

**Public Joint Stock Company
Latvian Shipping Company**

Annual Report

for the year ended 31 December 2005



Contents

General information	2
Management Report	4
Income Statement	7
Balance Sheet	8
Statement of Changes in Shareholders' Equity	10
Cash Flow Statement	11
Notes	12
Auditors' Report	35

GENERAL INFORMATION

Name	Latvijas kuģniecība (Latvian Shipping Company, hereinafter LASCO)
Legal Status	Public Joint Stock Company
Registration number, place and date	Reg. No. 40003021108, Riga, 13 September 1991 Reregistered in the Commercial Register on 17 November 2004
Registered Office	2 Basteja boulevard, Riga, LV 1807, Latvia
Name and address of shareholders and their share of interest (%)	As at 31.12.2005. <ul style="list-style-type: none">▪ JSC <i>Ventspils nafta</i> – 49.94 % , 23 Ostas str., Ventspils, LV 3601, Latvia▪ JSC <i>Hansabanka</i> – 13.31%, 26 Kaļķu str., Riga, LV 1050, Latvia▪ SJSC <i>Valsts sociālās apdrošināšanas aģentūra</i> – 10%, 70B Lāčplēša str., Riga, LV 1011, Latvia▪ <i>Ojay Limited</i> – 8.83 % , P.O.Box 175, Frances House, SLR William Place, St.Peter, Guernsey, Channel Islands GY1 4HQ▪ <i>Eastgate Properties Limited</i> – 4.45 %▪ Skandinaviska Enskilda Banken Ab – 3.61%▪ JSC <i>Hansapank</i> customer – 1.89%▪ Other – 7.97%
Reporting Period	1 January - 31 December 2005

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) Čirts 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 Deglava (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
----------	---

Some of JSC *Latvijas kuģniecība* Supervisory Council and Management Board members hold a management position in other companies, as well as are shareholders of companies registered in the Register of Enterprises of the Republic of Latvia.

The above-mentioned information on the members of JSC *Latvijas kuģniecība* Supervisory Council and Management Board is available at the secretariat of, respectively, JSC *Latvijas kuģniecība* Supervisory Council and JSC *Latvijas kuģniecība* Management Board.

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 LVL 15.5 million. The Group's total Voyage Income for 2005 was LVL 112.2 million, which is by LVL 14.4 million or 14.7% more than in 2004. The Group's Net Voyage Result 2005 made up LVL 83.1, thus exceeding the respective result of 2004 by LVL 9.8 million or 13.4%. The Group's Vessel Operating Profit for 2005 is LVL 30.1 million, which is by LVL 8.2 million or 37.2% 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 LVL 23.0 million in 2004, whereas in 2005 the reversal makes up only LVL 1.3 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.

MANAGEMENT REPORT *(continued)*

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.

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.

MANAGEMENT REPORT *(continued)*

Proposal for the indemnity of losses

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

 _____ Imants Vikmanis Chairman of the Management Board	 _____ Viktors Gavriļenko Member of the Management Board	 _____ Guntis Tīrmanis Member of the Management Board
 _____ Ilva Purēna Member of the Management Board	 _____ Solvita Deglava Member of the Management Board	

10 May 2006

The Annual Report was approved by the AGM of Shareholders on _____ 2006

Chairman of the AGM of Shareholders _____

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 LVL	2004 LVL (restated)
1. Net sales	1	995,233	867,615
2. Cost of sales	2	(1,251,004)	(1,329,888)
3. Gross loss		(255,771)	(462,273)
5. Administrative expenses	3	(6,066,044)	(3,722,856)
7. Other operating expenses	4	(2,404,058)	(250,925)
8. Income from participation in subsidiary and associated undertakings	5	1,018,800	-
10. Other interest and similar income	6	1,851,414	166,258
11. Impairment in non-current and current investments' value	7	(567,042)	(234,317)
12. Interest expenses and similar expenses	8	(3,438)	(460,485)
16. Loss before taxation		(6,426,139)	(4,964,598)
17. Corporate income tax	9	-	-
18. Other taxes	10	(13,080)	(47,792)
19. Net loss for the reporting period		(6,439,219)	(5,012,390)

Notes on page 12 - 34 constitute an integral part of the financial statements.



Imants Vikmanis
 Chairman of the Management Board



Viktors Gavriļenko
 Member of the Management Board



Guntis Tirmanis
 Member of the Management Board



Ilva Purēna
 Member of the Management Board



Solvita Deglava
 Member of the Management Board

10 May 2006

BALANCE SHEET AS AT 31 DECEMBER 2005

(1)

	Note	31.12.2005 LVL	31.12.2004 LVL (restated)
Assets			
Non-Current Assets			
I Intangible Assets:			
2. Concessions, patents, licenses, trademarks and similar rights	11	69,347	80,390
Total Intangible Assets:		69,347	80,390
II Fixed Assets:			
1. Buildings and constructions		197,274	2,459,259
3. Machinery and equipment		1,190	605
4. Other fixed assets, fixtures and fittings		313,946	207,418
5. Assets under construction		757,126	329,159
6. Advances for fixed assets		47,574	6,092
Total Fixed Assets:	11	1,317,110	3,002,533
III Non-Current Financial Assets:			
1. Investments in the subsidiaries	12	117,256,486	115,595,321
3. Investments in associated undertakings	13	7,553	7,553
6. Other loans		115,643	-
Total Non-Current Financial Assets:	14	117,379,682	115,602,874
Total Long Term Assets:		118,766,139	118,685,797
Current Assets			
I Inventories:			
1. Raw materials and components	15	34,084	36,699
Total Inventories:		34,084	36,699
II Accounts receivable and prepayments:			
1. Trade receivables	16	121,533	11,998
2. Amount due from related companies	17	10,891,585	13,090,538
4. Other receivables	18	583,493	103,865
7. Deferred expenses		95,609	83,350
8. Accrued income		-	21,466
Total Accounts Receivable:		11,692,220	13,311,217
III Current Investments:			
2. Own shares		-	10,000
3. Other securities and participations		25,780	25,780
Total Current Investments:	19	25,780	35,780
IV. Cash and Cash Equivalents	20	355,527	2,494,914
Total Current Assets:		12,107,611	15,878,610
Total Assets		130,873,750	134,564,407

