LATVIJAS KUĢNIECĪBA

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

Annual Report

for the year ended 31 December 2005

PUBLIC STOCK COMPANY

LATVIAN SHIPPING COMPANY

Registered Office

2 Basteja Blvd
Riga LV 1807
Latvia

THE SUPERVISORY COUNCIL

Chairman of the Council	Uldis Pumpurs (from 11.02.2005)
Deputy Chairpersons 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 USD 27.4 million (LVL 15.5 million). The Group's total Voyage Income for 2005 was USD 198.7 million (LVL 112.2 million), which is by USD 17.6 million (LVL 14.4 million) or by 14.7% more that in 2004. The Group's Net Voyage Result 2005 made up USD 147.2 million (LVL 83.1 million), thus exceeding the respective result of 2004 by USD 11.4 million (LVL 9.8 million) or 13.4%. The Group's Vessel Operating Profit for 2005 is USD 53.3 million (LVL 30.1 million), which is by USD 12.7 million (LVL 8.2 million) or 37.2% 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 USD 42.6 million (LVL 23 million) in 2004, whereas in 2005 the reversal makes up only USD 2.5 million (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 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.

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 Modernisation 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 recordhigh 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.

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 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 banns 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

Except as disclosed in accompanying financial statements, no other 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 Management Board
JSC Latvian Shipping Company

Riga, Latvia

May 10, 2006

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board prepares 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 as adopted by EU. 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 Management Board 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 as adopted by EU. 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 Management Board

Riga, Latvia
May 10, 2006

ERNST & YOUNG

■ Ernst & Young Baltic SIA
Kronvalda bulvāris 3-5
LV-1010, Rīga
Latvija
Tālr.: 371 7 043-801
Fakss: 371 7 043-802
www.ey.com/lv
Riga@lv.ey.com

■ Ernst & Young Baltic SIA
Kronvalda Boulevard 3-5
LV-1010, Riga
Latvia
Phone: 371 7 043-801
Fax: 371 7 043-802
www.ey.com/lv
Riga@lv.ey.com

AUDITORS' REPORT

To the shareholders
of AS Latvijas kuģniecība

We have audited the accompanying consolidated financial statements of AS Latvijas kuģniecība and its subsidiaries (hereinafter – the Group) for the year ended 31 December 2005, set out on pages 10 through 45, which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statements of changes in equity and cash flows and the related notes. These financial statements are the responsibility of the Parent 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 the Group 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 International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the fact that the Group has entered into time charter agreements at rates below market value but with possible future profit share clause for some of these agreements. As further described in Notes 25 and 28 of the accompanying financial statements, based on the estimates made by the experts the difference between the agreed time charter rates and market values for 2005 approximates to USD 19 million and for 2004 – USD 30 million, whereas the amount of the final profit share payment remains uncertain.

Ernst & Young Baltic SIA
License No. 17

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

Riga,
10 May 2006

CONSOLIDATED INCOME STATEMENT

	Note	2005 US $'000	2004 US $'000 (reclassified)	2005 LVL'000	2004 LVL '000 (reclassified)
Voyage income	3	198,688	181,097	112,227	97,833
Voyage costs	4	(51,467)	(45,302)	(29,071)	(24,473)
Net Voyage Result		**147,221**	**135,795**	**83,156**	**73,360**
Vessel Operating costs excluding voyage costs and depreciation	5	(66,978)	(70,957)	(37,832)	(38,333)
Vessel Operating Result before Depreciation		**80,243**	**64,838**	**45,324**	**35,027**
Vessel depreciation	3,11	(26,930)	(24,218)	(15,212)	(13,083)
Vessel Operating Profit	3	**53,313**	**40,620**	**30,112**	**21,944**
Vessel impairment reversal	3,11	2,453	42,641	1,386	23,036
Administration expenses	6	(16,532)	(13,385)	(9,338)	(7,231)
Other operational expenses		(4,274)	(445)	(2,414)	(240)
(Loss)/gain on sale of assets		(474)	8,247	(268)	4,455
Operating Profit		**34,486**	**77,678**	**19,478**	**41,964**
Interest income		2,835	891	1,601	481
Exchange rate loss		(1,438)	(2,011)	(811)	(1,087)
Interest expenses		(7,723)	(4,517)	(4,362)	(2,440)
Loss on disposal of subsidiary		-	(19)	-	(10)
Loss from associates	14	-	(13)	-	(7)
Other financial items	8	(733)	(682)	(414)	(368)
Net Financial Items		**(7,059)**	**(6,351)**	**(3,986)**	**(3,431)**
Profit before Taxation		**27,427**	**71,327**	**15,492**	**38,533**
Taxation	9	(23)	23	(13)	12
Profit after Taxation		**27,404**	**71,350**	**15,479**	**38,545**
Minority interest	23	-	11	-	6
Net Profit for the Year		**27,404**	**71,361**	**15,479**	**38,551**
Earnings per share	10	**US$ 0.14**	**US$ 0.36**	**LVL 0.08**	**LVL 0.19**

