

**Public Joint Stock Company
Latvian Shipping Company**

ANNUAL REPORT

FOR THE YEAR ENDED

31st DECEMBER 2006



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GENERAL INFORMATION

Name	Latvijas kuģniecība (Latvian Shipping Company, hereinafter LASCO)
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Legal Status	Public Joint Stock Company
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Registration number, place and date	Reg. No. 40003021108, Riga, 13 September 1991 Reregistered in the Commercial Register on 17 November 2004
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Registered Office	1 Elizabetes Street, Riga, LV 1807, Latvia
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Name and address of shareholders and their share of interest (%)	As at 31.12.2006. <ul style="list-style-type: none">▪ JSC <i>Ventspils nafta</i> – 49.94 % , 23 Ostas str., Ventspils, LV 3601, Latvia▪ JSC <i>Hansabanka</i> customer – 13.34%▪ 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 – 3.19%▪ JSC <i>Hansapank</i> customer – 1.99%▪ Other – 8.26%
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Reporting Period	1 January - 31 December 2006
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GENERAL INFORMATION *(continued)*

The Supervisory Council:

Chairman:	Uldis Pumpurs
Deputy chairpersons:	Andris Linužs Olga Pētersone
Members:	Vladimirs Solomatins Aldis Āķis Ansis Sormulis Laimonis Junkers Mamerts Vaivads Pēteris Putniņš Vladimirs Krastiņš

The management Board:

Chairman of the Management Board	Imants Vikmanis
Member of the Management Board - First Vice President	Miks Ekbaums (from 07.11.2006)
Member of the Management Board - Vice President	Solvita Deglava
Members of the Management Board	Guntis Tīrmanis Ilva Purēna Viktors Gavriļenko (until 22.08.2006)

Auditors

Diāna Krišjāne
Sworn Auditor
Personal code: 250873-12964
Licence Nr. 124
SIA *Ernst & Young Baltic*
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.

As at 31 December 2006, the fleet under LASCO commercial management comprised 41 vessels: 33 product tankers (including 3 tankers time chartered in from other shipowners), 2 LPG carriers, 5 reefer vessels and 1 Ro-Ro/general type vessel.

Performance in the Reporting Period

All 200 000 000 LASCO shares are listed on the Official List of Riga Stock Exchange. In 2006, the Company's share price reduced from LVL 1.30 per share to LVL 1.07 per share. In 2006, a total 12.9 million LASCO shares were traded on Riga Stock Exchange with the total turnover reaching LVL 13.3 million. At 31 December 2006 the market capitalisation of LASCO on Riga Stock Exchange was LVL 214.0 million.

LASCO Group's mother company closed the year 2006 with the Total Revenue of almost LVL 2.5 million and Net Loss of LVL 8.2 million.

LASCO Group's Net Profit for 2006 is LVL 18,9 million, an increase of 23% compared to 2005. The Group's Net Profit for 2005 was LVL 15,5 million.

The increase in the Group's Net Profit 2006 compared to 2005 is attributable mainly to the still attractive freight market rates as well as high scraping prices during 2006 when as 5 oldest tankers owned by the Group were scraped.

The Group's total Voyage Income for 2006 was LVL 121,2 million, which is by LVL 8,9 million or by 8.9% higher than in 2005. The Group's Net Voyage Result 2006 made up LVL 87,1 million, thus exceeding the respective result of 2005 by LVL 3,9 million or 5.6%. The Group's Vessel Operating Profit for 2006 is LVL 25,3 million, which is by LVL 4,8 million or 15.0% less than in 2005.

The increase in the Net Voyage Result can be directly attributed to the fleet renewal and 3 tankers time chartered in from other shipowners.

In 2006, major attention was paid to the implementation of LASCO Tanker Fleet Renewal Programme. 14 newbuildings have been ordered within the frames of the project: 10 tankers at *3.Maj* shipyard in Croatia and 4 tankers at *Hyundai Mipo Dockyard* in Korea.

During the year, LASCO took the delivery of the three out of ten newbuildings ordered at *3.Maj* shipyard in Croatia.

At the end of the year the Management Board of LASCO conceptually approved further development of the Group's middle range tanker fleet through the expansion of the given segment's total tonnage by approximately 200 thousand deadweight tons (DWT) by ordering four additional newbuildings. Considering the optimum size of the newbuildings, they are planned to be used for the transportation of the diversified range of cargoes including oil products, chemicals and vegoils.

