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

Annual Report

for the year ended 31 December 2006

PUBLIC STOCK COMPANY

LATVIAN SHIPPING COMPANY

Registered Office

1 Elizabetes Street
Riga LV 1807
Latvia

THE SUPERVISORY COUNCIL

Chairman of the Council	Uldis Pumpurs
Deputy Chairpersons of the Council	Andris Linužs
	Olga Pētersone
Members of the Council	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)

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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.

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

LASCO Group's Net Profit for 2006 is USD 33.7 million (LVL 18.9 million), an increase of 23% compared to 2005. The Group's Net Profit for 2005 was USD 27.4 million (LVL 15.5 million).

The Group's total Voyage Income for 2006 was USD 216.3 million (LVL 121.2 million), which is by USD 17.6 million (LVL 8.9 million) or by 8.9% higher than in 2005. The Group's Net Voyage Result 2006 made up USD 155.4 million (LVL 87.1 million), thus exceeding the respective result of 2005 by USD 8.2 million (LVL 3.9 million) or 5.6%. The Group's Vessel Operating Profit for 2006 is USD 45.1 million (LVL 25.3 million).

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

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 were scraped by the Group.

At the end of the period LASCO Shareholders Equity was USD 419.0 million (LVL 224.6 million) or USD 2.10 (LVL 1.12) per share, which, yet another year, is the highest level in the history of LASCO as a private company.

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.

Tanker Fleet

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.

MANAGEMENT REPORT
(Continued)

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 82% of the Group's total Voyage Result.

Despite tanker freight rates in 2006 being, on average, higher than in 2005, LASCO Tanker Fleet's Vessel Operating Profit for 2006 was lower compared to that for 2005, which is attributed to the costs of *Asari* type tankers modernization to Category 3 tankers (IMO 3), as well as to the scraping of 5 aged vessels leading to the decrease of the Tanker Fleet's total days in operation.

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

Reefer Fleet

In 2006, 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 Voyage Result for 2006 made up 7.1% of the Group's total Voyage Result.

Due to the situation in the reefer maker, the average reefer freight rates in 2006 were lower than in 2005. Therefore, LASCO Reefer Fleet's total Vessel Operating Profit for 2006 is lower compared to that for 2005.

LPG Fleet

LASCO Group owns two modern 20,500 cubic meter LPG carriers. In 2006, the LPG Fleet generated 8.9% of the Group's total Voyage Result.

In 2006, both LASCO's LPG carriers 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. In 2006, their Voyage Income was higher compared to 2005. Therefore, their total Vessel Operating Profit for 2006 exceeds that for 2005.

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 2006 reached 1.3% of the Group's total Voyage Result.

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 banns 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.

On behalf of the Management Board,
Imants Vikmanis
Chairman of the Management Board
JSC Latvian Shipping Company

Riga, Latvia

April 11, 2007

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.

On behalf of the Management Board
Imants Vikmanis
Chairman of the Management Board
JSC Latvian Shipping Company

Riga, Latvia

April 11, 2007

REPORT OF THE AUDITORS TO THE MEMBERS OF LATVIAN SHIPPING COMPANY & ITS SUBSIDIARIES

To the shareholders of AS Latvijas kuģniecība

Report on the Financial Statements

We have audited 2006 consolidated financial statements of AS Latvijas Kuģniecība and its subsidiaries ("the Group"), which are set out on pages 10 through 54 of the accompanying 2006 Annual Report and which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

Emphasis of Matter

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 26 and 29 of the accompanying consolidated financial statements, based on the estimates made by the experts the difference between the agreed time charter rates and market values for 2006 approximates to USD 4.3 million and for 2005 – USD 19 million, whereas the amount of the final profit share payment remains uncertain.

REPORT OF THE AUDITORS TO THE MEMBERS OF LATVIAN SHIPPING COMPANY & ITS SUBSIDIARIES
(Continued)

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2006 (included on pages 5 through 7 of the accompanying 2006 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated 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

CONSOLIDATED INCOME STATEMENT

	Note	2006 US $'000	2005 US $'000	2006 LVL'000	2005 LVL'000
Net Voyage Result	5	155,437	147,221	87,080	83,156
Vessel Operating costs excluding voyage costs and depreciation	6	(90,413)	(66,978)	(50,652)	(37,832)
Vessel Operating Result before Depreciation		**65,024**	**80,243**	**36,428**	**45,324**
Vessel depreciation	12	(19,927)	(26,930)	(11,164)	(15,211)
Vessel Operating Profit		**45,097**	**53,313**	**25,264**	**30,113**
Vessel impairment reversal	12	-	2,453	-	1,386
Administration expenses	7	(18,194)	(16,532)	(10,193)	(9,338)
Other operational expenses		(938)	(4,274)	(525)	(2,414)
Gain/(loss) on sale of assets	12	15,686	(474)	8,788	(268)
Operating Profit		**41,651**	**34,486**	**23,334**	**19,479**
Interest income		4,101	2,835	2,297	1,601
Exchange rate loss		58	(1,438)	32	(812)
Interest expenses		(11,363)	(7,723)	(6,366)	(4,362)
Other financial items	9	(688)	(733)	(385)	(414)
Net Financial Items		**(7,892)**	**(7,059)**	**(4,422)**	**(3,987)**
Profit before Taxation		**33,759**	**27,427**	**18,912**	**15,492**
Taxation	10	(24)	(23)	(13)	(13)
Net Profit for the Year		**33,735**	**27,404**	**18,899**	**15,479**
Earnings per share	11	**US$ 0.17**	**US$ 0.14**	**LVL 0.09**	**LVL 0.08**