CONSOLIDATED BALANCE SHEET

	Note	31.12.2005 US $'000	31.12.2004 US $'000 (reclassified)	31.12.2005 LVL'000	31.12.2004 LVL'000 (reclassified)
ASSETS					
NON-CURRENT ASSETS					
Fleet	11	375,168	400,908	222,475	206,869
Other fixed assets	12	2,922	7,859	1,733	4,055
Assets under construction	13	59,763	30,683	35,439	15,832
Investments	14	24	64	14	33
Other financial assets	15	3,897	101	2,311	52
TOTAL NON-CURRENT ASSETS		**441,774**	**439,615**	**261,972**	**226,841**
CURRENT ASSETS					
Inventories	16	6,912	6,175	4,099	3,186
Accounts receivable and prepayments	17	23,683	25,477	14,044	13,146
Financial assets designated at fair Value though profit or loss	18	18,476	16,884	10,956	8,712
Bank and cash balances	19	70,824	56,445	41,999	29,126
TOTAL CURRENT ASSETS		**119,895**	**104,981**	**71,098**	**54,170**
TOTAL ASSETS		**561,669**	**544,596**	**333,070**	**281,011**
SHAREHOLDERS' EQUITY & LIABILITIES					
SHAREHOLDERS' EQUITY					
Share capital		362,319	362,319	200,000	200,000
Translation reserve		(13,945)	(12,762)	7,864	(19,788)
Retained earnings		36,030	8,626	20,089	4,610
TOTAL SHAREHOLDERS' EQUITY		**384,404**	**358,183**	**227,953**	**184,822**
NON-CURRENT LIABILITIES					
Non-current portion of bank loans	20	133,714	150,937	79,292	77,883
Deferred tax liabilities	21	12	5	7	3
TOTAL NON-CURRENT LIABILITIES		**133,726**	**150,942**	**79,299**	**77,886**
CURRENT LIABILITIES					
Current portion of bank loans	20	17,166	17,165	10,179	8,857
Accounts payable and other liabilities	22	26,373	18,306	15,639	9,446
TOTAL CURRENT LIABILITIES		**43,539**	**35,471**	**25,818**	**18,303**
TOTAL LIABILITIES		**177,265**	**186,413**	**105,117**	**96,189**
TOTAL SHAREHOLDER'S EQUITY & LIABILITIES		**561,669**	**544,596**	**333,070**	**281,011**

These Financial Statements were approved by the Management Board on May 10, 2006 and signed on its behalf by

Imants Vikmanis
Chairman of the Management Board

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital		Translation Reserve		Retained Earnings		Total	
	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000
Balance at 31st December 2003	362,319	200,000	(13,557)	2,326	(62,735)	(33,941)	286,027	168,385
Net Profit for the year	-	-	-	-	71,361	38,551	71,361	38,551
Currency translation differences	-	-	795	(22,114)	-	-	795	(22,114)
Balance at 31st December 2004	**362,319**	**200,000**	**(12,762)**	**(19,788)**	**8,626**	**4,610**	**358,183**	**184,822**
Net Profit for the year	-	-	-	-	27,404	15,479	27,404	15,479
Currency translation differences	-	-	(1,183)	27,652	-	-	(1,183)	27,652
Balance at 31st December 2005	**362,319**	**200,000**	**(13,945)**	**7,864**	**36,030**	**20,089**	**384,404**	**227,953**

The authorised, 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.

CONSOLIDATED CASH FLOW STATEMENT

	Note	2005 US $'000	2004 US $'000	2005 LVL'000	2004 LVL'000
Cash Flow from Operations	27	**74,194**	**54,478**	**46,657**	**27,565**
Interest received		2,557	859	1,442	477
Corporate income taxes paid		(18)	(47)	(6)	(25)
Net Cash Flow from Operating Activities		**76,733**	**55,290**	**48,093**	**28,017**
Investing Activities					
Fleet additions		-	(99,441)	-	(53,720)
Purchase of other fixed assets		(648)	(454)	(366)	(245)
Purchase of financial assets designated at fair value through profit or loss		(5,548)	(14,536)	(3,134)	(7,852)
Proceeds on sale of financial assets designated at fair value through profit or loss		2,412	-	1,362	-
Proceeds on sale of subsidiary		128	780	72	421
Proceeds on sale of non-current assets		3,704	23,005	2,092	12,428
Drydock expenditure		(5,055)	(8,384)	(2,855)	(4,529)
Assets under construction and on order		(29,080)	(30,510)	(16,425)	(16,482)
Net Cash Flow from Investing Activities		**(34,087)**	**(129,540)**	**(19,254)**	**(69,979)**
Cash Flow before Financing Activities		**42,646**	**(74,250)**	**28,839**	**(41,962)**
Financing Activities					
Bank loans received		-	75,000	-	40,517
Bank loans repaid		(17,357)	(17,959)	(9,804)	(9,702)
Interest paid on loans		(10,910)	(4,894)	(6,162)	(2,221)
Net Cash Flow from Financing Activities		**(28,267)**	**52,147**	**(15,966)**	**28,594**
Increase/(decrease) in Cash and Cash Equivalents		**14,379**	**(22,103)**	**12,873**	**(13,368)**
Cash and Cash Equivalents at 1st January:		**56,445**	**78,548**	**29,126**	**42,494**
Cash and Cash Equivalents at 31st December:		**70,824**	**56,445**	**41,999**	**29,126**

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

Corporate information

A/s Latvian Shipping Company ("the Company" or "the Parent company") is a public joint stock company organised under the laws of the Republic of Latvia. The Company was first registered in the Enterprise Register on 13 September 1991, and then re-registered in the Commercial Register on 17 November 2004 (under the number 40003021108).