Outlook

There are grounds to believe that following the stabilisation of freight rates, no sharp upward trend should be expected in 2007. 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.

MANAGEMENT REPORT

(Continued)

Older tankers are planned to be sold for scrap during in 2007. Their phasing-out is required by MARPOL International Convention that bans their further employment. Freight rates, distribution of cargoes 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 and future financial performance, since it is economically more sound to maintain a younger and smaller tonnage, than an older but larger fleet.

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

To ensure finance for ordering additional middle – range (MR) tanker newbuildings, as well as considering favourable market conditions (i.e. high prices in the second hand market), the resolution to sell two Panamax-type tankers m/t *Zemgale* and m/t *Latgale* was passed and executed after the end of the reporting year.

In January 2007, LASCO took the delivery of the first tanker newbuild ordered at *Hyundai Mipo Dockyard* in Korea. In turn two aged tankers were sold for scrap respectively in February and March.

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
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Board - Vice President

Ilva Purēna
Member of the Management
Board

Guntis Tīrmanis
Member of the Management
Board

11 April 2007

The Annual Report was approved by the AGM of Shareholders on _____2007

Chairman of the AGM of Shareholders _____

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 LVL	2005 LVL
1. Net sales	1	2,445,556	995,233
2. Cost of sales	2	(1,122,058)	(1,251,004)
3. Gross profit/ (loss)		1,323,498	(255,771)
5. Administrative expenses	3	(7,265,417)	(6,066,044)
6. Other operating income	4	511,431	
7. Other operating expenses	5	(491,104)	(2,404,058)
8. Income from participation in subsidiary and associated undertakings	6	-	1,018,800
10. Other interest and similar income	7	233,655	1,851,414
11. Impairment in non-current and current investments' value	8	(1,932,641)	(567,042)
12. Interest expenses and similar expenses	9	(633,501)	(3,438)
16. Loss before taxation		(8,254,079)	(6,426,139)
17. Corporate income tax	10	-	-
18. Other taxes	11	(8,871)	(13,080)
19. Net loss for the reporting period		(8,262,950)	(6,439,219)

Notes on pages 11 through 31 constitute an integral part of the financial statements.

Imants Vikmanis
 Chairman of the Management
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11 April 2007

BALANCE SHEET AS AT 31 DECEMBER 2006

(1)

	Note	31.12.2006 LVL	31.12.2005 LVL
Assets			
Non-Current Assets			
I Intangible Assets:			
2. Concessions, patents, licenses, trademarks and similar rights	12	124,279	69,347
Total Intangible Assets:		124,279	69,347
II Fixed Assets:			
1. Buildings and constructions		2,209,393	197,274
3. Machinery and equipment		15,085	1,190
4. Other fixed assets, fixtures and fittings		826,311	313,946
5. Assets under construction		31,243	757,126
6. Advances for fixed assets		18,605	47,574
Total Fixed Assets:	12	3,100,637	1,317,110
III Non-Current Financial Assets:			
1. Investments in the subsidiaries	13	115,323,845	117,256,486
3. Investments in associated undertakings	14	7,553	7,553
6. Other loans		-	115,643
Total Non-Current Financial Assets:	15	115,331,398	117,379,682
Total Long Term Assets:		118,556,314	118,766,139
Current Assets			
I Inventories:			
1. Raw materials and components	16	21,128	34,084
Total Inventories:		21,128	34,084
II Accounts receivable and prepayments:			
1. Trade receivables	17	8,035	121,533
2. Amount due from related companies	18	1,699,029	10,891,585
4. Other receivables	19	528,776	583,493
7. Deferred expenses		154,515	95,609
Total Accounts Receivable:		2,390,355	11,692,220
III Current Investments:			
3. Other securities and participations		25,780	25,780
Total Current Investments:	20	25,780	25,780
IV. Cash and Cash Equivalents	21	251,666	355,527
Total Current Assets:		2,688,929	12,107,611
Total Assets		121,245,243	130,873,750

BALANCE SHEET AS AT 31 DECEMBER 2006 *(continued)*

(2)

	Note	31.12.2006 LVL	31.12.2005 LVL
<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		(73,396,558)	(66,957,339)
b) loss for the reporting period		(8,262,950)	(6,439,219)
Total Shareholders' Equity:		118,340,492	126,603,442
Liabilities:			
Current Liabilities:			
6. Trade payables		148,312	279,078
8. Amounts due to related companies	22	937,218	671,701
10. Taxes and social insurance payments	23	82,499	129,727
11. Other accounts payable	24	247,419	206,997
15. Accrued expenses	26	1,489,303	2,982,805
Total Current Liabilities:		2,904,751	4,270,308
<u>Total Equity and Liabilities</u>		121,245,243	130,873,750

Notes on pages 11 through 31 constitute an integral part of the financial statements.

