



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

**Condensed Consolidated
Financial Statements
for the year ended 31 December 2007**

New ships, new horizons...



**Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007**

PUBLIC STOCK COMPANY

LATVIAN SHIPPING COMPANY

Registered Office

1 Elizabetes Street
Riga LV 1807
Latvia

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

THE SUPERVISORY COUNCIL

Chairman of the Council	Uldis Pumpurs (till 10.02.2008, from 15.02.2008)
Deputy Chairpersons of the Council:	Vladimirs Solomatins (from 15.02.2008) Andris Vilcmeiers (from 15.02.2008) Andris Linužs (till 10.02.2008) Olga Pētersone (till 10.02.2008)
Members of the Council:	Ansis Sormulis (till 10.02.2008, from 15.02.2008) Olga Pētersone (from 15.02.2008) Svens Zālītis (from 15.02.2008) Guntis Ločmelis (from 15.02.2008) Miks Ekbaums (from 15.02.2008) Māris Gailis (from 15.02.2008) Normunds Staņēvičs (from 15.02.2008) Vladimirs Koškuls (from 15.02.2008) Kārlis Boldiševics (from 15.02.2008) Aldis Āķis (till 10.02.2008) Laimonis Junkers (till 10.02.2008) Mamerts Vaivads (till 10.02.2008) Pēteris Putniņš (till 10.02.2008) Vladimirs Krastiņš (till 10.02.2008) Vladimirs Solomatins (till 10.02.2008)

THE MANAGEMENT BOARD

Chairman of the Management Board	Imants Sarmulis (from 01.11.2007)
Chairman of the Management Board, president	Imants Vikmanis (till 01.11.2007)
Member of the Management Board – 1st Vice-President	Andris Linužs (from 14.02.2008) Miks Ekbaums (till 13.02.2008)
Member of the Management Board – Vice-President	Raivis Veckāgans (from 14.02.2008) Solvita Deglava (till 13.02.2008)
Members of the Management Board:	Guntis Tīrmanis (till 13.02.2008, from 14.02.2008) Ilva Purēna (till 13.02.2008, from 14.02.2008)

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

CONTENTS

Management report	5
Consolidated income statement	9
Consolidated balance sheet	10
Consolidated statement of changes in shareholders' equity	11
Consolidated cash flow statement	12
Notes	14

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

MANAGEMENT REPORT

Dear Shareholders and Business Partners!

Successful performance results of Public Joint Stock Company Latvijas kuģniecība for 2007 prove its competitiveness in international shipping markets. During the reporting period JSC Latvijas kuģniecība Group worked actively to achieve the strategic objective set – ensure the increase in Group's value maintaining its position among the ten leading handy sized and middle range tanker owners in the world.

During the reporting period JSC Latvijas kuģniecība Group focusing its efforts on the core business – cargo shipments worldwide – expanded its activities in handy sized and middle range tankers markets covering Far East, Americas, West Africa, Indian Ocean, Western Europe, as well as Mediterranean, Baltic and Black Sea regions. As at 31 December 2007, the fleet in commercial management of JSC Latvijas kuģniecība consisted of 45 vessels – 37 tankers, 2 LPG carriers, 5 reefer vessels and 1 dry cargo carrier.

JSC Latvijas kuģniecība Group Performance during the Reporting Period

In 2007 Net Profit of JSC Latvijas kuģniecība Group reached EUR 46,1 million, that is by EUR 20,4 million higher than for the respective period in 2006. Successful performance of JSC Latvijas kuģniecība Group lies on professional management of the operations including the effective application of the various types of charter agreements responding to the changing market conditions, as well as comparatively high freight rates in tankers market and sale of two Panamax type tankers at a good price.

During the reporting period Net Voyage Result or net income from vessels' operations of JSC Latvijas kuģniecība has grown considerably reaching EUR 144,4 million exceeding the respective result of the previous reporting period by EUR 25,9 million. The advancement is related to restructuring the fleet of JSC Latvijas kuģniecība – the number of tanker newbuildings delivered has increased and, given the level of their freight rates, their income is considerably higher than that of the older vessels.

