

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

Unaudited Condensed Interim Consolidated Financial Statements

for the six month period ended 30 June 2014



CONTENTS

Supervisory Council	3
Professional experience of the members of the Supervisory Council	4
Management Board.....	6
Professional experience of the members of the Management Board.....	7
Review of the shares	8
Management report.....	10
Statement of Management’s Responsibilities	13
Consolidated income statement	14
Consolidated statement of comprehensive income.....	15
Consolidated statement of financial position.....	16
Consolidated statement of changes in equity	18
Consolidated statement of cash flows	20
Notes to the unaudited condensed consolidated financial statements	21

Supervisory Council

Chairman of the Supervisory Council Vladimir Egger (from March 1, 2014 until March 26, 2014; from April 3, 2014)
Robert Kirkup (until February 28, 2014)

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

Members of the Supervisory Council: Simon Boddy
Yulia Verschagina (from March 26, 2014)
Andrea Schlaepfer (from March 26, 2014)
Varvara Maximova (from March 26, 2014)
Olga Kurenkova (from March 26, 2014)
Giovanni Fagioli (from March 26, 2014)
Christophe Theophanis Matsacos (until March 26, 2014)
Rubil Yilmaz (until April 1, 2014)
Vladimir Egger (until April 1, 2014)
Ivars Girgensons
Kristo Oidermaa
Javed Ahmed (until March 26, 2014)
Mārtiņš Kvēps (until March 26, 2014)
Oļegs Stepanovs (until March 26, 2014)
Artūrs Lēmanis (until March 26, 2014)

Professional experience of the members of the Supervisory Council

- Vladimir Egger* Elected in the position of the Chairman of the Supervisory Council on April 3, 2014. Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Member of JSC Ventpils nafta Supervisory Council since 20 January 2010. The chief Representative of Vitol Services B.V Moscow. Mr. Egger has almost 30 years experience in trade of raw materials. Before joining Vitol he was Managing Director of Lukoil Asia Pacific based in Singapore and Beijing (China). Professional education: Bachelor's Degree in Economics and Business Management Master's Degree. Vladimir Egger does not own shares of JSC Latvian Shipping Company.
- Rubil Yilmaz* Elected in the position of the Deputy Chairman of the Supervisory Council on April 3, 2014. Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Member of JSC Ventpils nafta Supervisory Council since 20 January 2010, Financial Director of Vitol Tank Terminals International (VTTI). Holds the position of member of the Supervisory Council of Ventpils nafta termināls Ltd. Rubel Yilmaz does not own shares of JSC Latvian Shipping Company.
- Simon Boddy* Elected as a member of the Supervisory Council on March 26, 2014 for a 5 year term. Simon Boddy was until the end of 2013 Managing Director of Vitol Dubai in the United Arab Emirates. Previously for 3 years he was Chairman of the Supervisory Council of the JSC Latvian Shipping Company and Chairman of the JSC Ventpils nafta Management Board. He has been working in the petroleum industry for over 30 years. He has worked for energy companies Shell and BP. In 1989, Simon Boddy joined the Vitol Group of companies, where he was involved in crude trading, refinery processing, supply and economic issues; from 2006 until 2008 he was Chief Representative of Vitol's Moscow office. He has been a board member of Vitol Tank Terminals International. He is also an English barrister. Professional education: Academic degree in mathematics from the University of Oxford, Postgraduate Diploma in Law from the College of Law of England and Wales. Simon Boddy does not own shares of JSC Latvian Shipping Company.
- Yulia Verschagina* Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Julia Verschagina is a head of operations in distillates matrix at Vitol Services BV Moscow representative office since 2012, previously she took position of operator in logistic department at VNT SA, Moscow representative. J.Verschagina has graduated State University – Higher School of Economics in Moscow. J.Verschagina does not own shares of JSC Latvian Shipping Company.
- Andrea Schlaepfer* Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Andrea Schlaepfer is Head of Corporate Affairs at Vitol. She joined Vitol in February 2013. Prior to this she was Executive Director of Communications at LCH.Clearnet. She has over 15 years' experience in communications, primarily in the financial sector and has worked in an advisory capacity in communication firms, including Citigate Dewe Rogerson, and as head of European communications for Schrodgers Investment Management. She has a degree in Philosophy and Modern Languages from the University of Oxford. A.Schlaepfer does not own shares of JSC Latvian Shipping Company.

