

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

Unaudited Condensed Interim Consolidated Financial Statements

for the six month period ended 30 June 2016



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Supervisory Council

Chairman of the Supervisory Council Vladimir Egger

Deputy Chairperson of the Supervisory Council Boris Bednov (until April 26, 2016)

Kaspars Bunne (from April 29, 2016)

Members of the Supervisory Council:

Dzmitry Yudzin

Aleksej Tarasov

Artūrs Neimanis

Andrea Schlaepfer

Varvara Maximova

Olga Kurenkova

Giovanni Fagioli

Kristo Oidermaa

Kaspars Bunne (from April 26, 2016 until April 29, 2016)

Professional experience of the members of the Supervisory Council

- Vladimir Egger* Re-elected in the position of the deputy chairman of the Supervisory Council on April 29, 2016. Re-elected in the position of the member of the Supervisory Council on April 26, 2016 for 5 years term. 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.
- Kaspars Bunne* Elected in the position of the deputy chairman of the Supervisory Council on April 29, 2016. Elected in the position of the member of the Supervisory Council on April 26, 2016 for 5 years term. Kaspars Bunne has been working for Ventspils nafta JSC since 2008. Since August 2011 he has worked in the position of Finance Manager. In the period from 2003 to 2008 he worked with Deloitte Audits Latvia Ltd and had experience in auditing services of annual reports for companies of different industries. From 2000 to 2003 he worked for Hansabanka JSC (now Swedbank JSC) at Internal Audit Department and Retail Lending Department. Mr. Bunne holds Social Sciences Bachelor Degree in Management from University of Latvia. Mr. Kaspars Bunne does not own any shares of JSC Latvian Shipping Company.
- Dzmitry Yudzin* Re-elected in the position of the member of the Supervisory Council on April 26, 2016 for 5 years term. D.Yudzin has worked for Belarussian Oil Company since 2009. In May 2014, he joined the Vitol Services B.V. (The Netherlands) Representative office. In December 2014, he joined the SIA "Vitol Baltics" and since then has continuously worked there as trader. Professional education: degree in Economy from Belarussian National Polytechnic University. Dzmitry Yudzin does not own any shares of JSC Latvian Shipping Company.
- Aleksej Tarasov* Re-elected in the position of the member of the Supervisory Council on April 26, 2016 for 5 years term. Aleksej Tarasov has worked as a member of the Management Board of JSC Ventspils Nafta since January 6, 2011, and was re-elected for a period of 3 years on June 26, 2013. He has worked for Mazeikiu Nafta since 1986. In 1997, he joined the Vitol Lithuania office and since then has continuously worked there as Technical Specialist. Main fields of his expertise include logistics, transportation, storage, and product quality preservation. Professional education: degree in Engineering from the St-Petersburg VVMURE Academy (currently – the Naval Institute of Marine Radioelectronics, VVMURE named after A.S. Popov). Mr Aleksej Tarasov does not own any shares of JSC Latvian Shipping Company.
- Artūrs Neimanis* Re-elected in the position of the member of the Supervisory Council on April 26, 2016 for 5 years term. Artūrs Neimanis is the adviser of Welfare Minister in the issues related to administration, finance and human resources since January 2014. Previously he was employed in leading positions related to the security at "GE Money Bank". Professional education: bachelor degree in business management from Information system management institution of higher education and qualification of lawyer from Latvian Police academy. Artūrs Neimanis does not own any shares of JSC Latvian Shipping Company.
- Andrea Schlaepfer* Re-elected in the position of the member of the Supervisory Council on April 26, 2016 for 5 years term. A. 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* Re-elected in the position of the member of the Supervisory Council on April 26, 2016 for 5 years term. V.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* Re-elected in the position of the member of the Supervisory Council on April 26, 2016 for 5 years term. O.Kurenkova works at representative office of "Vitol Services B.V., The Netherlands" since 2012 as a head of logistic department. Previously since 2000 she was employed by representative office of "VNT S.A., Switzerland" as a logistic manager and head of logistic department. 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* Re-elected in the position of the member of the Supervisory Council on April 26, 2016 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.
- Kristo Oidermaa* Re-elected in the position of the member of the Supervisory Council on April 26, 2016 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

