PUBLIC JOINT STOCK COMPANY

LATVIAN SHIPPING COMPANY
AND ITS SUBSIDIARIES

UNAUDITED ANNUAL REPORT

FOR THE YEAR ENDED

31st DECEMBER 2004

LATVIAN SHIPPING COMPANY

PUBLIC STOCK COMPANY

LATVIAN SHIPPING COMPANY

Registered Office

2 Basteja Blvd
Riga LV 1807
Latvia

THE COUNCIL

Chairman of the Council	Uldis Pumpurs (from 11.02.2005)
Deputy Chairperson of the Council	Andris Linužs (from 11.02.2005)
	Olga Pētersone (from 11.02.2005)
	Ģirts Rungainis (until 11.02.2005)
Members of the Council:	Vladimirs Solomatins
	Aldis Āķis (until 30.12.2004 and from 11.02.2005)
	Ansis Sormulis (from 11.02.2005)
	Laimonis Junkers (from 11.02.2005)
	Mamerts Vaivads (from 11.02.2005)
	Pēteris Putniņš (from 11.02.2005)
	Vladimirs Krastiņš (from 11.02.2005)
	Egīls Kietis (until 11.02.2005)
	Elena Makarova (from 28.06.2004 until 11.02.2005)
	Harijs Ilmārs Bondars (from 28.06.2004 until 11.02.2005)
	Jānis Ādamsons (until 28.06.2004)
	Māris Kaijaks (until 28.06.2004)
	Oļegs Stepanovs (until 11.02.2005)

THE BOARD OF DIRECTORS

Chairman of the Board of Directors LSC President	Imants Vikmanis
Vice President	Valērijs Godunovs (until 14.02.2005)
Members of the Board of Directors	Guntis Tīrmanis (from 14.02.2005)
	Ilva Purēna (from 14.02.2005)
	Solvita Deglava (from 14.02.2005)
	Viktors Gavriļenko (from 14.02.2005)
	Alvis Akmens (until 14.02.2005)
	Aivars Enkuzens (until 14.02.2005)

STATEMENT BY THE PRESIDENT MR. IMANTS VIKMANIS

Performance in 2004

At the Extraordinary Shareholders Meeting on 11 February 2005 the new LSC Council were elected. Following on 14 February 2005 new members of the Management Board were elected.

The LSC shares are traded on the Riga Stock Exchange and the price during 2004 was fluctuating from 35 to 54 santims per share. The highest rise in shares price took place in March 2004.

LSC Group's profit for 2004 were U.S.$ 71,4 million. The favourable tanker market situation and the reversal of the previously recognised impairment loss of the fleet were the main contributors to these profits directly and indirectly. In compliance with LSC policy the Group asked for its fleet valuation from independent professional valuers, whose estimates revealed significant difference between vessels market value and their book values, which resulted in the reversal of previously recognised impairment loss of U.S.$ 42,6 million in Consolidated Income Statement for 2004 and U.S.$ 16,1 million in Consolidated Income Statement for 2003. In Consolidated Income Statement for 2003 the impairment loss for LPG vessels in amount of US$ 10,0 million was already recognised, which results in the net restated reversal of previously recognised impairment loss of U.S.$ 6,1 million for 2003.

During 2004 and 2003 several LSC subsidiaries entered into a significant number of time charters with charterers on unusual terms and below market value. Although the management was not able to determine the ownership of these charterers, the nature of the transactions may indicate that they were with related parties.

During 2004 and 2003 several LSC subsidiaries entered into a number of transactions through an intermediary company for the dry-docking and repairs to a number of its vessels. In light of the transactions described in the paragraph above, the nature of these transactions may also indicate that they were with related parties.

Product Tankers

With its tonnage in the range of 6.300 to 68.500 DWT LSC Group's Product Tanker Fleet traded all over the world with a particularly strong presence in Northern Europe, Mediterranean, North America and West Africa. Main cargoes carried were clean/dirty petroleum products, chemicals, methanol, vegoils and molasses. It generated more than 81% of the Group's total Net Voyage Results.

At the beginning of 2004 LSC Product Tanker Fleet consisted of 31 vessels of single and double hull construction. 1 vessel was scrapped and m/t Gaida was sold during the year. Three 2003 year built vessels Kolka, Kuldiga and Kaltene were purchased. As a result the Fleet's tonnage increased to 1.011.000 DWT, which is by 31.000 DWT more compared to the beginning of 2004.

Year 2004 started with seasonal high freight rates backed by the favourable market conditions and stable demand. However, a plunge of rates, caused by the decreased oil product demand and planned maintenance works at many refineries, followed in the second quarter, but the decrease in rates were not as sharp compared to 2003.

The third quarter was relatively stable with seasonal freight rate increase starting earlier than usual.

STATEMENT BY THE PRESIDENT
MR. IMANTS VIKMANIS

Continued

A sharp growth of freight rates was registered during the fourth quarter and was explained by the oncoming winter season, creation of oil stocks, as well as high oil demand in the USA and China. In certain markets this period achieved record levels not seen for years. LSC was able to achieve good results utilising both new and older vessels in different markets. Unfortunately the seasonal peak was a short one and Christmas season marked sharp rate decrease earlier than usual, probably caused by the mild winter in Europe.

Healthy spot freight rates combined with second hand and new tonnage price record levels caused steady time charter rate increase peaking in November. Financial results were adversely affected by unfavourable US dollar/Euro exchange rate tendency thus making Euro zone ports more expensive. Bunker prices increased considerably during year 2004 so decreasing results.

Reefers

During 2004 the reefer fleet consisted of 5 ice-class vessels with a capacity varying from 289.000 to 387.000 cubic feet. The fleet was traditionally employed on banana and other fruit trades, as well as carrying frozen cargoes from North Africa, South America and North America to Russia. The net voyage result from reefer operations in 2004 was 7% of the whole LSC Group's Net Voyage Results.

As in previous years, 2 out of the 5 vessels were laid up during the low season.

On the whole, compared to 2003 the segment showed an increase in freight rates especially during the low season in the second half of the year.

The increase of freight rates and the reversal of the previous impairment of Amata type reefers resulted in a profitable 2004 year result for the reefer fleet.

LPG

LSC Group owns two modern 20.500 cubic meter LPG carriers. In 2004 the LPG Fleet generated 9% of the Group's total Net Voyage Results.

In 2004 both vessels remained members of the Scandigas Pool throughout the year, one of the largest in the world. The market for the gas carriers is recovering, with increasing demand and resulting in increased earnings, particularly during the second half of the year. Compared to 2003 the actual growth reached the level of 25-30 %. The situation remained favourable throughout the whole year. Year 2004 has been the best year for LSC gas carriers since their acquisition in 1997.

