

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

Unaudited Condensed Interim Consolidated Financial Statements

for the nine month period ended 30 September 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

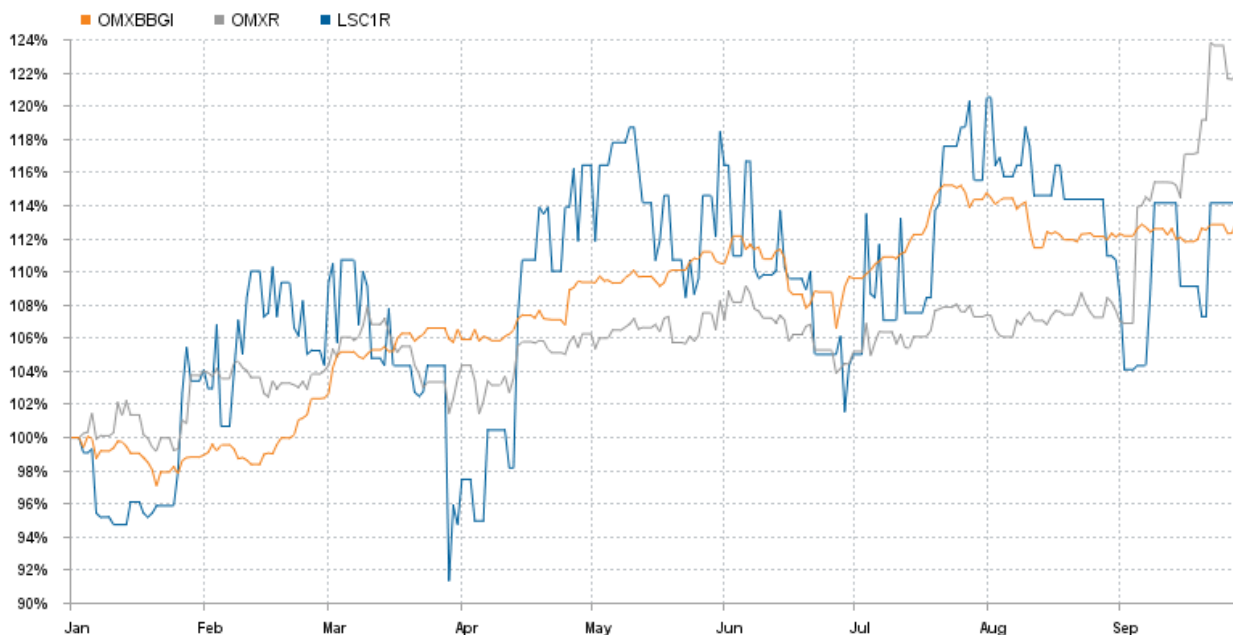
Christopher James Kernon

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, 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 30.09.2016



Index/Equity	01.01.2016	30.09.2016	+/-%
OMX Baltic Benchmark GI	648.32	734.28	13.26
OMX Riga	594.35	708.82	19.26
LSC1R	0.438 EUR	0.500 EUR	14.16

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	9m 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	0.500
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	1,241,666
Turnover, million	8.32	0.38	2.15	0.66	5.25	0.59
Capitalisation, million	87.65	71.71	111.84	72.00	87.60	100.00

