

**Public Joint Stock Company
Latvian Shipping Company
and it's Subsidiaries**

Condensed Consolidated Financial Statements

for the year ended 31 December 2005



Latvian Shipping Company & its Subsidiaries
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INFORMATION ON PARENT COMPANY

THE SUPERVISORY 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 (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 (until 11.02.2005) Harijs Ilmārs Bondars (until 11.02.2005) Oļegs Stepanovs (until 11.02.2005)

THE MANAGEMENT BOARD

Chairman of the Management Board	Imants Vikmanis
Vice President	Valērijs Godunovs (until 14.02.2005)
Members of the Management Board	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)

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MANAGEMENT REPORT

Line of Business

The core business of JSC *Latvijas kuģniecība* (Latvian Shipping Company – LASCO) Group is transportation of cargoes by sea.

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 per share to LVL 1.30 per share. 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, LASCO 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 by 9% more than in 2004. The Group's Net Voyage Result 2005 made up EUR 124,2 million, 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 31.1% more than in 2004.

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 and luboil costs during 2005.

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.

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.

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MANAGEMENT REPORT

(continued)

Tanker Fleet

With its tonnage in the range of 6,300 to 68,500 DWT LASCO Group's Tanker Fleet traditionally traded all over the world with a particularly strong presence in Northern Europe, Mediterranean, North America and West Africa. LASCO tankers were mainly employed in carrying clean and dirty petroleum products, chemicals, methanol, as well as vegoils and molasses. The Tanker Fleet generated more than 80% of the Group's total Net Voyage Result.

At the beginning of 2005 LASCO Tanker Fleet comprised 32 vessels of single and double-hull construction. No changes took place in the composition of *LASCO* Tanker Fleet during the reporting period, and its total tonnage made up 1,011,000 DWT. The end of 2005 saw the commencement of LASCO Tanker Fleet Modernization Programme that provides for the modification of vessels in compliance with IMO Category 3 requirements, which will enable the vessels to continue carrying the above-mentioned chemicals and vegoils after the amendments to MARPOL Convention enter into force on 1 January 2007.

The year 2005 started with seasonally high tanker freight rates, favourable market conditions and stable demand. However, a drop in the rates, caused by a strong growth of world tonnage exceeding the demand, occurred already in the first quarter.

The situation remained unchanged until the second half of summer, when the freight rates improved considerably due to three severe hurricanes in the USA. The fourth quarter of 2005 was relatively stable with a seasonal growth of the rates starting later than usually and not reaching rates level of 2004 in LASCO segments.

Prices for newbuildings and second-hand tonnage remained on their record high level of 2004, however rising doubts about their reasonableness in the second half of the year. High vessel prices kept time charter rates at a stable and high level.

Reefer Fleet

In 2005, LASCO Reefer Fleet was made up of 5 ice-class reefer vessels with a capacity in the range of 289,000 to 387,000 cubic feet. The fleet was traditionally employed in banana and other fruit trade, as well as in the transportation of frozen cargoes from North Africa, South and North America to Russia. The Reefer Fleet's Net Voyage Result for 2005 made up 6.6% of the Group's total Net Voyage Result.

In 2005, one reefer vessel was laid up for a short time during the low season.

Compared to 2004 the freight rates in reefer segment stayed at the previous year's level with slightly higher average rates during low season however having sharp decrease during the last month of 2005.

LPG Fleet

LASCO Group owns two modern 20,500 cubic meter LPG carriers. In 2005, the LPG Fleet generated 11% of the Group's total Net Voyage Result.

In 2005, both vessels remained members of the ScandiGas Pool. LPG carrier market continued to recover due to the growing demand for LPG and ammonia in the world market, resulting in higher freight income throughout the year. Compared to 2004, the actual income growth reached the level of 30%. The situation remained favourable during the whole year. Unfortunately, the volume of petrochemical gas transportation remained on the level of the previous years.

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MANAGEMENT REPORT

(continued)

Dry Cargo Fleet

The time charter-out of the Group's Ro-Ro/general type vessel ensured a stable and predictable cash flow throughout the year.

The Dry Cargo Fleet's Net Voyage Result for 2005 reached 1.1% of the Group's total Net Voyage Result.

Outlook

There are grounds to believe that following the stabilization 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 Board of Directors.