The high level of the LPG and Petrochemical gases rates could be explained by the high growth rate of SEA economics and subsequent favourable gas products price arbitrage between SEA and USG. During year 2004 there were no changes in SkandiGas pool participants.

STATEMENT BY THE PRESIDENT
MR. IMANTS VIKMANIS

Continued

Dry Cargo

Time-chartering out of m/v Telo resulted in a stable and predictable cash-flow for the whole year.

In July 2004 the regular ro-ro service from Ventspils to Traveminde in Germany was discontinued. Expenses relating to closing down the liner service were the main reason for the results of the dry-cargo fleet.

In 2004 the net voyage result of dry-cargo fleet was 3% of the total LSC Group's Net Voyage Results.

Other operations

Along with maritime transportation services rendered the Group is also involved in other shipping-related activities. These are performed by LSC subsidiaries. Considering the favourable tonnage tax regime adopted in Latvia, at the end of the 2004 the 7 vessels have been reflagged to Latvia.

Outlook

Although a positive upward trend in freight rates has been noticed in 2004, there are no grounds to believe that the upward trend will continue. Considering rather high order books at world shipyards and tightening regulatory regime for oil transportation it is foreseeable that the freight rates market should stabilise. The European Union regulations that came into force on 21st October 2003 will accelerate the phase-out process of single-hull tankers and ban the transportation of heavy grades of fuel in single-hull vessels within the EU. Any eventual decrease in demand for maritime transportation services will in the first place affect the oldest part of the fleet, since the charterers prefer modern, reliable and safe tonnage.

The restriction by the EU on limiting the employment of single hull vessels will in the short term cause LSC to reduce its fleet size. However, implementation of the Fleet Renewal Programme will enable the Group to develop and preserve its market share, since it is economically sounder to maintain a younger and smaller tonnage, than an older but a larger fleet. It is planned to build fourteen new vessels, of which four with 37,000 DWT and ten with 51,800 DWT all to be delivered during 2006 to 2008. For the purpose of the financing newbuilding programme at the end of 2004 the loan agreement was signed in amount of U.S.$ 360,0 million. The drawdown of loan is subject to guarantee agreement approval by LSC Council.

Imants Vikmanis
President and Chairman of the Board of Directors of LSC,

Riga, Latvia
May , 2005

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Board of Directors prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the results of the Group for that period in accordance with International Financial Reporting Standards. In preparing those financial statements, they:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board of Directors is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Imants Vikmanis
Chairman of the Board of Directors

Riga, Latvia
May , 2005

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2004

(Expressed in US $ '000s)

	Note	2004	2003 (restated)
Voyage income	3	181,097	193,693
Voyage costs		(45,302)	(63,432)
Net Voyage Result		**135,795**	**130,261**
Vessel Operating costs		(70,957)	(80,218)
Vessel Operating Result before Depreciation		**64,838**	**50,043**
Vessel depreciation	3,9	(24,218)	(22,272)
Vessel Operating Profit	3	**40,620**	**27,771**
Vessel impairment reversal	3,9	42,641	6,076
Administration expenses	4	(13,830)	(11,460)
Gain on sale of assets		8,247	9,059
Operating Profit		**77,678**	**31,446**
Interest income		891	624
Exchange rate (loss)/profit		(2,011)	2,702
Interest expenses		(4,357)	(3,415)
Loss on disposal of subsidiary		(19)	-
(Loss)/profit from associates	12	(13)	15
Other financial items	6	(842)	18
Net Financial Items		**(6,351)**	**(56)**
Profit before Taxation		**71,327**	**31,390**
Taxation	7	23	25
Profit after Taxation		**71,350**	**31,415**
Minority interest	20	11	59
Net Profit for the Year		**71,361**	**31,474**
Earnings per share	8	**US$ 0,36**	**US$ 0,16**

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER 2004

(Expressed in US $ '000s)

	Note	2004	2003 (restated)
ASSETS			
LONG TERM ASSETS			
Fleet	9	400,908	297,506
Other fixed assets	10	7,859	7,982
Assets under construction	11	30,683	173
Investments	12	64	84
TOTAL LONG TERM ASSETS		**439,514**	**305,745**
CURRENT ASSETS			
Inventories	13	6,175	4,389
Accounts receivable and prepayments	14	26,797	22,884
Available-for-sale investments	15	16,884	2,204
Bank and cash balances		56,445	78,548
TOTAL CURRENT ASSETS		**106,301**	**108,025**
TOTAL ASSETS		**545,815**	**413,770**
SHAREHOLDERS' EQUITY & LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		362,319	362,319
Translation reserve		(12,762)	(13,557)
Retained earnings		8,626	(62,735)
TOTAL SHAREHOLDERS' EQUITY		**358,183**	**286,027**
MINORITY INTEREST		**-**	**620**
LONG TERM LIABILITIES			
Long term portion of bank loans	16	151,964	99,200
Provision for deferred taxation	17	5	30
Provisions	18	713	560
TOTAL LONG TERM LIABILITIES		**152,682**	**99,790**
CURRENT LIABILITIES			
Current portion of bank loans	16	17,357	13,080
Accounts payable	19	17,593	14,253
TOTAL CURRENT LIABILITIES		**34,950**	**27,333**
TOTAL LIABILITIES		**187,632**	**127,123**
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		**545,815**	**413,770**

These Financial Statements were approved by the Board of Directors on May , 2005
and signed on its behalf by

Imants Vikmanis
President of LSC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2004

(Expressed in US $ '000s)

	Share Capital	Translation Reserve	Retained Earnings	Total
Balance at 1st January 2003	362,319	(14,996)	(94,209)	253,114
Net Profit for the year (restated)	-	-	31,474	31,474
Currency translation differences	-	1,439	-	1,439
Balance at 31st December 2003 (restated)	362,319	(13,557)	(62,735)	286,027
Net Profit for the year	-	-	71,361	71,361
Currency translation differences	-	795	-	795
Balance at 31st December 2004	362,319	(12,762)	8,626	358,183

In the statutory financial statements LVL 25,050,671 (US$ 48,547,812) has been transferred from retained earnings to a non-distributable reserve representing the parent company's share of profits in subsidiaries and associates, which have not yet been distributed to the parent company by the way of dividend. In addition, in 2005 the share of profits in subsidiaries and associates for 2004 of LVL 43,353,969 (US$ 80,251,392) less proposed dividends will also be transferred from retained earnings to this non-distributable reserve.

The authorized, issued and fully paid share capital of the parent company consists of 200,000,000 shares with nominal value of 1 Lat each, which are publicly traded on Riga Stock Exchange.