The core activities of the Company is commercial management of the fleet owned by Latvian Shipping Company Group ("The Group") and the management of the investments in subsidiary undertakings.

Basis of accounting

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards as adopted by EU. The financial statements have been prepared under the historical cost convention, as modified by financial assets designated at fair value through profit or loss as discussed in accounting policies hereafter.

The shipping activity forms a substantial part of the Group's activities and therefore the format of the consolidated income statement is adapted thereto. This reporting format is less suitable for non-shipping activities of the Group and therefore the result of these activities is disclosed under "Administration Expenses". See also Note 6.

Basis of consolidation

The consolidated income statement and balance sheet include the financial statements of the Company and its subsidiary undertakings. 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 technical management, 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
(Continued)

1. Accounting Policies *(Continued)*

Reclassifications

In order to ensure the comparability of the prepared income statement and balance sheet, unamortised prepaid financing expense as at 31 December 2004 has been reclassified in the income statement and in the balance sheet and disclosed net of bank loans.

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.

Currency translation

The Financial Statements are prepared in U.S. dollars which is the functional currency of the Group and Latvian Lats which is the presentation currency of the Group in accordance with legislation of the Republic of Latvia.

Monetary assets and liabilities of the Group denominated in other currencies are translated into US Dollars at the rate of exchange prevailing at the end of the financial year.

Foreign currency transactions are accounted for into US Dollars at the exchange rate prevailing at the date of the transaction.

Presentation of financial statements in LVL is done using exchange rate set by the Bank of Latvia in the following way: assets and liabilities are translated at the closing rate at the end of reporting year, income and expenses for income statement are translated at average exchange rates for the reporting year, whilst resulting exchange differences are recognised as separate component of equity.

Income recognition

Voyage income includes gross income from freight and hire and demurrage. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, less discounts. The following specific recognition criteria must also be met before revenue is recognised:

a) Voyages in progress

Credit is made in the consolidated income statement for voyage revenues by reference to the stage of the completion of voyage.

The pro-rata share of expenses in respect of voyages in progress that relate to the reporting year is also included in the consolidated income statement while expenses that relate to the next reporting period are deferred. Full provision is made for any losses known or expected on voyages in progress at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Accounting Policies *(Continued)*

b) Chartering pools

Income from the participation in chartering pools is recognised based on monthly reports provided by pool operator.

c) Demurrage

Demurrage is recognised at the best estimated amount if a claim is considered cerrtain.

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.

Property, plant, equipment and depreciation

(a) Fleet

The Group's fleet is recorded at historical cost less accumulated depreciation.

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 .

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

(b) Other fixed assets

Other fixed assets are recorded at historical cost less accumulated depreciation.

Other fixed assets are depreciated on a straight-line basis using 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 on 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.

Vessels' and other fixed assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Accounting Policies *(Continued)*

(c) 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 fair value less cost to sell and value in use. Fair values are estimated by professional independent valuators and 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 income in the Consolidated Income Statement.

Dry-docking and special surveys

The cost of dry-dockings are capitalised as a part of fixed assets and then written off over the following 30 months representing the estimated time between dry-dockings.

Investments

Associate investments are accounted for under the equity method where the Group can exercise significant influence over the financial and operating policy decisions of the investee.

Financial assets designated at fair value through profit or loss

All regular way purchases and sales are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement day refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group.

Financial assets designated at fair value through profit or loss are initially recognised at cost and subsequently remeasured at fair value based on available market prices. Unrealised and realised gains and losses arising from changes in the fair value are included in the consolidated income statement in the period in which they arise

Inventories

Inventories are stated at the lower of cost and net realisable value, where cost is calculated on a first in first out basis. Net realisable value is estimated selling price in the ordinary course of business, less applicable variable selling expenses. Where necessary, provision is made for obsolete, slow moving and defective stock.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Accounting Policies *(Continued)*

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.

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, tax non-deductible accruals 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.

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.

Loans

All loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. In cases when transaction costs are incurred prior to first disbursement of the related borrowing, the costs are disclosed as prepaid financing expense under other financial assets. Interest expense items are recognised on an accrual basis using the effective interest rate. Borrowings are derecognised when the obligation under the liability is discharged or cancelled or expired.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Accounting Policies *(Continued)*

Provisions

Provisions are recognised when the Group 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.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent events

Post balance sheet events that provide additional information about the company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

Fair Values

The Group'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.

Adoption of IFRSs during the year

The Group has adopted the following revised standards during the year as required. Adoption of revised standards does not have any effect on equity as at 1 January 2004.