Imants Vikmanis
Chairman of the Board of Directors
JSC Latvian Shipping Company
10 May 2006
Riga, Latvia

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CONSOLIDATED INCOME STATEMENT

	2005 EUR '000	2004 EUR '000
Voyage income	167,647	152,804
Voyage costs	(43,426)	(38,224)
Net Voyage Result	124,221	114,580
Vessel Operating costs excluding voyage costs and depreciation	(56,514)	(59,872)
Vessel Operating Result before Depreciation	67,707	54,708
Vessel depreciation	(22,724)	(20,434)
Vessel Operating Profit	44,983	34,274
Vessel impairment reversal	2,070	35,979
Administration expenses	(13,950)	(11,293)
Other operational expenses	(3,605)	(376)
(Loss) /gain on sale of assets	(400)	6,958
Operating Profit	29,098	65,542
Interest income	2,392	752
Exchange rate loss	(1,213)	(1,697)
Interest expenses	(6,517)	(3,812)
Loss on disposal of subsidiary	-	(16)
Loss from associates	-	(11)
Other financial items	(618)	(574)
Net Financial Items	(5,956)	(5,358)
Profit before Taxation	23,142	60,184
Taxation	(19)	19
Profit after Taxation	23,123	60,203
Minority interest	-	9
Net Profit for the Year	23,123	60,212
Earnings per share	EUR 0.12	EUR 0.30

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CONSOLIDATED BALANCE SHEET

	2005	2004
	EUR '000	EUR '000
<u>ASSETS</u>		
<i>LONG TERM ASSETS</i>		
Fleet	316,555	338,273
Other fixed assets	2,466	6,631
Assets under construction	50,426	25,889
Investments	20	54
Other financial assets	3,288	85
<i>TOTAL LONG TERM ASSETS</i>	372,755	370,932
<i>CURRENT ASSETS</i>		
Inventories	5,832	5,210
Accounts receivable and prepayments	19,983	21,497
Financial assets designated at fair value through profit or loss	15,589	14,246
Bank and cash balances	59,760	47,627
<i>TOTAL CURRENT ASSETS</i>	101,164	88,580
<i>TOTAL ASSETS</i>	473,919	459,512
<u>SHAREHOLDERS' EQUITY & LIABILITIES</u>		
<i>SHAREHOLDERS' EQUITY</i>		
Share capital	284,576	284,576
Translation reserve	9,371	10,369
Retained earnings	30,401	7,278
<i>TOTAL SHAREHOLDERS' EQUITY</i>	324,348	302,223
<i>NON-CURRENT LIABILITIES</i>		
Non-current portion of bank loans	112,824	127,356
Provision for deferred taxation	10	4
<i>TOTAL NON-CURRENT LIABILITIES</i>	112,834	127,360
<i>CURRENT LIABILITIES</i>		
Current portion of bank loans	14,484	14,483
Accounts payable and other liabilities	22,253	15,446
<i>TOTAL CURRENT LIABILITIES</i>	36,737	29,929
<i>TOTAL LIABILITIES</i>	149,571	157,289
<i>TOTAL SHAREHOLDER'S EQUITY & LIABILITIES</i>	473,919	459,512

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***CONSOLIDATED STATEMENT
OF CHANGES IN SHAREHOLDERS' EQUITY***

	Share Capital EUR 000	Translation Reserve EUR 000	Retained Earnings EUR 000	Total EUR 000
Balance at 31st December 2003	284,576	9,698	(52,934)	241,340
Net Profit for the year	-	-	60,212	60,212
Currency translation differences	-	671	-	671
Balance at 31st December 2004	284,576	10,369	7,278	302,223
Net Profit for the year	-	-	23,123	23,123
Currency translation differences	-	(998)	-	(998)
Balance at 31st December 2005	284,576	9,371	30,401	324,348

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CONSOLIDATED CASH FLOW STATEMENT

	2005	2004
	EUR '000	EUR '000
Profit before taxation	23,142	60,184
<u>Adjustments for :</u>		
Depreciation	23,248	21,080
Loss / (profit) on sale of fixed assets	400	(6,959)
Share of profits of associates	-	11
Drydocking deferred expenditure depreciation	5,330	6,900
Vessels impairment reversal	(2,070)	(35,979)
Currency translation difference	1,042	(389)
Interest expense	6,517	3,812
Interest income	(2,392)	(752)
Change in fair value of financial assets designated at fair value through profit or loss	166	54
Gain on sale of investments	(78)	-
Loss on disposal of subsidiary	-	16
	55,305	47,978
Movement in net working capital – net of provisions		
Inventories	(622)	(1,507)
Accounts receivable	1,349	(2,712)
Accounts payable	6,569	2,211
	7,296	(2,008)
Cash Flow from Operations	62,601	45,970