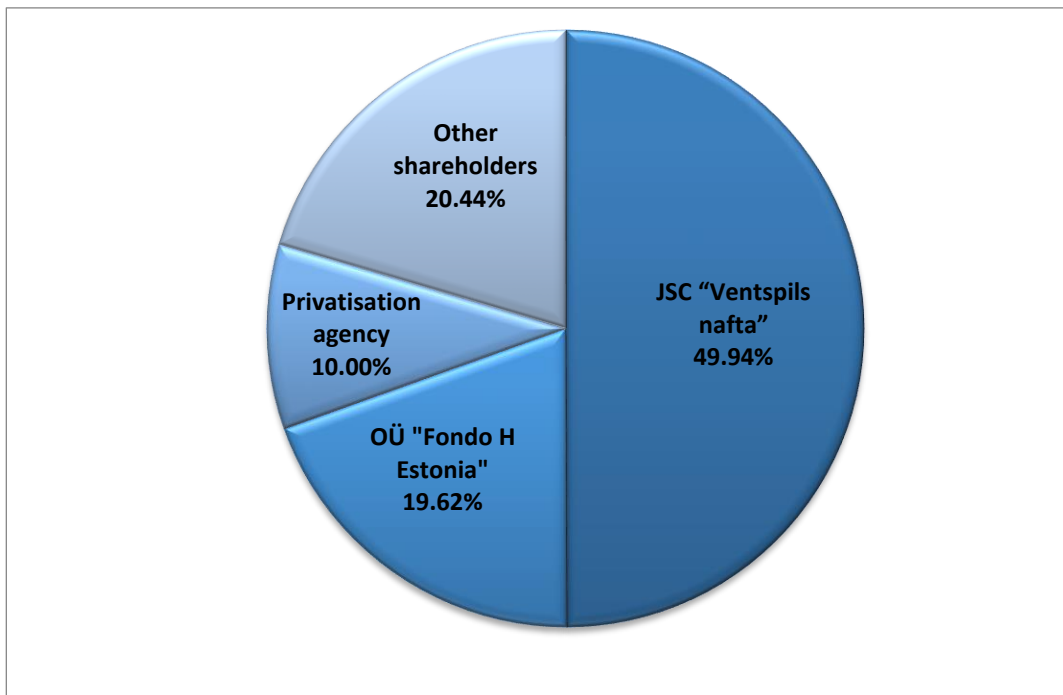
Information source: JSC „Nasdaq Riga” webpage www.nasdaqbaltic.com

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"	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 nine months of 2016 resulted in a net loss of USD 19.33 million (9M 2015: net loss USD 1.41 million). The result was mainly attributable to revaluation loss recognised in respect to the value of the LSC Group’s fleet in the amount of USD 18.26 million and the negative impact of the USD/EURO exchange rate in the amount of USD 3.67 million.

Although total revenues increased reaching USD 74.33 million (9M 2015: USD 68.93 million) due to higher earnings from existing time charters, spot rates during Q3 have dropped significantly which is reflective of the current challenging market conditions faced by the shipping industry. During the reporting period the Group entered into various transactions with related parties (entities under joint control of the shareholder) which enabled the Group to generate USD 26.47 million which is 35 % of its total revenues (9M 2015: USD 23.64 million or 34%).

The key financial indicators for the LSC Group for nine months for the last three financial periods are as follows (USD million):

	9M 2014	9M 2015	9M 2016
Sales	69.71	68.93	74.33
EBITDA	28.59	35.62	40.33
Profit/(loss) before exceptionals	6.17	15.19	(1.1)
Exceptionals (income/loss from financial assets)	11.92	(14.21)	-
Exceptionals (fleet impairment/revaluation loss)	(32.25)	(2.40)	(18.26)
Net loss	(14.17)	(1.41)	(19.33)

Administrative costs have continued to decrease and were USD 4.12 million, predominantly due to lower legal costs (9M 2015: USD 5.67 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. During 3rd quarter fourteen companies in foreign jurisdictions were dissolved, including those which were involved in the settlement agreements concluded in July, 2015. After the reporting period, the reorganisation of real estate SPVs’ SIA “Darījumu Centrs Daugava” and SIA “Rīgas līcis” was finalised by incorporating them into the parent company SIA “LASCO Investment”. The LSC Group continues the disposal of non-core assets to help meet its financial obligations and maintain its focus on its core business - shipping. The sale of the real estate property “Lejastiezumi” was finalised in April. Several speculative offers have been received for the other properties within the property portfolio but well below current valuations. The real estate market remains depressed with little liquidity which suggests that the disposal of the remaining real estate assets will not be a quick process.

The LSC Group was cash neutral during the first nine months with a slight decrease in the cash position by USD 0.19 million. During the reporting period, the Group made a partial additional voluntary prepayment of 11 million USD under the 360 million USD syndicated shipping 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 52.50 million as at 30th September 2016.

As at the 30th September 2016 the total value of the Group’s assets was USD 372.82 million (31st December 2015: USD 417.02 million); the decrease was predominantly due to depreciation and revaluation loss in the value of the fleet. The continued deterioration in earnings experienced by ship-owners in the tanker segment throughout 2016 has had a severe 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 and, to ensure full transparency with investors and stakeholders, decided to determine the value of the fleet on the balance sheet 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 deterioration in asset values the fair (market) value has been applied for this reporting period and it is anticipated that this valuation will also be applied in the near term given the negative outlook for shipping. The Group’s fleet fair (market) value as at 30th September 2016 was USD 282.50 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 30th September 2016 was USD 155.87 million (31st December 2015: USD 155.39 million).