During in preparation of annual report 2004 the management came to the conclusion that the accounting policy with respect to reversal of previously recognised impairment loss of the fleet was not correctly applied during previous reporting period. The comparative figures for 2003 were restated to reflect the corrections done retrospectively. As a result the net profit for 2003 was increased by US$ 16,1 millions.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2004

(Expressed in US $ '000s)

	Note	2004	2003
Cash Flow from Operations	23	**54,478**	**50,684**
Interest received		859	548
Interest paid		(4,111)	(3,824)
Corporate taxes paid		(47)	(225)
Net Cash Flow from Operating Activities		**51,179**	**47,183**
Investing Activities			
Fleet additions		(99,441)	-
Purchase of other fixed assets		(454)	(357)
Prepaid financing expenses		(783)	-
Purchase of available-for-sale investments		(14,536)	(57)
Proceeds on sale of available-for-sale investments		-	1,165
Proceeds on sale of subsidiary		780	-
Proceeds on sale of assets		23,005	23,656
Charter payments for finance lease receivables		-	238
Drydock expenditure		(8,384)	(4,191)
Assets under construction and on order		(30,510)	(172)
Net Cash Flow from Investing Activities		**(130,323)**	**20,282**
Cash Flow before Financing Activities		**(79,144)**	**67,465**
Financing Activities			
Bank loans received		75,000	-
Bank loans repaid		(17,959)	(13,080)
Net Cash Flow from Financing Activities		**57,041**	**(13,080)**
(Decrease)/increase in Cash and Cash Equivalents		**(22,103)**	**54,385**
Cash and Cash Equivalents at 1st January:		**78,548**	**24,163**
Cash and Cash Equivalents at 31st December:		**56,445**	**78,548**

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004

1. Accounting Policies

(a) Basis of accounting

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of the Group's fleet and properties and investments available-for-sale.

During in preparation of annual report 2004 the management came to the conclusion that the accounting policy with respect to reversal of previously recognised impairment loss of the fleet was not correctly applied during previous reporting period. The restatement of comparative figures for 2003 to reflect the corrections has been done retrospectively.

The shipping activity accounts for substantial part of the turnover of the Group and therefore the lay out of the Consolidated Income Statement is adapted thereto. This reporting form is less suitable for the non-shipping activities of the Group and therefore the result of these activities before Financial Items are recorded as “Administration Expenses”. See Note 4.

The Financial Statements are prepared in U.S. dollars as this is widely accepted as the standard trading currency in the shipping industry and is the predominant currency used by the Group in its day to day operations and capital expenditure.

(b) Basis of consolidation

The consolidated income statement and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31st December 2004. The results of subsidiaries sold or acquired are included in the Consolidated Income Statement up to, or from, the date control passes. All intra-group transactions, including chartering of vessels and fleet support, have been eliminated on consolidation.

The Group's share of profits less losses of associated undertakings is included in the Consolidated Income Statement, and the Group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned.

Assets and liabilities of entities in the group denominated in foreign currencies are translated into U.S. dollars at rates of exchange ruling at the end of the financial year and the results of foreign entities are translated at the average rate of exchange during the financial year. Differences on exchange rates arising from retranslating the opening net investment in subsidiary undertakings, and from the translation of the results of those undertakings at the average rate of exchange, are taken to the “Translation reserve” in shareholders’ equity. On disposal of the foreign entity, such translation differences are recognised in the Consolidated Income Statement as part of the gain or loss on disposal.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess (deficiency) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognised as goodwill (negative goodwill).

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004

(Continued)

1. Accounting Policies *(Continued)*

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis over its estimated useful life.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately on the face of the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

(c) Voyage income

Voyage income includes gross income from freight and hire, demurrage and time-charter hires.

(d) Voyage costs/ Vessel operating costs

Voyage costs include the costs related to the vessels that operate in the spot market, where the owner carries costs like bunkers and port expenses. For vessels operating on time charter, these costs are carried by the charterer.

Vessel operating costs are costs related to the running of the vessels like crew, repairs, equipment, insurance and dry-docking costs.

(e) Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, cash on board of the vessels/on hand, and short term deposits, which do not exceed three months maturity on the date of placement, less overdrafts.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004
(Continued)

1. Accounting Policies *(Continued)*

(f) Property, plant, equipment and depreciation

Fleet

The Group's fleet was initially recorded at valuation, carried out in 1991 (when the Latvian Shipping Company came into existence in its current form taking over vessels from the former Soviet Fleet), or for subsequent additions at cost.

Depreciation has been provided on the basis that the carrying value of the vessels, less an estimated scrap value of US $ 100 per lightweight ton, is written off on a straight line basis over the remainder of their anticipated useful lives, taken to be between 23 - 26 years from the date of building.

The part of the cost of a new vessel or newly acquired vessel representing that element which will be utilized over the period to the next dry-docking is depreciated over the remaining period to the expected next dry-docking (also see accounting policy (i)).

Tonnage under construction until the moment of the vessels delivery is stated in the balance sheet as assets under construction.

Borrowing costs to finance the new tonnage acquisition are capitalised and depreciated in the Consolidated Income Statement over the period of the borrowings.

Other fixed assets

Buildings are initially stated at cost and subsequently management's valuation supported by a professional valuation in 1997, less accumulated depreciation.

Property, plant, equipment are being depreciated on a straight-line basis at the following rates:

Buildings	1 - 10 % per annum
Machinery and equipment	5 - 33,33 % per annum
Other assets	14,29 - 50 % per annum

Maintenance, repairs and improvements to other fixed assets are expensed in the year they are incurred. Improvements to other fixed assets are capitalised only if they are considered to extend the assets originally assessed useful life or capacity.

Impairment

Where the carrying amount of an asset is greater than its estimated recoverable amount at the balance sheet date, the impairment loss is recognised in the Consolidated Income Statement to write down the carrying value to its recoverable amount, being the higher of its market value and value in use. Market values are prepared by professional independent valuators and discounted value in use calculations are prepared by management.

Where the indicators supporting the recognition of the previously recognised impairment loss no longer exist at the balance sheet date, the impairment loss is reversed and recognised as an income in the Consolidated Income Statement.

Provisions are established where there is uncertainty of ownership.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004
(Continued)

1. Accounting Policies *(Continued)*

(g) Investments

Investments in associates are accounted for using the equity method. Associates are investments where the group can exercise significant influence over the financial and operating policy decisions of the investee.

Investments, which are not associates, are classified as available-for-sale. Available-for-sale investments are valued at their fair values at balance sheet date. All gains and losses from revaluation and profit and loss from disposal of these investments are reported in the Consolidated Income Statement.