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

- Varvara Maximova* Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Varvara Maximova is employed by Business Development Finance at Vitol since 2013. Previously she has worked for Natixis Bank and VTB Capital in Moscow. V.Maximova has degree in banking and finance from London School of Economics and Political Science and degree in economics from Russian State University "Higher School of Economics". V.Maximova does not own shares of JSC Latvian Shipping Company.
- Olga Kurenkova* Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Olga Kurenkova works at representative office of "Vitol Services B.V., The Netherlands" since 2012. Since 2000 she was employed by representative office of "VNT S.A., Switzerland". O.Kurenkova has graduated Moscow Aircraft Institute (MAI), economical department in 1990. O.Kurenkova does not own shares of JSC Latvian Shipping Company.
- Giovanni Fagioli* Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. Giovanni Fagioli is the chief executive officer of Finaval S.p.A. and BCC1 S.p.A. He has almost 25 years experience in the shipping sector. He is also Chairman of the private equity fund FH S.p.A. He was previously member of the Board of Directors of SACE (MEF), Meta S.p.A. and Fineco Bank. G.Fagioli does not own shares of JSC Latvian Shipping Company.
- Ivars Girgensons* Elected in the position of the member of the Supervisory Council on March 26, 2014 for 5 years term. A lawyer in the corporate finance company Confide and SIA Eurokonsults. His main area of specialization is civil law and commercial law. Previously he has managed Creative Consultation Centre Ltd, has worked for Baltijas Ofiss Ltd, Akvašips Ltd, and has been a manager of a branch of JSC SEB banka. I.Girgensons has a bachelor degree in law from University of Latvia and continues master studies in the University Turība. Ivars Girgensons does not own shares of JSC Latvian Shipping Company.
- Kristo Oidermaa* Elected in the position of the member of the Supervisory Council on March 26, 2013 for 5 years term. Kristo Oidermaa has been working in the financial sector since 2006 and currently hold the portfolio manager's position in LHV Asset Management. Previously he was working as a senior analyst in LHV Bank and also filled the analyst roles in Avaron Asset Management and Trigon Capital. K.Oidermaa have a BA Economics degree from the University of Manchester and he is also a CFA charterholder. Kristo Oidermaa does not own shares of JSC Latvian Shipping Company.

Management Board

Chairman of the Management Board

Robert Kirkup (from March 1, 2014)

Simon Richard Blaydes (until February 28, 2014)

Members of the Management Board

Paul Thomas

Christopher James Kernon

Professional experience of the members of the Management Board

- Robert Kirkup** The Chairman of the Management Board since March 1, 2014, elected for 5 years term. Previously he took the position of the Chairman of the Supervisory Council since October 17, 2013. Robert Kirkup is also the Chairman of the JSC Ventspils nafta Management Board since 1 September 2013. R. Kirkup also holds positions in JSC Ventspils nafta subsidiaries - he is the Chairman of the Supervisory Council of LatRosTrans Ltd, as well as a member of the Supervisory Council of Ventspils nafta termināls Ltd. In 1996 he joined the Vitol Group and has held a variety of management positions in oil, sugar and metal. Professional education: BA Honours Degree in Business. Mr. Robert Kirkup does not own any shares of JSC Latvian Shipping Company.
- Paul Thomas* Head of Vitol Group's World Wide Shipping, employed by Vitol Group since 1988, director of the shipping company Finaval Spa since 2007, Member of the Management Board of Latvian Shipping Company since July 2010, elected for 5 years term. Paul Thomas does not own shares of JSC Latvian Shipping Company.
- Christopher James Kernon* With more than 20 years experience in the shipping industry. Previously C. Kernon was responsible for shipping and chartering in Asia and Australia for Vitol Group. Since 2003 he is responsible for projects and shipping time charters at Vitol Group. Member of the Management Board of Latvian Shipping Company since February, 2011, elected for 5 years term. Christopher Kernon does not own shares of the JSC Latvian Shipping Company.