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

The Group's commercial fleet remains unchanged at sixteen vessels, but a Group's 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 provision of ship management services to third parties will be expanded throughout 2017 and beyond. The fleet's operating profit for 9M 2016 slightly rose to USD 43.47 million (9M 2015 – USD 39.39 million) due to higher time charter income from contracts signed at attractive rates in previous reporting periods.

As at 30th September 2016, 75% (twelve vessels) of the LSC Group's fleet were employed on period basis (time-charter and bareboat charter). The average employment period for the portion of the LSC Group's fleet on time charter plus bareboat charter (i.e. Latgale and Zemgale) is 11 months. The average employment period for the portion of the fleet (nine vessels) on time charter only (i.e. excluding the bareboat charters) – 8.7 months. Accordingly, at the end of Q3 and at the date of this report 31% of the LSC Group's fleet are trading on the spot market. This increases to 37pct of the fleet by end 2016 and 62pct by mid 2017.

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

MRs : \$9,800 per revenue day.

Handymaxes : \$10,300 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 fourth quarter of 2016:

MRs : approximately \$8,200 per day for 27% of Q4 revenue days.

Handymaxes : approximately \$7,300 per day for 27% of Q4 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)	Q3 2016 (E)
HS (4 vessels)*	12 703	13 468	13 594	14 310	15 435	16 252	15 545
MR (12 vessels)**	13 168	14 174	14 130	16 232	17 660	16 953	15 241

*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.

As anticipated throughout Q3 and thus far in Q4, the tanker industry has continued to experience a steady erosion in earnings, asset values and for other publicly quoted tanker companies, a significant decrease in shareholder value; this weaker sentiment is particularly evident by the Q3 spot rates achieved by the LSC Group's fleet which were well below breakeven; this trend has continued into Q4. As mentioned in the Q2 report, the main contributory factors have been fewer ton miles, and a sharp increase in the size of the general products tanker fleet. The world MR tanker fleet will grow by 6.2pct in 2016 with 78 Medium range tankers delivered up to end September with a further 22 to be delivered in Q4. In 2017 a further 55 Medium range tankers will be delivered resulting in a further 2.6pct year on year growth in the Medium range tanker fleet. Without stronger economic growth, the main driver of shipping rates, this increase in the size of the fleet will continue to have a negative impact on ship-owners earnings.

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FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016

The LSC Group's earnings for Q3 reflect the fact that a large portion of the fleet was on time charter and have been protected from the severity of the downturn in earnings and these contracts will continue to afford some protection throughout the balance of the year. 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 will likely be exposed to lower earnings.

Apart from the financial challenges of a weaker shipping market, the main focus for LSC Group 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.

As at the 30th September 2016, LSC Group was in compliance with all financial covenants set in the existing loan agreements.

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 17 November 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 September 2016, changes in shareholders' equity, cash flows and the results of the Group for the nine month period ended 30 September 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 November 2016

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

Consolidated income statement

for the period ended 30 September 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Voyage income	72 434	68 033	65 104	60 902
Income from other services	1 894	899	1 703	807
Revenue	74 328	68 932	66 807	61 709
Voyage costs and commissions	(6 314)	(6 765)	(5 641)	(6 170)
Cost of sales	(54 396)	(36 476)	(48 822)	(32 858)
Gross profit	13 618	25 691	12 344	22 681
Administrative expenses	(4 121)	(5 668)	(3 696)	(5 114)
Revaluation/impairment of non-financial assets	(18 260)	(2 395)	(16 277)	(2 198)
Other operating income	17	1 593	15	2 473
Other operating expenses	(139)	(858)	(121)	(766)
Consolidation of net financial liabilities	-	(13 619)	-	(12 086)
Operating (loss)/profit	(8 885)	4 744	(7 735)	4 990
Finance income	327	1 147	293	1 135
Finance costs	(10 493)	(7 108)	(9 240)	(6 401)
Loss before tax	(19 051)	(1 217)	(16 682)	(276)
Income tax	(280)	(197)	(251)	(176)
Loss for the period	(19 331)	(1 414)	(16 933)	(452)
Attributable to:				
Equity holders of the parent	(19 331)	(1 286)	(16 933)	(338)
Non-controlling interests	-	(128)	-	(114)
	(19 331)	(1 414)	(16 933)	(452)
Loss per share	US \$ (0.10)	US \$ (0.01)	EUR (0.08)	EUR (0.00)