Members of the Management Board

Paul Thomas

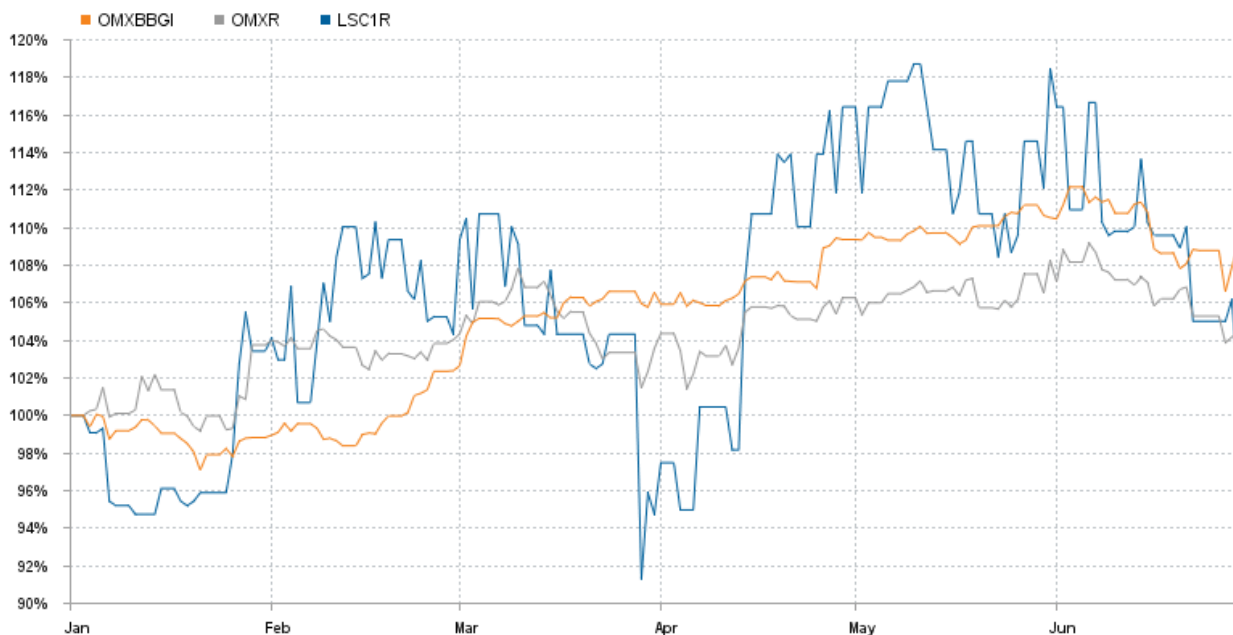
Christopher James Kernon

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 terminals 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, re-elected for 5 years on March 1, 2016. Paul Thomas does not own shares of JSC Latvian Shipping Company..
- Christopher James Kernon* Christopher 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. He has B.Eng in Naval Architecture from Newcastle upon Tyne University. Member of the Management Board of Latvian Shipping Company since February, 2011, re-elected for 5 years term on March 1, 2106. 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 01.01.2016 until 30.06.2016



Index/Equity	01.01.2016	30.06.2016	+/-%
OMX Baltic Benchmark GI	648.32	711.29	9.71
OMX Riga	594.35	620.68	4.43
LSC1R	0.438 EUR	0.457 EUR	4.34

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, OMXBBI, OMXBBPI, OMXBGI, OMXBPI, OMXRGI

Securities trading history, EUR

Price	2011	2012	2013	2014	2015	6m 2016
Open	0.526	0.444	0.359	0.550	0.360	0.431
High	0.655	0.492	0.593	0.580	0.649	0.520
Low	0.428	0.289	0.327	0.352	0.360	0.400
Last	0.438	0.359	0.559	0.360	0.438	0.457
Average	0.487	0.406	0.437	0.453	0.399	0.471
Traded volume	13,526,230	985,943	4,575,982	1,449,529	13,160,987	981,222
Turnover, million	8.32	0.38	2.15	0.66	5.25	0.46
Capitalisation, million	87.65	71.71	111.84	72.00	87.60	94.20