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11 April 2007

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31st DECEMBER 2006**

	<u>Share Capital</u> <u>LVL</u>	<u>Accumulated</u> <u>losses</u> <u>LVL</u>	<u>Total</u> <u>LVL</u>
31 December 2004	<u>200,000,000</u>	<u>(66,957,339)</u>	<u>133,042,661</u>
Net Loss for the year	-	(6,439,219)	(6,439,219)
31 December 2005	<u>200,000,000</u>	<u>(73,396,558)</u>	<u>126,603,442</u>
Net Loss for the year	-	(8,262,950)	(8,262,950)
31 December 2006	<u>200,000,000</u>	<u>(81,659,508)</u>	<u>118,340,492</u>

As at 31 December 2006 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.

Notes on pages 11 through 31 constitute an integral part of the financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2006

	Note	2006 LVL	2005 LVL
I. Cash Flow from Operating Activities			
1. Loss before taxation		(8,254,079)	(6,426,139)
<u>Adjustments for:</u>			
a) Depreciation		214,108	136,096
b) Licence amortisation		46,389	43,432
c) Accrued expenses (decrease)/ increase		(1,493,502)	2,453,997
d) Foreign exchange (gain) /loss		20,858	(7,008)
e) Income from participation in subsidiaries and associated undertakings		-	(1,018,800)
g) Other interest income		(233,655)	(513,796)
h) Impairment in non-current and current investments' value		1,932,641	567,042
j) Profit/ (Loss) from the disposal of fixed assets and licences		(16,907)	197
k) Other taxes		(8,871)	(13,080)
2. Loss before adjustments for movements in net working capital		(7,793,018)	(4,778,059)
<u>Adjustments for:</u>			
a) Decrease in trade receivables		982,257	560,648
b) Decrease in inventories		12,956	2,615
c) Increase in trade payables		127,945	294,565
3. Gross Cash Flow from Operating Activities		(6,669,860)	(3,920,231)
6. Net Cash Flow from Operating Activities		(6,669,860)	(3,920,231)
II. Cash Flow from Investing Activities			
1. Sale of own shares		-	12,100
2. Proceeds from sale of subsidiaries and associated undertakings		-	290,000
3. Acquisition of fixed and intangible assets, assets under construction		(2,102,729)	(783,188)
4. Proceeds from sale of fixed and intangible assets		20,680	9,618
5. Loans advanced		-	(115,643)
6. Proceeds from repayment of the loans issued		8,077,681	1,335,270
7. Interest received		591,225	6,879
8. Dividends received		-	1,018,800
9. Net Cash Flow from Investing Activities		6,586,857	1,773,836
IV. Currency Translation Difference		(20,858)	7,008
Net Increase/ (Decrease) in Cash and Cash Equivalents		(103,861)	(2,139,387)
Cash and Cash Equivalents at the beginning of the reporting year	21	355,527	2,494,914
Cash and Cash Equivalents at the end of the reporting year		251,666	355,527

Notes on pages 11 through 31 constitute an integral part of the financial statements.

NOTES

Accounting Policies

(1) Basis of preparation

The financial statements are prepared in accordance with Law of the Republic of Latvia On Financial statement of the Companies and Latvian Accounting Standards applicable in the reporting year. The financial statements are prepared on a historical cost basis. 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.

(2) 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.

(3) 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.

	31.12.2006.	31.12.2005.
	LVL	LVL
1 USD	0.536	0.593
1 EUR	0.702804	0.702804

(4) 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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

NOTES *(continued)*

Accounting Policies *(continued)*

(4) Intangible and fixed assets *(continued)*

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.

(5) 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.

(6) 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.

(7) 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.

NOTES *(continued)*

Accounting Policies *(continued)*

(8) 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.

(9) 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.

(10) 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.

(11) 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.

(12) 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.