Review of the shares

Information on share price/index dynamics for the period from 01.01.2014 until 30.06.2014



Index	01.01.2014	30.06.2014	+/-%
—OMX Baltic Benchmark GI	613.50	611.24	-0.37
—OMX Riga	460.13	448.17	-2.60
—LSC1R	0.56 EUR	0.49 EUR	-13.27

Securities information

ISIN	LV0000101103
Ticker	LSC1R
Market	BALTIC MAIN LIST
Issuer	Latvijas kuģniecība (LSC)
Nominal value	1.40 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	2010	2011	2012	2013	6M/2014
Open	0.583	0.526	0.444	0.359	0.550
High	0.740	0.655	0.492	0.593	0.580
Low	0.484	0.428	0.289	0.327	0.451
Last	0.539	0.438	0.359	0.559	0.485
Average	0.575	0.487	0.406	0.437	0.514
Traded volume	5,058,251	13,526,230	985,943	4,575,982	640,857
Turnover, million	2.89	8.32	0.38	2.15	0.33
Capitalisation, million	107.85	87.65	71.71	111.84	97.00

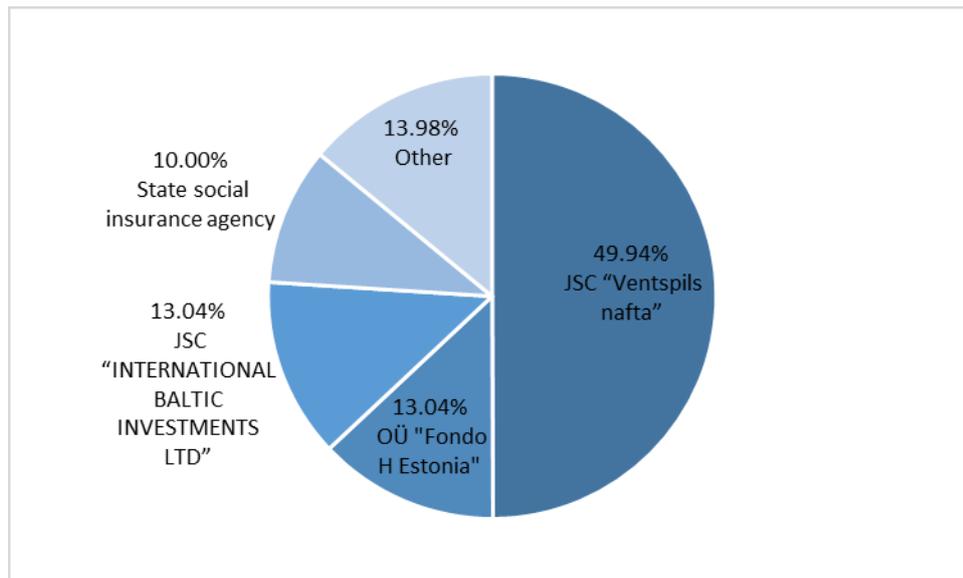
Information source: JSC „NASDAQ OMX Riga” webpage www.nasdaqomxbaltic.com

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

JSC "Latvian Shipping Company" shareholders (over 5%) as of date when the report is released:

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

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



Management report

Dear shareholders and stakeholders,

The interim financial result for Latvian Shipping Company (hereafter – LSC or Company) and its subsidiaries (hereafter – LSC Group or Group) for the 1st half of 2014 resulted in a net loss in the amount of 8.32 million USD. This figure included vessel impairments in the amount of 22.70 million USD, losses from the sale of the vessel “Riga” in the amount of 0.32 million USD as well as a re-evaluation of the investment in AS “Latvijas Naftas tranzīts” in the amount of 8.34 million USD. Last year in the same period the Group suffered a loss of 26.60 million USD.

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

	6M 2012	6M 2013	6M 2014
Sales	56.34	52.41	47.35
EBITDA	18.23	24.43	18.87
Profit (loss) before exceptionals	(4.46)	2.82	3.01
Exceptionals (loss/income from non-financial and financial assets)	-	(5.4)	19.71
Exceptionals (impairment of fleet and financial assets)	(24.73)	(24.02)	(31.04)
Net loss	(29.20)	(26.60)	(8.32)

During the reporting period the LSC Group fleet was reduced from seventeen to sixteen vessels. The sale of the vessel “Riga” was concluded in March, 2014 which as previously explained, was required in order to limit the losses originating from the vessel “Riga” sale – leaseback – repurchase agreement concluded back in 2009 by the previous management. The vessel was delivered to the buyer in June, 2014. No further sales are currently planned from the LSC fleet, thus the fleet at 30th June 2014 consisted of sixteen modern tankers with an average age of 6.5 years.