BALANCE SHEET AS AT 31 DECEMBER 2005 *(continued)* (2)

	Note	31.12.2005 LVL	31.12.2004 LVL (restated)
<u>SHAREHOLDERS' EQUITY AND LIABILITIES</u>			
Shareholders' Equity:			
1. Share capital		200,000,000	200,000,000
5. Retained earnings:			
a) accumulated losses for the previous years		(66,957,339)	(61,944,949)
b) loss for the reporting period		(6,439,219)	(5,012,390)
Total Shareholders' Equity:		126,603,442	133,042,661
Liabilities:			
Current Liabilities:			
6. Trade payables		279,078	200,471
8. Amounts due to related companies	22	671,701	546,773
10. Taxes and social insurance payments	23	129,727	95,774
11. Other accounts payable	24	206,997	149,920
15. Accrued expenses	26	2,982,805	528,808
Total Current Liabilities:		4,270,308	1,521,746
<u>Total Equity and Liabilities</u>		130,873,750	134,564,407

Notes on page 12 - 34 constitute an integral part of the financial statements.

 <hr style="width: 100%;"/> <p>Imants Vikmanis Chairman of the Management Board</p>	 <hr style="width: 100%;"/> <p>Viktors Gavriļenko Member of the Management Board</p>	 <hr style="width: 100%;"/> <p>Guntis Tirmanis Member of the Management Board</p>
 <hr style="width: 100%;"/> <p>Iva Purēna Member of the Management Board</p>	 <hr style="width: 100%;"/> <p>Solvita Deglava Member of the Management Board</p>	

10 May 2006

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

	Share Capital LVL	Revaluation Reserve LVL	Accumulated losses LVL	Total LVL
31 December 2003	200,000,000	7,825,857	(39,441,266)	168,384,591
Restatement	-	(7,825,857)	(22,503,683)	(30,329,540)
31 December 2003 (restated)	200,000,000	-	(61,944,949)	138,055,051
Net Loss for the year (restated)	-	-	(5,012,390)	(5,012,390)
31 December 2004 (restated)	200,000,000	-	(66,960,525)	133,042,661
Net Loss for the year (restated)	-	-	(6,439,219)	(6,439,219)
31 December 2005	200,000,000	-	(73,399,744)	126,603,442

As at 31 December 2005 the authorised, issued and fully paid share capital of the company consists of 200,000,000 shares with nominal value of LVL 1 each. All the shares are publicly traded and listed on Riga Stock Exchange. All the shares are ordinary shares with voting rights.

Reserves and Retained Earnings for the previous years have been restated to comply with amendments to the Republic of Latvia Law "On the Annual Accounts of the Companies".

Notes on page 12 - 34 constitute an integral part of the financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2005

	Note	2005 LVL	2004 LVL (restated)
I. Cash Flow from Operating Activities			
1. Profit/(loss) before taxation		(6,426,139)	(4,964,598)
<u>Adjustments for:</u>			
a) Depreciation		136,096	196,826
b) Licence amortisation		43,432	37,206
c) Accrued expenses		2,453,997	257,123
d) Foreign exchange gain/loss		(7,008)	(3,061)
e) Income from participation in subsidiaries and associated undertakings		(1,018,800)	-
g) Other interest income		(513,796)	(166,258)
h) Impairment in non-current and current investments' value		567,042	234,317
j) Loss from the disposal of fixed assets and licences		197	10,808
k) Other taxes		(13,080)	(47,792)
2. Profit/(Loss) before adjustments for movements in net working capital		(4,778,059)	(4,445,429)
<u>Adjustments for:</u>			
a) Decrease in trade receivables		560,648	5,333,233
b) Decrease/(increase) in inventories		2,615	(13,239)
c) (Decrease)/increase in trade payables		294,565	(7,671,911)
3. Gross Cash Flow from Operating Activities		(3,920,231)	(6,797,346)
6. Net Cash Flow from Operating Activities		(3,920,231)	(6,797,346)
II. Cash Flow from Investing Activities			
1. Sale/(purchase) of own shares		12,100	(10,000)
2. Proceeds from sale of subsidiaries and associated undertakings		290,000	407,637
3. Acquisition of fixed and intangible assets, assets under construction		(783,188)	(413,298)
4. Proceeds from sale of fixed and intangible assets		9,618	646
5. Loans advanced		(115,643)	-
6. Proceeds from repayment of the loans issued		1,335,270	2,810,540
7. Interest received		6,879	42,547
8. Dividends received		1,018,800	-
9. Net Cash Flow from Investing Activities		1,773,836	2,838,072
IV. Currency Translation Difference		7,008	3,061
Net Increase/ (Decrease) in Cash and Cash Equivalents		(2,139,387)	(3,956,213)
Cash and Cash Equivalents at the beginning of the reporting year	21	2,494,914	6,451,127
Cash and Cash Equivalents at the end of the reporting year		355,527	2,494,914

Notes on page 12 - 34 constitute an integral part of the financial statements.

NOTES

Accounting Policies

(1) Basis of preparation

The financial statements are prepared in accordance with and comply with the Republic of Latvia Law “On the Annual Accounts of the Companies” and Latvian Accounting Standards applicable at the balance sheet date. The financial statements are prepared under the historical cost convention. The Financial statements are prepared in Latvian lats (LVL). The Income Statement is prepared using the cost-of-sale method. The Cash Flow Statement is prepared in accordance with indirect method.