In 2007 Vessel Operating Profit of JSC Latvijas kuģniecība Group has reached EUR 48,0 million, that is by EUR 13,7 million higher than in 2006.

At the end of the reporting period JSC Latvijas kuģniecība Group equity reached EUR 335,8 million or by EUR 16,2 million higher compared to the previous year. Group's return on equity is 15% for 12 months, but earnings per share have augmented to EUR 0.23.

All the 200,000,000 shares issued by JSC Latvijas kuģniecība are public and traded on the Official List of Riga Stock Exchange. In 12 months of 2007 JSC Latvijas kuģniecība share price has grown from LVL 1.07 to LVL 1.30 per share and in total there have been 6 251 transactions with 16.36 million shares of JSC Latvijas kuģniecība. As at 31 December 2007 the capitalisation of JSC Latvijas kuģniecība shares on Riga Stock Exchange reached LVL 260,000,000.

In order to ensure successful performance of JSC Latvijas kuģniecība Group in future the Supervisory Council of the company has assessed and gave consent to the company's strategy for the period until 2015. Leading specialists of the Group, internationally recognised shipping brokers and consultants have participated in development of the strategy. As a part of strategy development there was carried out the SWOT analysis of JSC Latvijas kuģniecība, defined the mission, the strategic objective of the company and tasks to achieve it. The most significant assets for long term development of the Group are knowledge and professional skills of JSC Latvijas kuģniecība personnel, company's long experience in shipping markets, its recognition and loyal business partners as well as sound positions in handy sized and middle range tankers segment with tonnage 27,500 – 52,000 DWT where JSC Latvijas kuģniecība was ranked 6-8 in 2007.

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

MANAGEMENT REPORT
(continued)

JSC Latvijas kuģniecība Tankers Fleet

In 2007 the main attention has been paid to the continuous implementation of the tankers fleet renewal programme. Within the frames of the programme ten tankers from 3.Maj Shipyard in Croatia and four tankers from Hyundai Mipo Dockyard Co., Ltd in Korea have been ordered.

In accordance with the time schedule four out of ten tankers ordered from 3.Maj Shipyard in Croatia and all the tankers ordered from Hyundai Mipo Dockyard Co., Ltd. in Korea were delivered during 2007. In 2008 JSC Latvijas kuģniecība will take delivery of three more tankers from 3.Maj Shipyard in Croatia completing the first stage of the huge fleet renewal programme.

Following the tankers fleet development scenario included in JSC Latvijas kuģniecība strategy during the reporting period agreements on building four medium range tankers were signed with Hyundai Mipo Dockyard Co.Ltd. in Korea. Optimum size of the planned newbuildings is suitable for employment in product, chemical cargo and vegoil shipments.

JSC Latvijas kuģniecība Group tankers fleet with tonnage 6.300 – 68.500 DWT has been traditionally employed all over the world. The modern double-hull tankers built at Hyundai Mipo Dockyard Co., Ltd. and 3.Maj have focused on oil product shipments – black oil, diesel oil and petrol. In addition the new tankers of JSC Latvijas kuģniecība were also employed in vegoils and light chemicals shipments.

Net Voyage Result of JSC Latvijas kuģniecība tanker fleet represented 86 per cent (in 2006: - 83%) of the total Group's Net Voyage Result. Implementation of the fleet renewal programme has contributed considerably to the financial performance of the tankers fleet resulting in increase of freight rates for modern tonnage.

Prices for second hand and new vessels have maintained their record high levels regardless of the concerns in the market on their soundness. At the same time the high vessel prices affected positively the time charter freight rates keeping them comparably attractive.

JSC Latvijas kuģniecība Reefers Fleet

In 2007 JSC Latvijas kuģniecības reefers fleet consisted of five ice-class reefer vessels with a capacity in range from 289,000 to 387,000 cubic feet. The fleet was traditionally employed in shipments of bananas and other fruits as well as frozen cargoes from North Africa, South and North America to Russia. In 2007 Net Voyage Result of the reefer fleet made up five per cent (2006: - 7%) of the JSC Latvijas kuģniecība Group's total Net Voyage Result.