- IAS 1 Presentation of Financial Statements;
- IAS 2 Inventories;
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- IAS 10 Events after the Balance Sheet Date;
- IAS 16 Property, Plant and Equipment;
- IAS 24 Related Party Disclosures;
- IAS 27 Consolidate and Separate Financial Statements;
- IAS 28 Investments in Associates;
- IAS 33 Earnings per Share;
- IAS 39 Financial Instruments: Recognition and Measurement

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Accounting Policies *(Continued)*

The Group has not applied the following IFRSs and IFRIC Interpretations relevant for the Group that have been issued but are not yet effective:

IFRS 7 Financial Investments: Disclosures (effective 1 January 2007);
IFRIC 4 Determining whether an Arrangement contains a Lease (effective from 1 January 2006);
Amendments to the Basis for Conclusions of IFRS 7 - Financial instruments: Disclosures (effective from 27 January 2006);
Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 27 January 2006);
Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts (effective from 27 January 2006);
Amendment to IAS 39: Fair value option (effective 1January 2006); amendment to IAS 39: Cash Flow Hedge Accounting (effective 1 January 2006); and amendment to IAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective 1 January 2006);
IFRIC Interpretation 9 Reassessment of Embedded Derivatives (effective from 1 June 2006).

The Group believes that none of these amendments will not have a material impact on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS
(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)*

* m.t. "Pols Robsons was renamed to m.t. "Pablo Neruda"

NOTES TO THE FINANCIAL STATEMENTS
(*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)*
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	m.t. “Ropazi”
Pure Shipping Co. Ltd.	Cyprus	In liquidation
Pure Shipping Co. Ltd.	Malta	m.t. “Pumpuri”

NOTES TO THE FINANCIAL STATEMENTS
(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	Former owner of m.t. “Ropazi” *(Dormant)*
Faroship Navigation Company Ltd.	Cyprus	Former owner of m.t. "Pumpuri" *(Dormant)*
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
(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
SIA “Kuģu menedžments”	Latvia	Real estate maintenance
SIA “ Karavella Property”	Latvia	Real estate maintenance
SIA “Jūrnieku Mācibu Centrs	Latvia	Real estate maintenance

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Segment Information

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

Year ended 31 December 2005

	Tankers		**Reefers**		**LPG**		**Dry Cargo**		**Total**	
	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000
Voyage income	161,708	91,339	18,455	10,424	16,259	9,184	2,266	1,280	198,688	112,227
Vessel Operating Profit	**43,880**	**24,785**	**569**	**321**	**8,760**	**4,948**	**104**	**59**	**53,313**	**30,113**
Vessel impairment reversal	-	-	2,453	1,396	-	-	-	-	2,453	1,396
Unallocated sale of assets									(474)	(268)
Segment result	**43,880**	**24,784**	**3,022**	**1,707**	**8,760**	**4,948**	**104**	**59**	**55,292**	**31,230**
Unallocated corporate expenses									(16,532)	(9,338)
Other operational expenses									(4,274)	(2,414)
Operating Profit									**34,486**	**19,478**
Net Financial Items									(7,059)	(3,986)
Profit before Taxation									**27,427**	**15,492**
Taxation									(23)	(13)
Net Profit for the Year									**27,404**	**15,479**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Segment Information *(Continued)*

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

Year ended 31 December 2005

	Tankers		**Reefers**		**LPG**		**Dry Cargo**		**Total**	
	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000
Segment assets	375,580	222,719	25,080	14,872	68,047	40,352	1,969	1,168	470,676	279,111
Unallocated assets									90,993	53,959
Total assets									**561,669**	**333,070**
Segment liabilities	146,456	86,848	648	348	22,306	13,227	171	101	169,581	100,562
Unallocated liabilities									7,684	4,556
Total liabilities									**177,265**	**105,118**
Other segment items										
Investments in vessels	32,462	18,336	599	338	376	212	-	-	33,437	18,886
Depreciation	20,602	11,637	2,331	1,317	3,688	2,083	310	175	26,931	15,212
Drydocking deferred expenditure depreciation	5,818	3,450	260	154	61	36	178	106	6,317	3,746

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Segment Information *(Continued)*

Year ended 31 December 2004

	Tankers		**Reefers**		**LPG**		**Dry Cargo**		**Total**	
	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000
Voyage income	148,569	80,261	15,685	8,473	11,927	6,443	4,916	2,656	181,097	97,833
Vessel Operating Profit/(Loss)	**32,605**	**17,614**	**2,030**	**1,097**	**6,604**	**3,568**	**(619)**	**(334)**	**40,620**	**21,944**
Vessel impairment reversal	15,913	8,597	2,814	1,520	23,914	12,919	-	-	42,641	23,036
Gain on sale of assets	8,247	4,455	-	-	-	-	-	-	8,247	4,455
Unallocated sale of assets									(12)	(6)
Segment result	**56,765**	**30,666**	**4,844**	**2,617**	**30,518**	**16,487**	**(619)**	**(334)**	**91,508**	**49,435**
Unallocated corporate expenses									(13,385)	(7,231)
Other operational expenses									(445)	(240)
Operating Profit									**77,678**	**41,964**
Net Financial Items									(6,351)	(3,431)
Profit before Taxation									**71,327**	**38,533**
Taxation									23	12
Profit after Taxation									**71,350**	**38,545**
Minority interest									11	6
Net Profit for the Year									**71,361**	**38,551**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Segment Information *(Continued)*