(h) Currency translation

Monetary assets and liabilities of the Group denominated in currencies other than U.S. dollars are translated at the Bank of Latvia's rate of exchange ruling on the balance sheet date. Transactions denominated in foreign currencies are translated at the exchange rate ruling on the date of the transaction, or an approximation thereto. All gains and losses arising from such foreign exchange differences are taken to the Consolidated Income Statement in the year in which they arise.

(i) Dry-docking and special surveys

The cost of dry-dockings are capitalised and then written off over the following 30 months representing the normal time between dry-dockings.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value, where cost is calculated on a first in first out basis, and comprise bunkers, luboils, victualling and slop chest stocks, materials and spares. Where necessary, provision is made for obsolete, slow moving and defective stock.

(k) Trade receivables

Trade receivables are carried at original invoiced amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written of when identified.

In addition to specific provisions a general provision is made against demurrages. The overall provision is re-assessed at the end of each year for its reasonableness and adjusted where necessary. This provision is offset against trade receivables in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004
(Continued)

1. Accounting Policies *(Continued)*

(l) Voyages in progress

Credit is made in the Consolidated Income Statement for all hire receivable to the balance sheet date in respect of voyages in progress while hire receivable that relates to the next accounting period is deferred. The pro-rata share of expenses in respect of voyages in progress that relate to the current year is also included in the Consolidated Income Statement while expenses that relate to the next accounting period are deferred. Full provision is made for any losses known or expected on voyages in progress at the balance sheet date.

(m) Trade payables

Trade payables are stated at their nominal values.

(n) Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fleet, property, plant and equipment and tax losses carried forward. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that a payment will be required to settle the obligation and a reliable estimate of the obligation can be made.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(p) Fair Values

The Company's financial assets and liabilities are stated at fair value. Fair value represents the amount at which an asset could be exchanged or liability settled on an arms length basis. Where in the opinion of management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are disclosed in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004

(Continued)

2. Corporate Structure

The subsidiary undertakings, all of which are effectively controlled by the Company, are stated below. All are wholly-owned at the balance sheet date.

Name	Country of Incorporation	Activity /Vessels
Latmar Holdings Corporation	Liberia	Holding company
Abava Shipping Co. Ltd.	Malta	m.v. "Abava"
Amata Shipping Co. Ltd.	Malta	m.v. "Amata"
Apollo Holdings Corporation	Cayman Islands	m.t. "Mar"
Cape Wind Trading Company	Liberia	m.t. "Indra"
Clipstone Navigation S. A.	Liberia	m.t. "Inga"
Dawnlight Shipping Co. Ltd.	Cyprus	m.t. "Estere"
Juris Avots Shipping Co.	Cyprus	Former owner of m.v. "Telo" *(Dormant)*
Kriti Sea Shipping Co. Ltd.	Cyprus	Former owner of m.t. "Indra" *(Dormant)*
Latgale Shipping Co. Ltd.	Malta	m.t. "Latgale"
Latmar Services Ltd.	England	In liquidation
Latmar Shipping Co. Ltd.	Cyprus	Former owner of m.t. "Mar" *(Dormant)*
Limetree Shipping Co. Ltd.	Malta	m.t. "Riga"
New Spring Shipping Co. Ltd.	Cyprus	Former owner of m.v."Komponists Caikovskis" *(Dormant)*
Noella Maritime Co. Ltd.	Cyprus	Former owner of m.t. "Janis Sudrabkalns" *(Dormant)*
Radar Shipping Ltd.	Liberia	Former owner of m.t. "Pablo Neruda" *(Dormant)*
Renda Maritime Co. Ltd.	Cyprus	Former owner of m.t. "Renda" *(Dormant)*
Rhodos Shipping Co. Ltd.	Cyprus	Charterer *(Dormant)*
Rundale Shipping Co.	Cyprus	m.t. "Rundale"
Sagewood Trading Inc.	Liberia	m.t. "Pablo Neruda" *
Samburga Shipping Co.	Cyprus	m.t. "Samburga"
Saturn Trading Corporation	Liberia	m.t. "Lielupe"
Scanreefer Navigation Co. Ltd.	Cyprus	In liquidation
Scanreefer Marine Co. Ltd.	Cyprus	In liquidation
S. Tomskis Shipping Co. Ltd.	Malta	m.v. "Skulptors Tomskis"
S. Tomskis Shipping Co. Ltd.	Cyprus	in liquidation
Viktorio Shipping Corporation	Liberia	Former owner of m.t. "Viktorio Kodovilja" *(Dormant)*
Zemgale Shipping Co. Ltd.	Malta	m.t. "Zemgale"
Wilcox Holdings Ltd.	Liberia	Former owner of m.t. "Pols Robsons" *(Dormant)*
World Reefer Corporation	Liberia	Former owner of m.t. "Mate Zalka" *(Dormant)*

* - during the year m.t. "Pols Robsons" was renamed to m.t. "Pablo Neruda"

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004
(*Continued)*

2. Corporate Structure *(Continued)*

Name	Country of Incorporation	Activity /Vessels
Lattanker Holdings Corporation	Liberia	Intermediate holding company
Antonio Gramsi Shipping Corporation	Liberia	m.t. "Antonio Gramsi"
Davids Sikeiross Shipping Corporation	Liberia	Former owner of m.t. "Davids Sikeiross" *(Dormant)*
Dzons Rids Shipping Corporation	Liberia	m.t. "Dzons Rids"
Hose Marti Shipping Corporation	Liberia	m.t. "Hose Marti'
Imanta Shipping Company Ltd.	Malta	m.t. "Dubulti"
Klements Gotvalds Shipping Corporation	Liberia	m.t. "Klements Gotvalds'
Majori Shipping Company Ltd.	Malta	m.t. "Majori"
Pablo Neruda Shipping Company Ltd.	Cyprus	Dormant
Talava Shipping Company Ltd.	Malta	Former owner of m.t. "Talava" *(Dormant)*
Reeferlat Holdings Corporation	Liberia	Intermediate holding company
Akademikis Artobolevskis Shipping Co. Ltd.	Cyprus	In liquidation
Akademikis Artobolevskis Shipping Co. Ltd.	Malta	Dormant
Akademikis Bocvars Shipping Co. Ltd.	Cyprus	In liquidation
Akademikis Bocvars Shippng Co. Ltd.	Malta	Former owner of m.v. "Akademikis Bocvars" *(Dormant)*
Akademikis Celomejs Shipping Co. Ltd.	Cyprus	in liquidation
Akademikis Celomejs Shipping Co. Ltd.	Malta	Former owner of m.v. "Akademikis Celomejs" *(Dormant)*
Akademikis Hohlovs Shipping Co. Ltd.	Cyprus	In liquidation
Ventlines Shipping Limited	Malta	Dormant
Juris Avots Shipping Co. Ltd.	Malta	m.v. "Telo"
Belgoroda Shipping Co. Ltd.	Cyprus	In liquidation
Belgoroda Shipping Co. Ltd.	Malta	Former owner of m.v. "Belgoroda" *(Dormant)*
Ivans Polzunovs Shipping Co. Ltd.	Malta	In liquidation
Kamilo Sjenfuegoss Shipping Co. Ltd.	Cyprus	In liquidation
Kamilo Sjenfuegoss Shipping Co. Ltd.	Malta	Former owner of m.v. "Kamilo Sjenfuegos" *(Dormant)*
Kurska Shipping Co. Ltd.	Cyprus	In liquidation
Kurska Shipping Co. Ltd.	Malta	Former owner of m.v. "Kurska" *(Dormant)*
Mihails Lomonosovs Shipping Co. Ltd.	Malta	In liquidation
Pavels Parenago Shipping Co. Ltd.	Malta	In liquidation
Pure Shipping Co. Ltd.	Cyprus	In liquidation
Pure Shipping Co. Ltd.	Malta	Former owner of m.v. "Pure" *(Dormant)*