At the end of the reporting period 81% (thirteen vessels) of the LSC fleet were employed on period business. The average employment period for the portion of the fleet on time charter plus bareboat charter as at the end of reporting period was 7.5 months, while excluding the bareboat charters (eleven vessels) – 4.5 months

The total income from the fleet for the first half of 2014 was 47.14 million USD which is less than for the same period in the previous year (6M/2013: 51.97 million USD) as a consequence of having fewer vessels employed within the fleet. The LSC Group fleet’s net voyage result for the first half of 2014 was 39.27 million USD which is a decrease when compared with the previous year (6M/2013: 44.64 million USD). Again this reflects the decrease in the size of the fleet. The net voyage result is a more comparable indicator of fleet performance as it is calculated by deducting voyage costs from voyage income and shows the income, irrespective of whether the fleet was employed in the spot or time charter market. At the same time the vessel operating profit for the six months of 2014 after depreciation and dry-dock amortisation was 13.87 million USD, a similar level to that achieved in the previous period (6M/2013: 14.12 million USD) despite having fewer vessels employed within the fleet.

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

LSC continues to release average quarterly chartering rates achieved by the LSC Group’s fleet:

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

Fleet	Y 2010	Y 2011	Y 2012	Y 2013	Q1 2014 (A)	Q2 2014 (E)
HS (4 vessels)*	10 271	11 216	12 703	13 468	12 885	13 112
MR (12 vessels)**	11 849	12 882	13 168	14 174	14 421	13 716
LR1 (1 vessel)***	16 826	13 623	12 086	12 122	12 309	12 309

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

**From Q3 2013 m/t Latgale and m/t Zemgale removed from above statistics as they are employed on bareboat charter basis, i.e. responsibility for operating expenses and off hire periods resides with the Bareboat Charterer whereas the above figures are inclusive of opex and any offhire periods.

***Vessel delivered to new owner in June 2014

Explanations:

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

Management report (continued)

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

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 administrative costs were higher in the 1st half of 2014 as compared with the same period in the previous year (5.26 Million USD in 6M/2014 versus 4.52 million USD in 6M/2013). The increase was exclusively attributable to the legal costs related to the partial settlement in respect of the Antonio Gramsci Corporation court case in the High Court in London.

At the end of the 2nd quarter the LSC Group cash position remained stable and the Group had cash and short term deposits in the amount of 37.88 million USD. The LSC Group cash position at 31st December 2013 was 36.57 million USD.

At 30th June 2014 the total value of LSC Group assets was 489.37 million USD. The figure at 31st December, 2013 was 519.63 million USD. The income from a partial settlement in respect of the Antonio Gramsci Corporation court case in the High Court in London had a positive impact on group assets but it was negated by a further impairment of the fleet. This impairment arose as a result of the decision by the management to reassess the useful life of the fleet, in process of calculation of value in use, from twenty to fifteen years in the light of more stringent major oil company vetting procedures; especially in respect of vessel age. The total value of the LSC Group fleet at 30th June 2014 was 384.98 million USD.

Similarly the investment in 15.91% of the share capital of AS "Latvijas Naftas tranzīts" via SIA "Skonto nafta" (which belongs 71.43pct to SIA "Nafta invest") and SIA "Nafta Invest" (which belongs 100pct to LSC Group) by the previous management in Q1/2010 at a price of 27.60 million USD has now been re-evaluated. AS "Latvijas Naftas tranzīts" had not approved or disclosed audited financial statements for several years, therefore, it's financial situation has been unclear but based on recently obtained information the management has decided to adopt a conservative approach to this investment and has made an impairment of 8.34 million USD.

The total equity value of the Group at 30th June 2014 was 209.89 million USD (31st of December 2013: 218.06 million USD).

During the first half of 2014 the price of LSC shares quoted on the NASDAQ OMX Riga decreased by 13.27%. The OMX Baltic Benchmark GI index in the first half of 2014 decreased by 0.37%. There were 717 trades of Latvian Shipping Company's shares during the period involving 640 857 shares worth 334 357 EUR which was 38% of the total share turnover and 5% of trading volume in value terms of all the Latvian companies listed on the Baltic Main List. On 30th June 2014 the capitalization of Latvian Shipping Company shares at NASDAQ OMX Riga was 97.00 million EUR.

The shipping markets for the first half of 2014 have not lived up to expectations with the products tanker market in particular proving to be a disappointment. However having the vast majority of the LSC Group fleet on time charter has enabled LSC Group to escape this downturn in product tanker earnings. The IEA (International energy agency) which advises industrialized nations on oil policies noted in its latest monthly report that it had trimmed its projection for growth in global demand for oil for 2014 citing weaker than expected demand in the second quarter. Similarly Eurostat the EU statistics office observed zero GDP growth for the Eurozone for the second quarter of 2014. At the time of writing there is a real concern that the balance of 2014 will continue to disappoint. This will negatively impact on both earnings and possibly fleet values. Once again the strategy to employ the majority of the LSC Group fleet on timecharter should provide some protection from this potential downturn in earnings in the short term. However in the long term it should be anticipated that time charter earnings could also be negatively impacted.