Year ended 31 December 2004

	Tankers		Reefers		LPG		Dry Cargo		Total	
	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000
Segment assets	347,777	179,453	24,143	12,458	71,395	36,840	1,873	966	445,188	229,717
Unallocated assets									99,408	51,294
Total assets									544,596	281,011
Segment liabilities	155,886	80,437	1,336	689	27,680	13,767	176	91	185,078	95,500
Unallocated liabilities									1,335	689
Total liabilities									186,413	96,189
Other segment items										
Investments in vessels	37,559	20,290	379	205	-	-	453	245	38,391	20,740
Depreciation	19,440	10,502	2,080	1,124	2,388	1,290	310	167	24,218	13,083
Drydocking deferred expenditure depreciation	7,196	3,713	500	258	342	176	139	72	8,177	4,219

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
(Continued)

4. Voyage costs

	US $ '000s		LVL '000s	
	2005	2004	2005	2004
Port expenses	(13,502)	(16,220)	(7,627)	(8,762)
Bunkering	(29,754)	(21,987)	(16,806)	(11,878)
Commission	(7,524)	(7,081)	(4,250)	(3,825)
Provision against debtors of doubtful recovery	(687)	(14)	(388)	(8)
TOTAL	**(51,467)**	**(45,302)**	**(29,071)**	**(24,473)**

5. Vessel operating costs excluding voyage costs and depreciation

	US $ '000s		LVL '000s	
	2005	2004	2005	2004
Chartering expenses	-	(2,495)	-	(1,348)
Crew expenses	(24,643)	(23,700)	(13,919)	(12,803)
Catering expenses	(2,268)	(1,967)	(1,282)	(1,063)
Equipment maintenance expenses	(8,101)	(7,617)	(4,576)	(4,115)
Luboil	(2,941)	(2,687)	(1,661)	(1,452)
Repairs	(15,251)	(16,875)	(8,614)	(9,116)
Drydocking	(6,317)	(8,177)	(3,568)	(4,417)
Insurance	(5,295)	(4,725)	(2,991)	(2,553)
Other operating expenses	(2,078)	(2,630)	(1,174)	(1,421)
Management fee	(84)	(84)	(47)	(45)
TOTAL	**(66,978)**	**(70,957)**	**(37,832)**	**(38,333)**

6. Administration expenses

	US $ '000s		LVL '000s	
	2005	2004	2005	2004
Staff Costs	(10,736)	(7,936)	(6,064)	(4,287)
Travel and Transport	(587)	(661)	(332)	(357)
Occupation and Repairs	(1,512)	(1,897)	(854)	(1,025)
IT and Communication	(512)	(619)	(289)	(334)
Professional Fees	(2,228)	(869)	(1,258)	(469)
Advertising and Marketing	(729)	(974)	(412)	(526)
Other Income and Costs	315	430	178	231
Real Estate Tax	(95)	(116)	(54)	(63)
Movements in Provision of claims and other	174	22	98	12
Depreciation	(622)	(765)	(351)	(413)
TOTAL	**(16,532)**	**(13,385)**	**(9,338)**	**(7,231)**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Employment Costs and Staff Numbers

	2005			2004		
	US $ '000	LVL '000	Number	US $ '000	LVL '000	Number
Shore based staff	10,634	6,006	297	7,842	4,236	273
Seamen*	24,643	13,919	867	23,700	12,803	873
Total	**35,277**	**19,925**	**1 164**	**31,542**	**17,039**	**1 146**

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.

8. Other Financial Items

	US $ '000s		LVL '000s	
	2005	2004	2005	2004
Mortgage fees and insurance	(88)	(89)	(50)	(48)
Change in fair value of financial assets designated at fair value though profit or loss	(198)	(64)	(112)	(35)
Income from investments	92	-	52	-
Bank charges	(539)	(529)	(304)	(285)
TOTAL	**(733)**	**(682)**	**(414)**	**(368)**

9. Taxation

	US $ '000s		LVL '000s	
	2005	2004	2005	2004
Deferred income tax of current year	(7)	25	(4)	13
Corporate income tax of current year	(16)	(2)	(9)	(1)
TOTAL	**(23)**	**23**	**(13)**	**12**
Profit before tax	27,427	71,327	15,492	38,533
Tax calculated at tax rate of 15%	4,114	10,699	2,324	5,780
Income and expenses not subject to corporate income tax	(5,342)	(11,905)	(3,018)	(6,431)
Increase in unrecognised deferred tax asset	1,251	1,183	707	639
Tax charge for the year	**23**	**(23)**	**13**	**(12)**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Corporate income tax is payable in Latvia at a rate of 15% 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 available to offset against future taxable profit in the Parent company and 100% owned Latvian subsidiaries from the previous years are as follows:

	Losses		
Year	US $'000	LVL'000s	**Expires**
2001	4	2	2006
2002	651	386	2007
2003	8,433	5,001	2008
2004	7,450	4,418	2009
2005	4,360	2,586	2010
	20,898	12,393	

10. 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.

