	77	5 300	64
Other comprehensive income:				
Items that maybe subsequently reclassified to profit or loss				
Exchange differences on translation				
of foreign operations	285	(999)	(1 123)	4 611
Net movement on cash flow hedges	140	170	102	89
Other comprehensive income/(expenses) for the period, net of tax	425	(829)	(1 021)	4 700
Total comprehensive income/(loss) for the period, net of tax	7 683	(752)	4 279	4 764
Attributable to:				
Equity holders of the parent	7 642	(566)	4 287	4 767
Non-controlling interests	41	(186)	(8)	(3)
	7 683	(752)	4 279	4 764

Consolidated statement of financial position

as at 31 March 2014

	31.03.2014.	31.12.2013.	31.03.2014.	31.12.2013.
	US \$'000	US \$'000	EUR'000	EUR'000
Assets				
Non-current assets				
Intangible assets	37	44	27	31
Fleet	399 190	429 313	290 130	314 591
Property, plant and equipment	3 289	3 279	2 390	2 403
Investment properties	1 920	1 912	1 395	1 400
Investment in associates	15	15	11	10
Other non-current financial assets	4 403	4 403	3 200	3 227
Total non-current assets	408 854	438 966	297 153	321 662
Current assets				
Inventories	3 365	3 284	2 446	2 406
Trade and other receivables	6 744	4 976	4 902	3 647
Prepayments	965	789	701	579
Other current financial assets	54 114	35 048	39 330	25 684
Cash and short-term deposits	36 535	36 568	26 554	26 797
Total current assets	101 723	80 665	73 933	59 113
Assets classified as held for sale	11 809	-	8 583	-
Total assets	522 386	519 631	379 669	380 775

Consolidated statement of financial position *(continued)*

as at 31 March 2014

	31.03.2014. US \$'000	31.12.2013. US \$'000	31.03.2014. EUR'000	31.12.2013. EUR'000
Equity and liabilities				
Equity				
Share capital	362 319	362 319	284 574	284 574
Accumulated deficit	(130 119)	(137 388)	(101 144)	(106 452)
Other components of equity	(12 874)	(13 247)	(24 025)	(23 004)
Equity attributable to equity holders of the parent	219 326	211 684	159 405	155 118
Non-controlling interests	6 419	6 378	4 665	4 673
Total equity	225 745	218 062	164 070	159 791
Non-current liabilities				
Interest bearing loans	209 077	215 591	151 957	157 981
Derivative financial instruments	506	570	368	417
Trade and other payables	32 321	31 986	23 491	23 439
Deferred tax liabilities	119	118	86	87
Total non-current liabilities	242 023	248 265	175 902	181 924
Current liabilities				
Trade and other payables	15 199	13 490	11 047	9 885
Interest bearing loans	36 574	37 077	26 582	27 170
Derivative financial instruments	827	1 010	601	740
Deferred income	2 018	1 727	1 467	1 265
Total current liabilities	54 618	53 304	39 697	39 060
Total equity and liabilities	522 386	519 631	379 669	380 775

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Consolidated statement of changes in equity

for the period ended 31 March 2014

	Attributable to the holders of the parent						Non-controlling interests	Total equity
	Share capital	Accumulated deficit	Cash flow hedge reserve	Foreign currency translation reserve	Total	US \$'000		
	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000		
As at 31 December 2012	362 319	(119 279)	(1 890)	(12 481)	228 669	6 223	234 892	
Profit/(loss) for the period	-	81	-	-	81	(4)	77	
Other comprehensive income/(loss)	-	-	170	(817)	(647)	(182)	(829)	
Total comprehensive income/(loss)	-	81	170	(817)	(566)	(186)	(752)	
As at 31 March 2013	362 319	(119 198)	(1 720)	(13 298)	228 103	6 037	234 140	
Loss for the period	-	(18 190)	-	-	(18 190)	(34)	(18 224)	
Other comprehensive income	-	-	502	1 269	1 771	375	2 146	
Total comprehensive income/(loss)	-	(18 190)	502	1 269	(16 419)	341	(16 078)	
As at 31 December 2013	362 319	(137 388)	(1 218)	(12 029)	211 684	6 378	218 062	
Profit/(loss) for the period	-	7 269	-	-	7 269	(11)	7 258	
Other comprehensive income	-	-	140	233	373	52	425	
Total comprehensive income	-	7 269	140	233	7 642	41	7 683	
As at 31 March 2014	362 319	(130 119)	(1 078)	(11 796)	219 326	6 419	225 745	