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004
(Continued)

2. Corporate Structure *(Continued)*

Name	Country of Incorporation	Activity /Vessels
Latalpha Holdings Corporation	Liberia	Intermediate holding company
Ak. Vavilovs Shipping Co. Ltd.	Malta	m.v. "Akademikis Vavilovs"
Ak. Zavarickis Shipping Co. Ltd.	Malta	m.v. "Akademikis Zavarickis"
Delacroix Shipping Company Ltd.	Cyprus	In liquidation
Dzintari Shipping Corporation	Liberia	m.t. "Dzintari"
Griva Maritime Corporation	Liberia	m.t. "Zanis Griva"
Kasira Shipping Company Ltd.	Cyprus	Former owner of m.t. "Kasira"*(Dormant)*
Kemeri Navigation Corporation	Liberia	m.t. "Kemeri"
Mahoe Shipping Company Ltd.	Cyprus	In liquidation
O. Vacietis Shipping Company Ltd.	Cyprus	m.t. "Ojars Vacietis"
Perle Reefer Shipping Company Ltd.	Malta	Former owner of m.v. "Perle" *(Dormant)*
Pinewood Shipping Corporation	Liberia	Gas Carrier – m.t. "Kurzeme"
Ringmare Shipping Company Ltd.	Cyprus	In liquidation
Rosewood Shipping Corporation	Liberia	Gas Carrier – m.t. "Vidzeme"
Ventspils Shipping Company Ltd.	Cyprus	Former owner of m.t. "Ventspils" *(Dormant)*
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Arctic Seal Shipping Company Ltd.	Cyprus	m.t. "Asari"
Atlantic Leader Shipping Company Ltd.	Cyprus	m.t. "Ropazi"
Faroship Navigation Company Ltd.	Cyprus	m.t. "Pumpuri"
Gaida Shipping Corporation	Liberia	Former owner of m.t. "Gaida" *(Dormant)*
Gevostar Shipping Company Ltd.	Cyprus	m.t. "Bulduri"
Tangent Shipping Company Ltd.	Cyprus	m.t. "Zoja I"
Zoja Shipping Company Ltd.	Cyprus	m.t. "Zoja ll"
Latvian Shipping Corporation	Liberia	Holding company
Michelle Finance Corporation	Liberia	Investment Company *(Dormant)*
Razna Shipping Corporation	Liberia	m.t. "Razna"
Taganroga Shipping Corporation	Liberia	m.t. "Taganroga"

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004
(Continued)

2. Corporate Structure *(Continued)*

Name	Country of Incorporation	Activity /Vessels
Crown Navigation Inc.	Marshall Islands	Holding company
Kabile Navigation Inc.	Marshall Islands	established for newbuilding purposes
Kaltene Navigation Inc.	Marshall Islands	m.t. "Kaltene"
Kandava Navigation Inc.	Marshall Islands	established for newbuilding purposes
Kazdanga Navigation Inc.	Marshall Islands	established for newbuilding purposes
Kolka Navigation Inc.	Marshall Islands	m.t. " Kolka"
Kuldiga Navigation Inc.	Marshall Islands	m.t. "Kuldiga"
Kursa Navigation Inc.	Marshall Islands	established for newbuilding purposes
Sabile Navigation Inc.	Marshall Islands	established for newbuilding purposes
Salacgriva Navigation Inc.	Marshall Islands	established for newbuilding purposes
Saldus Navigation Inc.	Marshall Islands	established for newbuilding purposes
Saulkrasti Navigation Inc.	Marshall Islands	established for newbuilding purposes
Sigulda Navigation Inc.	Marshall Islands	established for newbuilding purposes
Skrunda Navigation Inc.	Marshall Islands	established for newbuilding purposes
Sloka Navigation Inc.	Marshall Islands	established for newbuilding purposes
Smiltene Navigation Inc.	Marshall Islands	established for newbuilding purposes
Stende Navigation Inc.	Marshall Islands	established for newbuilding purposes
Straupe Navigation Inc.	Marshall Islands	established for newbuilding purposes
Kristaps Insurance Ltd.	Bermuda	Insurance
Latvian - Finnish Maritime Agency Ltd.	Latvia	Shipping Agents
LSC Marine Training	Latvia	Seafarers Training Services
LSC Ship Management Ltd.	Latvia	Ship management
Marine Service Center Ltd.	Latvia	Consulting
Port Service Ltd.	Latvia	Rent Service
Santomar Holdings Co. Ltd.	Cyprus	Investment Holding Company(*Dormant*)
Ship Repair Base Ltd.	Latvia	Ship repair service

During 2004 subsidiary "Balt – Dutch Holding N.V." was sold.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004
(Continued)

3. Segment Information

The types of vessels are the basis on which the Group reports its primary segment information.