These Financial Statements were approved by the Management Board on April 11, 2007
and signed on its behalf by

Imants Vikmanis
Chairman of the Management Board

CONSOLIDATED BALANCE SHEET

	Note	31.12.2006 US $'000	31.12.2005 US $'000	31.12.2006 LVL'000	31.12.2005 LVL '000
ASSETS					
NON-CURRENT ASSETS					
Fleet	12	460,967	375,168	247,078	222,475
Other fixed assets	13	6,216	2,922	3,332	1,733
Investment properties	14	1,803	-	966	-
Assets under construction	15	71,393	59,763	38,267	35,439
Investments in associates accounted for using the equity method	16	25	24	13	14
Other financial assets	17	4,335	3,897	2,324	2,311
TOTAL NON-CURRENT ASSETS		**544,739**	**441,774**	**291,980**	**261,972**
CURRENT ASSETS					
Inventories	18	5,547	6,912	2,973	4,099
Accounts receivable and prepayments	19	22,291	23,683	11,948	14,044
Loans and receivables	20(a)	47,995	-	25,725	-
Financial assets designated at fair value through profit or loss	20(b)	11,948	18,476	6,404	10,956
Cash and cash equivalents	21	33,092	70,824	17,737	41,999
TOTAL CURRENT ASSETS		**120,873**	**119,895**	**64,787**	**71,098**
TOTAL ASSETS		**665,612**	**561,669**	**356,767**	**333,070**
SHAREHOLDERS' EQUITY & LIABILITIES					
SHAREHOLDERS' EQUITY					
Share capital		362,319	362,319	200,000	200,000
Translation reserve		(13,079)	(13,945)	(14,402)	7,864
Retained earnings		69,765	36,030	38,988	20,089
TOTAL SHAREHOLDERS' EQUITY		**419,005**	**384,404**	**224,586**	**227,953**
NON-CURRENT LIABILITIES					
Non-current portion of bank loans	22	167,231	133,714	89,636	79,292
Deferred tax liabilities	23	22	12	12	7
TOTAL NON-CURRENT LIABILITIES		**167,253**	**133,726**	**89,648**	**79,299**
CURRENT LIABILITIES					
Current portion of bank loans	22	49,703	17,166	26,640	10,179
Accounts payable and other liabilities	24	29,651	26,373	15,893	15,639
TOTAL CURRENT LIABILITIES		**79,354**	**43,539**	**42,533**	**25,818**
TOTAL LIABILITIES		**246,607**	**177,265**	**132,181**	**105,117**
TOTAL SHAREHOLDER'S EQUITY & LIABILITIES		**665,612**	**561,669**	**356,767**	**333,070**

These Financial Statements were approved by the Management Board on April 11, 2007 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 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**
Net Profit for the year	-	-	-	-	33,735	18,899	33,735	18,899
Currency translation differences	-	-	866	(22,266)	-	-	866	(22,266)
Balance at 31st December 2006	**362,319**	**200,000**	**(13,079)**	**(14,402)**	**69,765**	**38,988**	**419,005**	**224,586**

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	2006 US $'000	2005 US $'000	2006 LVL'000	2005 LVL'000
Cash Flow from Operations	28	**57,949**	**74,194**	**29,341**	**46,657**
Corporate income taxes paid		(14)	(18)	(8)	(6)
Net Cash Flow from Operating Activities		**57,935**	**74,176**	**29,333**	**46,651**
Investing Activities					
Purchase of Fleet		(86,971)	-	(48,723)	-
Purchase of other fixed assets		(2,832)	(648)	(1,587)	(366)
Prepaid financing expenses		(2,002)	-	(1,122)	-
Purchase of financial assets designated at fair value through profit or loss		-	(5,548)	-	(3,134)
Settlement of financial assets designated at fair value through profit or loss		7,004	2,412	3,924	1,362
Proceeds on sale of subsidiary		-	128	-	72
Proceeds on sale of non-current assets		21,275	3,704	11,919	2,092
Loans and receivables		(47,995)	-	(26,888)	-
Drydock expenditure		(9,894)	(5,055)	(5,543)	(2,855)
Assets under construction and on order		(33,221)	(29,080)	(18,611)	(16,425)
Interest received		2,719	2,557	1,523	1,442
Net Cash Flow from Investing Activities		**(151,917)**	**(31,530)**	**(85,108)**	**(17,812)**
Cash Flow before Financing Activities		**(93,982)**	**42,646**	**(55,775)**	**28,839**
Financing Activities					
Bank loans received		86,075	-	48,221	-
Bank loans repaid		(18,657)	(17,357)	(10,452)	(9,804)
Interest paid on loans		(11,168)	(10,910)	(6,256)	(6,162)
Net Cash Flow from Financing Activities		**56,250**	**(28,267)**	**31,513**	**(15,966)**
(Decrease) / increase in Cash and Cash Equivalents		**(37,732)**	**14,379**	**(24,262)**	**12,873**
Cash and Cash Equivalents at 1 January:		**70,824**	**56,445**	**41,999**	**29,126**
Cash and Cash Equivalents at 31 December:		**33,092**	**70,824**	**17,737**	**41,999**

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

AS 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.

The consolidated financial statements of the Company for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the Management Board on 10 April 2007.

The shareholders have power to amend these financial statements after issue.

2.1 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, except financial assets, which have been 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 7.

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. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. 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.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2.1 Basis of accounting *(continued)*

Basis of consolidation *(continued)*

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).

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Group has adopted the following new and amended standards during the year.

- IAS 39 Amendments - Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease.