(13) 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)*

	2006	2005
	LVL	LVL
(1) Net sales		
Income from commercial services rendered	2,111,848	607,284
Rental income	128,585	203,007
Other income	205,123	184,942
	2,445,556	995,233
(2) Cost of sales		
Salaries and training	559,630	548,541
Social insurance costs	86,305	106,556
Repairs and maintenance expenditure	138,140	192,648
Depreciation	137,191	136,410
IT and communication	114,396	120,779
Transport and travelling expenses	62,686	77,355
<i>incl. social insurance costs</i>	<i>1,086</i>	<i>1,237</i>
Professional fees	11,462	4,421
Advertising and marketing	7,921	6,898
Other costs	4,327	57,396
	1,122,058	1,251,004
(3) Administrative expenses		
Salaries, training, health insurance and similar costs	4,123,711	3,044,208
Social insurance costs	178,172	301,211
Professional fees	771,572	1,167,903
Advertising and marketing	680,716	368,375
Occupation and repairs	489,228	480,134
Transport and travelling expenses	204,194	143,410
<i>incl. social insurance costs</i>	<i>5,118</i>	<i>6,085</i>
Depreciation	123,306	43,118
IT and communication	25,102	41,157
Other expenses	672,827	577,931
Movements in other provisions	(3,411)	(101,403)
	7,265,417	6,066,044
(4) Other operating income		
Reversal accruals for legal proceedings costs	494,524	-
Profit from disposal of fixed assets and licenses	16,907	-
	511,431	-

NOTES (continued)

	2006	2005
	LVL	LVL
(5) Other operating expenses		
Accruals for employee bonuses	491,104	1,715,861
Accruals for legal proceedings costs	-	688,000
Losses from disposal of fixed assets and licenses	-	197
	491,104	2,404,058
(6) Income from investments in subsidiary and associated undertakings		
Dividends received from Kristaps Insurance Ltd.	-	1,018,800
	-	1,018,800
(7) Other interest and similar income		
Gain from foreign currency rate fluctuations	-	1,337,618
Interest income from term loans advanced to subsidiaries	223,867	276,921
Income from sale of participations	-	229,996
Interest income	9,788	6,879
	233,655	1,851,414
(8) Impairment of non-current and current investments' value		
SIA LSC Shipmangement	1,900,000	
SIA Kuģu remonta bāze	32,239	319,557
SIA Kuģu menedžments	-	121,848
SIA Jūrnīeku mācību centrs	-	117,627
SIA Ostas serviss	-	8,010
SIA Latvian-Finnish Maritime Agency	402	-
	1,932,641	567,042
(9) Interest and similar expenses		
Loss from foreign currency rate fluctuations	601,141	-
Interest Payments	29,133	-
Bank charges	3,227	3,438
	633,501	3,438

NOTES (continued)

(10) 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:

	2006	2005
Loss before tax	(8,254,079)	(6,426,139)
Tax calculated at tax rate of 15%	(1,238,112)	(963,921)
Expenses not deductible for tax purposes	415,912	165,779
Income not subject to corporate income tax	(1,590)	(16,910)
Unused tax losses	282	5,886
Transfer of tax losses to the related company	1,364	21,152
Changes in unrecognised deferred tax asset	822,144	788,014
Corporate income tax	<u>-</u>	<u>-</u>

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:

	31.12.2006	31.12.2005
	LVL	LVL
Excess of tax allowances over depreciation	117,866	60,175
Other temporary differences	(255,204)	(479,397)
Tax losses	(2,640,119)	(1,536,091)
Unrecognised deferred tax asset	<u>(2,777,457)</u>	<u>(1,955,313)</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 2006 the Company's tax losses make up LVL 17,600,792.

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

	Loss amount	Expires
	LVL	
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
Corporate income tax losses for 2006	7,362,062	2011
	<u>17,600,792</u>	

(11) Other taxes

	2006	2005
	LVL	LVL
Real estate tax (see Note 25)	<u>8,871</u>	<u>13,080</u>

NOTES (continued)