Year ended 31 December 2004

US $ '000s	Tankers	Reefers	LPG	Dry Cargo	Total
Voyage income	148,569	15,685	11,927	4,916	181,097
Vessel Operating Profit/(Loss)	**32,605**	**2,030**	**6,604**	**(619)**	**40,620**
Vessel impairment reversal	15,913	2,814	23,914	-	42,641
Gain on sale of assets	8,247	-	-	-	8,247
Unallocated sale of assets					(12)
Segment result	**56,765**	**4,844**	**30,518**	**(619)**	**91,508**
Unallocated corporate expenses					(13,830)
Operating Profit					**77,678**
Net Financial Items					(6,351)
Profit before Taxation					**71,327**
Taxation					23
Profit after Taxation					**71,350**
Minority interest					11
Net Profit for the Year					**71,361**
Segment assets	348,996	24,143	71,395	1,873	446,407
Unallocated assets					99,408
Total assets					**545,815**
Segment liabilities	157,105	1,336	27,680	176	186,297
Unallocated liabilities					1,335
Total liabilities					**187,632**
Other segment items					
Drydocking expenditure	7,552	379	-	453	8,384
Depreciation	19,440	2,080	2,388	310	24,218
Drydocking deferred expenditure depreciation	7,196	500	342	139	8,177

The Group's principal place of business is 2 Basteja Boulevard, Riga LV 1807, Latvia.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004
(Continued)

3. Segment Information *(Continued)*

Year ended 31 December 2003 (restated)

US $ '000s	Tankers	Reefers	LPG	Dry Cargo	Total
Voyage income	154,943	24,833	9,354	4,563	193,693
Vessel Operating Profit/(Loss)	**25,444**	**(659)**	**3,411**	**(425)**	**27,771**
Vessel impairments	14,076	2,000	(10,000)	-	6,076
Gain on sale of assets	5,745	3,220	-	-	8,965
Unallocated sale of assets					94
Segment result	**45,265**	**4,561**	**(6,589)**	**(425)**	**42,906**
Unallocated corporate expenses					(11,460)
Operating Profit					**31,446**
Net Financial Items					(56)
Profit before Taxation					**31,390**
Taxation					25
Profit after Taxation					**31,415**
Minority interest					59
Net Profit for the Year					**31,474**
Segment assets	254,493	22,974	51,513	2,401	331,381
Unallocated assets					82,389
Total assets					**413,770**
Segment liabilities	90,646	1,373	33,541	335	125,895
Unallocated liabilities					1,228
Total liabilities					**127,123**
Other segment items					
Drydocking expenditure	4,191	-	-	-	4,191
Depreciation	16,153	2,907	2,902	310	22,272
Drydocking deferred expenditure depreciation	10,970	1,552	374	164	13,060

The Group is operating on worldwide basis. However, because of difficulty to determine the geographical segment in shipping industry no such information is provided.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004
(Continued)

4. Administration expenses

	US $ '000s 2004	US $ '000s 2003
Staff Costs	(8,381)	(7,537)
Travel and Transport	(661)	(616)
Occupation and Repairs	(1,897)	(1,497)
IT and Communication	(619)	(638)
Professional Fees	(869)	(1,129)
Advertising and Marketing	(974)	(592)
Other Income and Costs	430	1,805
Property and Land Tax	(116)	(122)
Movements in Provision of claims and other	22	(241)
Depreciation	(765)	(893)
TOTAL	**(13,830)**	**(11,460)**

5. Employment Costs and Staff Numbers

	2004		2003	
	US $ '000	Number	US $ '000	Number
Shore based staff	7,762	273	6,402	283
Seamen*	23,700	873	26,817	921
	31,462	**1,146**	**33,219**	**1,204**

The average number and employment costs of shore based staff includes employees of the Parent Company and 100% owned subsidiaries.

* the number of seamen are those employed as at the end of the year.

6. Other Financial Items

	US $ '000s 2004	US $ '000s 2003
Disposal of available –for-sale investment	-	602
Negative Goodwill	-	151
Mortgage fees and insurance	(89)	(71)
Prepaid financing expenses amortisation	(160)	(98)
Change in available-for-sale investments market value	(64)	-
Bank charges	(529)	(566)
TOTAL	**(842)**	**18**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004

(Continued)

7. Taxation

	US $ '000s 2004	2003 (restated)
Deferred income tax of current year	25	18
Corporate income tax of current year	(2)	7
TOTAL	**23**	**25**
Profit before tax	71,327	31,390
Tax calculated at tax rate of 15 % (2003-19%)	10,699	5,964
Income and expenses not subject to corporate income tax	133	(163)
Profit of subsidiaries and associates	(12,038)	(7,561)
Effect of the changes in tax rates	-	397
Increase in unrecognised deferred tax asset	1,183	1,338
Tax charge for the year	**(23)**	**(25)**

Corporate income tax is payable in Latvia at a rate of 15% (2003: 19%) on the profits of Latvian companies for the year, as adjusted in accordance with local fiscal regulations. The only foreign group companies directly subject to corporate income tax are Latmar Services Ltd. (England), Santomar Holdings Company Ltd. (Cyprus).

In previous years the parent company has had a tax loss. Tax losses of the parent company can be carried forward and utilized against future profits for up to five years.

Tax losses available to offset against future taxable profit in the Parent company and 100% owned Latvian subsidiaries from the previous years are as follows:

Year	LVL'000s Losses	Expires
2000	46	2005
2001	2	2006
2002	386	2007
2003	5,053	2008
2004	4,467	2009
	9,954	

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004

(Continued)

8. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2004	2003 (restated)
Net profit for the year attributable to shareholders	71,361	31,474
Weighted average number of ordinary shares in issue (thousands)	200,000	200,000
Basic earnings per share	US$0,36	US$ 0,16

9. Fleet

	US $ '000s 2004	2003 (restated)
Net Book Value	391,344	288,149
Drydocking deferred expenditure	9,564	9,357
	400,908	297,506

	US $ '000s Valuation/ Cost	Depreciation	Net Book Value
At 1st January 2004	**578,498**	**(306,425)**	**272,073**
Restatement	-	16,076	16,076
At 1st January 2004 - restated	**578,498**	**(290,349)**	**288,149**
Depreciation charge for the year	-	(24,218)	(24,218)
Impairment reversal	-	42,641	42,641
Additions	99,441	-	99,441
Disposals	(35,127)	20,458	(14,669)
At 31st December 2004	**642,812**	**(251,468)**	**391,344**

During 2004 the Group purchased 3 modern one-year old product tankers (m.t. "Kolka", m.t. "Kaltene" and m.t. "Kuldiga") and sold 2 tankers (m.t. "Viktorio Kodovilja" and m.t. "Gaida").

Part of the fleet (with the net book value of U.S.$ 327,0 million) has been used as security for bank loans. See note 16 for details.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004

(Continued)

9. Fleet (*Continued*)

In compliance with LSC policy the Group asked for its fleet valuation from independent professional valuators, whose estimates revealed significant difference between vessels market value and their book values, which resulted in the reversal of previously recognised impairment loss of U.S.$ 42,6 million in Consolidated Income Statement for 2004 and U.S.$ 16,1 million in Consolidated Income Statement for 2003. In Consolidated Income Statement for 2003 the impairment loss for LPG vessels in amount of US$ 10,0 million was already recognised, which results in the net restated reversal of previously recognised impairment loss of U.S.$ 6,1 million for 2003.