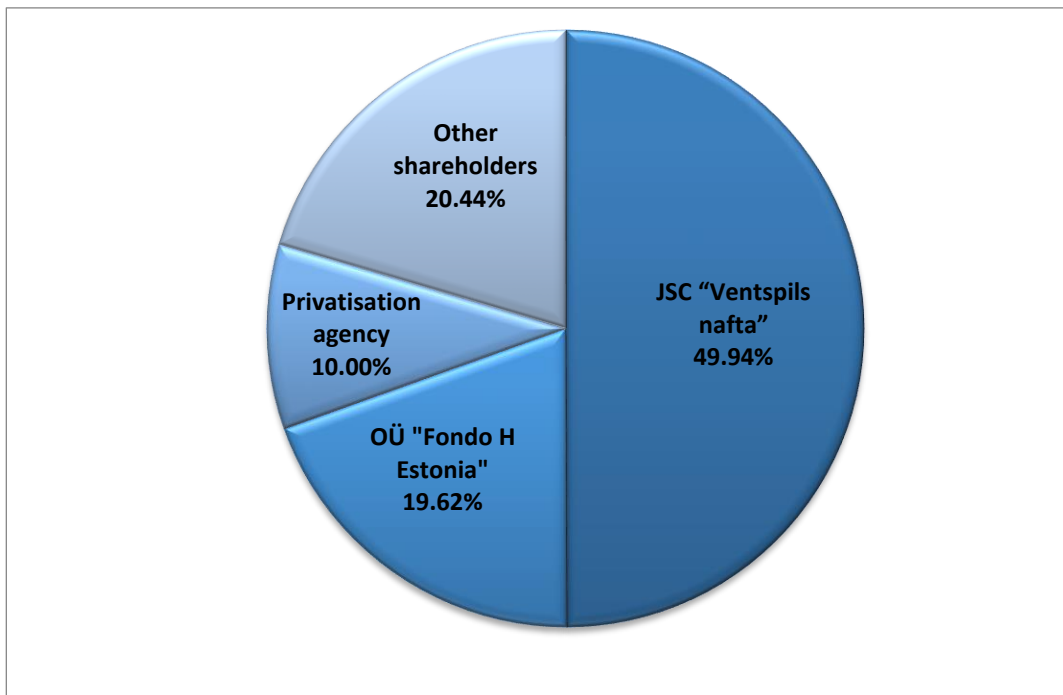
Information source: JSC „NASDAQ OMX Riga” webpage www.nasdaqomxbaltic.com

Review of the shares *(continued)*

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	19.62%
Privatisation agency	Government institution	10.00%

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



Management report

Dear shareholders and other stakeholders,

The Latvian Shipping Company (“LSC” or “Company”) and its subsidiaries (“LSC Group” or “Group”) financial result for the first six months of 2016 resulted in a net loss of USD 6.66 million (1H 2015: net profit USD 8.85 million). The result was mainly attributable to impairments recognised in respect to the value of the LSC fleet in the amount of USD 5.60 million and the negative impact of the USD/EURO exchange rate in the amount of USD 4.20 million.

In June 2016 the LSC Group reached an agreement with “Crédit Agricole Corporate and Investment Bank” on an extension of the Medium Range tankers Latgale and Zemgale loan facility for a further period of two years in the amount of 33.2 million USD. At the annual general shareholders meeting held in April a shareholder vote did not achieve the qualified majority of (75%) in order to raise equity capital for the Company. An extension of the existing bareboat charters, concluded with a related party – a company within the Vitol Group of companies, was a mandatory pre-condition of the lending bank in order to provide it with sufficient security and guaranteed cash flow throughout the duration of the loan facility.

Total revenues improved reaching USD 50.08 million (1H 2015: USD 45.81 million), due to higher spot voyage earnings during the winter season in the western hemisphere and favourable time charter rates. During the reporting period the Group entered in to various transactions with related parties (entities under joint control of the shareholder) which enabled the Group to generate 36 % of its total revenues (1H 2015: 31%).

Key financial indicators for LSC Group H1 2014-2016 (USD million):

	6M 2014	6M 2015	6M 2016
Sales	47.35	45.81	50.08
EBITDA	18.87	23.80	27.94
Profit before exceptionals	3.01	10.25	(0.90)
Exceptionals (income from financial assets)	11.37	0.65	0.01
Exceptionals (fleet impairment)	(22.70)	(2.05)	(5.60)
Net (loss)/profit	(8.32)	8.85	(6.66)

Administrative costs continued to decrease and were USD 2.90 million, predominantly due to lower legal costs (1H 2015: USD 3.58 million) and the strong USD/EURO exchange rate; income is earned in USD, but administrative expenses are mainly in euros. Administrative costs are also gradually reducing due to the liquidation and restructuring of subsidiaries in Latvian and foreign jurisdictions. After the reporting period fourteen subsidiaries in foreign jurisdictions were dissolved, including those which were involved in the settlement agreements concluded in July, 2015.

