



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

Unaudited Condensed Interim Consolidated Financial Statements

for the year ended 31 December 2016



LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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 Schroders Investment Management. She has a degree in Philosophy and Modern Languages from the University of Oxford. A.Schlaepfer does not own shares of JSC Latvian Shipping Company.

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

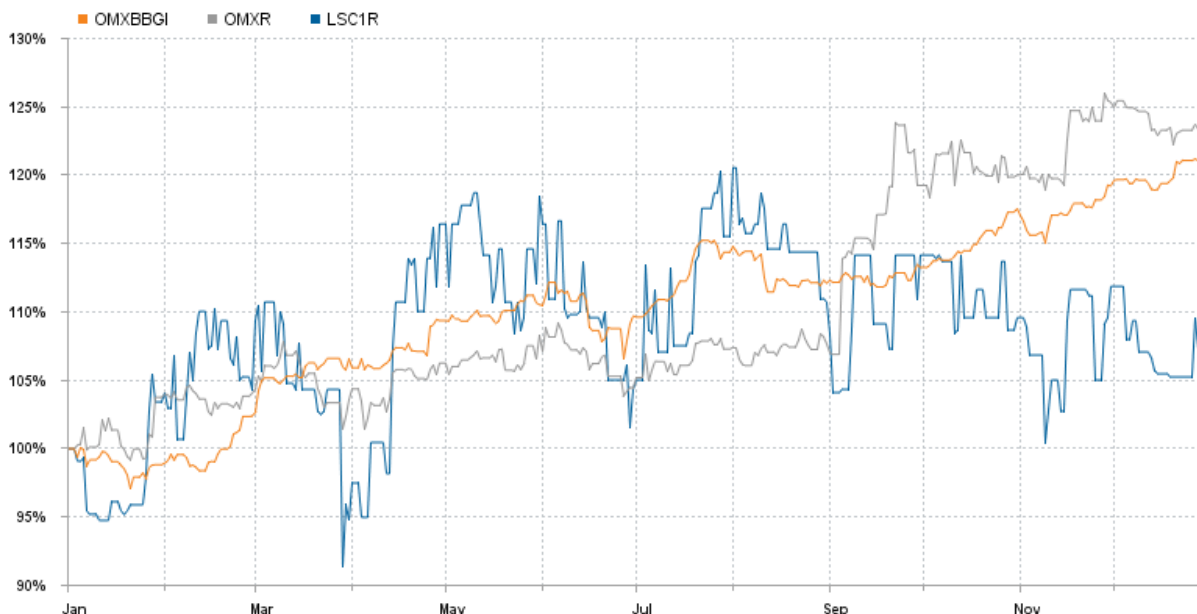
Christopher James Kernon

Professional experience of the members of the Management Board

- Robert Kirkup* The Chairman of the Management Board since March 1, 2014, elected for a 5 years term. Previously he held the position of the Chairman of the Supervisory Council since October 17, 2013. Robert Kirkup is also Chairman of JSC Ventspils nafta's Management Board since 1 September 2013. R. Kirkup also holds positions in JSC Ventspils nafta subsidiaries, he is 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 20 years. In 1996 he joined the Vitol Group and has held various commercial positions. 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 31.12.2016



Index/Equity	01.01.2016	31.12.2016	+/-%
OMX Baltic Benchmark GI	648.32	788.17	21.57
OMX Riga	594.35	733.77	23.46
LSC1R	0.438 EUR	0.470 EUR	7.31

Securities information

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

Securities trading history, EUR

Price	2011	2012	2013	2014	2015	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	0.528
Low	0.428	0.289	0.327	0.352	0.360	0.400
Last	0.438	0.359	0.559	0.360	0.438	0.470
Average	0.487	0.406	0.437	0.453	0.399	0.477
Traded volume	13,526,230	985,943	4,575,982	1,449,529	13,160,987	1,443,900
Turnover, million	8.32	0.38	2.15	0.66	5.25	0.69
Capitalisation, million	87.65	71.71	111.84	72.00	87.60	94.00