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CONSOLIDATED CASH FLOW STATEMENT

(Continued)

	2005	2004
	EUR '000	EUR '000
Cash Flow from Operations	62,601	45,970
Interest received	2,161	722
Corporate income taxes paid	(16)	(40)
Net Cash Flow from Operating Activities	64,746	46,652
Investing Activities		
Fleet additions	-	(83,906)
Purchase of other fixed assets	(546)	(383)
Purchase of financial assets designated at fair value through profit or loss	(4,681)	(12,265)
Proceeds on sale of financial assets designated at fair value through profit or loss	2,035	-
Proceeds on sale of subsidiary	108	659
Proceeds on sale of non-current assets	3,125	19,411
Drydock expenditure	(4,266)	(7,075)
Assets under construction and on order	(24,536)	(25,743)
Net Cash Flow from Investing Activities	(28,761)	(109,302)
Cash Flow before Financing Activities	35,985	(62,650)
Financing Activities		
Bank loans received	-	63,283
Bank loans repaid	(14,646)	(15,154)
Interest paid on loans	(9,206)	(4,128)
Net Cash Flow from Financing Activities	(23,852)	44,001
Increase/(decrease) in Cash and Cash Equivalents	12,133	(18,649)
Cash and Cash Equivalents at 1st January:	47,627	66,276
Cash and Cash Equivalents at 31st December:	59,760	47,627

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NOTES

1. Accounting policies

These 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 & its Subsidiaries for the year ended 31 December 2005, which were prepared in accordance with International Financial Reporting Standards.

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

The functional currency of Latvian Shipping Company Group is USD. These condensed consolidated financial statements are translated in Euros using the rate of exchange stated by the Bank of Latvia as of 31 December 2005 US\$ 1.00 = 0.84377 EUR

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NOTES

2. SEGMENT INFORMATION (continued)

	Tankers		Reefers		LPG		Dry Cargo		Total	
	2005 EUR' 000	2004 EUR' 000	2005 EUR' 000	2004 EUR' 000	2005 EUR' 000	2004 EUR' 000	2005 EUR' 000	2004 EUR' 000	2005 EUR' 000	2004 EUR' 000
Voyage income	136,444	125,358	15,572	13,234	13,719	10,064	1,912	4,148	167,647	152,804
Vessel Operating profit/(Loss)	37,024	27,511	480	1,713	7,391	5,572	88	(522)	44,983	34,274
Vessel impairment reversal	-	13,427	2,070	2,374	-	20,178	-	-	2,070	35,979
Gain on sale of assets	-	6,968	-	-	-	-	-	-	-	6,968
Unallocated loss on sale of assets	-	-	-	-	-	-	-	-	(400)	(10)
Segment result	37,024	47,906	2,550	4,087	7,391	25,750	88	(522)	46,653	77,211
Unallocated corporate expenses									(13,950)	(11,293)
Other operational expenses									(3,605)	(376)
Operating profit									29,098	65,542
Net Financial Items									(5,956)	(5,358)
Profit before Taxation									23,142	60,184
Taxation									(19)	19
Profit after Taxation									23,123	60,203
Minority Interest									-	9
Net Profit									23,123	60,212

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2. SEGMENT INFORMATION (continued)

	Tankers		Reefers		LPG		Dry Cargo		Total	
	31.12.05 EUR' 000	31.12.04 EUR' 000	31.12.05 EUR' 000	31.12.04 EUR' 000	31.12.05 EUR' 000	31.12.04 EUR' 000	31.12.05 EUR' 000	31.12.04 EUR' 000	31.12.05 EUR' 000	31.12.04 EUR' 000
ASSETS										
Segment assets	316,902	293,442	21,162	20,371	57,416	60,241	1,661	1,580	397,141	375,634
Unallocated assets									76,778	83,878
Total assets									473,919	459,512
LIABILITIES										
Segment liabilities	123,575	131,532	547	1,127	18,821	23,355	144	149	143,087	156,163
Unallocated liabilities									6,484	1,126
Total liabilities									149,571	157,289
Other segment information										
Investments in vessels	27,390	31,691	505	320	317	-	-	382	28,212	32,393
Depreciation	17,383	16,403	1,967	1,755	3,112	2,014	262	262	22,724	20,434
Drydocking deferred expenditure depreciation	4,909	6,072	219	422	52	289	150	117	5,330	6,900