	2005		2004	
	US $ '000s	LVL '000	US $ '000s	LVL '000
Net profit for the year attributable to shareholders	27,404	15,479	71,361	38,551
Weighted average number of ordinary shares in issue (thousands)	200,000	200,000	200,000	200,000
Basic earnings per share	US $0.14	LVL 0.08	US $0.36	LVL 0.19

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Fleet

	31.12.2005		31.12.2004	
	US $ '000s	LVL '000	US $ '000s	LVL '000
Net Book Value	366,867	217,553	391,344	201,934
Drydocking deferred expenditure	8,301	4,922	9,564	4,935
	375,168	**222,475**	**400,908**	**206,869**

Year ended 31 December 2005

	Cost		Depreciation		Net Book Value	
	US $'000s	LVL '000	US $'000s	LVL '000	US $'000s	LVL '000
At 1st January 2005	**642,812**	**331,691**	**(251,468)**	**(129,757)**	**391,344**	**201,934**
Depreciation charge for the year	-	-	(26,930)	(15,211)	(26,930)	(15,211)
Impairment reversal	-	-	2,453	1,386	2,453	1,386
Exchange differences	-	49,497	-	(20,054)	-	29,443
At 31st December 2005	**642,812**	**381,188**	**(275,945)**	**(163,636)**	**366,867**	**217,552**

Drydocking deferred expenditure

	US $'000s	LVL '000
At 1st January 2005	**9,564**	**4,935**
Depreciation charge for the year	(6,317)	(3,568)
Additions	5,054	2,854
Exchange differences	-	701
At 31st December 2005	**8,301**	**4,922**

Year ended 31 December 2004

	Cost		Depreciation		Net Book Value	
	US $ '000s	LVL '000	US $ '000s	LVL '000	US $ '000s	LVL '000
At 1st January 2004	**578,498**	**312,967**	**(290,349)**	**(157,079)**	**288,149**	**155,888**
Depreciation charge for the year	-	-	(24,218)	(13,083)	(24,218)	(13,083)
Impairment reversal	-	-	42,641	23,036	42,641	23,036
Additions	99,441	53,721	-	-	99,441	53,721
Disposals	(35,127)	(18,977)	20,458	11,052	(14,669)	(7,925)
Exchange differences	-	(16,020)	-	6,317	-	(9,703)
At 31st December 2004	**642,812**	**331,691**	**(251,468)**	**(129,757)**	**391,344**	**201,934**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Fleet (*Continued*)

Drydocking deferred expenditure

	US $'000s	LVL '000
At 1st January 2004	**9,357**	**5,062**
Depreciation charge for the year	(8,177)	(4,417)
Additions	8,384	4,529
Exchange differences	-	(239)
At 31st December 2004	**9,564**	**4,935**

Part of the fleet (with the net book value of U.S.$ 307,5 million) has been used as security for bank loans. See note 16 for details.

In compliance with LSC policy the Group asked for its fleet valuation from independent professional valuators, whose estimates revealed significant difference between vessels' market values and their book values, which resulted in the reversal of previously recognised impairment loss of U.S.$ 2,5 million in the consolidated income statement for 2005 and US$ 42,6 million in the consolidated income statement for 2004.

Part of the fleet having gross carrying amount U.S.$ 17,0 million is fully amortised down to scrap value amounting to U.S.$ 9,8 million and is still in active use.

The Group has been provided with indicative valuations of the vessel by two independent brokers. Based on these, the average valuation of the fleet as at 31 December 2005 amounted to US$ 610,6 million (2004 – US$ 526,5 million)

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

	2005
Tankers	32
Reefers	5
Dry cargo	1
LPG fleet	2
TOTAL	**40**

Total dead-weight Tonnage

31st December 2005	Dwt	**1,098,864**
31st December 2004	Dwt	**1,098,864**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Fleet (*Continued*)

At 31st December 2005 the group fleet comprises:

Product Tankers:		**Year of Building**	**Dwt**
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
(Continued)

11. 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
(Continued)

12. Other Fixed Assets

Year ended 31 December 2005

	Buildings		Machinery and Equipment		Total	
	US $ '000s	LVL '000	US $ '000s	LVL '000	US $ '000s	LVL '000
Cost						
At 1st January 2005	**9,643**	**4,976**	**6,433**	**3,319**	**16,076**	**8,295**
Additions	-	-	678	383	678	383
Disposals during the year	(5,363)	(3,020)	(1,358)	(763)	(6,721)	(3,783)
Exchange differences	(981)	-	(797)	-	(1,778)	-
At 31st December 2005	**3,299**	**1,956**	**4,956**	**2,939**	**8,255**	**4,895**
Depreciation						
At 1st January 2005	**2,296**	**1,184**	**5,457**	**2,816**	**7,753**	**4,000**
Charge for the year	129	73	493	278	622	351
Disposals	(1,262)	(701)	(1,283)	(725)	(2,545)	(1,426)
Exchange differences	(225)	-	(671)	-	(896)	-
At 31st December 2005	**938**	**556**	**3,996**	**2,369**	**4,934**	**2,925**
Accumulated impairment						
At 1st January 2005	464	240	-	-	464	240
At 31st December 2005	399	237	-	-	399	237
Net book value						
At 31st December 2005	**1,962**	**1,163**	**960**	**570**	**2,922**	**1,733**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12. Other Fixed Assets *(Continued)*

