

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

Unaudited Condensed Interim Consolidated Financial Statements

for the 1st quarter 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 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, 2016. 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 31.03.2016



Index/Equity	01.01.2016	31.03.2016	+/-%
OMX Baltic Benchmark GI	648.32	690.82	6.56
OMX Riga	594.35	615.58	3.57
LSC1R	0.438 EUR	0.415 EUR	-5.25

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	0.494
Low	0.428	0.289	0.327	0.352	0.360	0.400
Last	0.438	0.359	0.559	0.360	0.438	0.415
Average	0.487	0.406	0.437	0.453	0.399	0.452
Traded volume	13,526,230	985,943	4,575,982	1,449,529	13,160,987	396,840
Turnover, million	8.32	0.38	2.15	0.66	5.25	0.18
Capitalisation, million	87.65	71.71	111.84	72.00	87.60	83.00

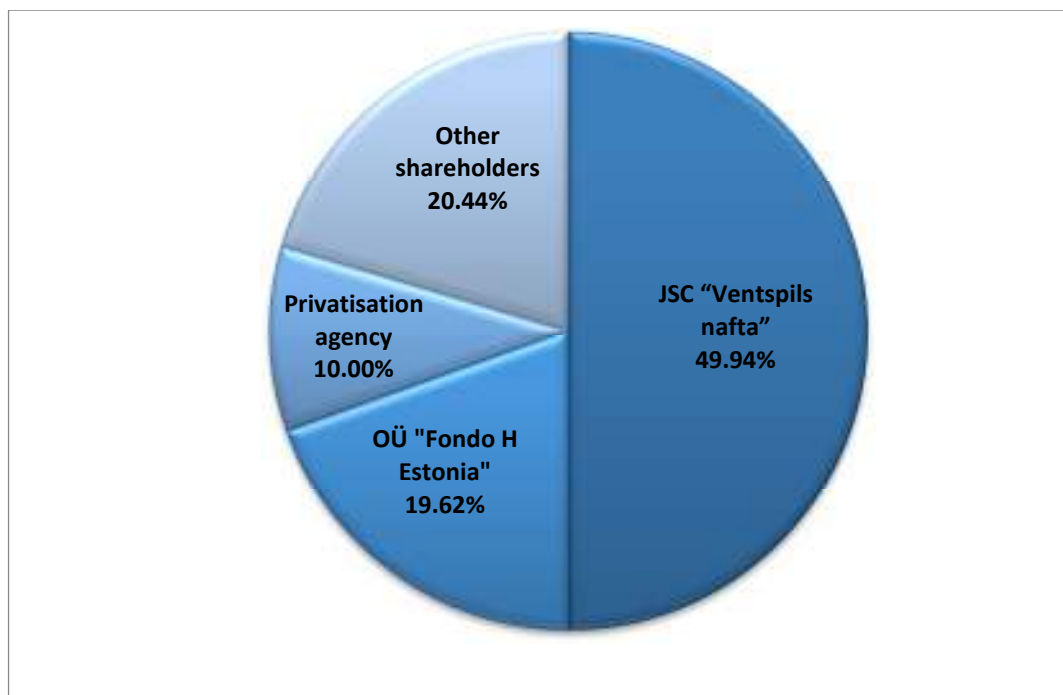
Information source: JSC „NASDAQ OMX Riga” webpage www.nasdaqomxbaltic.com

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

Highlights:

- Latvian Shipping Company Group (LSC Group) revenue for Q1 2016 was USD 25.16 million (USD 21.98 million in Q1 2015) with an improved net voyage result of USD 22.80 million (USD 19.93 million in Q1 2015);
- Q1 2016 net profit USD 4.11 million (USD 2.98 million in Q1 2015) due to improved charter rates;
- No fleet impairment required in Q1 2016
- Administrative costs continued to decrease in Q1 2016 – USD 1.46 million due to lower legal costs (Q1 2015 – USD 2.112 million);
- Q1 2016 cash positive for the LSC Group; net cash increase USD 3.37 million (net cash increase in Q1 2015 was USD 0.64 million);
- Q1 fleet operating profit - USD 15.74 million which was considerably higher than Q1 2015 – USD 13.03 million;
- No changes in commercial fleet (16 vessels);
- LSC subsidiary “LSC ship-management” - Strong focus on increasing third party vessel technical management (23 vessels in total, including 7 third party’ tankers as of May, 2016);
- Disposal of SIA “LASCO Investment” real estate properties in progress, sale of “Lejastiezumi” finalised in April, with offers received on other properties;
- Liquidation and restructuring of subsidiaries in Latvian and foreign jurisdictions;
- A shareholder vote to raise equity capital of the company did not achieve the qualified majority of (75%);
- Discussions are on-going with banks to refinance fleet.