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 NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016

Consolidated statement of comprehensive income

for the period ended 30 September 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Loss for the period	(19 331)	(1 414)	(16 933)	(452)
Other comprehensive (loss)/income:				
Items that maybe subsequently reclassified to profit or loss				
Exchange differences on translation of foreign operations	(452)	(1 915)	(945)	8 835
Net movement on cash flow hedges	218	295	201	215
Other comprehensive (loss)/income for the period, net of tax	(234)	(1 620)	(744)	9 050
Total comprehensive (loss)/income for the period, net of tax	(19 565)	(3 034)	(17 677)	8 598
Attributable to:				
Equity holders of the parent	(19 565)	(2 423)	(17 677)	8 712
Non-controlling interests	-	(611)	-	(114)
	(19 565)	(3 034)	(17 677)	8 598

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LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Consolidated statement of financial position

as at 30 September 2016

	30.09.2016. US \$'000	31.12.2015. US \$'000	30.09.2016. EUR'000	31.12.2015. EUR'000
Assets				
Non-current assets				
Intangible assets	7	12	6	11
Fleet	282 500	328 491	253 114	301 728
Property, plant and equipment	2 539	2 560	2 275	2 352
Investment properties	27 800	27 917	24 908	25 643
Trade and other receivables	-	14	-	13
Other non-current financial assets	250	250	224	229
Total non-current assets	313 096	359 244	280 527	329 976
Current assets				
Inventories	2 750	2 362	2 464	2 169
Trade and other receivables	3 393	2 192	3 040	2 014
Prepayments	1 077	529	965	485
Other current financial assets <i>including deposits with maturity more than three months</i>	23 809	30 710	21 332	28 208
	23 800	30 700	21 324	28 199
Cash and cash equivalents	28 699	21 987	25 714	20 195
Total current assets	59 728	57 780	53 515	53 071
Total assets	372 824	417 024	334 042	383 047

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LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
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FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016

Consolidated statement of financial position (continued)

as at 30 September 2016

	30.09.2016. US \$'000	31.12.2015. US \$'000	30.09.2016. EUR'000	31.12.2015. EUR'000
Equity and liabilities				
Equity				
Share capital	76 392	76 392	60 000	60 000
Retained earnings	85 259	104 590	65 747	82 680
Other components of equity	(5 777)	(25 593)	13 912	49
Total equity	155 874	155 389	139 659	142 729
Non-current liabilities				
Interest bearing loans	29 640	131 647	26 556	120 922
Trade and other payables	40 484	57 514	36 273	52 827
Deferred tax liabilities	1 966	1 918	1 762	1 762
Total non-current liabilities	72 090	191 079	64 591	175 511
Current liabilities				
Trade and other payables	13 742	8 719	12 313	8 009
Interest bearing loans	129 337	57 964	115 883	53 241
Derivative financial instruments	-	281	-	258
Deferred income	1 781	3 592	1 596	3 299
Total current liabilities	144 860	70 556	129 792	64 807
Total equity and liabilities	372 824	417 024	334 042	383 047

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

Consolidated statement of changes in equity

for the period ended 30 September 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	-	-	-	-	-	(1 286)	(1 286)	(128)	(1 414)
Other comprehensive loss	-	-	295	(1 432)	-	-	(1 137)	(483)	(1 620)
Total comprehensive loss	-	-	295	(1 432)	-	(1 286)	(2 423)	(611)	(3 034)
Decrease in non-controlling interests	-	-	-	-	-	-	-	(2 513)	(2 513)
As at 30 September 2015	76 392	5 824	(396)	(16 696)	(20 050)	110 395	155 469	2 441	157 910
Loss for the period	-	-	-	-	-	(5 805)	(5 805)	-	(5 805)
Other comprehensive income	-	-	178	(125)	-	-	53	-	53
Total comprehensive loss	-	-	178	(125)	-	(5 805)	(5 752)	-	(5 752)
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	-	-	-	-	-	(19 331)	(19 331)	-	(19 331)
Other comprehensive loss	-	-	218	(452)	-	-	(234)	-	(234)
Total comprehensive loss	-	-	218	(452)	-	(19 331)	(19 565)	-	(19 565)
Other reserves	-	-	-	-	20 050	-	20 050	-	20 050
As at 30 September 2016	76 392	5 824	-	(17 273)	5 672	85 259	155 874	-	155 874