Year ended 31 December 2004

	Buildings		Machinery and Equipment		Total	
	US $ '000	LVL '000	US $' 000	LVL '000	US $' 000	LVL '000
Cost						
At 1st January 2004	**9,197**	**4,976**	**7,477**	**4,045**	**16,674**	**9,021**
Additions	-	-	454	245	454	245
Reclassification	-	-	(525)	(284)	(525)	(284)
Disposals during the year	-	-	(1,271)	(687)	(1,271)	(687)
Exchange differences	446	-	298	-	744	-
At 31st December 2004	**9,643**	**4,976**	**6,433**	**3,319**	**16,076**	**8,295**
Depreciation						
At 1st January 2004	**2,035**	**1,101**	**6,209**	**3,359**	**8,244**	**4,460**
Charge for the year	155	83	610	330	765	413
Disposal	-	-	(1,182)	(639)	(1,182)	(639)
Reclassification	-	-	(433)	(234)	(433)	(234)
Exchange differences	106	-	253	-	359	-
At 31st December 2004	**2,296**	**1,184**	**5,457**	**2,816**	**7,753**	**4,000**
Accumulated impairment						
At 1st January 2004	448	242	-	-	448	242
At 31st December 2004	464	240	-	-	464	240
Net book value						
At 31st December 2004	**6,883**	**3,552**	**976**	**503**	**7,859**	**4,055**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

13. Assets under construction

	US $ '000s		LVL '000	
	2005	2004	2005	2004
At 1st January	30,683	173	15,832	94
Expenditure during the year	29,080	30,510	16,425	16,482
Exchange differences	-	-	3,182	(744)
At 31st December	**59,763**	**30,683**	**35,439**	**15,832**

Assets under construction are principally 14 product tankers referred to in notes 19 and 26.

14. 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		LVL '000	
	2005	2004	2005	2004
At the beginning of year	64	80	33	43
Share of loss	(35)	-	(20)	-
Loss for the year	-	(13)	-	(7)
Translation reserve	(5)	(3)	1	(3)
At the end of year	**24**	**64**	**14**	**33**

15. Other financial assets

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Prepaid financial expenses				
Book value as at 1 January	900	-	464	-
Additions	2,701	-	1,526	-
Exchange differences	-	-	146	
At 31st December	**3,601**	**-**	**2,136**	**-**
Non-current receivables				
Book value as at 1 January	101	101	52	55
Additions	195	-	110	-
Exchange differences	-	-	13	(3)
At 31st December	**296**	**101**	**175**	**52**
Total as at 31st December	**3,897**	**101**	**2,311**	**52**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

16. Inventories

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Ship and shore spares	851	1,323	505	683
Bunkers	3,971	2,923	2,355	1,508
Consumables	2,258	2,270	1,339	1,171
Provision against slow moving and obsolete inventories	(168)	(341)	(100)	(176)
TOTAL	**6,912**	**6,175**	**4,099**	**3,186**

17. Accounts receivable and prepayments

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Trade debtors	17,924	19,699	10,629	10,165
Other debtors	1,630	789	967	407
Claims receivable	1,023	683	607	352
Prepayments	4,306	2,433	2,553	1,255
Accrued voyage revenues	3,962	7,430	2,349	3,834
TOTAL	**28,845**	**31,034**	**17,105**	**16,013**
Provision for bad and doubtful debts	(5,162)	(5,557)	(3,061)	(2,867)
TOTAL	**23,683**	**25,477**	**14,044**	**13,146**

18. Financial assets designated at fair value through profit or loss

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Opening net book value	16,884	2,204	10,012	1,137
Additions	5,548	14,536	3,289	7,501
Disposals	(2,412)	-	(1,430)	-
Change in fair value	(198)	(64)	(118)	(33)
Interest income accrued	257	39	152	20
Exchange differences	(1,603)	169	(949)	87
Closing net book value	**18,476**	**16,884**	**10,956**	**8,712**

The financial assets designated at fair value though profit or loss are principally units in single bond funds, which are all listed, held by Kristaps Insurance Ltd. and Latmar Holdings Corporation.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

19. Bank and Cash Balances

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Bank and cash balances	16,524	10,154	9,799	5,239
Bank deposits maturing less than 3 months from the date of placement	54,300	46,291	32,200	23,887
Bank and cash balances total	**70,824**	**56,445**	**41,999**	**29,126**

20. Bank Loans

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Repayments due within next twelve months	17,357	17,357	10,293	8,956
Unamortised prepaid financing expenses*	(191)	(192)	(114)	(99)
Net current portion	**17,166**	**17,165**	**10,179**	**8,857**
Non-current portion	134,607	151,964	79,822	78,413
Unamortised prepaid financing expenses*	(893)	(1,027)	(530)	(530)
Net non-current portion	**133,714**	**150,937**	**79,292**	**77,883**
Total loans outstanding	151,964	169,321	90,115	87,369
Total unamortised prepaid financing expenses*	(1,084)	(1,219)	(644)	(629)
Total loan, net of unamortised financing costs	**150,880**	**168,102**	**89,471**	**86,740**

* In 2005 prepaid financing expenses were reclassified in the balance sheet and are disclosed net of borrowings. Comparative figures for 2004 have been reclassified accordingly.

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.

The loans 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 4.8% (2004 – 3.2%).