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

	<u>Q1 2014</u>	<u>Q1 2015</u>	<u>Q1 2016</u>
Sales	23.75	21.98	25.16
EBITDA	8.68	11.03	14.61
Profit before exceptionals	0.51	5.01	4.11
Exceptionals (income from financial assets)	20.05	0.01	0.00
Exceptionals (fleet impairment)	(13.30)	(2.05)	0.00
Net profit	7.26	2.98	4.11

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

Fleet	Y 2012	Y 2013	Y2014	Y 2015	Q1 2016 (A)
HS (4 vessels)*	12 703	13 468	13 594	14 310	15 435
MR (12 vessels)**	13 168	14 174	14 130	16 232	17 660
LR1 (1 vessel) ***	12 086	12 122	n/a	n/a	n/a

*3 HS vessels sold in 2013; remaining number of HS vessels in fleet – 4.

**From Q3 2013 m/t Latgale and m/t Zemgale removed from above statistics as they are employed on bareboat charter basis.

***Vessel delivered to new owner in June 2014

Explanations:

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

Net TCE(time charter equivalent) = 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.

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 20 May 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 31 March 2016, changes in shareholders' equity, cash flows and the results of the Group for the three month period ended 31 March 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, 20 May 2016

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 1ST QUARTER 2016

Consolidated income statement

for the period ended 31 March 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Voyage income	24 588	21 770	22 464	19 098
Income from other services	568	212	521	187
Revenue	25 156	21 982	22 985	19 285
Voyage costs and commissions	(1 788)	(1 844)	(1 597)	(1 738)
Cost of sales	(11 863)	(11 098)	(10 717)	(9 960)
Gross profit	11 505	9 040	10 671	7 587
Administrative expenses	(1 462)	(2 113)	(1 322)	(1 911)
Impairment of non-financial assests	-	(2 045)	-	(1 886)
Other operating income	3	6	3	6
Operating profit	10 046	4 888	9 352	3 796
Finance income	122	543	111	604
Finance costs	(5 974)	(2 429)	(5 404)	(2 180)
Profit before tax	4 194	3 002	4 059	2 220
Income tax	(81)	(27)	(73)	(24)
Profit for the period	4 113	2 975	3 986	2 196
Attributable to:				
Equity holders of the parent	4 113	2 980	3 986	2 200
Non-controlling interests	-	(5)	-	(4)
	4 113	2 975	3 986	2 196
Profit per share	US \$ 0.02	US \$ 0.01	EUR 0.02	EUR 0.01

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 1ST QUARTER 2016

Consolidated statement of comprehensive income

for the period ended 31 March 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Profit for the period	4 113	2 975	3 986	2 196
Other comprehensive (loss)/income:				
Items that maybe subsequently reclassified to profit or loss				
Exchange differences on translation of foreign operations	(731)	(2 684)	(3 417)	14 228
Net movement on cash flow hedges	102	67	99	(6)
Other comprehensive (loss)/income for the period, net of tax	(629)	(2 617)	(3 318)	14 222
Total comprehensive income for the period, net of tax	3 484	358	668	16 418
Attributable to:				
Equity holders of the parent	3 484	956	668	16 422
Non-controlling interests	-	(598)	-	(4)
	3 484	358	668	16 418

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 1ST QUARTER 2016

Consolidated statement of financial position

as at 31 March 2016

	31.03.2016.	31.12.2015.	31.03.2016.	31.12.2015.
	US \$'000	US \$'000	EUR'000	EUR'000
Assets				
Non-current assets				
Intangible assets	9	12	8	11
Fleet	324 621	328 491	286 667	301 728
Property, plant and equipment	2 634	2 560	2 326	2 352
Investment properties	28 890	27 917	25 512	25 643
Trade and other receivables	14	14	13	13
Other non-current financial assets	1 081	250	954	229
Total non-current assets	357 249	359 244	315 480	329 976
Current assets				
Inventories	2 241	2 362	1 979	2 169
Trade and other receivables	2 398	2 192	2 118	2 014
Prepayments	470	529	415	485
Other current financial assets <i>including deposits with maturity more than three months</i>	30 809	30 710	27 207	28 208
	30 800	30 700	27 199	28 199
Cash and cash equivalents	25 356	21 987	22 391	20 195
Total current assets	61 274	57 780	54 110	53 071
Total assets	418 523	417 024	369 590	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 1ST QUARTER 2016