Unless otherwise stated in the Notes, the accounting policies applied are consistent with those of the previous reporting period.

To ensure the comparability of the prepared Financial Statements for 2005 with those for 2004, certain reclassifications have been made to several items of the Balance Sheet for the year ended 31 December 2004.

(2) Changes in accounting policies

To comply with the amendments to the Republic of Latvia Law “On the Annual Accounts of the Companies” adopted on 10 June 2005, the Company’s accounting policy with respect to the investments in subsidiary and associated undertakings has been revised (see Note 12).

Investments in subsidiary and associated undertakings had been accounted for by the equity method until 31 December 2004. Following the amendments to the law:

- investments in subsidiary and associated undertakings are accounted for according to the cost of acquisition method. In accordance with the cost of acquisition method investments in subsidiary and associated undertakings are valued at their initial cost of acquisition less impairment. The dividends actually received in the reporting period and impairment losses are recognised in the Income Statement; and
- any adjustments made in the previous year to recognise the Company’s proportional share of the subsidiary or associated undertaking’s profit/loss gained/incurred after the acquisition thereof, as well as the Company’s proportional share of the changes in the subsidiary or associated undertaking’s equity are restated and included in the opening balance of the retained earnings as at 31 December 2003 and 31 December 2004.

As a result of the restatements, the net income from the investments in subsidiary and associated undertakings recognised in 2003 and 2004 in the amount of LVL 29,701,696 and LVL 21,329,155 respectively, was excluded from the respective Income Statement. In the process of restating comparative items in the Income Statement for 2004, income from the investments in subsidiary undertakings was reduced by LVL 21,546,159. The Shareholders’ equity component “Accumulated Loss for the Previous Years” was reduced by LVL 30,336,284 as at 31 December 2003 and LVL 21,546,159 as at the 31 December 2004 respectively.

NOTES *(continued)*

Accounting Policies *(continued)*

(2) Changes in accounting policies *(continued)*

The effect of changes in accounting policy on the results of 2003	Investments in subsidiary and associated undertakings
Investments in subsidiary and associated undertakings accounted for by the equity method as at 31 December 2003	146,156,162
Income from investments in subsidiary and associated undertakings recognised by 31 December 2003	(29,701,696)
Impairment of the investments' value by 31 December 2003	(634,588)
Restated balance as at 31 December 2003	<u>115,819,878</u>

The effect of changes in accounting policy on the results of 2004	Investments in subsidiary and associated undertakings
Investments in subsidiary and associated undertakings accounted for by the equity method as at 31 December 2004	167,485,317
Income from investments in subsidiary and associated undertakings recognised in 2004	(21,329,155)
Impairment of the investments' value in 2004	(217,004)
The effect of changes in accounting policy by 31 December 2003	(30,336,284)
Restated balance as at 31 December 2004	<u>115,602,874</u>

(3) Income recognition

Income is recognised upon delivery of goods or provision of services. Net sales are shown net of value added tax and discounts. Income from fines and penalties is recognised as received.

(4) Currency translation

JSC *Latvijas kuģniecība* accounting currency is Latvian lat. All transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats at the foreign exchange set forth by the Bank of Latvia at the end of the reporting period. Any gain or loss resulting from the foreign currency translation is recognised in the Income Statement of the respective reporting period.

	31.12.2005.	31.12.2004.
	LVL	LVL
1 USD	0.593	0.516
1 EUR	0.702804	0.702804

NOTES *(continued)*

Accounting Policies *(continued)*

(5) Intangible and fixed assets

Intangible and fixed assets are stated at historical cost less accumulated depreciation.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its estimated residual value over the estimated useful life of the asset. The following depreciation rates are applied:

	% per annum
Intangible assets	8 – 33.33
Buildings and constructions	1 – 12
Plant and equipment	12.5 – 33.33
Other fixed assets	8 – 50

Fixed assets maintenance and repair costs are charged to the Income Statement as incurred. Capital expenditure is capitalised and depreciated over the remaining useful life of the respective fixed asset.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount is the greater of an asset's market value and its value in use.

When the circumstances that led to such impairment cease to exist, a reversal of the impairment loss is made.

(6) Investments in subsidiary and associated undertakings

Investments in subsidiary undertakings (such entities in which the Company has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations) and in associated undertakings (such entities over which the Company generally has 20 to 25% of the voting rights, or over which the Company has significant influence, but it does not control) are stated at cost. Investments in subsidiaries and associated undertakings are valued at their initial value less impairment losses.

Where events or changes in circumstances indicate that the carrying amount of investments in subsidiary and associated undertakings may not be recoverable, the respective investments are tested for impairment. The Company recognises income from its investments in subsidiary and associated undertakings only to the extent that the Company receives distributions from accumulated profits of the subsidiary or associate arising after the date of acquisition. Any distributions received out of pre-acquisition profits are treated as a recovery of the cost of investment.

The difference between the carrying value of the investment and the value of the subsidiary or associated undertaking as per its liquidation balance sheet is recognised in the Income Statement.

NOTES *(continued)*

Accounting Policies *(continued)*

(7) Other securities and investments

Investments in entities, in which the Company has no significant influence (ownership interest does not exceed 20%), are stated at cost. Where the decline in value is other than temporary, the resulting difference between the investment's initial value and its recoverable amount is recognised in the Income Statement.

(8) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. When necessary, the provisions are made for obsolete, slow-moving or damaged inventories, or their value is written-down.

(9) Taxes

The Company's corporate income tax comprises the current income tax, changes in the deferred tax and tonnage tax. The current income tax is charged at 15% of taxable profit for the taxable period calculated in accordance with Latvian tax legislation.

Deferred income tax is calculated using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the years when the temporary difference is reversed. The principal temporary differences arise from difference in depreciation rates applied to fixed assets, as well as from tax losses carried forward. 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.

