

**Public Joint Stock Company
Latvian Shipping Company**

Annual Report

for the year ended 31 December 2005



Contents

General information	2
Management Report	3
Income Statement	5
Balance Sheet	6
Statement of Changes in Shareholders' Equity	8
Cash Flow Statement	9
Note	10

GENERAL INFORMATION *(continued)*

The Supervisory Council:

Chairman:	Uldis Pumpurs (since 11.02.2005)
Deputy chairpersons:	Andris Linužs (since 11.02.2005) Olga Pētersone (since 11.02.2005) Ģirts Rungainis (till 11.02.2005)
Members:	Aldis Āķis (since 11.02.2005) Ansis Sormulis (since 11.02.2005) Laimonis Junkers (since 11.02.2005) Mamerts Vaivads (since 11.02.2005) Pēteris Putniņš (since 11.02.2005) Vladimirs Krastiņš (since 11.02.2005) Vladimirs Solomatins (since 26.07.2002) Egīls Kietis (till 11.02.2005) Elena Makarova (from 28.06.2004 till 11.02.2005) Harijs Ilmārs Bondars (from 28.06.2004 till 11.02.2005) Oļegs Stepanovs (till 11.02.2005)

The Management Board:

Chairman:	Imants Vikmanis (since 26.07.2002)
Deputy Chairman:	Valērijs Godunovs (till 14.02.2005)
Members:	Guntis Tīrmanis (since 14.02.2005) Ilva Purēna (since 14.02.2005) Solvita Deļava (since 14.02.2005) Viktors Gavriļenko (since 14.02.2005) Alvis Akmens (till 14.02.2005) Aivars Enkuzens (till 14.02.2005)

Auditors	Diāna Krišjāne Sworn Auditor Personal code: 250873-12964 Licence Nr. 124 SIA <i>Ernst & Young Baltic</i> Licence Nr. 17 3-5 Kronvalda bulvd. Riga, LV-1010 Latvia
----------	---

MANAGEMENT REPORT

Line of Business

The core business of JSC *Latvijas kuģniecība* (Latvian Shipping Company – LASCO) is fleet operation. JSC *Latvijas kuģniecība* is the mother company of JSC *Latvijas kuģniecība Group*. The Group comprises a number of subsidiaries and associated companies that ensures fleet operation, perform transportation of cargoes by sea, as well as provide other shipping related services.

Performance in the Reporting Period

LASCO shares are listed on the Official List of Riga Stock Exchange. In 2005, the Company's share price rose from LVL 0.47 to LVL 1.30. Thus, compared to the beginning of the year LASCO share price has grown more than 2.5 times. 2005 saw LASCO share price reaching LVL 1.42, its historically highest level. As at 31 December 2005 LASCO capitalisation on Riga Stock Exchange reached LVL 260,000,000, the highest level since the commencement of LASCO shares listing on RSE.

In 2005, JSC *Latvijas kuģniecība* sold 10,000 of its own shares, acquired by the Company as a result of converting Board of Directors reserve shares into ordinary shares and buying them back from the Board members upon the Company's registration in the Commercial Register.

On 22 June 2005, changes in the composition of LASCO Supervisory Council and Board of Directors adopted, respectively, at the Extraordinary General Meeting of Shareholders held on 11 February 2005 and Supervisory Council meeting held on 14 February 2005 were registered in the Commercial Register of the Republic of Latvia.

LASCO Group's Net Profit for 2005 is EUR 23.1 million. The Group's total Voyage Income for 2005 was EUR 167.6 million, which is by EUR 14.8 million or 9.7% more than in 2004. The Group's Net Voyage Result 2005 made up EUR 124.2, thus exceeding the respective result of 2004 by EUR 9.6 million or 8.4%. The Group's Vessel Operating Profit for 2005 is EUR 45.0 million, which is by EUR 10.7 million or 31.3% more than in 2004.

To comply with amendments to the Republic of Latvia Law "On the Annual Accounts of the Companies" LASCO accounting policies have been revised, as a result of which the investments in subsidiary and associated undertakings are stated at their initial cost less impairment loss. Therefore, LASCO Group's mother company closed the year 2005 with the Total Revenue of almost LVL 1.0 million and Net Loss of LVL 6.4 million. The respective items for 2004 were restated accordingly. The above-mentioned restatement resulted in the decrease of Net Profit for 2004 by LVL 43.6 million.

If the previous accounting policy for the investments in subsidiary and associated undertakings had been applied in preparing financial statements for 2005, LASCO's Net Result 2005 would have been higher by LVL 21.9 million and would have made up LVL 15.5 million of Net Profit, similar to the Group's total result.

The decrease in the Group's Net Profit 2005 as compared to 2004 is attributable mainly to the reversal of previously recognised fleet impairment loss in the amount of EUR 36.0 million in 2004, whereas in 2005 the reversal makes up only EUR 2.1 million.