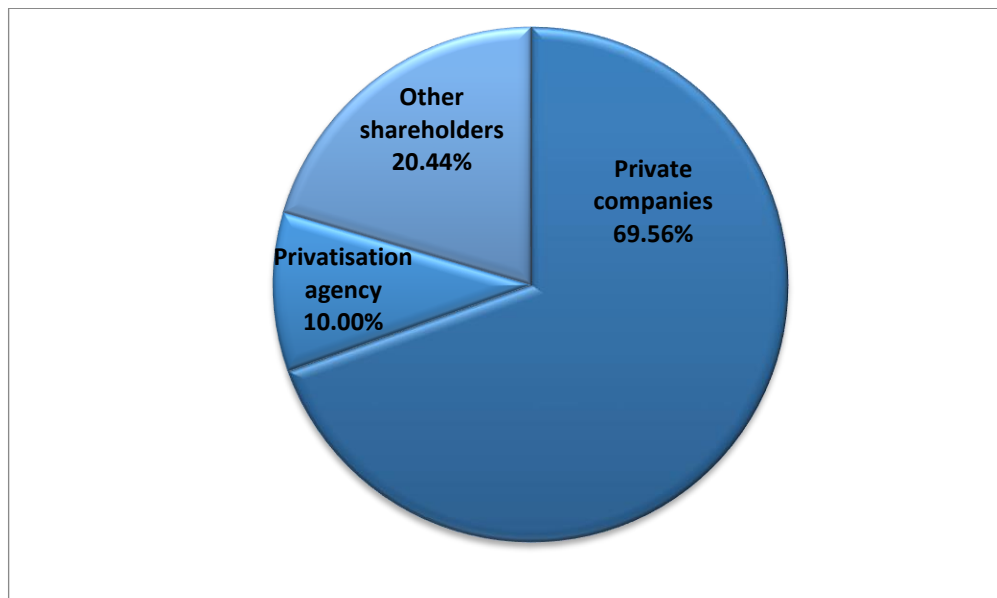
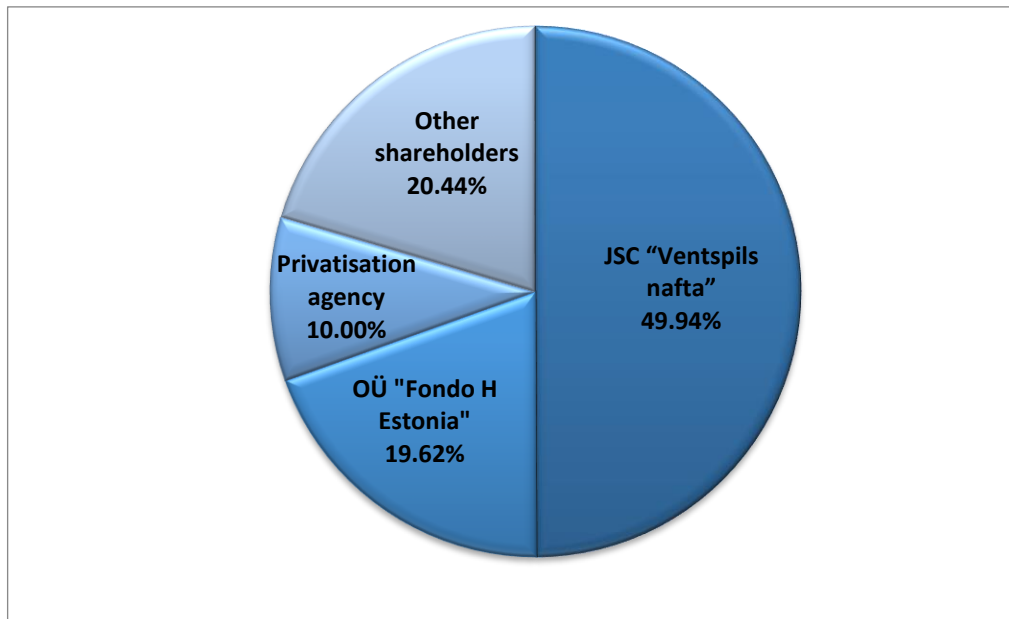
Information source: JSC „Nasdaq Riga” webpage www.nasdaqbaltic.com

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"	Private 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:

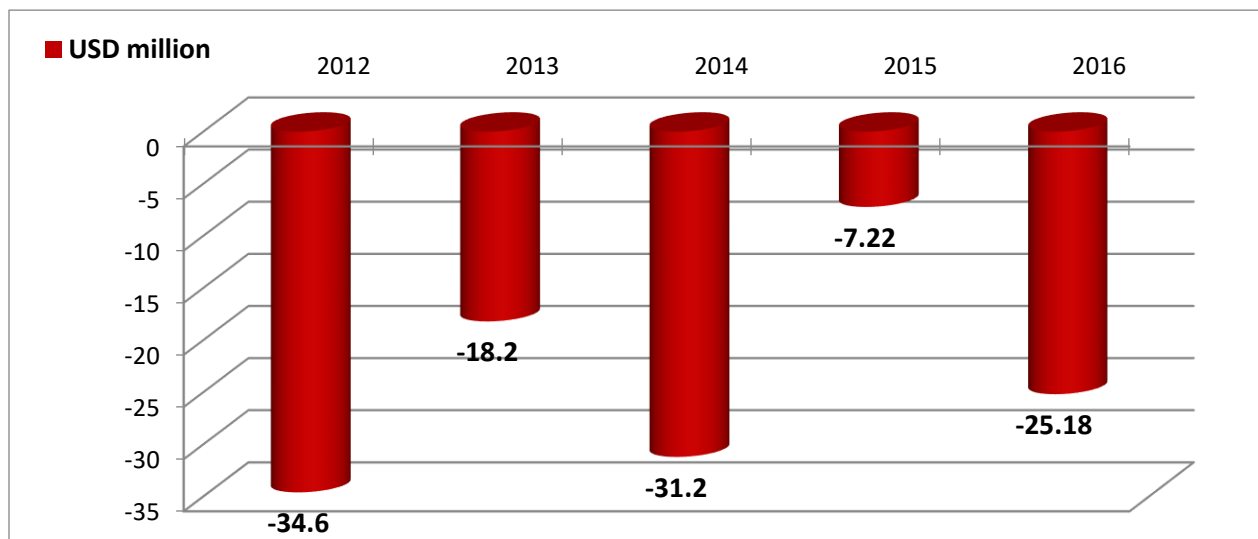


Management report

Dear shareholders and other stakeholders,

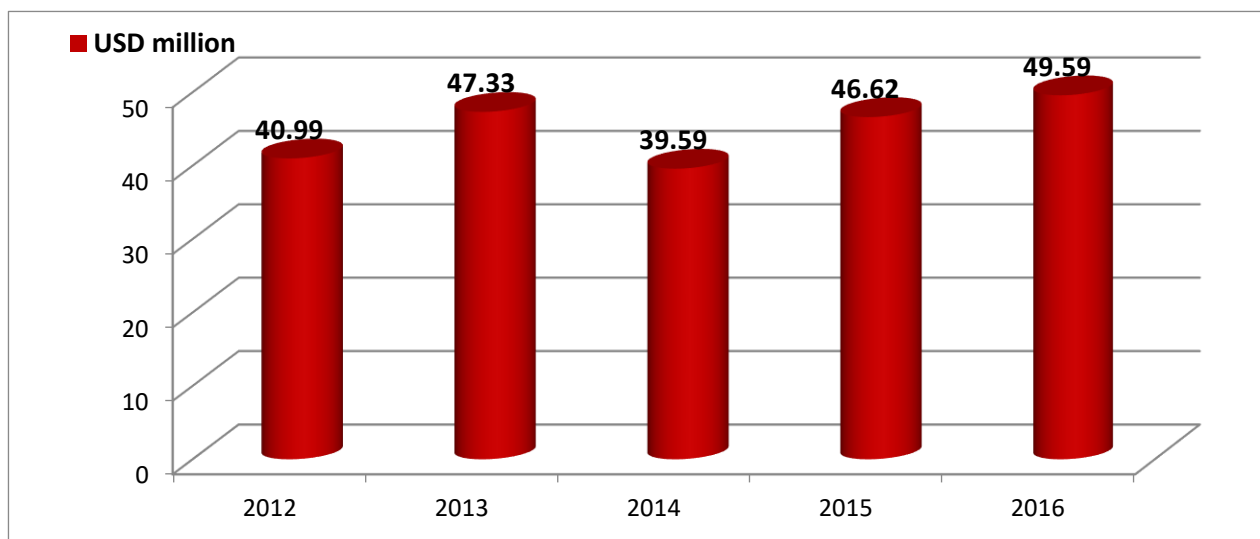
The Latvian Shipping Company (“LSC” or “Company”) and its subsidiaries (“LSC Group” or “Group”) unaudited financial result for 2016 realised a net loss of USD 25.18 million (2015: net loss USD 7.22 million). The result was mainly attributable to the steady erosion in the value of the LSC Group’s fleet throughout 2016 in the amount of USD 24.13 million. The balance of the net loss expressed in USD - USD 3.67 million- was influenced by changes in USD/EUR exchange rate.