(10) Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(11) 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 off when identified based on individual estimation of each trade receivable amount.

(12) Accruals for employee vacation expenses

The amount of accruals for employee vacation expenses is determined by multiplying the average daily salary with unused vacation days as at the end of the current year, but not exceeding the two years period.

NOTES *(continued)*

Accounting Policies *(continued)*

(13) Cash and cash equivalents

Cash and cash equivalents include cash at and short term deposits, which do not exceed three months maturity on the date of placement.

(14) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

NOTES (continued)

	2005	2004
	LVL	LVL
(1) Net sales		
Income from commercial services rendered	607,284	552,299
Rental income	203,007	192,889
Other income	184,942	122,427
	995,233	867,615
(2) Cost of sales		
Salaries and training	548,541	455,998
Social insurance costs	106,556	100,594
Repairs and maintenance expenditure	192,648	361,338
Depreciation	136,410	189,530
IT and communication	120,779	125,684
Transport and travelling expenses	77,355	75,538
<i>incl. social insurance costs</i>	1,237	964
Advertising and marketing	6,898	7,588
Professional fees	4,421	4,591
Other costs	57,396	9,027
	1,251,004	1,329,888
(3) Administrative expenses		
Salaries, training, health insurance and similar costs	3,044,208	1,669,216
Social insurance costs	301,211	247,750
Professional fees	1,167,903	150,119
Occupation and repairs	480,134	475,339
Advertising and marketing	368,375	482,790
Transport and travelling expenses	143,410	151,990
<i>incl. social insurance costs</i>	6,085	3,836
Depreciation	43,118	44,502
IT and communication	41,157	44,950
Other expenses	577,931	481,453
Movements in other provisions	(101,403)	(25,253)
	6,066,044	3,722,856
(4) Other operating expenses		
Accruals for employee bonuses	1,715,861	240,117
Accruals for legal proceedings costs	688,000	-
Losses from disposal of fixed assets and licenses	197	10,808
	2,404,058	250,925

NOTES (continued)

	2005 LVL	2004 LVL (restated)
(5) Income from investments in subsidiary and associated undertakings		
Dividends received from Kristaps Insurance Ltd.	1,018,800	-
	1,018,800	-
(6) Other interest and similar income		
Gain from foreign currency rate fluctuations	1,337,618	-
Interest income from term loans advanced to subsidiaries	276,921	102,574
Income from sale of participations	229,996	-
Interest income	6,879	63,684
	1,851,414	166,258
(7) Impairment of non-current and current investments' value		
SIA Kuģu remonta bāze	319,557	169,094
SIA Kuģu menedžments	121,848	-
SIA Jūrnieku mācību centrs	117,627	-
SIA Ostas serviss	8,010	-
SIA Latvian-Finnish Maritime Agency	-	47,910
Balt – Dutch Shipping Agencies B.V.	-	17,313
	567,042	234,317
(8) Interest and similar expenses		
Bank charges	3,438	3,597
Loss from foreign currency rate fluctuations	-	456,888
	3,438	460,485
(9) Corporate income tax for the reporting period		
The Company's corporate income tax charge differs from the theoretical amount that would arise applying the tax rate of 15% to the Company's profit before tax:		
Loss before tax	(6,426,139)	(4,964,598)
Tax calculated at tax rate of 15%	(963,921)	(744,690)
Expenses not deductible for tax purposes	165,779	171,016
Income not subject to corporate income tax	(16,910)	(10,919)
Unused tax losses	5,886	-
Transfer of tax losses to the related company	21,152	-
Changes in unrecognised deferred tax asset	788,014	584,593
Corporate income tax	-	-

NOTES *(continued)*

(9) Corporate income tax for the reporting period *(continued)*

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 balance sheet:

	31.12.2005	31.12.2004
	LVL	LVL
Excess of tax allowances over depreciation	60,175	215,092
Other temporary differences	(479,397)	(111,981)
Tax losses	(1,536,091)	(1,270,410)
Unrecognised deferred tax asset	<u>(1,955,313)</u>	<u>(1,167,299)</u>

In compliance with the prudence principle, the resulting deferred tax asset is not recognised in the Company's Balance Sheet.

Unused tax losses

As at 31 December 2005 the Company's tax losses make up LVL 10,240,607.

Tax losses available to offset against future taxable profit are as follows:

	Loss amount	Expires
	LVL	
Corporate income tax losses for 2001	1,877	2006
Corporate income tax losses for 2003	4,519,503	2008
Corporate income tax losses for 2004	3,908,778	2009
Corporate income tax losses for 2005	1,810,449	2010
	<u>10,240,607</u>	

(10) Other taxes

	2005	2004
	LVL	LVL
Real estate tax (see Note 24)	<u>13,080</u>	<u>47,792</u>

NOTES (continued)