The LSC Group increased its net cash position by USD 3.50 million. The majority of the net cash increase related to operating activities compared with the same period in the previous year. This cash increase contributed to the partial prepayment of 11 million USD under the 360 million USD syndicated loan facility. The balance funds used for the partial prepayment of the loan facility were generated by releasing USD 7 million from available funds. The total amount of cash and deposits with maturity up to twelve months was USD 49.29 million as at 30th June 2016.

As at the 30th June 2016 the total value of the Group’s assets was USD 390.16 million (31 December 2015: USD 417.02 million); the decrease was mainly due to the depreciation and impairment in the value of the fleet. The LSC management has reviewed the current methodology for determining the value of the fleet and has decided to apply a fifteen years useful life for the fleet as opposed to twenty -five years and introduced this from January 1st 2016. The total net book value of the LSC Group’s fleet at 30th June 2016 was 303.94 million USD (31 December 2015: USD 328.49 million). The Group’s fleet value is calculated using the total vessel cost at the date of delivery less accumulated depreciation and accumulated impairment losses during its useful life, if any. Impairments are non-cash items which do not affect the cash position of the Group and are calculated using the higher of a vessel’s fair value less costs to sell or its value in use; the methodology of which fully complies with International Accounting Standards (IAS). The Group’s fleet fair (market) value as at 30th June 2016 was USD 285 million which reflects the downward pressure in asset values currently being experienced in the tanker market. The market value of the LSC Group’s fleet at end 2015 was USD 364.75 million. The total equity value of the Group as at 30th June 2016 was USD 168.53 million (31st December 2015: USD 155.39 million).

Management report (continued)

The Group's commercial fleet remains unchanged at sixteen vessels, but a Group subsidiary, LSC Shipmanagement Ltd, is appointed to technically manage not only the LSC Group owned fleet but also seven third party tankers thus bringing the number of vessels under technical management to twenty-three. In addition to generating additional revenues, this illustrates the competence and professionalism of the employees of the LSC Group. The fleet's operating profit for 1H 2016 rose to USD 30.17 million (1H 2015 – USD 26.93 million) due to the aforementioned increase in spot and time charter rates.

As at 30th June 2016, 81% (thirteen vessels) of the LSC Group's fleet were employed on period business (time-charter and bareboat charter). The average employment period for the portion of the LSC fleet on time charter plus bareboat charter (i.e. Latgale and Zemgale) is 9.6 months. The average employment period for the portion of the fleet (eleven vessels) on time charter only (i.e. excluding the bareboat charters) – 7.0 months. Accordingly at the end of Q2 and at the date of this report 19% of the LSC Group's fleet are trading on the spot markets.

Below is a summary of the average daily TCE revenue for the portion of the fleet trading on the spot market for the second quarter of 2016:

MRs on voyage charter: \$17,015 per revenue day.

Handymaxes on voyage charter: \$15,976 per revenue day.

Below is a summary of the average daily TCE revenue estimated thus far for the portion of the fleet trading on the spot market for the third quarter of 2016:

MRs on voyage charter: approximately \$12,100 per day for 61% of Q3 revenue days.

Handymaxes on voyage charter: approximately \$9,600 per day for 61% of Q3 revenue days.

Average LSC Group's Fleet net TCE (time charter equivalent) USD/per day

Fleet	Y 2012	Y 2013	Y2014	Y 2015	Q1 2016 (A)	Q2 2016 (A)
HS (4 vessels)*	12 703	13 468	13 594	14 310	15 435	16 252
MR (12 vessels)**	13 168	14 174	14 130	16 232	17 660	16 953

*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.

Explanations:

HS = handy size (37 dwt); MR = medium range (52 dwt)

Net TCE (time charter equivalent) = 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.

Previous quarter TCE is updated on a regular basis from estimate (E) to actual (A) to reflect finalised TCE when voyages are completed and fully realized.

The LSC Group's handy size vessels trade predominantly within Europe, and are also suitable for ice bound regions such as the Baltic and East Coast Canada. The medium range tankers, with their greater cargo carrying capacity, trade world-wide and can also operate in most ice bound regions of the world.

Throughout the second quarter of 2016 the tanker industry has continued to experience a steady erosion in earnings, asset values and for publically quoted tanker companies, a significant decrease in shareholder value; this weaker sentiment will be particularly evident in the third quarter which is evidenced by the Q3 spot earnings of the LSC Group's fleet thus far. A number of contributory factors have resulted in this weaker environment; but perhaps the greatest negative impact on earnings has been fewer ton miles, always a positive driver of shipping rates, and a sharp increase in the size of the general products tanker fleet. 11pct of the existing MR tanker fleet is on order with over 100 tankers to be delivered during the balance of 2016 and 2017. Without stronger economic growth, the main driver of shipping rates, this increase in the size of the fleet will have a negative impact on ship-owners earnings.