LSC Group net loss for the period 01.01.2012. – 31.12.2016.:



Notwithstanding the negative financial result of the Group there was an increase in its operating profit before interest, tax, depreciation and amortisation (EBITDA) in the amount of USD 49.59 million (2015: USD 46.62 million) due to slightly higher average TCE (time charter equivalent earnings) achieved in the reporting year as well as an increase in revenue from technical management services to third parties and rent revenue from the groups real estate portfolio.

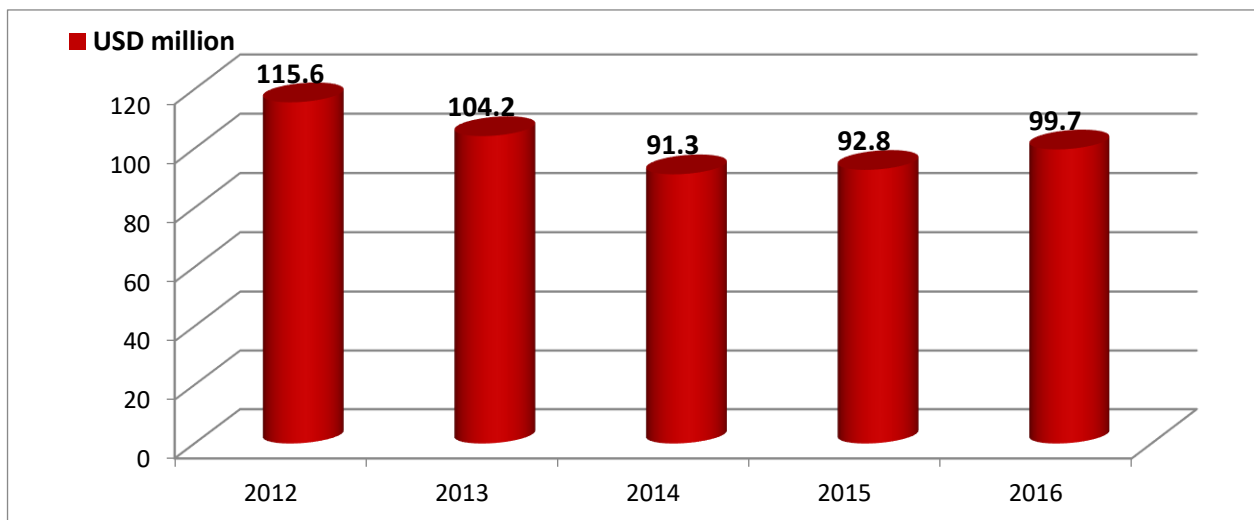
LSC Group EBITDA for the period 01.01.2012. – 31.12.2016.:



Total revenue increased to USD 99.71 million (2015: USD 92.84 million) due to slightly higher earnings from existing time charters negotiated during the stronger shipping cycle in mid 2015 and as a consequence of more vessels trading on the spot market where revenue includes the purchase of bunkers, port expenses and commissions i.e. costs incurred by owners which nevertheless resulted in an overall net increase in operational revenues of USD 2.7 million. The balance of the increase in revenue related to the increase in technical management activities and rent from the Groups real estate portfolio. During 2016 the Group entered into various transactions with related parties (entities under joint control of the shareholder) which enabled the Group to generate USD 33.28 million equal to 33 % of its total revenues (2015: USD 31.66 million or 34%).

Management report (continued)

LSC Group turnover for the period 01.01.2012. – 31.12.2016.:



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

	2012	2013	2014	2015	2016
Turnover (million USD)	115.56	104.21	91.29	92.84	99.71
Net loss (million USD)	-34.60	-18.15	-31.16	-7.22	-25.18
<i>% of turnover</i>	-29.94%	-17.42%	-34.13%	-7.78%	-25.25%
Gross profit before depreciation (million USD)	52.22	54.32	46.57	53.81	56.29
<i>% of turnover</i>	45.19%	52.13%	51.01%	57.96%	56.46%
EBITDA (million USD)	40.99	47.33	39.59	46.62	49.59
<i>% of turnover</i>	35.47%	45.42%	43.37%	50.22%	49.74%
EBIT (million USD)	12.51	24.43	20.85	26.68	8.96
<i>% of turnover</i>	10.83%	23.44%	22.84%	28.74%	8.98%
Profit (loss) before tax and exceptionals* (million USD)	-6.21	9.00	12.68	18.85	-2.61
<i>% of turnover</i>	-5.37%	8.64%	13.89%	20.30%	-2.62%
Return on Assets (%)	-5.70%	-3.22%	-6.62%	-1.69%	-6.52%
Return on Equity (%)	-14.20%	-8.00%	-16.33%	-4.53%	-16.77%
EPS (USD)	-0.18	-0.09	-0.16	-0.04	-0.13
Liquidity ratio (quick)	1.5	1.5	1.3	0.8	1.5
P/E ratio	n/a	n/a	n/a	n/a	n/a