(11) Intangible and fixed assets

	Licences LVL	Buildings LVL	Machinery and equipment LVL	Other fixed assets LVL	Assets under construction LVL	Advances for fixed assets LVL	TOTAL LVL
Cost							
as at 31.12.2003	84,078	3,103,646	2,663	2,366,920	81,980	11,828	5,651,115
Additions in 2004	79,209	-	-	90,848	179,997	63,244	413,298
Reclassification in 2004	-	-	-	1,798	67,182	(68,980)	-
Disposals in 2004	(16,154)	-	-	(485,522)	-	-	(501,676)
as at 31.12.2004	147,133	3,103,646	2,663	1,974,044	329,159	6,092	5,562,737
Additions in 2005	32,389	-	847	254,859	450,064	45,029	783,188
Reclassification in 2005	-	-	-	16,618	(13,071)	(3,547)	-
Disposals in 2005	(18,383)	(2,597,693)	-	(625,807)	(9,026)	-	(3,250,909)
as at 31.12.2005	161,139	505,953	3,510	1,619,714	757,126	47,574	3,095,016
Accumulated depreciation							
as at 31.12.2003	45,691	367,211	1,816	2,081,760	-	-	2,496,478
Charge for the year 2004	37,206	37,650	242	158,934	-	-	234,032
Released on disposal in 2004	(16,154)	-	-	(474,068)	-	-	(490,222)
as at 31.12.2004	66,743	404,861	2,058	1,766,626	-	-	2,240,288
Charge for the year 2005	43,432	7,865	262	127,969	-	-	179,528
Released on disposal in 2005	(18,383)	(340,722)	-	(588,827)	-	-	(947,932)
as at 31.12.2005	91,792	72,004	2,320	1,305,768	-	-	1,471,884
Fixed assets impairment							
as at 31.12.2004	-	(239,526)	-	-	-	-	(239,526)
Book value as at 31.12.2004	80,390	2,459,259	605	207,418	329,159	6,092	3,082,923
Fixes assets impairment *							
31.12.2005	-	(236,675)	-	-	-	-	(236,675)
Book value as at 31.12.2005	69,347	197,274	1,190	313,946	757,126	47,574	1,386,457

* The impairment is reduced by the amount of depreciation for 2005.

NOTES (continued)

(12) Information on the subsidiary undertakings and investments

(a) Investments in subsidiary undertakings

Name and address	Percentage holding %	31. 12. 2004 (restated)	Impairment	31. 12. 2003 (restated)
Latmar Holdings Corporation (1) 80 Broad Street, City of Monrovia, Liberia	100	111,417,849	-	111,417,849
Kristaps Insurance Ltd 11 Victoria Street P.O. Box HM 392 Hamilton HM PX Bermudas	100	79,542	-	79,542
Crown Navigation Inc. (2) Ajeltake Road, Ajeltake Island, Majuro Marshall Islands	100	-	-	-
SIA Latvian – Finnish Maritime Agency Elizabetes iela 51, Rīga, LV 1050, Latvija	100	402	(47,910)	48,312
Santomar Holdings Company Ltd 284 AR CH Makarios III AVE., Fortuna Court block 13, 3 rd floor, 32 flat, Limassol, Cyprus	100	1,210	-	1,210
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-
SIA Kuģu remonta bāze Andrejostas 4, Rīga, LV 1045, Latvija	100	1,256,318	(169,094)	1,425,412
SIA LSC Marine Training Andrejostas ielā 6, Rīga, LV 1045, Latvija	100	300,000	-	300,000
SIA Jūras servisa centrs Andrejostas 4a, Rīga, LV 1045, Latvija	100	140,000	-	140,000
SIA LSC Shipmanagement Andrejostas 4a, Rīga, LV 1045, Latvija	100	1,900,000	-	1,900,000
SIA Ostas serviss Basteja bulvāris 2, Rīga, LV 1807, Latvija	100	500,000	-	500,000
		115,595,321	(217,004)	115,812,325

NOTES (continued)

(12) Information on the subsidiary undertakings and investments (continued)

(a) Investments in subsidiary undertakings (continued)

Name and address	Percentage holding %	31.12.2005	Acquisition	Impairment	31. 12. 2004 (restated)
Latmar Holdings Corporation (1) 80 Broad Street, City of Monrovia, Liberia	100	111,417,849	-	-	111,417,849
Kristaps Insurance Ltd. 11 Victoria Street P.O. Box HM 392 Hamilton HM PX Bermudas	100	79,542	-	-	79,542
Crown Navigation Inc. (2) Ajeltake Road, Ajeltake Island, Majuro Marshall Islands	100	-	-	-	-
SIA Latvian - Finnish Maritime Agency Elizabetes iela 51, Rīga, LV 1050, Latvija	100	402	-	-	402
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3 rd floor, 32 flat, Limassol, Cyprus	100	1,210	-	-	1,210
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-	-
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	100	-	-	-	-
SIA Kuģu remonta bāze Andrejostas 4, Rīga, LV 1045, Latvija	100	936,761	-	(319,557)	1,256,318
SIA LSC Marine Training Andrejostas ielā 6, Rīga, LV 1045, Latvija	100	300,000	-	-	300,000
SIA Jūras servisa centrs Andrejostas 4a, Rīga, LV 1045, Latvija	100	140,000	-	-	140,000
SIA LSC Shipmanagement Andrejostas 4a, Rīga, LV 1045, Latvija	100	1,900,000	-	-	1,900,000
SIA Ostas serviss Basteja bulvāris 2, Rīga, LV 1807, Latvija	100	491,990	-	(8,010)	500,000
SIA Jūrnieku mācību centrs Andrejostas 6, Rīga, LV 1045, Latvija	100	391,978	509,605	(117,627)	-
SIA Kuģu menedžments Andrejostas 4a, Rīga, LV 1045, Latvija	100	983,377	1,105,225	(121,848)	-
SIA Karavella Property Katrīnas dambis 27, Rīga, LV 1045, Latvija	100	613,377	613,377	-	-
		117,256,486	2,228,207	(567,042)	115,595,321