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

Consolidated statement of changes in equity (continued)

for the period ended 30 September 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	-	-	-	-	-	(338)	(338)	(114)	(452)
Other comprehensive income	-	-	215	8 835	-	-	9 050	-	9 050
Total comprehensive income	-	-	215	8 835	-	(338)	8 712	(114)	8 598
Decrease in non-controlling interests	-	-	-	-	-	-	-	(2 291)	(2 291)
As at 30 September 2015	60 000	4 574	(354)	1 120	(14 607)	88 028	138 761	2 179	140 940
Loss for the period	-	-	-	-	-	(5 348)	(5 348)	-	(5 348)
Other comprehensive income	-	-	153	3 953	-	-	4 106	-	4 106
Total comprehensive loss	-	-	153	3 953	-	(5 348)	(1 242)	-	(1 242)
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	-	-	-	-	-	(16 933)	(16 933)	-	(16 933)
Other comprehensive loss	-	-	201	(945)	-	-	(744)	-	(744)
Total comprehensive loss	-	-	201	(945)	-	(16 933)	(17 677)	-	(17 677)
Other reserves	-	-	-	-	14 607	-	14 607	-	14 607
As at 30 September 2016	60 000	4 574	-	4 128	5 210	65 747	139 659	-	139 659

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

Consolidated statement of cash flows

for the period ended 30 September 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Operating activities				
Loss before tax	(19 051)	(1 217)	(16 682)	(276)
<u>Adjustments for:</u>				
Depreciation and amortisation	30 975	14 274	27 827	12 864
Result on disposal of non-financial assets	(17)	(271)	(15)	(240)
Revaluation/impairment loss of the fleet	18 260	2 395	16 277	2 198
Consolidation of net financial assets	-	13 619	-	12 086
Other adjustments	6 649	5 370	4 929	5 141
<u>Working capital adjustments:</u>				
Changes in trade and other receivables and prepayments	14 110	75	13 101	(142)
Changes in inventories	(388)	(653)	(295)	(691)
Changes in trade and other payables	3 210	2 654	2 599	3 043
Net cash flows generated from operating activities	53 748	36 246	47 741	33 983
Net cash flows from (used in) investing activities	5 380	9 468	4 747	8 841
Cash flows before financing activities	59 128	45 714	52 488	42 824
Net cash flows used in financing activities	(52 416)	(25 523)	(46 969)	(22 879)
Net increase in cash and cash equivalents	6 712	20 191	5 519	19 945
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	28 699	48 116	25 714	42 946

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 30.09.2016 EUR/USD – 1.1161 (average – 1.115964)

ECB (the European Central Bank) rate of exchange as at 30.09.2015 EUR/USD – 1.1204 (average – 1.115569)

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 September 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Time charter out revenue	57 012	50 760	51 320	45 207
Voyage revenue	15 422	17 273	13 784	15 695
Voyage income from external customers	72 434	68 033	65 104	60 902
Voyage costs and commissions	(6 314)	(6 765)	(5 641)	(6 170)
Net voyage result	66 120	61 268	59 463	54 732
Vessel operating costs	(22 649)	(21 877)	(20 302)	(19 699)
Vessel operating profit	43 471	39 391	39 161	35 033
Income from other revenues	1 344	843	1 209	757
Costs of sales (Vessel operating costs excluding)	(613)	(415)	(551)	(377)
Administrative expenses	(3 829)	(5 408)	(3 434)	(4 877)
Result from disposal of non-financial assets	1	5	1	5
Depreciation and amortisation	(30 586)	(14 222)	(27 478)	(12 818)
Revaluation loss/Impairment of non-financial assets	(18 260)	(2 395)	(16 277)	(2 198)
Other operating income	-	677	-	1 648
Other operating expenses	(127)	-	(111)	-
Result before financial items	(8 599)	18 476	(7 480)	17 173
Interest income	327	279	293	252
Interest expense	(5 882)	(6 726)	(5 276)	(6 050)
Finance (expenses)/ income, net	(3 805)	551	(3 244)	602
Net result before tax	(17 959)	12 580	(15 707)	11 977
Segment assets	344 453	388 481	308 622	356 829
Including additions to non-current assets	1 833	6 643	1 642	5 981
Segment liabilities	174 169	220 612	156 052	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 September 2016