* see Note 4 for methodology of calculation of the financial indicators

Administrative costs have continued to decrease and were USD 5.71 million for the reporting period down from 7.21 in 2015 predominantly due to lower legal costs. Administrative costs are also gradually reducing due to the liquidation and restructuring of subsidiaries in Latvia and foreign jurisdictions. During 2016 fourteen companies in foreign jurisdictions were dissolved, including those which were involved in settlement agreements concluded in July 2015. In Latvia, the reorganisation of SIA "NAFTA Invest", SIA "Skonto nafta" and real estate SPVs' SIA "LASCO nekustamie īpašumi", SIA "Darījumu Centrs Daugava" and SIA "Rīgas līcis" was carried out by incorporating them into the parent company SIA "LASCO Investment". Subsidiary SIA "LSC IT" was established in November 2016 to provide a more cost efficient IT service within the Group. The LSC Group continues the disposal of non-core assets to help meet its financial obligations and maintain its focus on its core shipping business. The sale of real estate property "Lejastiežumi" was carried out in 2016. Several speculative offers have been received for the other properties within the property portfolio. The real estate market remains depressed with little liquidity which suggests that the disposal of the remaining real estate assets could take time. However the company's management is actively working with potential buyers from several countries and would hope to conclude further disposals throughout 2017.

Management report (continued)

The Group's cash position at the end of 2016 was USD 47.67 million down from USD 52.69 million at the end of 2015. During 2016, the Group repaid USD 27.07 million in regular loan payments and also made an additional voluntary payment of 11 million USD under the 360 million USD syndicated shipping loan facility. In 2016 the Group repaid USD 16 million to joint stock company "Ventspils nafta" with the USD 3 million balance due in June 2017.

In June, 2016 the Group reached agreement with "Crédit Agricole Corporate and Investment Bank" on the 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. In December 2016 the Group reached agreement with a syndicate of three banks on main terms and conditions to re-finance the remaining outstanding balance under the existing USD 360 million loan facility which is due to mature in June 2017. The refinancing remains subject to final documentary agreement, however LSC expects to be able to repay the remaining USD 121 million by 30 June, 2022. As at the 31st December 2016, LSC Group was in compliance with all its financial covenants relating to all existing loan agreements.

As at the 31st December 2016 the total value of the Group's assets was USD 355.49 million (31st December 2015 USD 417.02 million), as already highlighted the decrease was predominantly due to depreciation and the revaluation of the fleet. The continued deterioration in earnings experienced by ship-owners in the tanker segment throughout 2016 has had a negative impact on current re-sale values which the management board could not ignore. As a consequence, LSC Group's management was obliged to review the current methodology for determining the value of the fleet. In order to ensure full transparency for investors and stakeholders, the management board decided at the end of Q3 to determine the value of the fleet using the "lower" of fair (market) value or the "value in use" methodology applied over fifteen years useful life. The previous methodology allowed the higher of the two valuations to be used for financial reporting. Given the further deterioration in asset values in Q4 the fair (market) value has continued to be applied for the balance of 2016 and it is anticipated that this mode of valuation will continue in 2017. The Group's fleet fair (market) value as at 31st December 2016 was USD 266.50 million. 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 31st December 2016 was USD 150.06 million (31st December 2015: USD 155.39 million).

LSC's fleet remains unchanged at sixteen vessels, with LSC Group subsidiary, LSC Shipmanagement Ltd, appointed to technically manage the LSC Group owned fleet as well as seven third party tankers thus bringing the number of vessels under technical management to twenty-three. In addition to generating additional revenue, this illustrates the confidence third party owners have in the competence and professionalism of LSC group employees. The provision of ship management services to third parties will continue be developed in 2017 and beyond.

The fleet's operating profit for 2016 rose slightly to USD 53.73 million (2015: USD 52.40 million) due to higher time charter income from contracts signed at attractive rates throughout 2015.

As at 31st December 2016, 75% (twelve 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 7.9 months. The average employment period for the portion of the fleet (ten vessels) on time charter only (i.e. excluding the bareboat charters) is 6.0 months. At the date of this report 25% of the LSC Group's fleet are trading on the spot markets, this increases to 56pct by mid 2017 and 87pct by the end of 2017 if no further time charter fixtures are agreed.

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

MRs : \$10,700 per revenue day (four vessels).

Handymaxes : \$14,380 per revenue day (one vessel).

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 first quarter of 2017:

MRs : approximately \$12,300 per day for 43% of Q1 revenue days (four vessels).

Handymaxes: approximately \$12,700 per day for 43% of Q1 revenue days (one vessel).

Management report (continued)

Average LSC Group's Fleet net TCE (time charter equivalent) USD/per day - Earnings calculated combining time charter and spot voyages of the fleet

Fleet	Y 2012	Y 2013	Y2014	Y 2015	Q1 2016(A)	Q2 2016 (A)	Q3 2016 (A)	Q4 2016 (E)
HS (4 vessels)*	12 703	13 468	13 594	14 310	15 435	16 252	15 545	16 571
MR (12 vessels)**	13 168	14 174	14 130	16 232	17 660	16 953	15 241	13 222

*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:

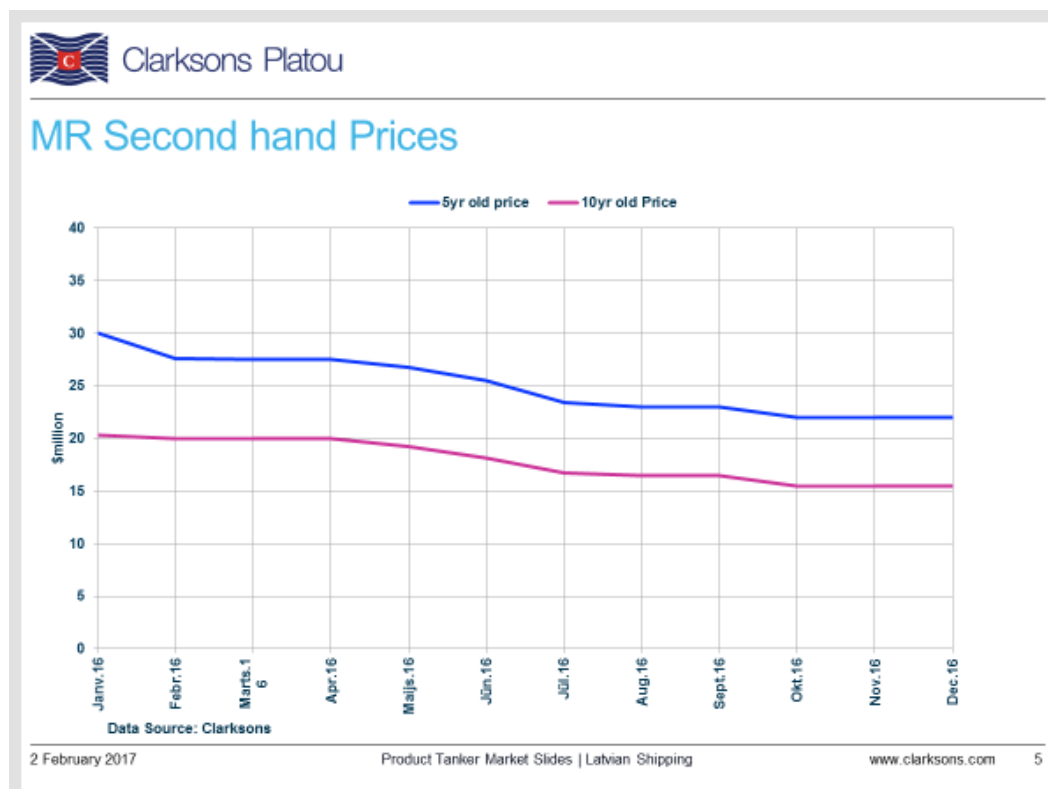
HS = handy size (37 dwt); MR = medium range (52 dwt)

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.

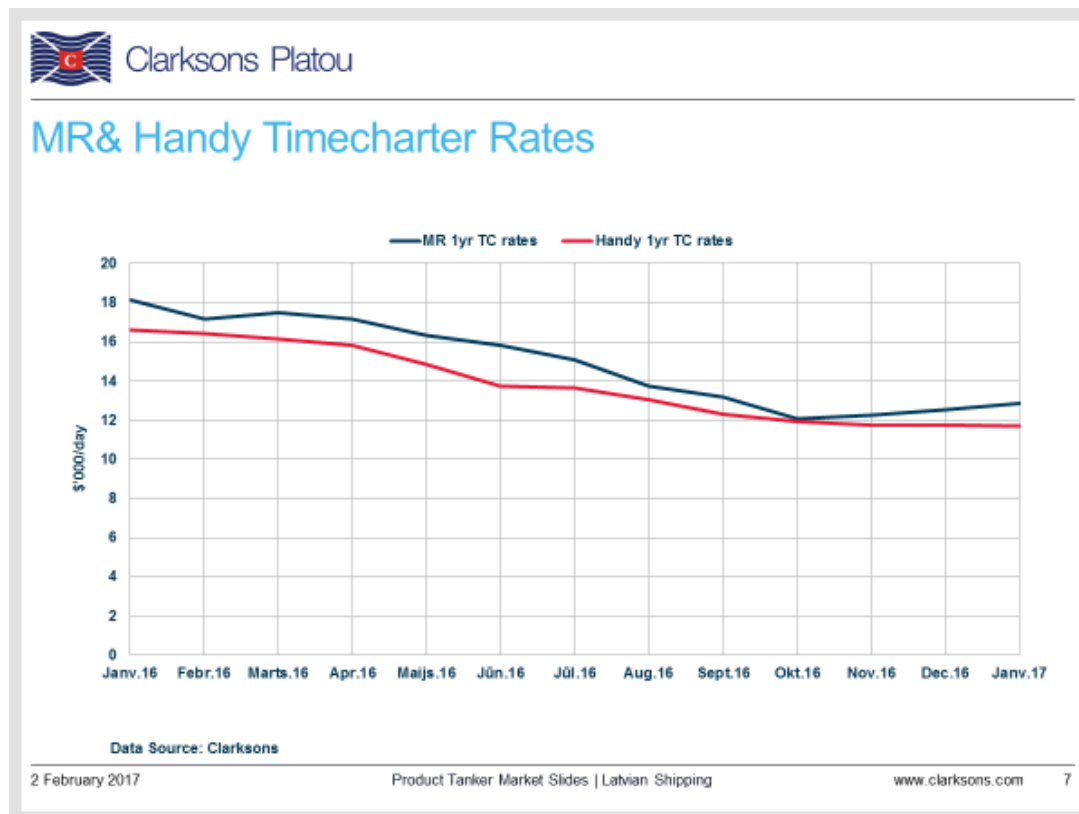
Throughout 2016 the tanker industry has experienced a steady erosion in earnings, a decrease in asset values and for publicly quoted tanker companies, a significant decrease in shareholder value.



Increased exposure to the spot market has had a negative impact on LSC Group's earnings especially in Q3 and Q4 where daily spot earnings have been below breakeven. As mentioned in previous reports the main contributory factors for the weaker shipping markets have been fewer ton miles (shorter voyages increase the pool of vessels available at any one time to transport oil), less inefficiencies in the oil market, for example in respect to gasoline deliveries into Nigeria, where earning days idle with cargo on board waiting for discharge have decreased enormously.