Management report *(continued)*

The future profitability of LSC Group and other ship-owners specialising in the product tanker segment will continue to depend on worldwide economic growth, which remains finely balanced. The IEA is expecting an increase in oil demand in 2015 as global economic conditions improve but at a lower level than previously predicted. Economic growth drives demand for refined oil and hence impacts on demand for product tankers. On the vessel supply side, the more optimistic economic outlook has resulted in an increase in the number of new product tankers ordered. These new product tankers are now beginning to be delivered and without the predicted increase in oil demand, may act as a drag on any shipping recovery in our core market segment. Thankfully there are some signs that the orderbook is slowing. Finally, although it is not currently a concern, it should be noted once again that the LSC Group fleet is mainly financed by a syndicate of international banks on Libor (London interbank offered rate) related rates. Any future increase in this benchmark rate would have a negative impact on the Group's financial position as any increase in financing costs could not easily be passed onto our counterparties.

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 22 August 2014

Statement of Management's Responsibilities

The Management Board of JSC "Latvian Shipping Company" prepares condensed consolidated financial statements for each reporting period. These condensed consolidated financial statements give a true and fair view of the state of affairs of the JSC "Latvian Shipping Company" and its subsidiaries (hereafter – the Group) as at 30 June 2014, changes in shareholders' equity, cash flows and the results of the Group for the six month period ended 30 June 2014.

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

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

For and on behalf of the Management Board

Robert Kirkup
Chairman of the Management Board of
Joint Stock Company Latvian Shipping Company
Riga, 22 August 2014

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

Consolidated income statement

for the period ended 30 June 2014

	2014 US \$'000	2013 US \$'000	2014 EUR'000	2013 EUR'000
Voyage income	47 142	51 968	34 392	39 591
Income from other services	205	440	150	336
Revenue	47 347	52 408	34 542	39 927
Voyage costs	(7 874)	(7 324)	(5 756)	(5 599)
Cost of sales	(25 563)	(30 913)	(18 724)	(23 621)
Gross profit	13 910	14 171	10 062	10 707
Administrative expenses	(5 261)	(4 515)	(3 805)	(3 448)
Impairment of non-financial assests	(22 697)	(24 021)	(16 565)	(18 442)
Other operating income	20 330	858	14 812	650
Other operating expenses	(8 684)	(5 401)	(6 376)	(4 129)
Operating loss	(2 402)	(18 908)	(1 872)	(14 662)
Finance income	183	142	134	118
Finance costs	(5 973)	(7 776)	(4 356)	(5 946)
Loss before tax	(8 192)	(26 542)	(6 094)	(20 490)
Income tax	(127)	(62)	(93)	(47)
Loss for the period	(8 319)	(26 604)	(6 187)	(20 537)
Attributable to:				
Equity holders of the parent	(8 194)	(26 590)	(6 096)	(20 526)
Non-controlling interests	(125)	(14)	(91)	(11)
	(8 319)	(26 604)	(6 187)	(20 537)
Loss per share	US \$ (0.04)	US \$ (0.13)	EUR (0.03)	EUR (0.10)

Consolidated statement of comprehensive income

for the period ended 30 June 2014

	2014 US \$'000	2013 US \$'000	2014 EUR'000	2013 EUR'000
Loss for the period	(8 319)	(26 604)	(6 187)	(20 537)
Other comprehensive income:				
Items that maybe subsequently reclassified to profit or loss				
Exchange differences on translation of foreign operations	(69)	(502)	343	2 446
Net movement on cash flow hedges	216	593	157	433
Other comprehensive income for the period, net of tax	147	91	500	2 879
Total comprehensive loss for the period, net of tax	(8 172)	(26 513)	(5 687)	(17 658)
Attributable to:				
Equity holders of the parent	(8 034)	(26 407)	(5 596)	(17 647)
Non-controlling interests	(138)	(106)	(91)	(11)
	(8 172)	(26 513)	(5 687)	(17 658)