Management report (*continued*)

Specific to LSC Group its focus on time charter, as opposed to spot market exposure, has enabled it to achieve reasonable earnings for the second quarter of 2016 and will continue to afford some protection throughout the balance of the year from the recent correction in spot and time charter earnings that the market is now experiencing. Looking forward to 2017 LSC Group will have a much smaller proportion of the fleet with time charter coverage at previously agreed healthy levels and so given current analysis could be exposed to lower earnings.

Apart from the financial challenges of a weaker shipping market the main focus for LSC for the balance of 2016 will be the need to re-finance a fleet of fourteen vessels latest by mid-2017 in a challenging macroeconomic environment for both ship-owners and for those that may provide such funding.

LSC Group continues the disposal of non-core assets to help meet financial obligations and maintain its focus on its core business. The sale of the real estate property "Lejastiezumi" was finalised in April. Several speculative below market offers have been received on other properties, however the real estate market remains depressed with little liquidity. This leads us to conclude that the continued disposal of the real estate assets will take time.

As at the 30th June 2016, LSC Group was in compliance with all financial covenants set in the existing loan agreements, except for the Market Adjusted Net Worth covenant under the USD 360million loan facility. The Group is currently in discussions with the banking syndicate on the waiver of the said covenant. Further information will be provided at the time of publishing financial results for the nine months of 2016.

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 19 August 2016

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 30 June 2016, changes in shareholders' equity, cash flows and the results of the Group for the three month period ended 30 June 2016.

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 August 2016

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

Consolidated income statement

for the period ended 30 June 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Voyage income	48 847	45 299	43 943	40 469
Income from other services	1 231	512	1 107	460
Revenue	50 078	45 811	45 050	40 929
Voyage costs and commissions	(3 923)	(4 300)	(3 510)	(3 957)
Cost of sales	(36 002)	(24 084)	(32 352)	(21 732)
Gross profit	10 153	17 427	9 188	15 240
Administrative expenses	(2 897)	(3 580)	(2 600)	(3 238)
Impairment of non-financial assets	(5 600)	(2 045)	(5 050)	(1 886)
Other operating income	17	782	16	1 738
Other operating expenses	(83)	-	(74)	-
Operating profit	1 590	12 584	1 480	11 854
Finance income	225	1 164	202	1 162
Finance costs	(8 300)	(4 794)	(7 276)	(4 323)
(Loss)/profit before tax	(6 485)	8 954	(5 594)	8 693
Income tax	(171)	(101)	(153)	(90)
(Loss)/profit for the period	(6 656)	8 853	(5 747)	8 603
Attributable to:				
Equity holders of the parent	(6 656)	8 860	(5 747)	8 609
Non-controlling interests	-	(7)	-	(6)
	(6 656)	8 853	(5 747)	8 603
Profit per share	US \$ (0.03)	US \$ 0.04	EUR (0.03)	EUR 0.04

The amounts translated into Euro in these financial statements as at and for the period ended is presented for information purposes only and have been computed on the basis set forth in Note 1 to the accompanying financial statements.

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

Consolidated statement of comprehensive income

for the period ended 30 June 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
(Loss)/profit for the period	(6 656)	8 853	(5 747)	8 603
Other comprehensive (loss)/income:				
Items that maybe subsequently reclassified to profit or loss				
Exchange differences on translation of foreign operations	(458)	(2 113)	187	9 726
Net movement on cash flow hedges	206	184	190	114
Other comprehensive (loss)/income for the period, net of tax	(252)	(1 929)	377	9 840
Total comprehensive (loss)/income for the period, net of tax	(6 908)	6 924	(5 370)	18 443
Attributable to:				
Equity holders of the parent	(6 908)	7 430	(5 370)	18 449
Non-controlling interests	-	(506)	-	(6)
	(6 908)	6 924	(5 370)	18 443

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LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