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

for the period ended 31 March 2014

	Attributable to the holders of the parent					Non-controlling interests	Total equity
	Share capital	Accumulated deficit	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000		
As at 31 December 2012	284 574	(92 096)	(1 428)	(18 283)	172 767	4 702	177 469
Profit/(loss) for the period	-	67	-	-	67	(3)	64
Other comprehensive income	-	-	89	4 611	4 700	-	4 700
Total comprehensive income/(loss)	-	67	89	4 611	4 767	(3)	4 764
As at 31 March 2013	284 574	(92 029)	(1 339)	(13 672)	177 534	4 699	182 233
Loss for the period	-	(14 423)	-	-	(14 423)	(26)	(14 449)
Other comprehensive income/(loss)	-	-	447	(8 440)	(7 993)	-	(7 993)
Total comprehensive income/(loss)	-	(14 423)	447	(8 440)	(22 416)	(26)	(22 442)
As at 31 December 2013	284 574	(106 452)	(892)	(22 112)	155 118	4 673	159 791
Profit/(loss) for the period	-	5 308	-	-	5 308	(8)	5 300
Other comprehensive income/(loss)	-	-	102	(1 123)	(1 021)	-	(1 021)
Total comprehensive income/(loss)	-	5 308	102	(1 123)	4 287	(8)	4 279
As at 31 March 2014	284 574	(101 144)	(790)	(23 235)	159 405	4 665	164 070

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Consolidated statement of cash flows

for the period ended 31 March 2014

	2014 US \$'000	2013 US \$'000	2014 EUR'000	2013 EUR'000
Operating activities				
Profit before tax	7 321	107	5 346	88
<u>Adjustments for:</u>				
Depreciation and amortisation	5 072	7 175	3 704	5 435
Result on disposal of non-financial assets	20	-	14	-
Impairment loss of the fleet	13 297	1 700	9 712	1 288
Other adjustments	(17 363)	3 026	(12 908)	1 804
<u>Working capital adjustments:</u>				
Changes in trade and other receivables and prepayments	(1 944)	3 920	(1 420)	2 970
Changes in inventories	(81)	828	(59)	627
Changes in trade and other payables	2 021	(1 196)	1 476	(906)
Net cash flows generated from operating activities	8 343	15 560	5 865	11 306
Net cash flows generated from/(used in) investing activities	1 323	(532)	975	(403)
Cash flows before financing activities	9 666	15 028	6 840	10 903
Net cash flows used in financing activities	(9 699)	(11 902)	(7 083)	(9 016)
Net (decrease)/increase in cash and cash equivalents	(33)	3 126	(243)	1 887
Cash and cash equivalents at the beginning of the period	36 568	26 133	26 797	20 886
Cash and cash equivalents at the end of the period	36 535	29 259	26 554	22 773

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 2013, which were prepared in accordance with the International Financial Reporting Standards.

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

Monetary assets and liabilities of the Group entities denominated in other currencies are translated into functional currency at the rate of exchange stated at the end of the financial period. 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 that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction.

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 or at the rates prevailing on the transaction dates; and
- (c) all resulting exchange differences are recognised in other comprehensive income.

ECB (the European Central Bank) rate of exchange as at 31.03.2014 EUR/USD – 1.3759 (average – 1.369255)

LB (the Bank of Latvia) rate of exchange as at 31.03.2013 EUR/USD – 1.2848 (average – 1.320187)

LB (the Bank of Latvia) rate of exchange as at 31.12.2013 EUR/USD – 1.3647

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

2. Segment information

Shipping segment for the period ended 31 March 2014

	2014 US \$'000	2013 US \$'000	2014 EUR'000	2013 EUR'000
Time charter hire income	16 688	18 704	12 188	14 168
Freight income	6 967	8 124	5 088	6 153
Voyage income from external customers	23 655	26 828	17 276	20 321
Voyage costs	(4 164)	(4 604)	(3 042)	(3 483)
Net voyage result	19 491	22 224	14 234	16 838
Vessel operating costs	(7 518)	(8 642)	(5 491)	(6 549)
Vessel operating profit	11 973	13 582	8 743	10 289
Other revenues	96	227	70	175
Costs of sales (Vessel operating costs excluding)	(99)	(174)	(72)	(130)
Administrative expenses	(3 321)	(1 930)	(2 426)	(1 466)
Result from disposal of non-financial assets	(20)	-	(14)	-
Depreciation and amortisation	(5 072)	(7 175)	(3 704)	(5 435)
Impairment of non-financial assets	(13 297)	(1 700)	(9 712)	(1 288)
Other operating income	87	858	64	650
Result before financial items	(9 653)	3 688	(7 051)	2 795
Interest income	70	6	51	4
Interest expense	(2 844)	(3 830)	(2 077)	(2 900)
Finance expenses, net	(250)	286	(183)	221
Net result before tax	(12 677)	150	(9 260)	120
Segment assets	463 198	557 774	336 652	434 122
Including additions to non-current assets	10	793	7	601

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.