NOTES *(continued)*

(12) Information on the subsidiary undertakings and investments *(continued)*

(b) Information on subsidiaries

Name and address	Shareholders' Equity LVL		Profit/Loss LVL	
	31. 12. 2005	31. 12. 2004	2005	2004
Latmar Holdings Corporation (1) 80 Broad Street, City of Monrovia, Liberia	206,374,008	160,689,312	20,675,036	37,953,544
Kristaps Insurance Ltd. 11 Victoria Street P.O. Box HM 392 Hamilton HM PX Bermudas	1,135,441	1,988,682	(78,679)	15,608
Crown Navigation Inc. (2) Ajeltake Road, Ajeltake Island, Majuro Marshall Islands	9,548,053	4,680,587	3,971,017	4,900,348
SIA "Latvian - Finnish Maritime Agency" Elizabetes iela 51, Rīga, LV 1050, Latvija	742	401	340	(183,869)
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3 rd floor, 32 flat, Limassol, Cyprus	559,836	487,451	(338)	(489)
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	(3,604,313)	(3,165,100)	31,527	(76,500)
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	(3,612,569)	(3,217,244)	80,743	(130,078)
SIA Kuģu remonta bāze Andrejostas 4, Rīga, LV 1045, Latvija	936,761	1,256,318	(319,557)	(169,094)
SIA LSC Marine Training Andrejostas ielā 6, Rīga, LV 1045, Latvija	1,681,795	1,533,614	148,181	(62,063)
SIA Jūras servisa centrs Andrejostas 4a, Rīga, LV 1045, Latvija	209,873	192,445	17,428	(13,214)
SIA LSC Shipmanagement Andrejostas 4a, Rīga, LV 1045, Latvija	3,275,903	2,511,465	764,438	484,470
SIA Ostas serviss Basteja bulvāris 2, Rīga, LV 1807, Latvija	491,990	500,173	(8,183)	(16,891)
SIA Jūrnieku mācību centrs Andrejostas 6, Rīga, LV 1045, Latvija	391,978	-	(8,022)	-
SIA Kuģu menedžments Andrejostas 4a, Rīga, LV 1045, Latvija	983,377	-	(16,623)	-
SIA Karavella Property Katrīnas dambis 27, Rīga, LV 1045, Latvija	649,842	-	(158)	-

NOTES *(continued)*

(12) Information on the subsidiary undertakings and investments *(continued)*

Unless otherwise indicated, all the subsidiary undertakings below are 100% owned.

Name	Country of Incorporation
(1) Latmar Holdings Corporation:	
Abava Shipping Company Ltd.	Malta
Amata Shipping Company Ltd.	Malta
Apollo Holdings Corporation	Cayman Islands
Cape Wind Trading Company	Liberia
Clipstone Navigation S. A.	Liberia
Dawnlight Shipping Company Ltd.	Cyprus
Juris Avots Shipping Company Ltd.	Cyprus
Kriti Sea Shipping Company Ltd.	Cyprus
Latalpha Holdings Corporation	Liberia
Latgale Shipping Company Ltd.	Malta
Latmar Services Ltd.	Great Britain
Latmar Shipping Company Ltd.	Cyprus
Latstrand Holdings Corporation	Liberia
Lattanker Holdings Corporation	Liberia
Limetree Shipping Company Ltd.	Malta
New Spring Shipping Company Ltd.	Cyprus
Noella Maritime Company Ltd.	Cyprus
Radar Shipping Ltd.	Liberia
Reeferlat Holdings Corporation	Liberia
Renda Maritime Company Ltd.	Cyprus
Rhodos Shipping Company Ltd.	Cyprus
Rundale Shipping Company Ltd.	Cyprus
S. Tomskis Shipping Company Ltd.	Cyprus
S. Tomskis Shipping Company Ltd.	Malta
Sagewood Trading Inc.	Liberia
Samburga Shipping Company Ltd.	Cyprus
Saturn Trading Corporation	Liberia
Scanreefer Marine Company Ltd.	Cyprus
Scanreefer Navigation Company Ltd.	Cyprus
Viktorio Shipping Corporation	Liberia
Zemgale Shipping Company Ltd.	Malta
Wilcox Holdings Ltd.	Liberia
World Reefer Corporation	Liberia

NOTES *(continued)*

(12) Information on the subsidiary undertakings and investments *(continued)*

<u>Name</u>	<u>Country of Incorporation</u>
Latstrand Holdings Corporation :	
Arctic Seal Shipping Company Ltd.	Cyprus
Atlantic Leader Shipping Company Ltd.	Cyprus
Faroship Navigation Company Ltd.	Cyprus
Gaida Shipping Corporation	Liberia
Gevostar Shipping Company Ltd.	Cyprus
Tangent Shipping Company Ltd.	Cyprus
Zoja Shipping Company Ltd.	Cyprus
Latalpha Holdings Corporation:	
Akademikis Vavilovs Shipping Company Ltd.	Malta
Akademikis Zavarickis Shipping Company Ltd.	Malta
Delacroix Shipping Company Ltd.	Cyprus
Dzintari Shipping Corporation	Liberia
Griva Maritime Corporation	Liberia
Kasira Shipping Company Ltd.	Cyprus
Kemeri Navigation Corporation	Liberia
Mahoe Shipping Company Ltd.	Cyprus
O. Vacietis Shipping Company Ltd.	Cyprus
Perle Reefer Shipping Company Ltd.	Malta
Pinewood Shipping Corporation	Liberia
Ringmare Shipping Company Ltd.	Cyprus
Rosewood Shipping Corporation	Liberia
Ventspils Shipping Company Ltd.	Cyprus

NOTES *(continued)*

(12) Information on the subsidiary undertakings and investments *(continued)*

<u>Name</u>	<u>Country of Incorporation</u>
Reeferlat Holdings Corporation:	
Akademikis Artobolevskis Shipping Company Ltd.	Cyprus
Akademikis Artobolevskis Shipping Company Ltd.	Malta
Akademikis Bocvars Shipping Company Ltd.	Cyprus
Akademikis Bocvars Shipping Company Ltd.	Malta
Akademikis Celomejs Shipping Company Ltd.	Malta
Akademikis Celomejs Shipping Company Ltd.	Cyprus
Akademikis Hohlovs Shipping Company Ltd.	Cyprus
Belgoroda Shipping Company Ltd.	Malta
Belgoroda Shipping Company Ltd.	Cyprus
Juris Avots Shipping Company Ltd.	Malta
Kamilo Sjenfuegoss Shipping Company Ltd.	Malta
Kamilo Sjenfuegoss Shipping Company Ltd.	Cyprus
Kurska Shipping Company Ltd.	Malta
Kurska Shipping Company Ltd.	Cyprus
Pure Shipping Company Ltd.	Cyprus
Pure Shipping Company Ltd.	Malta
Ventlines Shipping Limited	Malta
Lattanker Holdings Corporation:	
Antonio Gramsi Shipping Corporation	Liberia
Dauids Sikeiross Shipping Corporation	Liberia
Dzons Rids Shipping Corporation	Liberia
Hose Marti Shipping Corporation	Liberia
Imanta Shipping Company Ltd.	Malta
Klements Gotvalds Shipping Corporation	Liberia
Majori Shipping Company Ltd.	Malta
Pablo Neruda Shipping Company Ltd.	Cyprus
Talava Shipping Company Ltd.	Malta