Consolidated statement of financial position (continued)

as at 31 March 2016

	31.03.2016.	31.12.2015.	31.03.2016.	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	108 703	104 590	86 666	82 680
Other components of equity	(6 172)	(25 593)	11 338	49
Total equity	178 923	155 389	158 004	142 729
Non-current liabilities				
Interest bearing loans	125 914	131 647	111 192	120 922
Trade and other payables	43 545	57 514	38 454	52 827
Deferred tax liabilities	1 995	1 918	1 762	1 762
Total non-current liabilities	171 454	191 079	151 408	175 511
Current liabilities				
Trade and other payables	7 676	8 719	6 778	8 009
Interest bearing loans	57 232	57 964	50 540	53 241
Derivative financial instruments	165	281	146	258
Deferred income	3 073	3 592	2 714	3 299
Total current liabilities	68 146	70 556	60 178	64 807
Total equity and liabilities	418 523	417 024	369 590	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 1ST QUARTER 2016

Consolidated statement of changes in equity

for the period ended 31 March 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	-	-	-	-	-	2 980	2 980	(5)	2 975
Other comprehensive loss	-	-	67	(2 091)	-	-	(2 024)	(593)	(2 617)
Total comprehensive income	-	-	67	(2 091)	-	2 980	956	(598)	358
As at 31 March 2015	76 392	5 824	(624)	(17 355)	(20 050)	114 661	158 848	4 967	163 815
Loss for the period	-	-	-	-	-	(10 071)	(10 071)	(123)	(10 194)
Other comprehensive income	-	-	406	534	-	-	940	110	1 050
Total comprehensive loss	-	-	406	534	-	(10 071)	(9 131)	(13)	(9 144)
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
Profit for the period	-	-	-	-	-	4 113	4 113	-	4 113
Other comprehensive loss	-	-	102	(731)	-	-	(629)	-	(629)
Total comprehensive income	-	-	102	(731)	-	4 113	3 484	-	3 484
Other reserves	-	-	-	-	20 050	-	20 050	-	20 050
As at 31 March 2016	76 392	5 824	(116)	(17 552)	5 672	108 703	178 923	-	178 923

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
 UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE 1ST QUARTER 2016

Consolidated statement of changes in equity (continued)

for the period ended 31 March 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	-	-	-	-	-	2 200	2 200	(4)	2 196
Other comprehensive income	-	-	(6)	14 228	-	-	14 222	-	14 222
Total comprehensive income	-	-	(6)	14 228	-	2 200	16 422	(4)	16 418
As at 31 March 2015	60 000	4 574	(575)	6 513	(14 607)	90 566	146 471	4 580	151 051
Loss for the period	-	-	-	-	-	(7 886)	(7 886)	(110)	(7 996)
Other comprehensive loss	-	-	374	(1 440)	-	-	(1 066)	-	(1 066)
Total comprehensive loss	-	-	374	(1 440)	-	(7 886)	(8 952)	(110)	(9 062)
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
Profit for the period	-	-	-	-	-	3 986	3 986	-	3 986
Other comprehensive loss	-	-	99	(3 417)	-	-	(3 318)	-	(3 318)
Total comprehensive income	-	-	99	(3 417)	-	3 986	668	-	668
Other reserves	-	-	-	-	14 607	-	14 607	-	14 607
As at 31 March 2016	60 000	4 574	(102)	1 656	5 210	86 666	158 004	-	158 004

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 1ST QUARTER 2016

Consolidated statement of cash flows

for the period ended 31 March 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Operating activities				
Profit before tax	4 194	3 002	4 059	2 220
<u>Adjustments for:</u>				
Depreciation and amortisation	4 563	4 098	4 118	3 683
Result on disposal of non-financial assets	-	(5)	-	(5)
Impairment loss of the fleet	-	2 045	-	1 886
Other adjustments	5 711	242	4 099	2 783
<u>Working capital adjustments:</u>				
Changes in trade and other receivables and prepayments	15 712	(914)	14 573	(1 143)
Changes in inventories	121	(925)	190	(1 008)
Changes in trade and other payables	(1 563)	1 823	(1 818)	2 645
Net cash flows generated from operating activities	28 738	9 366	25 221	11 061
Net cash flows used in investing activities	(834)	(159)	(760)	(141)
Cash flows before financing activities	27 904	9 207	24 461	10 920
Net cash flows used in financing activities	(24 535)	(8 563)	(22 265)	(7 579)
Net increase in cash and cash equivalents	3 369	644	2 196	3 341
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	25 356	28 569	22 391	26 342

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 31.03.2016 EUR/USD – 1.1324 (average – 1.101898)

ECB (the European Central Bank) rate of exchange as at 31.03.2015 EUR/USD – 1.0845 (average – 1.129774)