Adoption of these revised standards did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures. The principal effects of these changes are as follows:

IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) - amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with *IAS 18 Revenue*. This amendment did not have an effect on the financial statements.

IFRIC 4 Determining Whether an Arrangement contains a Lease

The Group adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

The following amended standards were not applicable to the Group and as such did not have any impact on the accounting policies: IAS 1 and IAS 19, IAS 21, IFRS 4, IFRS 6, IFRIC 5 and IFRIC 6.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2.3 Estimates and assumptions

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 may 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.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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 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.

Deferred Tax Assets
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Fair Value of Unquoted Equity Instruments
The unquoted equity instruments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty.

Change of estimate – fleet scrap value
The Group has changed the estimated scrap value amount of its fleet from US $ 100 to US $ 300 per lightweight ton on the 1st of January 2006. The estimated effect of these changes is decreased depreciation in the amount of US $ 7.9 million.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2.4 Summary of significant accounting policies

Foreign 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.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transactions are accounted in 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 (the "LB") 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.

LB rate of exchange as at 31.12.2006 US $/LVL - 0.536 (average – 0.560225)
LB rate of exchange as at 31.12.2005 US $/LVL - 0.593 (average – 0.564838)

Property, plant, equipment and depreciation

(a) <u>Fleet</u>

The Group's fleet is recorded at historical cost less accumulated depreciation. Such cost includes the cost of replacing part of the asset when that cost is incurred, if the recognition criteria are met.

Depreciation has been provided on the basis that the carrying value of the vessels, less an estimated scrap value of US $ 300 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.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2.4 Summary of significant accounting policies *(continued)*

(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 - 5% 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.
The useful lives of the other fixed assets are estimated as follows:

Buildings	20 - 100 years
Machinery and equipment	3 - 20 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

(c) Investment properties

Investment properties are measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.
Depreciation is calculated on a straight line basis over the useful life of the asset using the rates from 1% to 5% per annum.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2.4 Summary of significant accounting policies *(continued)*

Associates

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and carrying amount and recognises the amount in the income statement.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

(a) <u>Financial assets designated at fair value through profit or loss</u>
Financial assets at fair value through profit and loss includes financials assets designated upon initial recognition as at fair value through profit and loss. Financial assets may be designated at initial recognition as at fair value through profit and loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2.4 Summary of significant accounting policies *(continued)*

(a) Financial assets designated at fair value through profit or loss *(continued)*

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.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(c) 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.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Such reversal is recognised in profit or loss.

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)

2.4 Summary of significant accounting policies *(continued)*

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and at 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.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

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.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial assets and liabilities

(a) <u>Financial assets</u>

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2.4 Summary of significant accounting policies *(continued)*

(b) Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

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.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect on the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) there is a change in the determination of whether fulfilment is dependant on a specified asset; or
d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2.4 Summary of significant accounting policies *(continued)*

Group as a lessee *(continued)*

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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.

Revenue 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.

(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 certain.

(d) Interest income
Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(e) Dividends
Revenue is recognised when the Group's right to receive the payment is established.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2.4 Summary of significant accounting policies *(continued)*

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.

Taxes

(a) Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(b) Deferred income tax
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 income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2.4 Summary of significant accounting policies *(continued)*

Taxation *(continued)*

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.
Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value added tax
Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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, except for loans and receivables. 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.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2.5 Future changes in accounting policies

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

IAS 1 - Amendment-Presentation of Financial Statements
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

IFRS 7 - Financial instruments: Disclosures
IFRS 7 was issued in August 2005 and becomes effective for financial years beginning on or after 1 January 2007. It requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

IFRS 8 - Operating segments
IFRS 8 becomes effective for financial years beginning on or after 1 January 2008 and it sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

IFRIC 9 - was issued in March 2006, and becomes effective for financial years beginning on or after 1 June 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC 10 - becomes effective for financial years beginning on or after 1 November 2006. Company shall apply the Interpretation to investments in financial assets carried at cost prospectively from the date at which it first applied the measurement criteria of IAS 39.

The Group believes that none of these amendments will have a material impact on the financial statements of the Group.

The following amended standards were not applicable to the Group and as such did not have any impact on the accounting policies: IFRIC 8 (Scope of IFRS 2), IFRIC 11 (IFRS 2 - Group and Treasury Share Transactions), and IFRIC 12 (Service Concession Arrangements).

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. 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	Dormant
Kriti Sea Shipping Co. Ltd.	Cyprus	Dormant
Latgale Shipping Co. Ltd.	Malta	m.t. “Latgale”
Latmar Services Ltd.	England	In liquidation
Latmar Shipping Co. Ltd.	Cyprus	Dormant
Limetree Shipping Co. Ltd.	Malta	m.t. “Riga”
New Spring Shipping Co. Ltd.	Cyprus	Dormant
Noella Maritime Co. Ltd.	Cyprus	Dormant
Radar Shipping Ltd.	Liberia	m.t. “Zoja I”
Renda Maritime Co. Ltd.	Cyprus	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	Dormant
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	Dormant Dormant
Zemgale Shipping Co. Ltd.	Malta	m.t. “Zemgale”
Wilcox Holdings Ltd.	Liberia	m.t. “Bulduri”
World Reefer Corporation	Liberia	Dormant

* m.t. “Pols Robsons” was renamed to m.t. “Pablo Neruda”