Management report (continued)

A sharp increase in the cost of bunkers in Q4 as a consequence of OPEC' announced agreement to limit crude oil output has not been compensated with additional freight earned. Lastly we are witnessing an ever expanding products tanker fleet. The world MR tanker fleet grew by approximately 6.5pct in 2016 with 87 Medium range tankers delivered. In 2017 a further 63 Medium range tankers will be delivered resulting in a further 6pct year on year growth in the Medium range tanker fleet. This incremental increase in the size of the fleet will continue to have a negative impact on ship-owners earnings should the weak economic environment continue. Post 2017 the order-book is minimal so one would hope, from a ship-owners perspective that the fleet growth we have experienced in the last few years will abate.



However overall the LSC Group's earnings for 2016 were protected from the full impact of a weak spot market due to the fact that a large portion of the fleet (75pct) was on time charter, mostly negotiated during a stronger shipping cycle in mid 2015. This has provided some protection from the severity of the downturn in earnings and these contracts will continue to afford some protection in the coming months. However as we progress into 2017, given current evidence, spot and time charter earnings will decrease. Additionally due to the weak shipping markets there is a reluctance on the part of charterers to time charter tonnage so this may well mean that there will be a much smaller proportion of the LSC Group's fleet with time charter coverage in the future, at least at the attractive levels witnessed in the recent past.

Looking back on 2016 and reflecting on the challenges faced by LSC Group we can be confident the Group achieved its key objective of being in a position to renew the 360m USD loan facility expiring in June 2017. With the support of our key lending banks and subject to finalising documentation and conditions, this will allow for a reasonable and realistic repayment schedule spread over a five year term. The ability to renew this facility was helped by the Group's prudent trading strategy ensuring a steady and guaranteed revenue stream in a very uncertain economic environment and to keep its debt obligations at sensible levels, reflected in our ability to make voluntary prepayments to our lending banks and joint stock company "Ventspils nafta". This was achieved with a minimal decrease in our cash position year on year which will ensure the Group remains with sufficient liquidity to afford some protection from the potentially challenging shipping markets in the future.

Management report *(continued)*

LSC Shipmanagement Ltd. as anticipated has continued to grow its third party activities throughout 2016 adding three vessels under technical management, providing additional revenue to the Group. It is anticipated that two additional vessels already contracted to LSC Shipmanagement Ltd. for technical management will be delivered in the first half of 2017.

On a more cautious note the Group was unable to raise sufficient support from its shareholders to improve the equity of the Company, that may have enabled the Group to modernise the existing fleet which now has an average age of ten years. At this present time there are insufficient funds within the Group to expand the fleet and we are acutely aware that shipping is an asset with a finite life span.

Looking forward to 2017 the key objective will be to focus on trying to achieve sufficient earnings to service the Group's opex/capex costs without any further deterioration in the cash position of the Group.

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 17 February 2017

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 December 2016, changes in shareholders' equity, cash flows and the results of the Group for the year ended 31 December 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, 17 February 2017

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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FOR THE YEAR ENDED 31 DECEMBER 2016

Consolidated income statement

for the period ended 31 December 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Voyage income	97 152	91 435	88 060	82 217
Income from other services	2 562	1 408	2 320	1 275
Revenue	99 714	92 843	90 380	83 492
Voyage costs and commissions	(11 929)	(8 879)	(10 972)	(8 117)
Cost of sales	(73 321)	(50 710)	(66 527)	(45 950)
Gross profit	14 464	33 254	12 881	29 425
Administrative expenses	(5 707)	(7 211)	(5 178)	(6 531)
Revaluation/impairment of non-financial assest	(24 126)	(21 221)	(21 879)	(18 906)
Other operating income	341	1 933	310	2 773
Other operating expenses	(140)	(5 855)	(122)	(5 229)
Operating (loss)/profit	(15 168)	900	(13 988)	1 532
Finance income	452	1 563	411	1 438
Finance costs	(12 021)	(9 392)	(9 005)	(8 509)
Loss before tax	(26 737)	(6 929)	(22 582)	(5 539)
Income tax	1 560	(290)	1 426	(261)
Loss for the period	(25 177)	(7 219)	(21 156)	(5 800)
Attributable to:				
Equity holders of the parent	(25 177)	(7 091)	(21 156)	(5 686)
Non-controlling interests	-	(128)	-	(114)
	(25 177)	(7 219)	(21 156)	(5 800)
Loss per share	US \$ (0.13)	US \$ (0.04)	EUR (0.11)	EUR (0.03)

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.

Consolidated statement of comprehensive income

for the period ended 31 December 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Loss for the period	(25 177)	(7 219)	(21 156)	(5 800)
Other comprehensive (loss)/income:				
Items that maybe subsequently reclassified to profit or loss				
Exchange differences on translation of foreign operations	(420)	(2 040)	5 978	12 788
Net movement on cash flow hedges	218	473	201	368
Other comprehensive (loss)/income for the period, net of tax	(202)	(1 567)	6 179	13 156
Total comprehensive (loss)/income for the period, net of tax	(25 379)	(8 786)	(14 977)	7 356
Attributable to:				
Equity holders of the parent	(25 379)	(8 175)	(14 977)	7 470
Non-controlling interests	-	(611)	-	(114)
	(25 379)	(8 786)	(14 977)	7 356

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 YEAR ENDED 31 DECEMBER 2016

Consolidated statement of financial position

as at 31 December 2016

	31.12.2016. US \$'000	31.12.2015. US \$'000	31.12.2016. EUR'000	31.12.2015. EUR'000
Assets				
Non-current assets				
Intangible assets	15	12	14	11
Fleet	266 500	328 491	252 822	301 728
Repairs and upgrades in progress	833	-	790	-
Property, plant and equipment	2 389	2 560	2 267	2 352
Investment properties	26 464	27 917	25 105	25 643
Trade and other receivables	-	14	-	13
Other non-current financial assets	250	250	237	229
Total non-current assets	296 451	359 244	281 235	329 976
Current assets				
Inventories	2 950	2 362	2 798	2 169
Trade and other receivables	6 736	2 192	6 391	2 014
Prepayments	1 671	529	1 585	485
Other current financial assets <i>including deposits with maturity more than three months</i>	31 814	30 710	30 181	28 208
Cash and cash equivalents	15 865	21 987	15 052	20 195
Total current assets	59 036	57 780	56 007	53 071
Total assets	355 487	417 024	337 242	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.