Assessing the situation in reefers market the sale of five reefer vessels owned by JSC Latvijas kuģniecība Group is planned, investing the financial means received in medium range tankers newbuildings.

JSC Latvijas kuģniecība LPG fleet

JSC Latvijas kuģniecība Group owns two modern LPG carriers „Vidzeme” and „Kurzeme” with 20.500 cubic feet capacity each. Net Voyage Result of both vessels was eight per cent (2006: - 9%) of the total Group's Net Voyage Result. Unusually warm weather conditions and therefore lower energy consumption along with scheduled dry-dock repairs has resulted in lower income from LPG operations in 2007 compared to the previous year.

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

MANAGEMENT REPORT

(continued)

JSC Latvijas kuģniecība Dry Cargo fleet

JSC Latvijas kuģniecība dry cargo vessel „Telo” has generated solid and predictable cash flow throughout the year. Its Net Voyage Result has reached one per cent (2006: - 1%) from the total Net Voyage Result of JSC Latvijas kuģniecība Group.

Future Outlook

Analysis of tendencies in international shipping markets allows to presume that after stabilisation of the freight rates and even slight decline observed at the end of the reporting period their growth is hardly expected in 2008. Considering massive orders of new tonnage and newbuilding deliveries entering the market with supply exceeding the demand in scope of three to four per cent points, the further decline in freight rates is expected that may lead to reduction of time charter rates too.

In 2008 it is planned to sell the older tankers as their further employment is restricted by MARPOL Convention (The International Convention for the Prevention of Pollution from Ships). High impact on freight rates, distribution of cargoes and scrap values of the vessels will have the decisions made by other shipowners with respect to conversion or scrapping of their single hull vessels. Increasing number of vessels or supply will reduce the demand for older tonnage in all the shipping segments given that charterers prefer modern, more reliable and safer vessels first of all.

Despite that 2008 is not foreseen as an easy year for shipping industry, the implementation of the fleet renewal programme will allow the JSC Latvijas kuģniecība develop and strengthen its traditional market share as the maintenance of newer fleet is not only more cost effective but also generates higher results than older fleet.

Environment Protection Initiatives

JSC Latvijas kuģniecība recognises the importance of the environmental protection policy therefore its attention is paid to ensure safe vessels operations and environmental protection. The implementation of tanker fleet renewal programme by JSC Latvijas kuģniecība considerably decreases the risk of environmental pollution by the new vessels, improves effective utilisation of energy resources and testifies increasing corporate social responsibility of JSC Latvijas kuģniecība towards ocean and coastal waters environmental protection.

Post Balance Sheet Events

On 15 February 2008 the Shareholders' Meeting approved a new Supervisory Council of JSC Latvijas kuģniecība. The new Supervisory Council has re-elected Uldis Pumpurs as a Chairman, and elected his deputies Vladimirs Solomatins, Chairman of Supervisory Council of JSC Ventspils nafta, and Andris Vilcmeiers, Deputy Chairman of Supervisory Council of JSC Ventspils nafta. The elections of the Supervisory Council were held as the term of previously elected Supervisory Board expired.

In accordance with the decision of JSC Latvijas kuģniecība Supervisory Council the changes in Management Board of the company were made. Two of the former Management Board members – Ilva Purēna and Guntis Tīrmanis were re-elected for the period of three years and newly elected Board members – First Vice-President Andris Linužs and Vice-President Raivis Veckāgans commenced to work for the company. Imants Sarmulis continues as the Chairman of JSC Latvijas kuģniecība Management Board. The number of Management Board members has remained unchanged and is represented by five highly professional specialists in shipping, finance and law.