NOTES TO THE FINANCIAL STATEMENTS
(*Continued)*

3. Corporate Structure *(Continued)*

Name	Country of Incorporation	Activity /Vessels
Lattanker Holdings Corporation	Liberia	Intermediate holding company
Antonio Gramsi Shipping Corporation	Liberia	Dormant
Davids Sikeiross Shipping Corporation	Liberia	m.t. "Maria M" *(Chartered in)*
Dzons Rids Shipping Corporation	Liberia	m.t. "Blue Star" *(Chartered in)*
Hose Marti Shipping Corporation	Liberia	m.t. "Green Star"*(Chartered in)*
Imanta Shipping Company Ltd.	Malta	m.t. "Dubulti"
Klements Gotvalds Shipping Corporation	Liberia	Dormant
Majori Shipping Company Ltd.	Malta	m.t. "Majori"
Pablo Neruda Shipping Company Ltd.	Cyprus	Dormant
Talava Shipping Company Ltd.	Malta	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	m.t. "Zoja II"
Akademikis Celomejs Shipping Co. Ltd.	Cyprus	in liquidation
Akademikis Celomejs Shipping Co. Ltd.	Malta	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	Dormant
Kamilo Sjenfuegoss Shipping Co. Ltd.	Cyprus	In liquidation
Kamilo Sjenfuegoss Shipping Co. Ltd.	Malta	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)

3. 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	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	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	Dormant
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Arctic Seal Shipping Company Ltd.	Cyprus	m.t. “Asari”
Atlantic Leader Shipping Company Ltd.	Cyprus	Dormant
Faroship Navigation Company Ltd.	Cyprus	Dormant
Gaida Shipping Corporation	Liberia	Dormant
Gevostar Shipping Company Ltd.	Cyprus	Dormant
Tangent Shipping Company Ltd.	Cyprus	Dormant
Zoja Shipping Company Ltd.	Cyprus	Dormant
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)

3. 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	m.t. “Jurkalne”
Saldus Navigation Inc.	Marshall Islands	established for newbuilding purposes
Saulkrasti Navigation Inc.	Marshall Islands	m. t. “Puze”
Sigulda Navigation Inc.	Marshall Islands	established for newbuilding purposes
Skrunda Navigation Inc.	Marshall Islands	established for newbuilding purposes
Sloka Navigation Inc.	Marshall Islands	m.t “Ance”
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
SIA Latvian - Finnish Maritime Agency	Latvia	Shipping Agents
SIA LSC Marine Training	Latvia	Seafarers Training Services
SIA LSC Shipmanagement	Latvia	Ship management
SIA Jūras Servisa Centrs	Latvia	Consulting
SIA Ostas Serviss	Latvia	Rent Service
Santomar Holdings Co. Ltd.	Cyprus	Investment Holding Company (*Dormant*)
SIA Kuģu Remonta Bāze	Latvia	Ship repair service
SIA Kuģu menedžments	Latvia	Real estate maintenance
SIA Karavella Property	Latvia	Real estate maintenance
SIA Jūrnieku Mācību Centrs	Latvia	Real estate maintenance

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Segment Information

Year ended 31 December 2006

	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	178,943	100,248	15,444	8,652	19,307	10,816	2,598	1,456	216,292	121,172
Voyage costs	(55,110)	(30,874)	(5,586)	(3,129)	(11)	(6)	(148)	(83)	(60,855)	(34,092)
Net voyage result	**123,833**	**69,374**	**9,858**	**5,523**	**19,296**	**10,810**	**2,450**	**1,373**	**155,437**	**87,080**
Vessel operating costs	(76,397)	(42,800)	(8,252)	(4,623)	(3,589)	(2,011)	(2,175)	(1,218)	(90,413)	(50,652)
Vessel depreciation	(14,952)	(8,376)	(1,517)	(850)	(3,458)	(1,937)	-	-	(19,927)	(11,164)
Vessel operating profit	**32,484**	**18,198**	**89**	**50**	**12,249**	**6,862**	**275**	**154**	**45,097**	**25,264**
Gain on sale of assets	15,656	8,771	-	-	-	-	-	-	15,656	8,771
Unallocated sale of assets									30	17
Segment result	**48,140**	**26,969**	**89**	**50**	**12,249**	**6,862**	**275**	**154**	**60,783**	**34,052**
Unallocated corporate expenses									(18,194)	(10,193)
Other operational expenses									(938)	(525)
Operating profit									**41,651**	**23,334**
Net financial items									(7,892)	(4,422)
Profit before taxation									**33,759**	**18,912**
Taxation									(24)	(13)
Net Profit for the Year									**33,735**	**18,899**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Segment Information *(Continued)*

Year ended 31 December 2006

	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	481,568	258,120	23,079	12,370	66,145	35,454	1,762	944	572,554	306,888
Unallocated assets									93,058	49,879
Total assets									**665,612**	**356,767**
Segment liabilities	225,998	121,135	1,061	569	16,050	8,603	322	173	243,431	130,480
Unallocated liabilities									3,176	1,701
Total liabilities									**246,607**	**132,181**
Other segment items										
Investments in vessels	130,475	73,095	467	262	-	-	424	238	131,366	73,595
Depreciation	14,952	8,376	1,517	851	3,458	1,937	-	-	19,927	11,164
Drydocking deferred expenditure depreciation	6,459	3,618	485	272	157	88	160	90	7,261	4,068

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the types of vessels operated. The operating businesses are organised and managed separately according to the types of vessels, with each segment representing a strategic business unit that offers different products and serves different markets. These types are as follows: tankers, reefers, gas carriers (LPG) and dry cargo vessels.