(12) Intangible and fixed assets

	Licences LVL	Lands and buildings * LVL	Machinery and equipment LVL	Other fixed assets LVL	Assets under construction LVL	Advances for fixed assets LVL	TOTAL LVL
Cost							
as at 31.12.2004	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
Additions in 2006	101,321	678,822	17,359	687,390	617,837	-	2,102,729
Reclassification in 2006	-	1,365,637	-	4,500	(1,341,168)	(28,969)	-
Disposals in 2006	(23,146)	(24,699)	(1,694)	(512,552)	(2,552)	-	(564,643)
as at 31.12.2006	239,314	2,525,713	19,175	1,799,052	31,243	18,605	4,633,102
Accumulated depreciation							
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
Charge for the year 2006	46,389	35,192	2,375	176,541	-	-	260,497
Released on disposal in 2006	(23,146)	(24,699)	(605)	(509,568)	-	-	(558,018)
as at 31.12.2006	115,035	82,497	4,090	972,741	-	-	1,174,363
Fixed assets impairment							
as at 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
Fixes assets impairment 31.12.2006	-	(233,823)	-	-	-	-	(233,823)
Book value as at 31.12.2006	124,279	2,209,393	15,085	826,311	31,243	18,605	3,224,916

Net book value of land and buildings as at 31.12.2006. – LVL 2,209,393; cadastral value – LVL 820,753. Market value of the property in Elizabetes 1, Riga, consisting of land plot, administrative building and car parking, according to valuation performed by SIA “Ober Haus Vērtēšanas Serviss” was set at LVL 3,379,000.

NOTES (continued)

(13) Information on the subsidiary undertakings and investments

(a) Investments in subsidiary undertakings

Name and address	Percentage holding %	31.12.2005	Acquisition	Impairment	31. 12. 2004
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 1, Rīga, LV 1010, 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 Elizabetes iela 1, Rīga, LV 1807, 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 Elizabetes iela 1, Rīga, LV 1807, Latvija	100	491,990	-	(8,010)	500,000
SIA Jūrnieku mācību centrs Elizabetes iela 1, Rīga, LV 1807, Latvija	100	391,978	509,605	(117,627)	-
SIA Kuģu menedžments Elizabetes iela 1, Rīga, LV 1807, Latvija	100	983,377	1,105,225	(121,848)	-
SIA Karavella Property Elizabetes iela 1., Rīga, LV 1807, Latvija	100	613,377	613,377	-	-
		117,256,486	2,228,207	(567,042)	115,595,321

NOTES (continued)

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

(a) Investments in subsidiary undertakings (continued)

Name and address	Percentage holding %	31.12.2006	Acquisition	Impairment	31. 12. 2005
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 1, Rīga, LV 1010, 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 Elizabetes iela 1, Rīga, LV 1807, Latvija	100	904,522	-	(32,239)	936,761
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 Elizabetes iela 1, Rīga, LV 1807, Latvija	100	491,990	-	-	491,990
SIA Jūrnieku mācību centrs Elizabetes iela 1, Rīga, LV 1807, Latvija	100	391,978	-	-	391,978
SIA Kuģu menedžments Elizabetes iela 1, Rīga, LV 1807, Latvija	100	983,377	-	-	983,377
SIA Karavella Property Elizabetes iela 1, Rīga, LV 1807, Latvija	100	613,377	-	-	613,377
		115,323,845	-	(1,932,641)	117,256,486

NOTES (continued)

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

(b) Information on subsidiaries

Name and address	Shareholders' Equity LVL		Profit/Loss LVL	
	31. 12. 2006	31. 12. 2005	2006	2005
Latmar Holdings Corporation (1) 80 Broad Street, City of Monrovia, Liberia	210,503,505	206,374,008	25,049,645	20,675,036
Kristaps Insurance Ltd. 11 Victoria Street P.O. Box HM 392 Hamilton HM PX Bermudas	962,589	1,135,441	(67,719)	(78,679)
Crown Navigation Inc. (2) Ajeltake Road, Ajeltake Island, Majuro Marshall Islands	11,883,058	9,548,053	3,399,790	3,971,017
SIA "Latvian - Finnish Maritime Agency" Elizabetes iela 11, Rīga, LV 1010, Latvija	(206,286)	742	(210,650)	340
Santomar Holdings Company Ltd. 284 AR CH Makarios III AVE., Fortuna Court block 13, 3 rd floor, 32 flat, Limassol, Cyprus	505,460	559,836	(589)	(338)
Razna Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	(3,398,616)	(3,604,313)	33,059	31,527
Taganroga Shipping Corporation 80 Broad Street, City of Monrovia, Liberia	(3,760,201)	(3,612,569)	(338,898)	80,743
SIA Kuģu remonta bāze Elizabetes iela 1, Rīga, LV 1010, Latvija	904,520	936,761	(32,241)	(319,557)
SIA LSC Marine Training Andrejostas ielā 6, Rīga, LV 1045, Latvija	1,513,429	1,681,795	(168,366)	148,181
SIA Jūras servisa centrs Andrejostas 4a, Rīga, LV 1045, Latvija	142,245	209,873	(67,628)	17,428
SIA LSC Shipmanagement Andrejostas 4a, Rīga, LV 1045, Latvija	(39,860)	3,275,903	(3,315,763)	764,438
SIA Ostas serviss Elizabetes iela 1, Rīga, LV 1807, Latvija	512,388	491,990	20,398	(8,183)
SIA Jūrnieku mācību centrs Elizabetes iela 1, Rīga, LV 1807, Latvija	395,598	391,978	3,620	(8,022)
SIA Kuģu menedžments Elizabetes iela 1, Rīga, LV 1807, Latvija	997,630	983,377	14,253	(16,623)
SIA Karavella Property Elizabetes iela 1, Rīga, LV 1807, Latvija	689,993	649,842	40,151	(158)