NOTES (continued)

(12) Information on the subsidiary undertakings and investments (continued)

<u>Name</u>	<u>Country of Incorporation</u>
(2) Crown Navigation Inc.:	
Kolka Navigation Inc.	Marshall Islands
Kaltene Navigation Inc.	Marshall Islands
Kuldiga Navigation Inc.	Marshall Islands
Kursa Navigation Inc.	Marshall Islands
Kandava Navigation Inc.	Marshall Islands
Kazdanga Navigation Inc.	Marshall Islands
Kabile Navigation Inc.	Marshall Islands
Sloka Navigation Inc.	Marshall Islands
Salacgriva Navigation Inc.	Marshall Islands
Saulkrasti Navigation Inc.	Marshall Islands
Stende Navigation Inc.	Marshall Islands
Sabile Navigation Inc.	Marshall Islands
Smiltene Navigation Inc.	Marshall Islands
Skrunda Navigation Inc.	Marshall Islands
Sigulda Navigation Inc.	Marshall Islands
Straupe Navigation Inc.	Marshall Islands
Saldus Navigation Inc.	Marshall Islands

(13) Investments in associated undertakings

Name and address	Percentage Holding %	Investment Value LVL	Shareholders' Equity LVL
	31.12.2005	31.12.2005	31.12.2005
SIA Via Una Rīgā, Katrīnas dambis 10, Latvija	45.45	7,553	57,050

In 2005, the net sales of SIA *VIA Una* amounted to LVL 24,343 (compared to LVL 22,780 in 2004). Its net profit for 2005 made up LVL 1,898 (compared to LVL 7,248 in 2004).

NOTES (continued)

(14) Non-current financial investments

	Investments in subsidiaries LVL	Investments in associates LVL	Other loans LVL	TOTAL LVL
31.12.2004.	173,840,448	27,213	-	173,867,661
Restatement	(58,245,127)	(19,660)	-	(58,264,787)
31.12.2004. (restated)	115,595,321	7,553	-	115,602,874
Acquisitions	2,228,207	-	115,643	2,343,850
Impairment	(567,042)	-	-	(567,042)
31.12.2005	117,256,486	7,553	115,643	117,379,682

(15) Raw materials and components

	31.12.2005 LVL	31.12.2004 LVL
Fuel	94	1,001
Spare parts	-	1,366
Other materials and inventories	33,990	34,332
	34,084	36,699

(16) Accounts receivable and prepayments

Trade receivables	1,622,574	1,558,858
Provision for doubtful debts	(1,501,041)	(1,546,860)
	121,533	11,998

NOTES (continued)

	31.12.2005	31.12.2004
	LVL	LVL
(17) Amounts due from related companies		
Current loan to Razna Shipping Corporation*	4,499,931	3,985,646
Current loan to Taganroga Shipping Corporation*	4,426,117	3,955,370
SIA LSC Shipmanagement	1,881,324	2,419,294
Latmar Holdings Corporation	-	222,887
SIA Jūras servisa centrs	44,914	117,434
SIA LSC Marine Training	18,456	4,210
SIA Karavella Property	14,200	-
Santomar Holdings Company Ltd.	4,526	2,384,521
SIA Ostas serviss	1,378	463
Crown Navigation Inc.	267	232
SIA Kuģu remonta bāze	236	481
SIA Jūrnieku mācību centrs	118	-
SIA Kuģu menedžments	118	-
	10,891,585	13,090,538

* In 2005 non-current loans to related companies were reclassified as current loans with repayment due in 2006. The effective interest rate applied in 2004 and 2005 was 1.11% and 2.96% respectively.

(18) Other receivables

Overpaid value added tax (see Note 24)	439,299	59,208
Deferred value added tax	38,502	13,437
Overpaid non-resident income tax (see Note 24)	3,379	3,379
Overpaid real estate tax (see Note 24)	450	-
Other receivables	101,863	27,841
	583,493	103,865

The receivables are stated at their net value.

(19) Current investments

JSC Morbank	25,780	25,780
Own shares	-	10,000
	25,780	35,780

(20) Cash and cash equivalents

Cash at bank	355,527	2,494,914
	355,527	2,494,914

NOTES (continued)

	31.12.2005	31.12.2004
	LVL	LVL
(21) Amounts due to related companies		
SIA Kuģu remonta bāze	599,820	508,129
SIA Ostas serviss	38,644	38,644
Latmar Holdings Corporation	22,154	-
SIA LSC Shipmanagement	11,083	-
	671,701	546,773
(22) Taxes and social insurance payments*		
Personal income tax	97,352	66,975
Social insurance payments	32,330	27,685
State business risk duty	45	51
Real estate tax (buildings and constructions)	-	1,063
	129,727	95,774
* See Note 25.		
(23) Other accounts payable		
Salaries	174,809	117,650
Deductions from salaries	196	171
Other payables	31,992	32,099
	206,997	149,920

NOTES (continued)