In its turn, the increase in the Net Voyage Result can be directly and indirectly attributed to the favourable market situation that enabled the growth of Vessel Operating Profit despite a considerable rise in bunker costs.

During the reporting period, the implementation of LASCO Tanker Fleet Renewal Programme was continued. 14 newbuildings have been already ordered within the frames of the project: 10 tankers at 3.Maj shipyard in Croatia and 4 tankers at *Hyundai Mipo Dockyard* in Korea.

MANAGEMENT REPORT *(continued)*

To ensure the delivery of the vessels in accordance with the agreed schedule, steel cutting for the first three of the ten vessels ordered at 3.Maj commenced in 2005. The first of the Croatian vessels is scheduled for delivery in July 2006.

The construction of the four vessels ordered at *Hyundai Mipo Dockyard* is progressing according to the schedule, and they are planned for delivery at regular intervals during 2007.

Outlook

There are grounds to believe that following the stabilisation of freight rates in 2005 no upward trend should be expected in 2006. Considering historically high order books at the world shipyards and the supply outstripping demand by about 3 to 4 percentage points, spot rates are expected to drop, leading eventually to a decrease in time charter rates.

Six single-hull *P. Neruda* type tankers are planned to be sold for scrap during 2006. Their phasing-out is required by MARPOL International Convention that bans their further employment. Freight rates, distribution of cargos and scrap prices will be to a large extent impacted by the decisions made by other single-hull tanker owners with respect to their vessels modification or selling for scrap. In case of an increase in the number of vessels (supply), the eventual decrease in demand in any cargo segment will in the first place affect older vessels, since the charterers prefer modern, reliable and safe tonnage.

The implementation of the Fleet Renewal Programme will enable LASCO to develop and preserve its market share, since it is economically more sound to maintain a younger and smaller tonnage, than an older but larger fleet. The first three newbuildings ordered at 3. Maj in Croatia are scheduled for delivery in 2006.

Environmental Protection

Tanker fleet renewal implemented by LASCO will enable the Group not only to considerably decrease the risk of environment pollution by the new vessels, but also to improve their fuel-efficiency, as well as will testify to LASCO's growing corporate social responsibility for the ocean and coastline environment protection.

Post Balance Sheet Events

No significant events having a material effect on the result of the reporting period occurred between the balance sheet date and the date on which the financial statements were signed by the Management Board.

Proposal for the indemnity of losses

The Management Board proposes to transfer current year losses to the previous years' accumulated losses.

10 May 2006

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 EUR	2004 EUR (restated)
1. Net sales	1,416,089	1,234,505
2. Cost of sales	(1,780,018)	(1,892,260)
3. Gross loss	(363,929)	(657,755)
5. Administrative expenses	(8,631,203)	(5,297,147)
7. Other operating expenses	(3,420,666)	(357,034)
8. Income from participation in subsidiary and associated undertakings	1,449,622	-
10. Other interest and similar income	2,634,324	236,564
11. Impairment in non-current and current investments' value	(806,828)	(333,403)
12. Interest expenses and similar expenses	(4,892)	(655,211)
16. Loss before taxation	(9,143,572)	(7,063,986)
17. Corporate income tax		
18. Other taxes	(18,611)	(68,002)
19. Net loss for the reporting period	(9,162,183)	(7,131,988)

BALANCE SHEET AS AT 31 DECEMBER 2005

(1)

	31.12.2005 EUR	31.12.2004 EUR (restated)
Assets		
Non-Current Assets		
I Intangible Assets:		
2. Concessions, patents, licenses, trademarks and similar rights	98,672	114,385
Total Intangible Assets:	98,672	114,385
II Fixed Assets:		
1. Buildings and constructions	280,696	3,499,210
3. Machinery and equipment	1,693	861
4. Other fixed assets, fixtures and fittings	446,705	295,129
5. Assets under construction	1,077,293	468,351
6. Advances for fixed assets	67,692	8,668
Total Fixed Assets:	1,874,079	4,272,219
III Non-Current Financial Assets:		
1. Investments in the subsidiaries	166,840,949	164,477,324
3. Investments in associated undertakings	10,747	10,747
6. Other loans	164,545	-
Total Non-Current Financial Assets:	167,016,241	164,488,071
Total Long Term Assets:	168,988,992	168,874,675
Current Assets		
I Inventories:		
1. Raw materials and components	48,497	52,218
Total Inventories:	48,497	52,218
II Accounts receivable and prepayments:		
1. Trade receivables	172,926	17,072
2. Amount due from related companies	15,497,329	18,626,158
4. Other receivables	830,236	147,787
7. Deferred expenses	136,039	118,596
8. Accrued income	-	30,543
Total Accounts Receivable:	16,636,530	18,940,156
III Current Investments:		
2. Own shares	-	14,229
3. Other securities and participations	36,682	36,682
Total Current Investments:	36,682	50,911
IV. Cash and Cash Equivalents	505,869	3,549,943
Total Current Assets:	17,227,578	22,593,228
Total Assets	186,216,570	191,467,903