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 March 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Time charter out revenue	19 356	17 930	17 788	15 550
Voyage revenue	5 232	3 840	4 676	3 548
Voyage income from external customers	24 588	21 770	22 464	19 098
Voyage costs and commissions	(1 788)	(1 844)	(1 597)	(1 738)
Net voyage result	22 800	19 926	20 867	17 360
Vessel operating costs	(7 057)	(6 894)	(6 378)	(6 180)
Vessel operating profit	15 743	13 032	14 489	11 180
Income from other revenues	392	212	360	187
Costs of sales (Vessel operating costs excluding)	(188)	(147)	(171)	(134)
Administrative expenses	(1 344)	(2 041)	(1 217)	(1 846)
Result from disposal of non-financial assets	-	5	-	5
Depreciation and amortisation	(4 416)	(4 097)	(3 985)	(3 682)
Impairment of non-financial assets	-	(2 045)	-	(1 886)
Other operating income	3	1	3	1
Result before financial items	10 190	4 920	9 479	3 825
Interest income	122	101	111	91
Interest expense	(2 405)	(2 275)	(2 166)	(2 044)
Finance (expenses)/ income, net	(3 607)	328	(3 272)	413
Net result before tax	4 300	3 074	4 152	2 285
Segment assets	389 004	388 481	343 523	356 829
Including additions to non-current assets	489	6 643	432	5 981
Segment liabilities	196 680	220 612	173 684	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.

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
 UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE 1ST QUARTER 2016

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 March 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Net result before tax for reportable segment	4 300	3 074	4 152	2 285
Other revenues	176	-	161	-
Costs of sales	(253)	-	(228)	-
Administrative expenses	(67)	(32)	(60)	(29)
Interest income	-	1	-	1
Interest expenses	-	(8)	-	(7)
Finance income/(expenses), net	38	(33)	34	(30)
Profit before tax	4 194	3 002	4 059	2 220
	31.03.2016.	31.12.2015.	31.03.2016.	31.12.2015.
Segment assets for reportable segment	389 004	388 481	343 523	356 829
Unallocated:				
Investment properties	28 890	27 917	25 512	25 643
Other assets of subsidiaries not included in segment	629	626	555	575
Total assets	418 523	417 024	369 590	383 047
Segment liabilities for reportable segment	196 680	220 612	173 684	202 637
Unallocated:				
Deferred tax liabilities	1 897	1 823	1 675	1 674
Loan from related parties	40 535	38 702	35 796	35 549
Loan from other companies	300	300	265	276
Other liabilities of subsidiaries not included in segment	188	198	166	182
Total liabilities	239 600	261 635	211 586	240 318

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

3. Related party transactions

for the period ended 31 March 2016

	2016		31.03.2016.	
	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	8 030	-	64	(1 203)
Technical management fee and IT services / Outstanding balances	89	-	5	-
Interest expense / Outstanding balances	-	(400)	-	(43 514)
Real estate rent / Outstanding balances	30	-	12	-
Consulting services / Outstanding balances	-	(70)	-	(55)
Other services / Outstanding balances	11	-	7	(26)
Total	8 160	(470)	88	(44 798)
Including:				
Non-current trade and other payables			-	(43 540)
Current trade and other receivables/ trade and other payables			88	(61)
Deferred income			-	(1 197)
Total			88	(44 798)

	2016		31.03.2016.	
	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	7 287	-	57	(1 062)
Technical management fee IT services / Outstanding balances	81	-	4	-
Interest expense / Outstanding balances	-	(363)	-	(38 426)
Real estate rent / Outstanding balances	27	-	10	-
Consulting services / Outstanding balances	-	(63)	-	(48)
Other services / Outstanding balances	10	-	7	(23)
Total	7 405	(426)	78	(39 559)
Including:				
Non-current trade and other payables			-	(38 449)
Current trade and other receivables/ trade and other payables			78	(53)
Deferred income			-	(1 057)
Total			78	(39 559)

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 1ST QUARTER 2016

Notes to the unaudited condensed consolidated financial statements (continued)

3. Related party transactions (continued)

for the period ended 31 March 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	6 251	-	152	(1 770)
Technical management fee and IT services / Outstanding balances	87	-	5	-
Interest income/(expense) / Outstanding balances	1	(213)	-	(57 482)
Real estate rent / Outstanding balances	27	-	13	-
Consulting services / Outstanding balances	-	(33)	-	(22)
Other services / Outstanding balances	18	-	9	(26)
Total	6 384	(246)	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	5 533	-	140	(1 626)
Technical management fee IT services / Outstanding balances	76	-	4	-
Interest income/(expense) / Outstanding balances	1	(192)	-	(52 799)
Real estate rent / Outstanding balances	23	-	13	-
Real estate sale / Outstanding balances	-	-	-	-
Consulting services / Outstanding balances	-	(31)	-	(20)
Other services / Outstanding balances	16	-	8	(23)
Total	5 649	(223)	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.