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. Segment Information *(Continued)*

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
Voyage costs	(42,080)	(23,769)	(8,755)	(4,945)	(37)	(21)	(595)	(336)	(51,467)	(29,071)
Net voyage result	**119,628**	**67,570**	**9,700**	**5,479**	**16,222**	**9,163**	**1,671**	**944**	**147,221**	**83,156**
Vessel operating costs	(55,147)	(31,149)	(6,800)	(3,841)	(3,774)	(2,132)	(1,257)	(710)	(66,978)	(37,832)
Vessel depreciation	(20,601)	(11,636)	(2,331)	(1,317)	(3,688)	(2,083)	(310)	(175)	(26,930)	(15,211)
Vessel operating profit	**43,880**	**24,785**	**569**	**321**	**8,760**	**4,948**	**104**	**59**	**53,313**	**30,113**
Vessel impairment reversal	-	-	2,453	1,386	-	-	-	-	2,453	1,386
Unallocated sale of assets									(474)	(269)
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)

4. Segment Information *(Continued)*

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	384	22,306	13,227	171	101	169,581	100,560
Unallocated liabilities									7,684	4,557
Total liabilities									**177,265**	**105,117**
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	309	174	26,930	15,211
Drydocking deferred expenditure depreciation	5,818	3,286	260	147	61	34	178	101	6,317	3,568

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Net voyage result

	US $ '000		LVL '000	
	2006	2005	2006	2005
Voyage income	**216,292**	**198,688**	**121,172**	**112,227**
Voyage costs				
Bunkering	(38,572)	(29,754)	(21,609)	(16,806)
Port expenses	(13,154)	(13,502)	(7,369)	(7,627)
Commission	(7,766)	(7,524)	(4,350)	(4,250)
Provision for debts of doubtful recovery	(1,363)	(687)	(764)	(388)
Total voyage costs	**(60,855)**	**(51,467)**	**(34,092)**	**(29,071)**
Net voyage result	**155,437**	**147,221**	**87,080**	**83,156**

6. Vessel operating costs excluding voyage costs and depreciation

	US $ '000		LVL '000	
	2006	2005	2006	2005
Crew expenses	(27,655)	(24,643)	(15,493)	(13,919)
Repairs	(26,872)	(15,251)	(15,054)	(8,614)
Insurance	(7,688)	(5,295)	(4,307)	(2,991)
Drydocking	(7,261)	(6,317)	(4,068)	(3,568)
Equipment maintenance expenses	(6,801)	(8,101)	(3,810)	(4,576)
Chartering expenses	(5,815)	-	(3,258)	-
Luboil	(3,875)	(2,941)	(2,171)	(1,661)
Catering expenses	(2,203)	(2,268)	(1,234)	(8,614)
Other operating expenses	(2,159)	(2,078)	(1,210)	(1,174)
Management fee	(84)	(84)	(47)	(47)
TOTAL	**(90,413)**	**(66,978)**	**(50,652)**	**(37,832)**

7. Administration expenses

	US $ '000		LVL '000	
	2006	2005	2006	2005
Staff Costs	(12,214)	(10,736)	(6,842)	(6,064)
Professional Fees	(1,846)	(2,228)	(1,034)	(1,258)
Advertising and Marketing	(1,289)	(729)	(722)	(412)
Occupation and Repairs	(1,278)	(1,512)	(716)	(854)
Depreciation	(692)	(622)	(387)	(351)
Travel and Transport	(661)	(587)	(371)	(332)
IT and Communication	(427)	(512)	(239)	(289)
Real Estate Tax	(40)	(95)	(22)	(54)
Other Income and Costs	218	315	121	178
Movements in Provision of claims and other	35	174	19	98
TOTAL	**(18,194)**	**(16,532)**	**(10,193)**	**(9,338)**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

8. Employment Costs and Staff Numbers

	2006			2005		
	US $ '000	LVL '000	Number	US $ '000	LVL '000	Number
Seamen*	27,655	15,493	805	24,643	13,919	867
Shore based staff	12,077	6,766	256	10,634	6,006	297
Total	**39,732**	**22,259**	**1 061**	**35,277**	**19,925**	**1 164**

The average number and employment costs of shore based staff includes employees of the Parent Company and 100% owned subsidiaries.

* The number of seamen is those employed as at the end of the year.

9. Other Financial Items

	US $ '000		LVL '000	
	2006	2005	2006	2005
Bank charges	(520)	(539)	(291)	(304)
Mortgage fees and insurance	(87)	(88)	(49)	(50)
Change in fair value of financial assets designated at fair value though profit or loss	(81)	(198)	(45)	(112)
Income from investments	-	92	-	52
TOTAL	**(688)**	**(733)**	**(385)**	**(414)**

10. Taxation

	US $ '000		LVL '000	
	2006	2005	2006	2005
Deferred income tax of current year	(10)	(7)	(5)	(4)
Corporate income tax of current year	(14)	(16)	(8)	(9)
TOTAL	**(24)**	**(23)**	**(13)**	**(13)**
Profit before tax	33,759	27,427	18,912	15,492
Tax calculated at tax rate of 15%	5,064	4,114	2,837	2,324
Income and expenses not subject to corporate income tax	(7,316)	(5,342)	(3,819)	(3,018)
Increase in unrecognised deferred tax asset, net	2,276	1,251	995	707
Tax charge for the year	**24**	**23**	**13**	**13**

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'000	**Expires**
2002	718	385	2007
2003	9,180	4,920	2008
2004	7,900	4,234	2009
2005	4,272	2,290	2010
2006	16,788	8,999	2011
	38,858	**20,828**	

11. Earnings per share

Basic earnings per share amounts 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.