The number of vessels in the fleet, at the year-end is:

	2004	2003
Tankers	32	31
Reefers	5	5
Dry cargo	1	1
LPG fleet	2	2
TOTAL	**40**	**39**

Total dead-weight Tonnage

31st December 2004	Dwt	**1,098,864**
31st December 2003	Dwt	**1,067,924**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004
(Continued)

9. Fleet (*Continued*)

At 31st December 2004 the group fleet comprises:

		Year of Building	Dwt
Product Tankers:			
1.	Antonio Gramsci	1978	39,870
2.	Asari	1984	28,656
3.	Bulduri	1983	28,750
4.	Dubulti	1982	29,610
5.	Dzintari	1985	17,585
6.	Dzons Rids	1978	39,870
7.	Estere	1989	28,557
8.	Hose Marti	1978	39,870
9.	Indra	1994	33,115
10.	Inga	1990	28,557
11.	Kaltene	2003	37,211
12.	Kemeri	1985	17,610
13.	Klements Gotvalds	1978	39,870
14.	Kolka	2003	37,211
15.	Kuldiga	2003	37,237
16.	Latgale	2001	68,467
17.	Lielupe	1979	39,870
18.	Majori	1980	29,690
19.	Mar	1990	28,557
20.	Ojars Vacietis	1985	16,341
21.	Pablo Neruda (ex.P.Robsons)	1979	39,870
22.	Pumpuri	1987	28,610
23.	Razna	1984	6,269
24.	Riga	2001	68,467
25.	Ropazi	1985	17,610
26.	Rundale	1977	17,025
27.	Samburga	1976	17,125
28.	Taganroga	1983	6,297
29.	Zanis Griva	1985	17,585
30.	Zemgale	2001	68,467
31.	Zoja l	1988	28,557
32.	Zoja ll	1989	28,557
			1,010,943

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004

(Continued)

9. Fleet (*Continued*)

		Year of Building	Dwt
LPG fleet			
1.	Kurzeme	1997	23,469
2.	Vidzeme	1997	23,469
			46,938
Reefers			
1.	Abava	1992	6,232
2.	Akademikis Vavilovs	1985	7,673
3.	Akademikis Zavarickis	1986	7,673
4.	Amata	1991	6,232
5.	Skulptors Tomskis	1986	7,673
			35,483
Dry Cargo			
1.	Telo	1983	5,500
			5,500
TOTAL DWT			**1,098,864**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003
(Continued)

10. Other Fixed Assets

	US $ '000s			
	Buildings	Containers	Machinery and Equipment	**Total**
Valuation/cost				
At 1st January 2004	**9,197**	**6**	**7,471**	**16,674**
Additions	-	-	454	**454**
Reclassification	-	-	(525)	**(525)**
Disposals during the year	-	-	(1,271)	**(1,271)**
Exchange differences	446	-	298	**744**
At 31st December 2004	**9,643**	**6**	**6,427**	**16,076**
Depreciation				
At 1st January 2004	**2,035**	**6**	**6,203**	**8,244**
Charge for the year	155	-	610	765
Released on disposal	-	-	(1,182)	(1,182)
Reclassification	-	-	(433)	(433)
Exchange differences	106	-	253	359
At 31st December 2004	**2,296**	**6**	**5,451**	**7,753**
Accumulated impairment				
At 1st January 2004	448	-	-	448
At 31st December 2004	464	-	-	464
Net book value				
At 31st December 2004	**6,883**	**-**	**976**	**7,859**
At 31st December 2003	**6,714**	**-**	**1,268**	**7,982**

The title to some of the properties held by the Company has yet to be registered with the Land Registry of the Republic of Latvia. In view of the difficulties of obtaining adequate documentation concerning each property and its previous ownership, the Company will seek a decision of the relevant authorities, which may take a long time. This is a common situation in Latvia at the present time and management does not expect this to pose a difficulty.

One of the buildings, which was included in the Company's balance sheet at early stage of privatization was fully provided for, because legal title was registered on behalf of Ministry of Finance. According to legal advisers opinion there is minimal possibility that legal title will be passed to the Company.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004
(Continued)

11. Assets under construction

	US $ '000s	
	2004	2003
At 1st January	173	1
Expenditure during the year	30,510	172
At 31st December	**30,683**	**173**

Assets under construction at 31st December 2004 are principally 14 product tankers referred to in notes 16 and 22.

12. Investments

	US $ '000s	
	2004	2003
Investments in associated undertakings (note 12(a))	64	80
Available-for-sale investments (note 12 (b))	-	4
TOTAL	**64**	**84**

12.(a) The investment in associated undertakings, comprises:

Name	Percentage Holding	Country of Incorporation
Lord World Travel Ltd. (dormant)	50%	Gibraltar
Via Una Ltd.	45%	Latvia

	US $ '000s	
	2004	2003
At the beginning of year	80	59
Share of Profits		
(Loss)/ Profit for the year	(13)	15
Translation reserve	(3)	6
At the end of year	**64**	**80**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004

(Continued)

12.(b) Available-for-sale investments:

	US $ '000s	
	2004	2003
At the beginning of year	4	520
Disposal	(4)	(516)
At the end of year	**-**	**4**

13. Inventories

	US $ '000s	
	2004	2003
Ship and shore spares	1,323	1,487
Bunkers	2,923	1,243
Consumables	2,270	2,114
Provision against slow moving and obsolete inventories	(341)	(455)
TOTAL	**6,175**	**4,389**

14. Accounts receivable and prepayments

	US $ '000s	
	2004	2003
Trade debtors	21,673	16,108
Other debtors	789	1,251
Claims receivable	683	309
Prepayments	3,652	5,216
TOTAL	**26,797**	**22,884**

Trade debtors are shown net of doubtful debt provisions of US$ 5,6 million. (2003 US$ 5,6 million)

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2004

(Continued)

15. Available-for-sale investments

	US $ '000s	
	2004	2003
Opening net book value	2,204	2,180
Additions	14,536	57
Disposals	-	(28)
Decrease in market value	(64)	(10)
Interest income	39	-
Exchange differences	169	5
Closing net book value	**16,884**	**2,204**

The available-for-sale investments are principally units in single bond funds, which are all listed, held by Kristaps Insurance Ltd. and Latmar Holdings Corporation.

16. Bank Loans

	US $ '000s	
	2004	2003
Total outstanding	**169,321**	**112,280**
Repayments due within next twelve months	(17,357)	(13,080)
Long term balance	**151,964**	**99,200**

The total outstanding balance of the Bank Loans has changed during the year. In addition to the scheduled repayments, loans were prepaid in the amount of U.S.$ 2,2 million ahead of maturity.

New bank loan totalling U.S.$ 75,0 million was advanced to the Group in 2004. It was allocated in equal parts of U.S.$ 25,0 million each between three borrowers: Kolka Navigation Inc., Kaltene Navigation Inc. and Kuldiga Navigation Inc.