Consolidated statement of financial position

as at 30 June 2016

	30.06.2016. US \$'000	31.12.2015. US \$'000	30.06.2016. EUR'000	31.12.2015. EUR'000
Assets				
Non-current assets				
Intangible assets	8	12	7	11
Fleet	303 942	328 491	274 068	301 728
Property, plant and equipment	2 544	2 560	2 294	2 352
Investment properties	27 737	27 917	25 011	25 643
Trade and other receivables	14	14	13	13
Other non-current financial assets	1 081	250	974	229
Total non-current assets	335 326	359 244	302 367	329 976
Current assets				
Inventories	2 037	2 362	1 837	2 169
Trade and other receivables	2 821	2 192	2 543	2 014
Prepayments	681	529	614	485
Other current financial assets <i>including deposits with maturity more than three months</i>	23 807	30 710	21 468	28 208
	23 800	30 700	21 461	28 199
Cash and cash equivalents	25 491	21 987	22 986	20 195
Total current assets	54 837	57 780	49 448	53 071
Total assets	390 163	417 024	351 815	383 047

The amounts translated into Euro in these financial statements as at and for the period ended is presented for information purposes only and have been computed on the basis set forth in Note 1 to the accompanying financial statements.

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

Consolidated statement of financial position (continued)

as at 30 June 2016

	30.06.2016.	31.12.2015.	30.06.2016.	31.12.2015.
	US \$'000	US \$'000	EUR'000	EUR'000
Equity and liabilities				
Equity				
Share capital	76 392	76 392	60 000	60 000
Retained earnings	97 934	104 590	76 933	82 680
Other components of equity	(5 795)	(25 593)	15 033	49
Total equity	168 531	155 389	151 966	142 729
Non-current liabilities				
Interest bearing loans	30 422	131 647	27 432	120 922
Trade and other payables	39 953	57 514	36 026	52 827
Deferred tax liabilities	1 954	1 918	1 762	1 762
Total non-current liabilities	72 329	191 079	65 220	175 511
Current liabilities				
Trade and other payables	11 434	8 719	10 311	8 009
Interest bearing loans	135 099	57 964	121 820	53 241
Derivative financial instruments	54	281	49	258
Deferred income	2 716	3 592	2 449	3 299
Total current liabilities	149 303	70 556	134 629	64 807
Total equity and liabilities	390 163	417 024	351 815	383 047

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LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

Consolidated statement of changes in equity

for the period ended 30 June 2016

	Attributable to the holders of the parent						Non-controlling interests	Total equity	
	Share capital	Reserve of share capital denomination	Cash flow hedge reserve	Foreign currency translation reserve	Other reserves	Retained earnings			Total
	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000			US \$'000
As at 31 December 2014	76 392	5 824	(691)	(15 264)	(20 050)	111 681	157 892	5 565	163 457
Profit for the period	-	-	-	-	-	8 860	8 860	(7)	8 853
Other comprehensive loss	-	-	184	(1 614)	-	-	(1 430)	(499)	(1 929)
Total comprehensive income	-	-	184	(1 614)	-	8 860	7 430	(506)	6 924
Decrease in non-controlling interests	-	-	-	-	-	-	-	(2 513)	(2 513)
As at 30 June 2015	76 392	5 824	(507)	(16 878)	(20 050)	120 541	165 322	2 546	167 868
Loss for the period	-	-	-	-	-	(15 951)	(15 951)	(121)	(16 072)
Other comprehensive income	-	-	289	57	-	-	346	16	362
Total comprehensive loss	-	-	289	57	-	(15 951)	(15 605)	(105)	(15 710)
Other reserves	-	-	-	-	5 672	-	5 672	-	5 672
Decrease in non-controlling interests	-	-	-	-	-	-	-	(2 441)	(2 441)
As at 31 December 2015	76 392	5 824	(218)	(16 821)	(14 378)	104 590	155 389	-	155 389
Loss for the period	-	-	-	-	-	(6 656)	(6 656)	-	(6 656)
Other comprehensive loss	-	-	206	(458)	-	-	(252)	-	(252)
Total comprehensive loss	-	-	206	(458)	-	(6 656)	(6 908)	-	(6 908)
Other reserves	-	-	-	-	20 050	-	20 050	-	20 050
As at 30 June 2016	76 392	5 824	(12)	(17 279)	5 672	97 934	168 531	-	168 531