	2006		2005	
	US $ '000	LVL '000	US $ '000	LVL '000
Net profit for the year attributable to shareholders	33,735	18,899	27,404	15,479
Weighted average number of ordinary shares in issue (thousands)	200 000	200 000	200 000	200 000
Basic earnings per share	US $0.17	LVL 0.09	US $0.14	LVL 0.08

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12. Fleet

	31.12.2006		31.12.2005	
	US $ '000	LVL '000	US $ '000	LVL '000
Net Book Value	450,033	241,218	366,867	217,553
Drydocking deferred expenditure	10,934	5,860	8,301	4,922
	460,967	**247,078**	**375,168**	**222,475**

Year ended 31 December 2006

	Cost		Depreciation		Net Book Value	
	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000
At 1st January 2006	**642,812**	**381,188**	**(275,945)**	**(163,636)**	**366,867**	**217,552**
Reclassification	108,563	60,820	-	-	108,563	60,820
Depreciation charge for the year	-	-	(19,927)	(11,164)	(19,927)	(11,164)
Disposals	(5,577)	(3,124)	107	60	(5,470)	(3,064)
Exchange differences	-	(39,136)	-	16,210	-	(22,926)
At 31st December 2006	**745,798**	**399,748**	**(295,765)**	**(158,530)**	**450,033**	**241,218**

Capitalised drydocking costs

	US $'000	LVL '000
At 1st January 2006	**8,301**	**4,922**
Depreciation charge for the year	(7,261)	(4,068)
Additions	9,894	5,543
Exchange differences	-	(537)
At 31st December 2006	**10,934**	**5,860**

Year ended 31 December 2005

	Cost		Depreciation		Net Book Value	
	US $ '000	LVL '000	US $ '000	LVL '000	US $ '000	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**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12. Fleet (*Continued*)

Capitalised drydocking costs

	US $'000	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**

Part of the fleet (with the net book value of US $ 380.1 million) has been used as security for bank loans. See note 22 for details.

Part of the fleet having net carrying amount US $ 8.7 million (2005: US$ 17.0 million) is fully amortised down to scrap value amounting to US $ 8.7 million (2005: US$ 9.8 million) and is still in active use.

The Group has been provided with indicative valuations of the fleet by two independent brokers. Based on these, the average valuation of the fleet as at 31 December 2006 amounted to US$ 763.6 million (2005: US$ 610.6 million).

In year 2006 the Group has sold 5 oldest vessels resulting in gain of US$ 15.686 thousand.

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

	2006
Tankers	30
Reefers	5
Dry cargo	1
LPG fleet	2
TOTAL	**38**

Total dead-weight Tonnage

31st December 2006	DWT	**1 054 833**
31st December 2005	DWT	**1 098 864**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12. Fleet (*Continued*)

At 31st December 2006 the group fleet comprises:

Product Tankers:

		Year of Building	DWT
1.	Ance	2006	51 773
2.	Asari	1984	28 656
3.	Bulduri	1983	28 750
4.	Dubulti	1982	29 610
5.	Dzintari	1985	17 585
6.	Estere	1989	28 557
7.	Indra	1994	33 115
8.	Inga	1990	28 557
9.	Jurkalne	2006	51 773
10.	Kaltene	2003	37 211
11.	Kemeri	1985	17 610
12.	Kolka	2003	37 211
13.	Kuldiga	2003	37 237
14.	Latgale	2001	68 467
15.	Majori	1980	29 690
16.	Mar	1990	28 557
17.	Ojars Vacietis	1985	16 341
18.	Pablo Neruda (ex. P. Robsons)	1979	39 870
19.	Pumpuri	1987	28 610
20.	Puze	2006	51 773
21.	Razna	1984	6 269
22.	Riga	2001	68 467
23.	Ropazi	1985	17 610
24.	Rundale	1977	17 025
25.	Samburga	1976	17 125
26.	Taganroga	1983	6 297
27.	Zanis Griva	1985	17 585
28.	Zemgale	2001	68 467
29.	Zoja I	1988	28 557
30.	Zoja II	1989	28 557
			966 912

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12. 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		**1 054 833**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

13. Other Fixed Assets

Year ended 31 December 2006

	Land		Buildings		Machinery and equipment		Total	
	US $ '000	LVL '000	US $ '000	LVL '000	US $ '000	LVL '000	US $ '000	LVL '000
Cost								
At 1st January 2006	**-**	**-**	**3,299**	**1,956**	**4,956**	**2,939**	**8,255**	**3,681**
Additions	1,212	679	-	-	1,620	908	2,832	1,587
Disposals during the year	-	-	(44)	(25)	(1,114)	(624)	(1,158)	(649)
Reclassification	-	-	2,438	1,366	8	4	2,446	1,370
Transfer to investment property	-	-	(2,047)	(1,214)	-	-	(2,047)	(1,214)
Exchange differences	55	-	204	(19)	542	(5)	801	(24)
At 31st December 2006	**1,267**	**679**	**3,850**	**2,064**	**6,012**	**3,222**	**11,129**	**5,965**
Depreciation								
At 1st January 2006	**-**	**-**	**938**	**556**	**3,996**	**2,369**	**4,934**	**2,925**
Charge for the year	-	-	69	38	579	324	648	362
Disposals	-	-	(44)	(25)	(1,103)	(618)	(1,147)	(643)
Transfer to investment property	-	-	(376)	(223)	-	-	(376)	(223)
Exchange differences	-	-	18	(22)	395	(3)	413	(25)
At 31st December 2006	**-**	**-**	**605**	**324**	**3,867**	**2,072**	**4,472**	**2,396**
Accumulated impairment								
At 1st January 2006	-	-	399	237	-	-	399	237
At 31st December 2006	-	-	436	234	5	3	441	237
Net book value								
At 31st December 2006	**1,267**	**679**	**2,809**	**1,506**	**2,140**	**1,147**	**6,216**	**3,332**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