BALANCE SHEET AS AT 31 DECEMBER 2005 *(continued)*

(2)

	31.12.2005	31.12.2004
	EUR	EUR
		(restated)
<u>SHAREHOLDERS' EQUITY AND LIABILITIES</u>		
Shareholders' Equity:		
1. Share capital	284,574,362	284,574,362
5. Retained earnings:		
a) accumulated losses for the previous years	(95,271,710)	(88,139,722)
b) loss for the reporting period	(9,162,183)	(7,131,988)
Total Shareholders' Equity:	180,140,469	189,302,652
Liabilities:		
Current Liabilities:		
6. Trade payables	397,092	285,245
8. Amounts due to related companies	955,744	777,988
10. Taxes and social insurance payments	184,585	136,274
11. Other accounts payable	294,531	213,318
15. Accrued expenses	4,244,149	752,426
Total Current Liabilities:	6,076,101	2,165,251
<u>Total Equity and Liabilities</u>	<u>186,216,570</u>	<u>191,467,903</u>

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 FOR THE YEAR ENDED 31 DECEMBER 2005**

	Share Capital EUR	Revaluation Reserve EUR	Accumulated losses EUR	Total EUR
31 December 2003	284,574,362	11,135,191	(56,119,866)	239,589,687
Restatement	-	(11,135,191)	(32,019,856)	(43,155,047)
31 December 2003 (restated)	<u>284,574,362</u>	<u>-</u>	<u>(88,139,722)</u>	<u>196,434,640</u>
Net Loss for the year (restated)	-	-	(7,131,988)	(7,131,988)
31 December 2004 (restated)	<u>284,574,362</u>	<u>-</u>	<u>(95,271,710)</u>	<u>189,302,652</u>
Net Loss for the year (restated)	-	-	(9,162,183)	(9,162,183)
31 December 2005	<u>284,574,362</u>	<u>-</u>	<u>(104,433,893)</u>	<u>180,140,469</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2005

	2005	2004
	EUR	EUR
		(restated)
I. Cash Flow from Operating Activities		
1. Profit/(loss) before taxation	(9,143,572)	(7,063,986)
<u>Adjustments for:</u>		
a) Depreciation	193,647	280,058
b) Licence amortisation	61,798	52,939
c) Accrued expenses	3,491,723	365,853
d) Foreign exchange gain/loss	(9,971)	(4,355)
e) Income from participation in subsidiaries and associated undertakings	(1,449,622)	-
g) Other interest income	(731,066)	(236,564)
h) Impairment in non-current and current investments' value	806,828	333,403
j) Loss from the disposal of fixed assets and licences	280	15,378
k) Other taxes	(18,611)	(68,002)
2. Profit/(Loss) before adjustments for movements in net working capital	(6,798,566)	(6,325,276)
<u>Adjustments for:</u>		
a) Decrease in trade receivables	797,730	7,588,507
b) Decrease/(increase) in inventories	3,721	(18,837)
c) (Decrease)/increase in trade payables	419,128	(10,916,146)
3. Gross Cash Flow from Operating Activities	(5,577,987)	(9,671,752)
6. Net Cash Flow from Operating Activities	(5,577,987)	(9,671,752)
II. Cash Flow from Investing Activities		
1. Sale/(purchase) of own shares	17,217	(14,229)
2. Proceeds from sale of subsidiaries and associated undertakings	412,633	580,015
3. Acquisition of fixed and intangible assets, assets under construction	(1,114,376)	(588,069)
4. Proceeds from sale of fixed and intangible assets	13,685	919
5. Loans advanced	(164,545)	-
6. Proceeds from repayment of the loans issued	1,899,918	3,999,038
7. Interest received	9,788	60,539
8. Dividends received	1,449,622	-
9. Net Cash Flow from Investing Activities	2,523,942	4,038,213
IV. Currency Translation Difference	9,971	4,355
Net Increase/ (Decrease) in Cash and Cash Equivalents	(3,044,074)	(5,629,184)
Cash and Cash Equivalents at the beginning of the reporting year	3,549,943	9,179,127
Cash and Cash Equivalents at the end of the reporting year	505,869	3,549,943

NOTES

Accounting Policies

(1) Basis of preparation

These condensed financial statements are prepared in accordance with and comply with accounting policies applied in preparation of the financial statements of Latvian Shipping Company for the year ended 31 December 2005, which were prepared in accordance with the Republic of Latvia Law "On the Annual Accounts of the Companies".

Detailed accounting policies and notes to the income statement and the balance sheet form the part of the above mentioned financial statements.

The functional currency of Latvian Shipping Company is Latvian lat (LVL). These condensed financial statements are translated in Euros using the rate of exchange stated by the Bank of Latvia as of 31 December 2005 EUR 1.00 = LVL 0.702804.