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

Consolidated statement of financial position

as at 30 June 2014

	30.06.2014. US \$'000	31.12.2013. US \$'000	30.06.2014. EUR'000	31.12.2013. EUR'000
Assets				
Non-current assets				
Intangible assets	31	44	22	31
Fleet	384 983	429 313	282 660	314 591
Property, plant and equipment	3 242	3 279	2 381	2 403
Investment properties	1 894	1 912	1 391	1 400
Investment in associates	15	15	11	10
Other non-current financial assets	4 469	4 403	3 281	3 227
Total non-current assets	394 634	438 966	289 746	321 662
Current assets				
Inventories	3 827	3 284	2 810	2 406
Trade and other receivables	6 321	4 976	4 641	3 647
Prepayments	1 288	789	946	579
Other current financial assets	45 416	35 048	33 345	25 684
Cash and short-term deposits	37 880	36 568	27 812	26 797
Total current assets	94 732	80 665	69 554	59 113
Total assets	489 366	519 631	359 300	380 775

Consolidated statement of financial position *(continued)*

as at 30 June 2014

	30.06.2014. US \$'000	31.12.2013. US \$'000	30.06.2014. EUR'000	31.12.2013. EUR'000
Equity and liabilities				
Equity				
Share capital	356 089	362 319	280 000	284 574
Accumulated deficit	(145 582)	(137 388)	(112 548)	(106 452)
Other components of equity	(6 857)	(13 247)	(17 930)	(23 004)
Equity attributable to equity holders				
of the parent	203 650	211 684	149 522	155 118
Non-controlling interests	6 240	6 378	4 582	4 673
Total equity	209 890	218 062	154 104	159 791
Non-current liabilities				
Interest bearing loans	202 589	215 591	148 743	157 981
Derivative financial instruments	472	570	347	417
Trade and other payables	32 448	31 986	23 824	23 439
Deferred tax liabilities	118	118	87	87
Total non-current liabilities	235 627	248 265	173 001	181 924
Current liabilities				
Trade and other payables	15 991	13 490	11 741	9 885
Interest bearing loans	25 870	37 077	18 994	27 170
Derivative financial instruments	601	1 010	442	740
Deferred income	1 387	1 727	1 018	1 265
Total current liabilities	43 849	53 304	32 195	39 060
Total equity and liabilities	489 366	519 631	359 300	380 775

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

Consolidated statement of changes in equity

for the period ended 30 June 2014

	Attributable to the holders of the parent						Non-controlling interests	Total equity
	Share capital	Reserve of share capital denomination	Accumulated deficit	Cash flow hedge reserve	Foreign currency translation reserve	Total		
	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000		
As at 31 December 2012	362 319	-	(119 279)	(1 890)	(12 481)	228 669	6 223	234 892
Loss for the period	-	-	(26 590)	-	-	(26 590)	(14)	(26 604)
Other comprehensive income/(loss)	-	-	-	593	(410)	183	(92)	91
Total comprehensive income/(loss)	-	-	(26 590)	593	(410)	(26 407)	(106)	(26 513)
As at 30 June 2013	362 319	-	(145 869)	(1 297)	(12 891)	202 262	6 117	208 379
Profit/(loss) for the period	-	-	8 481	-	-	8 481	(24)	8 457
Other comprehensive income	-	-	-	79	862	941	285	1 226
Total comprehensive income	-	-	8 481	79	862	9 422	261	9 683
As at 31 December 2013	362 319	-	(137 388)	(1 218)	(12 029)	211 684	6 378	218 062
Loss for the period	-	-	(8 194)	-	-	(8 194)	(125)	(8 319)
Other comprehensive income/(loss)	-	-	-	216	(56)	160	(13)	147
Total comprehensive income/(loss)	-	-	(8 194)	216	(56)	(8 034)	(138)	(8 172)
Reserve of share capital denomination	(6 230)	6 230	-	-	-	-	-	-
As at 30 June 2014	356 089	6 230	(145 582)	(1 002)	(12 085)	203 650	6 240	209 890

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
 UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