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

for the period ended 30 June 2016

	Attributable to the holders of the parent							Non-controlling interests	Total equity
	Share capital	Reserve of share capital denomination	Cash flow hedge reserve	Foreign currency translation reserve	Other reserves	Retained earnings	Total		
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000		
As at 31 December 2014	60 000	4 574	(569)	(7 715)	(14 607)	88 366	130 049	4 584	134 633
Profit for the period	-	-	-	-	-	8 609	8 609	(6)	8 603
Other comprehensive income	-	-	114	9 726	-	-	9 840	-	9 840
Total comprehensive income	-	-	114	9 726	-	8 609	18 449	(6)	18 443
Decrease in non-controlling interests	-	-	-	-	-	-	-	(2 291)	(2 291)
As at 30 June 2015	60 000	4 574	(455)	2 011	(14 607)	96 975	148 498	2 287	150 785
Loss for the period	-	-	-	-	-	(14 295)	(14 295)	(108)	(14 403)
Other comprehensive income	-	-	254	3 062	-	-	3 316	-	3 316
Total comprehensive loss	-	-	254	3 062	-	(14 295)	(10 979)	(108)	(11 087)
Other reserves	-	-	-	-	5 210	-	5 210	-	5 210
Decrease in non-controlling interests	-	-	-	-	-	-	-	(2 179)	(2 179)
As at 31 December 2015	60 000	4 574	(201)	5 073	(9 397)	82 680	142 729	-	142 729
Loss for the period	-	-	-	-	-	(5 747)	(5 747)	-	(5 747)
Other comprehensive income	-	-	190	187	-	-	377	-	377
Total comprehensive loss	-	-	190	187	-	(5 747)	(5 370)	-	(5 370)
Other reserves	-	-	-	-	14 607	-	14 607	-	14 607
As at 30 June 2016	60 000	4 574	(11)	5 260	5 210	76 933	151 966	-	151 966

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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Consolidated statement of cash flows

for the period ended 30 June 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Operating activities				
(Loss)/profit before tax	(6 485)	8 954	(5 594)	8 693
<u>Adjustments for:</u>				
Depreciation and amortisation	20 768	9 822	18 688	8 869
Result on disposal of non-financial assets	(14)	(5)	(13)	(5)
Impairment loss of the fleet	5 600	2 045	5 050	1 886
Other adjustments	7 333	621	5 733	1 465
<u>Working capital adjustments:</u>				
Changes in trade and other receivables and prepayments	15 078	(108)	13 949	(325)
Changes in inventories	325	(777)	332	(816)
Changes in trade and other payables	(1 153)	3 651	(1 247)	4 010
Net cash flows generated from operating activities	41 452	24 203	36 898	23 777
Net cash flows from (used in) investing activities	6 106	(3 440)	5 385	(3 100)
Cash flows before financing activities	47 558	20 763	42 283	20 677
Net cash flows used in financing activities	(44 054)	(17 073)	(39 492)	(15 280)
Net increase in cash and cash equivalents	3 504	3 690	2 791	5 397
Cash and cash equivalents at the beginning of the period	21 987	27 925	20 195	23 001
Cash and cash equivalents at the end of the period	25 491	31 615	22 986	28 398

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 2015, 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 30.06.2016 EUR/USD – 1.1090 (average – 1.115520)

ECB (the European Central Bank) rate of exchange as at 30.06.2015 EUR/USD – 1.1133 (average – 1.117339)

ECB (the European Central Bank) rate of exchange as at 31.12.2015 EUR/USD – 1.0887 (average – 1.110611)

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

2. Segment information

Shipping segment for the period ended 30 June 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Time charter out revenue	38 469	34 199	34 659	30 343
Voyage revenue	10 378	11 100	9 284	10 126
Voyage income from external customers	48 847	45 299	43 943	40 469
Voyage costs and commissions	(3 923)	(4 300)	(3 510)	(3 957)
Net voyage result	44 924	40 999	40 433	36 512
Vessel operating costs	(14 750)	(14 072)	(13 230)	(12 688)
Vessel operating profit	30 174	26 927	27 203	23 824
Income from other revenues	864	512	777	460
Costs of sales (Vessel operating costs excluding)	(398)	(272)	(358)	(248)
Administrative expenses	(2 699)	(3 410)	(2 423)	(3 086)
Result from disposal of non-financial assets	1	5	1	5
Depreciation and amortisation	(20 495)	(9 821)	(18 442)	(8 868)
Impairment of non-financial assets	(5 600)	(2 045)	(5 050)	(1 886)
Other operating income	3	132	3	1 148
Other operating expenses	(83)	-	(74)	-
Result before financial items	1 767	12 028	1 637	11 349
Interest income	225	208	202	188
Interest expense	(4 644)	(4 544)	(4 166)	(4 091)
Finance (expenses)/ income, net	(3 674)	736	(3 126)	779
Net result before tax	(6 326)	8 428	(5 453)	8 225
Segment assets	361 783	388 481	326 224	356 829
Including additions to non-current assets	1 480	6 643	1 335	5 981
Segment liabilities	179 346	220 612	161 719	202 637