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The loans are scheduled to be repaid as follows:

Year	US $ million	LVL million
2006	17,4	10,3
2007	44,4	26,3
2008	9,3	5,5
2009	23,3	13,8
2010	7,3	4,3
2011 until 2014	50,3	29,8
Total:	**152,0**	**90,0**

For the purpose of financing the newbuilding programme, a loan agreement was signed in the amount of U.S. $ 360 million. No drawdowns took place in the reporting period. Thus, the facility was unused as at 31.12.2005.

21. Deferred tax liabilities

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Total Deferred Tax:				
Deferred tax liabilities at 1st January	5	30	3	16
Charge/(release) to income statement	7	(25)	4	(13)
Deferred tax liabilities at 31st December	12	5	7	3
Excess of tax allowances over depreciation	158	526	94	271
Other temporary differences	(966)	(330)	(573)	(170)
Tax losses	(3,134)	(2,894)	(1,859)	(1,493)
Unrecognised deferred tax asset	3,954	2,703	2,345	1,395
Deferred tax liabilities at 31st December	**12**	**5**	**7**	**3**

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
(Continued)

22. Accounts payable and other liabilities

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Trade creditors	5,321	4,118	3,155	2,125
Other creditors	2,680	2,693	1,589	1,389
Accrued expenses	12,277	9,796	7,280	5,055
Deferred income	6,095	1,699	3,615	877
TOTAL	**26,373**	**18,306**	**15,639**	**9,446**

23. Minority interest

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Balt Dutch Holding N.V.	-	11	-	6
	-	**11**	**-**	**6**

24. 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.

25. Contingent Assets

In accordance with the opinion of the independent experts at the beginning of 2005 the Group entered into the time charter agreements at rates below market value. The signed time charter agreements provide profit sharing clauses where extra earnings exceeding the agreed time charter rates after the deduction of all related expenses of the charterer are shared equally. The profit sharing shall be effected within 12 month period after the expiration of the time charter agreements. Based on the estimations made by the experts if no profit sharing takes place the difference between agreed time charter rates and market value approximates to USD 10,770 thousands.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

26. Capital commitments

In December 2003 an Agreement was signed 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 – 37 million.

27. Cash Flow from Operations

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Profit before taxation	27,427	71,327	15,492	38,533
Adjustments for :				
Depreciation	27,552	24,983	15,562	13,496
Loss / (Profit) on sale of fixed assets	474	(8,247)	268	(4,455)
Share of profits of associates	-	13		17
Drydocking deferred expenditure depreciation	6,317	8,177	3,568	4,418
Vessels impairment reversal	(2,453)	(42,641)	(1,386)	(23,036)
Currency translation difference	1,235	(461)	5,447	(2,038)
Interest expenses	7,723	4,517	4,362	2,354
Interest income	(2,835)	(891)	(1,601)	(482)
Change in fair value of financial assets designated at fair value through profit or loss	198	64	112	34
Gain on sale of investments	(92)	-	(52)	-
Loss on disposal of subsidiary	-	19	-	11
	65,546	**56,860**	**41,772**	**28,852**
Movement in net working capital – net of provisions				
Inventories	(737)	(1,786)	(416)	(965)
Accounts receivable	1,599	(3,214)	903	(1,736)
Accounts payable	7,786	2,618	4,398	1,414
	8,648	**(2,382)**	**4,885**	**(1,287)**
Cash Flow from Operations	**74,194**	**54,478**	**46,657**	**27,565**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

28. Related Party Transactions

In accordance with the opinion of the independent experts during 2004 and at the beginning of 2005 several Group companies entered into the time charter agreements 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. Based on the estimations made by the experts the difference between agreed time charter rates and market values for 2004 approximates to USD 30 million and for 2005 – USD 8 million.

During 2005 and 2004 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.

Compensation of key management personnel of the Group

	US $ '000s		LVL '000	
	2005	2004	2005	2004
Salary	3,371	1,216	1,904	657
Social tax	216	125	122	68
Total	**3,587**	**1,341**	**2,026**	**725**

29. Financial Risk Management and Fair Values

The Group has a policy of regularly reviewing its approach to risk management. Where the Management believes the fair value of financial assets has reduced, after consultation with the relevant specialists, a provision will be made in the financial statements.

The main financial risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk.

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

Credit risk
The Group is exposed to credit risk through its trade receivables. The Group manages its credit risk by continuously assessing the credit history of customers. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised. The Group's policy is to trade only with well recognised, creditworthy third parties. Two largest debtors comprise 45% of total trade debtors (2004: 26%)

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Foreign currency risk

The Group operates both in Europe and in America 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 the Latvian Lat and European Euro. It is Group policy to keep some free cash in Latvian Lats or European Euros placed on term deposits and to monitor the currency position regularly.

Liquidity and cash management risk

Based on the Group's cash management principle, the Group's cash is accumulated in dedicated bank accounts on a Group level. In addition the Group has available loan facility in amount of US$ 360 million.

Fair values

The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the balance sheet date.

30. Post Balance Sheet Events

The first of the tankers ordered at 3.Maj in Croatia was launched on 25 February 2006.

One tanker vessel (m.t. "Džons Rids") was sold to scrap in April 2006.