13. Other Fixed Assets *(Continued)*

Year ended 31 December 2005

	Buildings		Machinery and Equipment		Total	
	US $ '000	LVL '000	US $ '000	LVL '000	US $ '000	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)

14. Investment properties

Year ended 31 December 2006

	Cost		Depreciation		Net Book Value	
	US $'000	LVL '000	US $'000	LVL '000	US $'000	LVL '000
At 1st January 2006	-	-	-	-	-	-
Transfer from Other FA	2,047	1,214	(375)	(223)	1,672	991
Depreciation charge for the year	-	-	(44)	(25)	(44)	(25)
Exchange differences	218	-	(43)	-	175	-
At 31st December 2006	**2,265**	**1,214**	**(462)**	**(248)**	**1,803**	**966**

The Group has been provided with indicative valuations of the investment properties by the independent broker. Based on these, the average valuation of the investment properties as at 31 December 2006 amounted to US$ 5.3 million.

15. Assets under construction

	US $ '000		LVL '000	
	2006	2005	2006	2005
At 1st January	59,763	30,683	35,439	15,832
Expenditure during the year	122,908	29,080	68,856	16,425
Reclassification to Fixed assets	(111,278)	-	(62,341)	-
Exchange differences	-	-	(3,687)	3,182
At 31st December	**71,393**	**59,763**	**38,267**	**35,439**

As at 31 December 2006 assets under construction are principally 11 product tankers referred to in note 27.

16. Investments in associates accounted for using the equity method, comprises:

Name	Percentage Holding	Country of Incorporation
Lord World Travel Ltd. (dormant)	50%	Gibraltar
Via Una Ltd.	45%	Latvia

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

17. Other financial assets

	US $ '000		LVL '000	
	2006	2005	2006	2005
Prepaid financial expenses				
Book value as at 1 January	3,601	900	2,136	464
Additions	2,002	2,701	1,122	1,526
Transferred to borrowings	(1,471)	-	(824)	-
Exchange differences	-	-	(219)	146
At 31st December	**4,132**	**3,601**	**2,215**	**2,136**
Non-current receivables				
Book value as at 1 January	296	101	175	52
Additions	-	195	-	110
Received payments	(93)	-	(52)	-
Exchange differences	-	-	(14)	13
At 31st December	**203**	**296**	**109**	**175**
Total as at 31st December	**4,335**	**3,897**	**2,324**	**2,311**

18. Inventories

	US $ '000		LVL '000	
	2006	2005	2006	2005
Consumables	2,897	2,258	1,553	1,339
Bunkers	2,270	3,971	1,217	2,355
Ship and shore spares	491	851	263	505
Provision against slow moving and obsolete inventories	(111)	(168)	(60)	(100)
TOTAL	**5,547**	**6,912**	**2,973**	**4,099**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

19. Accounts receivable and prepayments

	US $ '000		LVL '000	
	2006	2005	2006	2005
Trade receivables (net)	14,154	12,762	7,587	7,568
Prepayments	4,597	4,306	2,464	2,553
Claims receivable	1,480	1,023	793	607
Accrued voyage revenues	684	3,962	367	2,349
TOTAL	**22,291**	**23,683**	**11,948**	**14,044**

Trade receivables are non-interest bearing and are generally on 30-90 days' terms.

As at 31 December 2006, trade receivables at nominal value of US $ 6.6 million (2005: US $ 5.2 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	US $ '000		LVL '000	
	2006	2005	2006	2005
At 1 January	5,162	5,557	3,061	2,867
Charge for the year	3,725	2,602	2,087	1,470
Amounts written off	(2,318)	(2,997)	(1,299)	(1,693)
Currency translation difference	-	-	(328)	417
At 31 December	**6,569**	**5,162**	**3,521**	**3,061**

20 (a) Loans and receivables

	US $ '000		LVL '000	
	2006	2005	2006	2005
At 1 January	-	-	-	-
Bank deposit maturing more than 3 months from the date of placement	46,500	-	24,924	-
Interest accrued	1,495	-	801	-
At 31 December	**47,995**	**-**	**25,725**	**-**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

20 (b) Financial assets designated at fair value through profit or loss

	US $ '000		LVL '000	
	2006	2005	2006	2005
Opening net book value	18,476	16,884	10,956	8,712
Additions	-	5,548	-	3,289
Settlements	(7,004)	(2,412)	(3,924)	(1,430)
Change in fair value	(48)	(198)	(27)	(118)
Movement in accruals	(48)	257	(27)	152
Exchange differences	572	(1,603)	(574)	351
Closing net book value	**11,948**	**18,476**	**6,404**	**10,956**

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.

The total amount of US $ 11.9 million includes the following assets in other currencies:
LVL – 1.0 million and EUR – 2.0 million.