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

MANAGEMENT REPORT

(continued)

In accordance with the strategic goal of JSC Latvijas kuģniecība to concentrate and expand its business in handy sized and middle range tankers shipments one reefer vessel „Akadēmiķis Vavilovs” was sold. Whereas the tanker fleet of JSC Latvijas kuģniecība took the delivery of the modern tanker „Užava” – the eighth out of ten ordered from 3.Maj Shipyard in Croatia on 30 January 2008.

On 1 February 2008 crew of JSC Latvijas kuģniecība tanker „Ance” received International Maritime Organisation (IMO) Award for Exceptional Bravery at Sea for saving two Canadian citizens. IMO presents this award to the people who risking their lives have saved lives of other people at sea or prevented a threat to the marine environment thus earning international recognition.

In 2008 JSC Latvijas kuģniecība Group will continue to work towards the accomplishment of the strategic goals set, maximising the results and paying particular attention to the efficiency of the administrative expenses and mobilisation of its tangible and intangible resources.

On behalf of the Management of JSC Latvijas kuģniecība:

Imants Sarmulis
Chairman of the Management Board
JSC Latvijas kuģniecība

Riga, Latvia
14 April 2008

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

CONSOLIDATED INCOME STATEMENT

	2007	2006
	EUR '000	EUR '000
Voyage income	165,187	164,957
Voyage costs	(20,775)	(46,412)
Net voyage result	144,412	118,545
Vessel operating costs	(78,951)	(68,954)
Vessel operating result before depreciation	65,461	49,591
Vessel depreciation	(17,417)	(15,198)
Vessel operating profit	48,044	34,393
Administration expenses	(17,504)	(15,418)
Other operational income	839	1,542
Other operational expenses	(1,665)	(715)
Gain on sale of assets	26,218	11,963
Operating profit	55,932	31,765
Financial income	4,242	3,110
Financial expense	(14,004)	(9,129)
Profit before taxation	46,170	25,746
Taxation	(23)	(18)
Net profit for the year	46,147	25,728
Earnings per share	EUR 0.23	EUR 0.13

These Financial Statements were approved by the Management Board on April 14, 2008
and signed on its behalf by

Imants Sarmulis
Chairman of the Management Board

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

CONSOLIDATED BALANCE SHEET

	2007	2006
	EUR '000	EUR '000
<u>ASSETS</u>		
<i>NON-CURRENT ASSETS</i>		
Fleet	438,383	351,561
Other property, plant and equipment	7,604	4,741
Investment properties	1,062	1,375
Assets under construction	49,203	54,449
Investments in associates accounted for using the equity method	18	19
Other financial assets	1,049	3,306
<i>TOTAL NON-CURRENT ASSETS</i>	497,319	415,451
<i>CURRENT ASSETS</i>		
Inventories	4,613	4,230
Trade accounts receivable	6,748	10,796
Prepayments and other receivables	7,274	6,205
Deposits with maturity more than three months	33,033	36,604
Financial assets designated at fair value through profit or loss	3,967	9,112
Cash and cash equivalents	37,255	25,238
<i>TOTAL CURRENT ASSETS</i>	92,890	92,185
<i>TOTAL ASSETS</i>	590,209	507,636
<u>EQUITY & LIABILITIES</u>		
<i>EQUITY</i>		
Share capital	249,518	276,326
Translation reserve	(16,005)	(12,897)
Retained earnings	102,276	56,129
<i>TOTAL EQUITY</i>	335,789	319,558
<i>NON-CURRENT LIABILITIES</i>		
Non-current portion of bank loans	205,881	127,540
Deferred tax liabilities	25	17
<i>TOTAL NON-CURRENT LIABILITIES</i>	205,906	127,557
<i>CURRENT LIABILITIES</i>		
Current portion of bank loans	28,769	37,906
Trade accounts payable	2,458	3,830
Other liabilities	17,287	18,785
<i>TOTAL CURRENT LIABILITIES</i>	48,514	60,521
<i>TOTAL LIABILITIES</i>	254,420	188,078
<i>TOTAL EQUITY & LIABILITIES</i>	590,209	507,636

These Financial Statements were approved by the Management Board on April 14, 2008
and signed on its behalf by