For the purpose of financing newbuild program at the end of 2004 the loan agreement was signed in amount of U.S.$ 360,0 million. The drawdown of loan is subject to guarantee agreement approval by LSC Council.

The loans are denominated in U.S.$ and are advanced to the Group's single vessel companies. Latvian Shipping Company, Latmar Holdings Corporation and Crown Navigation Inc. are guarantors of these secured loans. These guarantees have been given in the normal course of business.

They are repayable in semi-annual and quarterly instalments and carry interest at a margin linked to U.S.$ LIBOR.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004

(Continued)

16. Bank Loans (continued)

The average effective interest rate for 2004 was 3.1% (2003 – 2.9%).

As security the lenders have mortgages of vessels together with common assignments and pledges.

The loans are scheduled to be repaid as follows:

Year	U.S.$ million
2005	17,4
2006	17,4
2007	44,4
2008	9,3
2009	23,3
2010 until 2014	57,5
Total:	169,3

17. Provision for Deferred Taxation

	US $ '000s	
	2004	2003
Total Deferred Tax:		
Deferred tax liabilities at 1st January	30	48
Release to income statement	(25)	(18)
Deferred tax liabilities at 31st December	5	30
Excess of tax allowances over depreciation	526	423
Other temporary differences	(330)	(215)
Tax losses	(2,894)	(1,698)
Unrecognised deferred tax asset	2,703	1,520
Deferred tax liabilities at 31st December	**5**	**30**

In the event of distributing profits of the overseas subsidiaries, dividends received will be taxable. No tax provision has been made.

The calculation of deferred taxation indicates a deferred tax asset arising on taxable losses. The recoverability of the deferred tax asset is dependent on future trading profits of Latvian resident companies.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004

(Continued)

18. Provisions

	US $ '000s		
	Vacation	Other	Total
At 1st January 2004	538	22	560
Additional provisions	272	119	391
Utilised during the year	(271)	-	(271)
Exchange differences	26	7	33
At 31st December 2004	**565**	**148**	**713**

19. Accounts payable

	US $ '000s	
	2004	2003
Trade creditors	4,118	5,664
Other creditors	2,693	2,607
Accrued expenses	9,083	4,461
Deferred income	1,699	1,521
TOTAL	**17,593**	**14,253**

20. Minority interest

	US $ '000s	
	2004	2003
Balt Dutch Holding N.V. *	11	(6)
Latvian - Finnish Maritime Agency Ltd.	-	65
	11	**59**

* During 2004 subsidiary "Balt – Dutch Holding N.V." was sold.

21. Contingent Liabilities

During the normal course of business, the Group had claims outstanding with suppliers and insurance companies at the year-end. Certain claims are under investigation and were not yet approved at the balance sheet date. However, based on experience, Management has no reason to believe that these amounts will not be recoverable. In the normal course of business the Group also receives claims for underperformances, however Management is of the opinion that there is no unprovided material liability at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004

(Continued)

22. Capital commitments

In December 2003 an Agreement was reached with 3 Maj shipyard in Croatia on the building of ten 51.800 DWT product tankers with delivery 2006 - 2008. In February 2004 a contract with Hyundai Mipo shipyard in Korea was signed to build four 37.000 DWT product tankers with delivery in 2007.

The vessel price of each one of the 14 tankers will be in the range of US$ 31 – 36 million.

23. Cash Flow from Operations

	US $ '000s 2004	2003 (restated)
Profit before taxation	71,327	31,390
Adjustments for :		
Depreciation	24,983	23,164
Prepaid financing expenses amortisation	160	98
Profit on sale of fixed assets	(8,247)	(9,059)
Share of profits of associates	13	(15)
Drydocking deferred expenditure amortization	8,177	13,060
Vessels impairment reversal	(42,641)	(6,076)
Other provisions	148	(8,147)
Currency translation difference	(461)	621
Interest payable	4,357	3,415
Interest receivable	(891)	(624)
Change of available-for-sale investments market value	64	-
Gain on disposal of available-for-sale investments	-	(602)
Negative Goodwill	-	(151)
Loss on disposal of subsidiary	19	-
	57,008	**47,074**
Movement in net working capital – net of provisions		
Inventories	(1,786)	3,635
Accounts receivable	(3,214)	(779)
Accounts payable	2,470	268
Investments	-	486
	(2,530)	**3,610**
Cash Flow from Operations	**54,478**	**50,684**

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004

(Continued)

24. Related Party Transactions

During 2004 and 2003 the Group entered into a significant number of time charters with charterers on unusual terms and below market value. Although the management was not able to determine the ownership of these charterers, the nature of the transactions may indicate that they were with related parties.

During 2004 and 2003 the Group entered into a number of transactions through an intermediary company for the dry-docking and repairs to a number of its vessels. In a light of the transactions described in the paragraph above, the nature of these transactions may also indicate that they were with related parties.

25. Risk Management and Fair Values

The Group has a policy of regularly reviewing its approach to risk management. The fair values of the company's financial assets and liabilities approximate their carrying amounts at the balance sheet date.

(a) Foreign Exchange Risk

The Group operates both in Europe and the Americas' and is thus exposed to foreign exchange risk. The majority of the Group's income and expenses are denominated in U.S. $ as this is the universally accepted trading currency in the shipping business.

The principal foreign exchange risk exposure for the Group is against Latvian Lat and European Euro. It is Group policy to keep some free cash into Latvian Lats or European Euros placed on term deposits and monitor currency position regularly.

(b) Interest Rate Risk

The Company is exposed to interest rate risk through its debts. It is related mainly to the floating interest rate of the loans advanced to the Company. Pursuant to the Loan Agreements the Company has an option to fix the interest rate for the period up to 12 months.

(c) Credit Risk

The Group are exposed to credit risk through its accounts receivable. Five largest customers represent 50% (2003: 67%) of trade debtors as at 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2004
(Continued)

26. Post Balance Sheet Events

(a) In January, 2005 LSC established 4 new subsidiaries which were registered in the Commercial Register on 31 January 2005. The newly-established companies are: SIA "Kuģu menedžments", SIA "Jūrnieku mācību centrs", SIA "Karavella Property" and SIA "Transporta bāze". Their operations will involve the maintenance of the real estate owned by the Company.

(b) At the Extraordinary Shareholders Meeting on 11 February 2005 the new LSC Council were elected. Following on 14 February 2005 new members of the Management Board were elected. In accordance with the Article 284 (4) of the Commercial law of the Republic of Latvia the decisions of Shareholders Meeting come into force immediately. Although the registration of the changes in the Council and Management Board is deferred by the Commercial Register of the Republic of Latvia, due to interdiction placed by the court decision, the authority of the elected Council and Management Board is in force since the date of election.