NOTES *(continued)*

(13) 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)*

(13) 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)*

(13) 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)*

(13) 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
Kuldīga 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
Salacgrīva Navigation Inc.	Marshall Islands
Saulkrasti Navigation Inc.	Marshall Islands
Stende Navigation Inc.	Marshall Islands
Sabīle 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

(14) Investments in associated undertakings

Name and address	Percentage Holding % 31.12.2006	Investment Value LVL 31.12.2006	Shareholders' Equity LVL 31.12.2006
SIA Via Una Rīgā, Katrīnas dambis 10, Latvija	45.45	7,553	51,547

Net loss for 2006 made up LVL 5,072 (profit compared to LVL 1,898 in 2005).

NOTES *(continued)*

(15) Non-current financial investments

	Investments in subsidiaries LVL	Investments in associates LVL	Other loans LVL	TOTAL LVL
31.12.2004.	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
Impairment	(1,932,641)	-	-	(1,932,641)
Loans received			(115,643)	(115,643)
31.12.2005	115,323,845	7,553	-	115,331,398

(16) Raw materials and components

	31.12.2006 LVL	31.12.2005 LVL
Fuel	79	94
Spare parts	744	-
Other materials and inventories	20,305	33,990
	21,128	34,084

(17) Accounts receivable and prepayments

Trade receivables	1,509,076	1,622,574
Provision for doubtful debts	(1,501,041)	(1,501,041)
	8,035	121,533

NOTES (continued)

	31.12.2005	31.12.2004
	LVL	LVL
(18) Amounts due from related companies		
Latmar Holdings Corporation	1,300,894	-
Crown Navigation Inc.	257,803	267
SIA LSC Shipmanagement	40,057	1,881,324
SIA Jūras servisa centrs	35,882	44,914
Current loan to Razna Shipping Corporation	27,083	4,499,931
Current loan to Taganroga Shipping Corporation	21,541	4,426,117
SIA LSC Marine Training	7,246	18,456
Santomar Holdings Company Ltd.	4,091	4,526
SIA Karavella Property	1,459	14,200
Latvian Finnish Maritime Agency Ltd.	1,416	-
SIA Ostas serviss	1,131	1,378
SIA Kuģu remonta bāze	142	236
SIA Jūrnieku mācību centrs	142	118
SIA Kuģu menedžments	142	118
	1,699,029	10,891,585
(19) Other receivables		
Overpaid value added tax (see Note 25)	296,147	439,299
Deferred value added tax	13,287	38,502
Overpaid real estate tax (see Note 25)	9,744	-
Overpaid non-resident income tax (see Note 25)	3,379	3,379
Overpaid real estate tax (see Note 25)	450	450
Other receivables	205,769	101,863
	528,776	583,493
The receivables are stated at their net value.		
(20) Current investments		
JSC Morbank	25,780	25,780
	25,780	25,780
(21) Cash and cash equivalents		
Cash at bank	251,666	355,527
	251,666	355,527