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

2. Segment information *(continued)*

Reconciliation of segment results and assets to income statement and statement of financial position for the period ended 31 March 2014

	2014 US \$'000	2013 US \$'000	2014 EUR'000	2013 EUR'000
Net result before tax for reportable segment	(12 677)	150	(9 260)	120
Administrative expenses	(39)	(38)	(28)	(28)
Other operating income	20 050	-	14 643	-
Interest income	1	-	1	-
Interest expenses	(16)	-	(12)	-
Finance income/(expenses), net	2	(5)	2	(4)
Profit before tax	7 321	107	5 346	88
	31.03.2014.	31.03.2013.	31.03.2014.	31.03.2013.
Segment assets for reportable segment	463 198	557 774	336 652	434 122
Unallocated:				
Investment properties	1 920	1 819	1 395	1 416
Other assets of subsidiaries not included in segment	6 145	6 165	4 466	4 798
Other financial assets	20 121	-	14 624	-
Available-for-sale financial assets	31 002	29 477	22 532	22 942
Total assets	522 386	595 235	379 669	463 278

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Notes to the unaudited condensed consolidated financial statements (continued)

3. Related party transactions

for the period ended 31 March 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	8 424	-	1 567	(1 554)
Technical management fee and IT services / Outstanding balances	84	-	4	-
Interest income/(expense) / Outstanding balances	2	(268)	559	(34 005)
Real estate rent / Outstanding balances	10	-	10	-
Consulting services / Outstanding balances	-	(4)	-	(4)
Other services / Outstanding balances	13	-	4	-
Total	8 533	(272)	2 144	(35 563)

Including:

Non-current			-	(32 321)
Current			2 144	(1 947)
Deferred income			-	(1 295)
Total			2 144	(35 563)

	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	6 152	-	1 140	(1 129)
Technical management fee IT services / Outstanding balances	61	-	3	-
Interest income/(expense) / Outstanding balances	1	(202)	407	(24 715)
Real estate rent / Outstanding balances	7	-	7	-
Consulting services / Outstanding balances	-	(3)	-	(3)
Other services / Outstanding balances	9	-	3	-
Total	6 230	(205)	1 560	(25 847)

Including:

Non-current			-	(23 491)
Current			1 560	(1 415)
Deferred income			-	(941)
Total			1 560	(25 847)

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

3. Related party transactions (continued)

for the period ended 31 March 2013

	<u>Income</u>	<u>Expenses</u>	<u>Amounts due from related parties</u>	<u>Amounts due to related parties</u>
	<u>USD '000</u>	<u>USD '000</u>	<u>USD '000</u>	<u>USD '000</u>
Freight and hire revenue / Outstanding balances	8 174	-	868	(835)
Technical management fee				
IT services / Outstanding balances	98	-	8	-
Interest income/(expense) / Outstanding balances	1	(211)	516	(28 734)
Consulting services / Outstanding balances	-	(26)	-	(27)
Other services / Outstanding balances	16	-	3	-
Total	8 289	(237)	1 395	(29 596)

Including:

Non-current			-	(28 734)
Current			1 395	(27)
Deferred income			-	(835)
Total			1 395	(29 596)

	<u>Income</u>	<u>Expenses</u>	<u>Amounts due from related parties</u>	<u>Amounts due to related parties</u>
	<u>EUR'000</u>	<u>EUR'000</u>	<u>EUR'000</u>	<u>EUR'000</u>
Freight and hire revenue / Outstanding balances	6 193	-	676	(650)
Technical management fee				
IT services / Outstanding balances	73	-	6	-
Interest income/(expense) / Outstanding balances	1	(162)	401	(22 363)
Consulting services / Outstanding balances	-	(20)	-	(21)
Other services / Outstanding balances	11	-	3	-
Total	6 278	(182)	1 086	(23 034)

Including:

Non-current			-	(22 363)
Current			1 086	(21)
Deferred income			-	(650)
Total			1 086	(23 034)

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

Contact person with respect to information presented in these financial statements

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Forward-Looking Statements

Matters discussed in the management report may constitute forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe," "anticipate," "intends," "estimate," "forecast," "project," "plan," "potential," "may," "should," "expect," "pending" and similar expressions identify forward-looking statements. The forward-looking statements in the management report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, our management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. In addition to these important factors, other important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the failure of counterparties to fully perform their contracts with us, the strength of world economies and currencies, general market conditions, including fluctuations in charter rates and vessel values, changes in demand for tanker vessel capacity, changes in our operating expenses, including bunker prices, dry-docking and insurance costs, the market for our vessels, availability of financing and refinancing, charter counterparty performance, ability to obtain financing and comply with covenants in such financing arrangements, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, vessels breakdowns and instances of off-hires and other factors. LSC management shall not be liable for the decisions made by third persons based on information provided by LSC management as the forward-looking statements.