(24) Taxes and social insurance payments

	Value added tax	Corporate income tax withheld from payments to non-residents	Real estate tax (buildings and constructions)	Real estate tax (land)	State business risk duty	Social insurance payments	Personal income tax	Total
Payable 31.12.2004.	-	-	1,063	-	51	27,685	66,975	95,774
(Overpaid) 31.12.2004.	(59,208)	(3,379)	-	-	-	-	-	(62,587)
Charge for 2005	(406,065)	-	10,785	2,295	605	628,110	861,666	1,097,396
Restatement for 2004	910	-	-	-	-	-	-	910
Penalties	64	-	-	-	-	(5)	441	500
Transferred to other taxes	25,000	-	-	-	-	-	(25,000)	-
Paid in 2005	-	-	(11,848)	(2,745)	(611)	(600,341)	(806,730)	(1,422,275)
Reimbursed for 2004	-	-	-	-	-	(23,119)	-	(23,119)
Payable 31.12.2005.	-	-	-	-	45	32,330	97,352	129,727
(Overpaid) 31.12.2005.	(439,299)	(3,379)	-	(450)	-	-	-	(443,128)

NOTES *(continued)*

(25) Accrued liabilities

	Accruals for employee vacations LVL	Accruals for employee bonuses and salaries LVL	Accruals for legal proceedings costs LVL	Accruals for rent payments for office premises LVL	Other accruals LVL	Total LVL
31.12.2004	175,738	266,957	-	64,320	21,793	528,808
Increase	223,091	1,749,613	688,000	135,800	1,736	2,798,240
Decrease	(89,172)	(255,044)	-	-	(27)	(344,243)
31.12.2005	309,657	1,761,526	688,000	200,120	23,502	2,982,805

In 2005 accruals for rent payments and employee vacations were reclassified and are stated in the Balance Sheet as accrued liabilities.

(26) Average number of employees

	2005	2004
Average annual number of employees:	142	151

(27) Key management remuneration

Management Board remuneration in 2005 made up LVL 851,126 (compared to LVL 396,973 in 2004), social insurance payments amounted to LVL 34,678 (compared to LVL 17,777 in 2004). The remuneration of Supervisory Council members made up LVL 885,264 (compared to LVL 124,641 in 2004), and social insurance payments - LVL 50,244 (compared to LVL 23,975 in 2004).

No loans were advanced or guarantees issued in 2005 to the members of Supervisory Council and Management Board.

NOTES *(continued)*

(28) Guaranteed loans of subsidiaries

(a) Bank loans

	<u>U.S.\$'000</u>	<u>LVL'000</u>	<u>U.S.\$'000</u>	<u>LVL'000</u>
	<u>2005</u>		<u>2004</u>	
Loans denominated in USD:				
Total loans	151,964	90,115	169,321	87,370
Current portion loans	(17,357)	(10,293)	(17,357)	(8,956)
Non-current portion of loans	134,607	79,822	151,964	78,414

The loans are denominated in U.S.\$\$. They are repayable in semi-annual and quarterly instalments and carry interest at a margin linked to U.S. \$ LIBOR. The average effective interest rate for 2005 was 4.7% (2004 – 3.1%).

As security the lenders have mortgages of vessels together with common assignments and pledges until full repayment of the loans in 2014.

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.

(29) Contingencies

As at the end of the reporting period the Company had outstanding claims to suppliers and insurance companies. At the same time some of the claims were still under consideration and remained unapproved. However, based on the acquired expertise, the Management believes that there are no grounds to consider the amounts in question as unrecoverable.

From time to time claims arising from the ordinary course of business are received by the Company. The Management believes that no material liabilities requiring special provisions will arise from the claims received.

(30) Related parties

	<u>2005</u>	<u>2004</u>
	<u>LVL</u>	<u>LVL</u>
Income from commercial serviced rendered	607,284	552,299
Income from the goods sold and services rendered	423,671	390,510
	1,030,955	942,809
Cost of goods and services received	20,757	11,274
	20,757	11,274

In 2005 the Company had a number of transactions with Latmar Holdings Corporation, SIA *LSC Shipmanagement*, SIA *LSC Marine Training*, SIA *Jūras servisa centrs* and SIA *Kuģu remonta bāze*. All the transactions were made at market prices.

NOTES *(continued)*

(31) Financial risk management

The Company's most important financial instrument is cash. The main objective of the above financial instrument is to finance the Company's business activities. The Company also deals with a number of other instruments, like trade receivables, trade and other payables, that arise directly from its business activity.

Financial risks

The main financial risk arising from the Company's financial instruments is foreign currency risk. The Company is exposed to foreign currency risk through cash and cash equivalents, loans issued, trade receivables and trade and other payables. Considerable portion of the Company's income is denominated in U.S. dollars, while the major part of its expenses is denominated in Latvian lats. Therefore the Company is exposed to foreign currency risk mainly through USD. The Company's foreign currency exposure in USD may be stated as follows:

	31.12.2005.	31.12.2004.
Financial assets USD	14,858,966	20,381,082
Financial liabilities USD	(1,094,230)	(1,097,650)
Position USD	<u>13,764,736</u>	<u>19,283,432</u>
Position LVL	<u>8,162,489</u>	<u>9,950,251</u>

(32) 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.

AUDITORS' REPORT

To the shareholders
of AS Latvijas kuģniecība

We have audited the accompanying financial statements of AS Latvijas kuģniecība (hereinafter – the Company) for the year ended 31 December 2005, set out on pages 7 through 34, which comprise the balance sheet, the statements of income, changes in equity and cash flows and the related notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of AS Latvijas kuģniecība as at 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with the law of the Republic of Latvia On the Financial Statements of Companies.

Furthermore, we have read the management report included on pages 4 through 6 of the accompanying annual report for the year ended 31 December 2005 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2005.

SIA "Ernst & Young Baltic"
Licence Nr. 17



Diāna Krišjāne
Personal ID code: 250873-12964
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124

Rīga,
10 May 2006