NOTES *(continued)*

	31.12.2006	31.12.2005
	LVL	LVL
(22) Amounts due to related companies		
SIA Kuģu remonta bāze	872,351	599,820
SIA Ostas serviss	38,644	38,644
Latmar Holdings Corporation	25,079	22,154
SIA LSC Shipmanagement	1,144	11,083
	937,218	671,701
(23) Taxes and social insurance payments*		
Personal income tax	65,416	97,352
Social insurance payments	17,054	32,330
State business risk duty	29	45
	82,499	129,727
* See Note 25.		
(24) Other accounts payable		
Salaries	216,199	174,809
Deductions from salaries	103	196
Other payables	31,117	31,992
	247,419	206,997

NOTES (continued)

(25) 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 31.12.2005.	-	-	-	-	45	32,330	97,352	129,727
(Overpaid) 31.12.2005.	(439,299)	(3,379)	-	(450)	-	-	-	(443,128)
Charge for 2006	(611,712)	-	4,636	4,235	360	666,186	1,430,192	1,493,897
Restatement for 2004,2005	19,688	-	-	-	-	-	-	19,688
Penalties	878	-	7	67	-	3	-	955
Reimbursed for 2005	-	-	-	-	-	(72,426)	-	(72,426)
Paid in 2006	-	-	(14,387)	(4,302)	(376)	(609,039)	(1,462,128)	(2,090,232)
Received for 2005	734,298	-	-	-	-	-	-	734,298
Payable 31.12.2006.	-	-	-	-	29	17,054	65,416	82,499
(Overpaid) 31.12.2005.	(296,147)	(3,379)	(9,744)	(450)	-	-	-	(309,720)

NOTES *(continued)*

(26) 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
31.12.2005	309,657	1,761,526	688,000	200,120	23,502	2,982,805
Increase	376,424	937,670	6,420	-	-	1,320,514
Decrease	(208,299)	(1,715,861)	(688,000)	(200,120)	(1,736)	(2,814,016)
31.12.2006	477,782	983,335	6,420	-	21,766	1,489,303

(27) Average number of employees

	2006	2005
Average annual number of employees:	120	142

(28) Key management remuneration

Management Board remuneration in 2006 made up LVL 1,163,165 (compared to LVL 851,126 in 2005), social insurance payments amounted to LVL 28,655 (compared to LVL 34,678 in 2005). The remuneration of Supervisory Council members made up LVL 1,733,358 (compared to LVL 885,264 in 2005), and social insurance payments - LVL 49,866 (compared to LVL 50,244 in 2005).

No loans were advanced or guarantees issued in 2006 to the members of Supervisory Council and Management Board.

NOTES (continued)

(29) Guaranteed loans of subsidiaries

	US \$ '000		LVL '000	
	2006	2005	2006	2005
Repayments due within next twelve months	50,012	17,357	26,806	10,293
Unamortised prepaid financing expenses*	(309)	(191)	(166)	(114)
Net current portion	49,703	17,166	26,640	10,179
Non-current portion	169,371	134,607	90,783	79,822
Unamortised prepaid financing expenses*	(2,140)	(893)	(1,147)	(530)
Net non-current portion	167,231	133,714	89,636	79,292
Total loans outstanding	219,383	151,964	117,589	90,115
Total unamortised prepaid financing expenses*	(2,449)	(1,084)	(1,313)	(644)
Total loan, net of unamortised financing costs	216,934	150,880	116,276	89,471

* Prepaid financing expenses are amortised within loan repayment period.

The loans are denominated in US \$ 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 US \$ LIBOR. The average interest rate for 2006 was 6.1% (2005 – 4.8%)

(30) Related parties

	2006 LVL	2005 LVL
Income from commercial serviced rendered	2,111,848	607,284
Interest income	223,867	276,921
Income from the goods sold and services rendered	361,051	146,750
	2,696,766	1,030,955
Cost of goods and services received	57,823	20,757
	57,823	20,757

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:

	31.12.2006.	31.12.2005.
Financial assets USD	3,363,477	14,858,966
Financial liabilities USD	(606,101)	(1,094,230)
Position USD	<u>2,757,376</u>	<u>13,764,736</u>
Position LVL	<u>1,477,953</u>	<u>8,162,489</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.

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas Kuģniecība

Report on the Financial Statements

We have audited 2006 financial statements of AS Latvijas Kuģniecība (the "Company"), which are set out on pages 6 through 31 of the accompanying 2006 Annual Report and which comprise the balance sheet as at 31 December 2006, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Financial Statements of Companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS Latvijas Kuģniecība as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Financial Statements of Companies.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2006 (included on pages 4 through 5 of the accompanying 2006 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 11 April 2007