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, assets and liabilities to income statement and statement of financial position for the period ended 30 June 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Net result before tax for reportable segment	(6 326)	8 428	(5 453)	8 225
Other revenues	367	-	330	-
Costs of sales	(457)	-	(410)	-
Administrative expenses	(100)	(89)	(89)	(80)
Result from disposal of non-financial assets	13	-	12	-
Other operating income	-	645	-	585
Interest income	-	2	-	2
Interest expenses	-	(6)	-	(16)
Finance income/(expenses), net	18	(26)	16	(23)
(Loss)/profit before tax	(6 485)	8 954	(5 594)	8 693
	30.06.2016.	31.12.2015.	30.06.2016.	31.12.2015.
Segment assets for reportable segment	361 783	388 481	326 224	356 829
Unallocated:				
Investment properties	27 737	27 917	25 011	25 643
Other assets of subsidiaries not included in segment	643	626	580	575
Total assets	390 163	417 024	351 815	383 047
Segment liabilities for reportable segment	179 346	220 612	161 719	202 637
Unallocated:				
Deferred tax liabilities	1 857	1 823	1 674	1 674
Loan from related parties	39 945	38 702	36 019	35 549
Loan from other companies	300	300	271	276
Other liabilities of subsidiaries not included in segment	184	198	166	182
Total liabilities	221 632	261 635	199 849	240 318

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

3. Related party transactions

for the period ended 30 June 2016

	2016		30.06.2016.	
	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	17 652	-	602	(1 349)
Technical management fee and IT services / Outstanding balances	163	-	5	-
Interest expense / Outstanding balances	-	(706)	-	(42 936)
Real estate rent / Outstanding balances	61	-	10	-
Consulting services / Outstanding balances	-	(100)	-	(31)
Other services / Outstanding balances	17	-	2	-
Total	17 893	(806)	619	(44 316)
Including:				
Non-current trade and other payables			-	(39 945)
Current trade and other receivables/ trade and other payables			619	(3 028)
Deferred income			-	(1 343)
Total			619	(44 316)

	2016		30.06.2016.	
	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	15 824	-	542	(1 217)
Technical management fee IT services / Outstanding balances	158	-	4	-
Interest expense / Outstanding balances	-	(631)	-	(38 716)
Real estate rent / Outstanding balances	55	-	8	-
Consulting services / Outstanding balances	-	(90)	-	(28)
Other services / Outstanding balances	16	-	2	-
Total	16 053	(721)	556	(39 961)
Including:				
Non-current trade and other payables			-	(36 019)
Current trade and other receivables/ trade and other payables			556	(2 731)
Deferred income			-	(1 211)
Total			556	(39 961)

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

Notes to the unaudited condensed consolidated financial statements (continued)

3. Related party transactions (continued)

for the period ended 30 June 2015

	2015		31.12.2015.	
	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	13 796	-	152	(1 770)
Technical management fee and IT services / Outstanding balances	175	-	5	-
Interest income/(expense) / Outstanding balances	2	(431)	-	(57 482)
Real estate rent / Outstanding balances	54	-	13	-
Consulting services / Outstanding balances	-	(8)	-	(22)
Other services / Outstanding balances	27	-	9	(26)
Total	14 054	(439)	179	(59 300)

Including:

Non-current trade and other payables	-	(57 508)
Current trade and other receivables/ trade and other payables	179	(22)
Deferred income	-	(1 770)
Total	179	(59 300)

	2015		31.12.2015.	
	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	12 348	-	140	(1 626)
Technical management fee IT services / Outstanding balances	156	-	4	-
Interest income/(expense) / Outstanding balances	2	(387)	-	(52 799)
Real estate rent / Outstanding balances	49	-	13	-
Real estate sale / Outstanding balances	-	-	-	-
Consulting services / Outstanding balances	-	(7)	-	(20)
Other services / Outstanding balances	24	-	8	(23)
Total	12 579	(394)	165	(54 468)

Including:

Non-current trade and other payables	-	(52 822)
Current trade and other receivables/ trade and other payables	165	(20)
Deferred income	-	(1 626)
Total	165	(54 468)

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.