Consolidated statement of changes in equity *(continued)*

for the period ended 30 June 2014

	Attributable to the holders of the parent							Non-controlling interests	Total equity
	Share capital	Reserve of share capital denomination	Accumulated deficit	Cash flow hedge reserve	Foreign currency translation reserve	Total	EUR'000		
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000		
As at 31 December 2012	284 574	-	(92 096)	(1 428)	(18 283)	172 767	4 702	177 469	
Loss for the period	-	-	(20 526)	-	-	(20 526)	(11)	(20 537)	
Other comprehensive income	-	-	-	433	2 446	2 879	-	2 879	
Total comprehensive income/(loss)	-	-	(20 526)	433	2 446	(17 647)	(11)	(17 658)	
As at 30 June 2013	284 574	-	(112 622)	(995)	(15 837)	155 120	4 691	159 811	
Profit/(loss) for the period	-	-	6 170	-	-	6 170	(18)	6 152	
Other comprehensive income/(loss)	-	-	-	103	(6 275)	(6 172)	-	(6 172)	
Total comprehensive income/(loss)	-	-	6 170	103	(6 275)	(2)	(18)	(20)	
As at 31 December 2013	284 574	-	(106 452)	(892)	(22 112)	155 118	4 673	159 791	
Loss for the period	-	-	(6 096)	-	-	(6 096)	(91)	(6 187)	
Other comprehensive income	-	-	-	157	343	500	-	500	
Total comprehensive income/(loss)	-	-	(6 096)	157	343	(5 596)	(91)	(5 687)	
Reserve of share capital denomination	(4 574)	4 574	-	-	-	-	-	-	
As at 30 June 2014	280 000	4 574	(112 548)	(735)	(21 769)	149 522	4 582	154 104	

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

Consolidated statement of cash flows

for the period ended 30 June 2014

	2014 US \$'000	2013 US \$'000	2014 EUR'000	2013 EUR'000
Operating activities				
Loss before tax	(8 192)	(26 542)	(6 094)	(20 490)
<u>Adjustments for:</u>				
Depreciation and amortisation	9 938	13 912	7 268	10 639
Result on disposal of non-financial assets	340	5 400	250	4 128
Impairment loss of the fleet	22 697	24 021	16 565	18 442
Other adjustments	(6 496)	6 520	(4 601)	5 374
<u>Working capital adjustments:</u>				
Changes in trade and other receivables and prepayments	(1 844)	6 779	(1 345)	5 164
Changes in inventories	(543)	1 409	(396)	1 073
Changes in trade and other payables	1 274	(3 039)	930	(2 315)
Net cash flows generated from operating activities	17 174	28 460	12 577	22 015
Net cash flows generated from investing activities	13 642	13 290	9 964	10 133
Cash flows before financing activities	30 816	41 750	22 541	32 148
Net cash flows used in financing activities	(29 504)	(32 520)	(21 526)	(24 771)
Net increase in cash and cash equivalents	1 312	9 230	1 015	7 377
Cash and cash equivalents at the beginning of the period	36 568	26 133	26 797	19 744
Cash and cash equivalents at the end of the period	37 880	35 363	27 812	27 121

Notes to the unaudited condensed consolidated financial statements

1. Accounting policies

These unaudited condensed consolidated financial statements are prepared in accordance with and comply with accounting policies applied in preparation of the consolidated financial statements of Latvian Shipping Company and its Subsidiaries for the year ended 31 December 2013, which were prepared in accordance with the International Financial Reporting Standards.

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

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

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each income statement are translated at average exchange or at the rates prevailing on the transaction dates; and
- (c) all resulting exchange differences are recognised in other comprehensive income.

ECB (the European Central Bank) rate of exchange as at 30.06.2014 EUR/USD – 1.3620 (average – 1.370615)

LB (the Bank of Latvia) rate of exchange as at 30.06.2013 EUR/USD – 1.3039 (average – 1.312857)

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

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

2. Segment information

Shipping segment for the period ended 30 June 2014

	2014 US \$'000	2013 US \$'000	2014 EUR'000	2013 EUR'000
Time charter hire income	32 858	36 873	23 979	28 068
Freight income	14 284	15 095	10 413	11 523
Voyage income from external customers	47 142	51 968	34 392	39 591
Voyage costs	(7 874)	(7 324)	(5 756)	(5 599)
Net voyage result	39 268	44 644	28 636	33 992
Vessel operating costs	(15 579)	(16 815)	(11 384)	(12 843)
Vessel operating profit	23 689	27 829	17 252	21 149
Other revenues	205	440	150	336
Costs of sales (Vessel operating costs excluding)	(160)	(364)	(156)	(278)
Administrative expenses	(5 067)	(4 261)	(3 663)	(3 252)
Result from disposal of non-financial assets	(340)	(5 400)	(250)	(4 128)
Depreciation and amortisation	(9 937)	(13 912)	(7 267)	(10 639)
Impairment of non-financial assets	(22 697)	(24 021)	(16 565)	(18 442)
Other operating income	280	858	205	650
Other operating expenses	-	(1)	-	(1)
Result before financial items	(14 027)	(18 832)	(10 294)	(14 605)
Interest income	159	9	116	7
Interest expense	(5 622)	(7 599)	(4 112)	(5 812)
Finance expenses, net	(319)	(30)	(221)	(12)
Net result before tax	(19 809)	(26 452)	(14 511)	(20 422)
Segment assets	438 960	480 747	322 291	352 283
Including additions to non-current assets	71	1 251	52	941

For management purposes the Group is organised into business units based on their business activities and has one reportable operating segment - *Shipping*. Shipping segment primarily derives its revenues from the handy sized and medium range tankers transportation services mainly on the basis of time charter agreements. Segment's expenses include voyage costs, commissions, vessel operating expenses (including crew expenses and training) and administrative expenses relating to the management of shipping segment.