	2016 US \$'000	2015 US \$'000	2016 EUR'000	2015 EUR'000
Net result before tax for reportable segment	(17 959)	12 580	(15 707)	11 977
Other revenues	550	56	494	50
Costs of sales	(672)	(92)	(603)	(82)
Administrative expenses	(168)	(130)	(150)	(119)
Result from disposal of non-financial assets	16	266	14	235
Other operating income	-	645	-	585
Other operating expenses	(12)	(858)	(10)	(766)
Consolidation of net financial liabilities	-	(13 619)	-	(12 086)
Interest income	-	3	-	2
Interest expenses	(829)	(39)	(741)	(46)
Finance income/(expenses), net	23	(29)	21	(26)
Loss before tax	(19 051)	(1 217)	(16 682)	(276)
	30.09.2016.	31.12.2015.	30.09.2016.	31.12.2015.
Segment assets for reportable segment	344 453	388 481	308 622	356 829
Unallocated:				
Investment properties	27 800	27 917	24 908	25 643
Other assets of subsidiaries not included in segment	571	626	512	575
Total assets	372 824	417 024	334 042	383 047
Segment liabilities for reportable segment	174 169	220 612	156 052	202 637
Unallocated:				
Deferred tax liabilities	1 869	1 823	1 675	1 674
Loan from related parties	40 477	38 702	36 266	35 549
Loan from other companies	300	300	269	276
Other liabilities of subsidiaries not included in segment	135	198	121	182
Total liabilities	216 950	261 635	194 383	240 318

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

3. Related party transactions

for the period ended 30 September 2016

	2016		30.09.2016.	
	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	26 098	-	757	(662)
Technical management fee and IT services / Outstanding balances	266	-	5	-
Interest expense / Outstanding balances	-	(1 007)	-	(43 505)
Real estate rent / Outstanding balances	83	-	13	-
Consulting services / Outstanding balances	-	(129)	-	(29)
Other services / Outstanding balances	26	-	2	-
Total	26 473	(1 136)	777	(44 196)
Including:				
Non-current trade and other payables			-	(40 477)
Current trade and other receivables/ trade and other payables			777	(3 063)
Deferred income			-	(656)
Total			777	(44 196)

	2016		30.09.2016.	
	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	23 386	-	678	(593)
Technical management fee IT services / Outstanding balances	238	-	4	-
Interest expense / Outstanding balances	-	(900)	-	(38 979)
Real estate rent / Outstanding balances	74	-	10	-
Consulting services / Outstanding balances	-	(115)	-	(26)
Other services / Outstanding balances	23	-	2	-
Total	23 721	(1 015)	694	(39 598)
Including:				
Non-current trade and other payables			-	(36 266)
Current trade and other receivables/ trade and other payables			694	(3 919)
Deferred income			-	587
Total			694	(39 598)

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

3. Related party transactions *(continued)*

for the period ended 30 September 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	23 260	-	152	(1 770)
Technical management fee and IT services / Outstanding balances	264	-	5	-
Interest income/(expense) / Outstanding	3	(645)	-	(57 482)
Real estate rent / Outstanding balances	82	-	13	-
Consulting services / Outstanding balances	-	(131)	-	(22)
Other services / Outstanding balances	33	-	9	(26)
Total	23 642	(776)	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	20 851	-	140	(1 626)
Technical management fee IT services / Outstanding balances	237	-	4	-
Interest income/(expense) / Outstanding balances	2	(581)	-	(52 799)
Real estate rent / Outstanding balances	74	-	13	-
Consulting services / Outstanding balances	-	(117)	-	(20)
Other services / Outstanding balances	30	-	8	(23)
Total	21 194	(698)	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.