Consolidated statement of financial position *(continued)*

as at 31 December 2016

	31.12.2016.	31.12.2015.	31.12.2016.	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	79 413	104 590	61 524	82 680
Other components of equity	(5 745)	(25 593)	20 835	49
Total equity	150 060	155 389	142 359	142 729
Non-current liabilities				
Interest bearing loans	127 900	131 647	121 335	120 922
Trade and other payables	38 499	57 514	36 523	52 827
Deferred tax liabilities	94	1 918	89	1 762
Total non-current liabilities	166 493	191 079	157 947	175 511
Current liabilities				
Trade and other payables	12 580	8 719	11 931	8 009
Interest bearing loans	24 605	57 964	23 346	53 241
Derivative financial instruments	-	281	-	258
Deferred income	1 749	3 592	1 659	3 299
Total current liabilities	38 934	70 556	36 936	64 807
Total equity and liabilities	355 487	417 024	337 242	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 YEAR ENDED 31 DECEMBER 2016

Consolidated statement of changes in equity

for the period ended 31 December 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
Loss for the period	-	-	-	-	-	(7 091)	(7 091)	(128)	(7 219)
Other comprehensive income	-	-	473	(1 557)	-	-	(1 084)	(483)	(1 567)
Total comprehensive loss	-	-	473	(1 557)	-	(7 091)	(8 175)	(611)	(8 786)
Other reserves	-	-	-	-	5 672	-	5 672	-	5 672
Decrease in non-controlling interests	-	-	-	-	-	-	-	(4 954)	(4 954)
As at 31 December 2015	76 392	5 824	(218)	(16 821)	(14 378)	104 590	155 389	-	155 389
Loss for the period	-	-	-	-	-	(25 177)	(25 177)	-	(25 177)
Other comprehensive loss	-	-	218	(420)	-	-	(202)	-	(202)
Total comprehensive loss	-	-	218	(420)	-	(25 177)	(25 379)	-	(25 379)
Other reserves	-	-	-	-	20 050	-	20 050	-	20 050
As at 31 December 2016	76 392	5 824	-	(17 241)	5 672	79 413	150 060	-	150 060

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
 UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2016

Consolidated statement of changes in equity *(continued)*

for the period ended 31 December 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
Loss for the period	-	-	-	-	-	(5 686)	(5 686)	(114)	(5 800)
Other comprehensive income	-	-	368	12 788	-	-	13 156	-	13 156
Total comprehensive loss	-	-	368	12 788	-	(5 686)	7 470	(114)	7 356
Other reserves	-	-	-	-	5 210	-	5 210	-	5 210
Decrease in non-controlling interests	-	-	-	-	-	-	-	(4 470)	(4 470)
As at 31 December 2015	60 000	4 574	(201)	5 073	(9 397)	82 680	142 729	-	142 729
Loss for the period	-	-	-	-	-	(21 156)	(21 156)	-	(21 156)
Other comprehensive income	-	-	201	5 978	-	-	6 179	-	6 179
Total comprehensive loss	-	-	201	5 978	-	(21 156)	(14 977)	-	(14 977)
Other reserves	-	-	-	-	14 607	-	14 607	-	14 607
As at 31 December 2016	60 000	4 574	-	11 051	5 210	61 524	142 359	-	142 359

Consolidated statement of cash flows

for the period ended 31 December 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Operating activities				
Loss before tax	(26 737)	(6 929)	(22 582)	(5 539)
Adjustments for:				
Depreciation and amortisation	40 635	19 948	36 898	18 067
Result on disposal of non-financial assets	(17)	(272)	(15)	(241)
Revaluation/impairment loss of the fleet	24 126	2 395	21 879	2 198
Impairment loss of goodwill at acquisition	-	18 826	-	16 708
Other adjustments	10 230	10 682	7 684	11 351
Working capital adjustments:				
Changes in trade and other receivables and prepayments	10 173	391	9 130	81
Changes in inventories	(588)	(786)	(629)	(872)
Changes in trade and other payables	(935)	2 239	(517)	3 184
Net cash flows generated from operating activities	56 887	46 494	51 848	44 937
Net cash flows from (used in) investing activities	(2 431)	(5 304)	(2 258)	(5 045)
Cash flows before financing activities	54 456	41 190	49 590	39 892
Net cash flows used in financing activities	(60 578)	(47 128)	(54 733)	(42 698)
Net increase in cash and cash equivalents	(6 122)	(5 938)	(5 143)	(2 806)
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	15 865	21 987	15 052	20 195

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 31.12.2016 EUR/USD – 1.0541 (average – 1.106774)