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

2. Segment information *(continued)*

Reconciliation of segment results and assets to income statement and statement of financial position for the period ended 30 June 2014

	2014 US \$'000	2013 US \$'000	2014 EUR'000	2013 EUR'000
Net result before tax for reportable segment	(19 809)	(26 452)	(14 511)	(20 422)
Administrative expenses	(81)	(76)	(59)	(57)
Other operating income	20 050	-	14 607	-
Other operating expenses	(8 344)	-	(6 126)	-
Interest income	24	5	18	4
Interest expenses	(31)	(16)	(23)	(12)
Finance expenses, net	(1)	(3)	-	(3)
Profit before tax	(8 192)	(26 542)	(6 094)	(20 490)
	30.06.2014.	31.12.2013.	30.06.2014.	31.12.2013.
Segment assets for reportable segment	438 960	480 747	322 291	352 283
Unallocated:				
Investment properties	1 894	1 912	1 391	1 400
Other assets of subsidiaries not included in segment	6 171	6 158	4 531	4 512
Other financial assets	19 982	-	14 671	-
Available-for-sale financial assets	22 359	30 814	16 416	22 580
Total assets	489 366	519 631	359 300	380 775

LATVIAN SHIPPING COMPANY AND ITS SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

Notes to the unaudited condensed consolidated financial statements (continued)

3. Related party transactions

for the period ended 30 June 2014

	2014		30.06.2014.	
	Income	Expenses	Amounts due from related parties	Amounts due to related parties
	USD '000	USD '000	USD '000	USD '000
Freight and hire revenue / Outstanding balances	15 947	-	483	(1 483)
Technical management fee and IT services / Outstanding balances	168	-	4	-
Interest income/(expense) / Outstanding balances	4	(541)	556	(34 144)
Real estate rent / Outstanding balances	34	-	10	-
Consulting services / Outstanding balances	-	(32)	-	(4)
Other services / Outstanding balances	21	-	2	-
Total	16 174	(573)	1 055	(35 631)
Including:				
Non-current			-	(32 448)
Current			1 055	(1 959)
Deferred income			-	(1 224)
Total			1 055	(35 631)

	2014		30.06.2014.	
	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	11 635	-	354	(1 089)
Technical management fee IT services / Outstanding balances	123	-	3	-
Interest income/(expense) / Outstanding balances	3	(395)	408	(25 069)
Real estate rent / Outstanding balances	25	-	7	-
Consulting services / Outstanding balances	-	(23)	-	(3)
Other services / Outstanding balances	16	-	1	-
Total	11 802	(418)	773	(26 161)
Including:				
Non-current			-	(23 824)
Current			773	(1 438)
Deferred income			-	(899)
Total			773	(26 161)

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

3. Related party transactions *(continued)*

for the period ended 30 June 2013

	2013		31.12.2013.	
	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	19 605	-	327	(1 295)
Technical management fee				
IT services / Outstanding balances	198	-	9	-
Interest income/(expense) / Outstanding balances	3	(427)	553	(33 629)
Consulting services / Outstanding balances	-	(51)	-	(15)
Other services / Outstanding balances	23	-	1	-
Total	19 829	(478)	890	(34 939)
Including:				
Non-current			-	(31 986)
Current			890	(1 658)
Deferred income			-	(1 295)
Total			890	(34 939)

	2013		31.12.2013.	
	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	14 933	-	239	(949)
Technical management fee				
IT services / Outstanding balances	150	-	7	-
Interest income/(expense) / Outstanding balances	3	(327)	406	(24 643)
Consulting services / Outstanding balances	-	(38)	-	(11)
Other services / Outstanding balances	17	-	1	-
Total	15 103	(365)	653	(25 603)
Including:				
Non-current			-	(23 439)
Current			653	(1 215)
Deferred income			-	(949)
Total			653	(25 603)

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.