21. Cash and cash equivalents

	US $ '000		LVL '000	
	2006	2005	2006	2005
Bank deposits maturing less than 3 months from the date of placement	19,193	54,300	10,287	32,200
Cash in banks and at hand	13,899	16,524	7,450	9,799
Cash and cash equivalents total	**33,092**	**70,824**	**17,737**	**41,999**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

22. Interest bearing loans and borrowings

	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%)

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

The loans are scheduled to be repaid as follows:

Year	US $ million	LVL million
2007	50,0	26,8
2008	15,1	8,1
2009	29,1	15,6
2010	13,1	7,0
2011	21,1	11,3
2012 until 2017	91,0	48,8
Total:	**219,4**	**117,6**

For the purpose of financing the newbuilding programme, a loan agreement was signed in the amount of US $ 360 million out of which US $ 86.1 million was withdrawn in 2006.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

23. Deferred tax liabilities

	US $ '000		LVL '000	
	2006	2005	2006	2005
Total Deferred Tax:				
Deferred tax liabilities at 1st January	12	5	7	3
Charge to income statement	10	7	5	4
Deferred tax liabilities at 31st December	22	12	12	7
Excess of tax allowances over depreciation	296	158	158	94
Other temporary differences	(675)	(966)	(362)	(573)
Tax losses	(5,829)	(3,134)	(3,124)	(1,859)
Unrecognised deferred tax asset	6,230	3,954	3,340	2,345
Deferred tax liabilities at 31st December	**22**	**12**	**12**	**7**

In the event of distributing profits of the overseas subsidiaries, dividends received should 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.

24. Accounts payable and other liabilities

	US $ '000		LVL '000	
	2006	2005	2006	2005
Accrued expenses	13,848	12,277	7,423	7,280
Deferred income	7,753	6,095	4,155	3,615
Trade payables	5,020	5,321	2,691	3,155
Other payables	3,030	2,680	1,624	1,589
TOTAL	**29,651**	**26,373**	**15,893**	**15,639**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables are non-interest bearing and have an average term of six months.

25. 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

26. 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 15,055 thousands.

Despite the time charter agreements expired in 2006, no profit sharing calculation has been received from the charterer at the date of preparation of these financial statements. As the charterer has not settled current trade receivable accounts in full, the management estimates recoverability of this asset arising from potential 50% profit share as very low.

27. Commitments and contingencies

a) 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.

During the reporting period the Group took the delivery of three of ten newbuildings ordered at 3.Maj shipyard in Croatia.

b) Operating lease commitments – Group as a lessor

During the normal course of business the Group concludes the time charter agreements from 3 months to 2 years.

c) Operating lease commitments – Group as a lessee

During the reporting period the Group has time chartered in 3 tankers from the other shipowner for three years.

	US $ '000		LVL '000	
	2006	2005	2006	2005
Payments within one year	22,660	-	12,146	-
Payments after one year	39,380	-	21,107	-
TOTAL	**62,040**	**-**	**33,253**	**-**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

28. Cash Flow from Operations

	US $ '000		LVL '000	
	2006	2005	2006	2005
Profit before taxation	33,759	27,427	18,913	15,492
Adjustments for				
Depreciation	20,619	27,552	11,551	15,562
(Profit) / loss on sale of fixed assets	(15,686)	474	(8,788)	268
Drydocking deferred expenditure depreciation	7,261	6,317	4,068	3,568
Vessels impairment reversal	-	(2,453)	-	(1,386)
Currency translation difference	(1,129)	1,235	(3,757)	5,447
Interest expenses	11,363	7,723	6,366	4,362
Interest income	(4,101)	(2,835)	(2,297)	(1,601)
Change in fair value of financial assets designated at fair value through profit or loss	48	198	27	112
Gain on sale of investments	-	(92)	-	(52)
	52,134	**65,546**	**26,083**	**41,772**
Movement in net working capital – net of provisions				
Inventories	1,365	(737)	765	(416)
Accounts receivable	1,373	1,599	769	903
Accounts payable	3,077	7,786	1,724	4,398
	5,815	**8,648**	**3,258**	**4,885**
Cash Flow from Operations	**57,949**	**74,194**	**29,341**	**46,657**

29. Related Party Transactions

In accordance with the opinion of the independent experts during 2004 and until February 11, 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 time charter rates agreed until February 11, 2005 and market values for 2005 approximates to USD 8 million and for 2006 – USD 4.3 million.

Until February 11, 2005 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Compensation of the Management Board and the Supervisory Council members of the Group

	US $ '000		LVL '000	
	2006	2005	2006	2005
Salary	5,849	3,371	3,135	1,904
Social tax	211	216	113	122
Total	**6,060**	**3,587**	**3,248**	**2,026**

30. Financial Risk Management objectives and policies

The Group's principal financial instruments comprise cash, deposits, loans and receivables, bank loans and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.
It is, and has been throughout 2006 and 2005 the Group's policy that no derivative instruments are used.
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. Interest on borrowings is fixed every 3, 6 or 12 months, based on terms of concluding the loan agreement.

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 33% of total trade debtors (2005: 45%)

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. dollars 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. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. In addition the Group has available loan facility in amount of US $ 279 million.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.
The Group monitors capital using the market adjusted equity / market adjusted total assets ratio above 30%.
The Group includes within market adjusted equity and market adjusted total assets adjustment for difference between net book value of the fleet at the end of the reporting period and the latest average fleet market valuation performed by two independent professional valuators.

	US $ '000		LVL '000	
	2006	2005	2006	2005
Market adjusted equity	733,010	630,712	392,893	374,012
Market adjusted total assets	979,120	807,977	524,808	479,130
Ratio	**75%**	**78%**	**75%**	**78%**

Fair values

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

31. Post Balance Sheet Events

In January 2007, the Group took the delivery of the first tanker newbuilding (named "Kraslava") ordered at Hyundai Mipo Dockyard Ltd. in Korea.

In March 2007, the Group took the delivery of the fourth tanker newbuilding (named "Targale") ordered at 3. Maj Dockyard in Croatia.

To ensure finance for ordering additional middle-range (MR) tanker newbuilds, 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 February 2007, resulting in the prepayment of the outstanding part of the loan.

The last vessel from the P.Neruda type tankers (m.t. "P. Neruda") was sold to scrap in February 2007 as well as m.t. "Majori" was sold to scrap in March 2007.