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 31 December 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Time charter out revenue	71 407	69 265	64 528	62 043
Voyage revenue	25 745	22 170	23 532	20 174
Voyage income from external customers	97 152	91 435	88 060	82 217
Voyage costs and commissions	(11 929)	(8 879)	(10 972)	(8 117)
Net voyage result	85 223	82 556	77 088	74 100
Vessel operating costs	(31 491)	(30 154)	(28 540)	(27 327)
Vessel operating profit	53 732	52 402	48 548	46 773
Income from other revenues	1 812	1 166	1 642	1 054
Costs of sales (Vessel operating costs excluding)	(967)	(631)	(881)	(576)
Administrative expenses	(5 356)	(6 831)	(4 861)	(6 186)
Result from disposal of non-financial assets	(1)	5	(1)	5
Depreciation and amortisation	(40 098)	(19 749)	(36 411)	(17 885)
Revaluation loss/Impairment of non-financial assets	(24 126)	(2 395)	(21 879)	(2 198)
Other operating income	-	676	-	1 648
Other operating expenses	(126)	(1 020)	(110)	(932)
Result before financial items	(15 130)	23 623	(13 953)	21 703
Interest income	452	333	411	303
Interest expense	(7 613)	(8 895)	(6 902)	(8 063)
Finance (expenses)/ income, net	(3 336)	812	(1 086)	762
Net result before tax	(25 627)	15 873	(21 530)	14 705
Segment assets	328 438	388 481	311 582	356 829
Including additions to non-current assets	3 025	6 643	2 870	5 981
Segment liabilities	166 483	220 612	157 937	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 31 December 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Net result before tax for reportable segment	(25 627)	15 873	(21 530)	14 705
Other revenues	750	242	678	221
Costs of sales	(914)	(176)	(830)	(162)
Administrative expenses	(202)	(380)	(182)	(345)
Result from disposal of non-financial assets	18	267	16	236
Other operating income	323	985	294	884
Other operating expenses	(13)	(4 835)	(11)	(4 297)
Impairment of non-financial assets	-	(18 826)	-	(16 708)
Interest income	-	3	-	2
Interest expenses	(1 041)	(26)	(987)	(23)
Finance expenses, net	(31)	(56)	(30)	(52)
Loss before tax	(26 737)	(6 929)	(22 582)	(5 539)
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Segment assets for reportable segment	328 438	388 481	311 582	356 829
Unallocated:				
Investment properties	26 464	27 917	25 105	25 643
Other assets of subsidiaries not included in segment	585	626	555	575
Total assets	355 487	417 024	337 242	383 047
Segment liabilities for reportable segment	166 483	220 612	157 937	202 637
Unallocated:				
Deferred tax liabilities	-	1 823	-	1 674
Loan from related parties	38 488	38 702	36 513	35 549
Loan from other companies	300	300	285	276
Other liabilities of subsidiaries not included in segment	156	198	148	182
Total liabilities	205 427	261 635	194 883	240 318

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

3. Related party transactions

for the period ended 31 December 2016

	2016		31.12.2016.	
	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	32 768	-	1 033	(806)
Technical management fee and IT services / Outstanding balances	366	-	7	-
Interest expense / Outstanding balances	-	(1 243)	-	(41 438)
Real estate rent / Outstanding balances	108	-	13	-
Consulting services / Outstanding balances	2	(147)	2	(7)
Other services / Outstanding balances	38	-	5	-
Total	33 282	(1 390)	1 060	(42 251)

Including:

Non-current trade and other payables	-	(38 488)
Current trade and other receivables/ trade and other payables	1 060	(2 963)
Deferred income	-	(800)
Total	1 060	(42 251)

	2016		31.12.2016.	
	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	29 607	-	981	(765)
Technical management fee IT services / Outstanding balances	345	-	7	-
Interest expense / Outstanding balances	-	(1 171)	-	(39 312)
Real estate rent / Outstanding balances	97	-	11	-
Consulting services / Outstanding balances	2	(133)	2	(7)
Other services / Outstanding balances	34	-	5	-
Total	30 085	(1 304)	1 006	(40 084)

Including:

Non-current trade and other payables	-	(36 513)
Current trade and other receivables/ trade and other payables	1 006	(2 812)
Deferred income	-	(759)
Total	1 006	(40 084)

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

3. Related party transactions *(continued)*

for the period ended 31 December 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	30 910	-	152	(1 770)
Technical management fee and IT services / Outstanding balances	353	-	5	-
Interest income/(expense) / Outstanding	3	(839)	-	(57 482)
Real estate rent / Outstanding balances	111	-	13	-
Real estate sale/ Outstanding balances	222	-	-	-
Consulting services / Outstanding balances	-	(183)	-	(22)
Other services / Outstanding balances	57	-	9	(26)
Total	31 656	(1 022)	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	27 831	-	140	(1 626)
Technical management fee IT services / Outstanding balances	321	-	4	-
Interest income/(expense) / Outstanding balances	2	(761)	-	(52 799)
Real estate rent / Outstanding balances	100	-	13	-
Real estate sale / Outstanding balances	200	-	-	-
Consulting services / Outstanding balances	-	(165)	-	(20)
Other services / Outstanding balances	51	-	8	(23)
Total	28 505	(926)	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)*

4. The explanation of the key financial indicators for the last five financial years

Turnover: Position "Revenue" of the LSC Group's Consolidated Income Statement.

Net loss: Position "Loss for the period" of the LSC Group's Consolidated Income Statement.

Gross profit before depreciation: Sum of the LSC Group's Segment information positions "Vessel operating profit" and "Other revenues" from which Segment information position "Costs of sales (Vessel operating costs excluding)" is deducted.

EBITDA: Position "Operating profit/(loss)" of the LSC Group's Consolidated Income Statement from which position "Depreciation and amortization" of Segment information is deducted. In addition adjustments are made by profit or loss from the non-shipping business related assets sale or acquisition and vessels impairment.

EBIT: Position "Operating profit/(loss)" of the LSC Group's Consolidated Income Statement which adjusted by profit or loss from the non-shipping business related assets sale or acquisition and vessels impairment.

Profit before tax and exceptionals: Position "Net result before tax" of the LSC Group's Consolidated Income Statement which adjusted by profit or loss from the non-shipping business related assets sale or acquisition and vessels impairment.

Return on Assets: Calculated by dividing a position "Profit or loss for the period" of the LSC Group's Consolidated Income Statement by average position "Total assets" of the LSC Group's Consolidated Statement of Financial Position as of 31.december.

Return on Equity: Calculated by dividing a position "Profit or loss for the period" of the LSC Group's Consolidated Income Statement by average position "Total equity" of the LSC Group's Consolidated Statement of Financial Position as of 31.december.

EPS: The earnings per share ratio is measured by dividing the position "Loss for the period" of the LSC Group's Consolidated Income Statement by LSC total number of the shares.

Liquidity ratio: Position "Current assets" of the LSC Group's Consolidated Statement of Financial Position divided by Position "Current liabilities" of the LSC Group's Consolidated Statement of Financial Position.

P/E ratio: LSC share price as at 31.december of the reporting period divided to reporting period profit. Ratio is not calculated due to the fact that financial result for the reporting periods is loss.

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.