Imants Sarmulis
Chairman of the Management Board

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

***CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY***

	Share capital EUR 000	Translation reserve EUR 000	Retained earnings EUR 000	Total EUR 000
<i>Balance at 31 December 2005</i>	284,576	9,371	30,401	324,348
Net profit for the year	-	-	25,728	25,728
Currency translation differences	(8,250)	(22,268)	-	(30,518)
<i>Balance at 31 December 2006</i>	276,326	(12,897)	56,129	319,558
Net profit for the year	-	-	46,147	46,147
Currency translation differences	(26,808)	(3,108)	-	(29,916)
<i>Balance at 31 December 2007</i>	249,518	(16,005)	102,276	335,789

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

CONSOLIDATED CASH FLOW STATEMENT

	2007	2006
	EUR '000	EUR '000
Profit before taxation	46,170	25,746
Adjustments for :		
Depreciation	18,134	15,725
Profit on sale of fleet and other property, plant and equipment	(26,218)	(11,963)
Dry-docking deferred expenditure depreciation	4,768	5,538
Currency translation difference	(1,085)	(6,606)
Interest expense	13,329	8,666
Interest income	(4,119)	(3,091)
	50,979	34,015
Movement in net working capital – net of provisions		
Inventories	(793)	1,041
Trade accounts receivable, prepayments and other receivables	262	1,047
Trade accounts payable and other liabilities	(432)	2,347
	(963)	4,435
Cash flow from operations	50,016	38,450
Corporate income taxes paid	(12)	(11)
Net cash flow from operating activities	50,004	38,439
Investing activities		
Purchase of fleet	(137,136)	(66,329)
Purchase of other property, plant and equipment	(3,523)	(2,160)
Purchase of financial assets designated at fair value through profit or loss	(32,268)	-
Settlement of financial assets designated at fair value through profit or loss	36,335	5,342
Proceeds on sale of fleet, other property, plant and equipment	73,193	16,226
Deposits with maturity more than three months	-	(36,604)
Dry-dock expenditure	(3,398)	(7,546)
Assets under construction	(49,139)	(25,336)
Interest received	4,699	2,073
Net cash flow from investing activities	(111,237)	(114,334)

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

CONSOLIDATED CASH FLOW STATEMENT (continued)

	2007	2006
	EUR '000	EUR '000
Cash flow before financing activities	(61,233)	(75,895)
Financing activities		
Bank loans received	151,481	65,646
Bank loans repaid	(63,480)	(14,229)
Prepaid financing expenses	(1,337)	(1,527)
Interest paid on loans	(13,414)	(8,517)
Net cash flow from financing activities	73,250	41,373
Increase/(decrease) in cash and cash equivalents	12,017	(34,522)
Cash and cash equivalents at 1 January:	25,238	59,760
Cash and cash equivalents at 31 December:	37,255	25,238

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements
for the year ended 31 December 2007

NOTES

1. Accounting policies

These condensed consolidated financial statements are prepared in accordance with and comply with accounting policies applied in preparation of the consolidated financial statements of Latvian Shipping Company & its Subsidiaries for the year ended 31 December 2007, which were prepared in accordance with International Financial Reporting Standards adopted by the EU.

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

The functional currency of Latvian Shipping Company Group is U.S. dollars. These condensed consolidated financial statements are translated in Euros using the rate of exchange stated by the Bank of Latvia as of 31.12.2007: 1 USD = 0.68867 EUR (31.12.2006: 1 USD = 0.76266 EUR).

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements for year ended 31 December 2007

NOTES

2. SEGMENT INFORMATION

	Tankers		Reefers		LPG		Dry Cargo		Total	
	2007 EUR' 000	2006 EUR' 000	2007 EUR' 000	2006 EUR' 000	2007 EUR' 000	2006 EUR' 000	2007 EUR' 000	2006 EUR' 000	2007 EUR' 000	2006 EUR' 000
Voyage income	143,728	136,472	8,019	11,779	11,258	14,725	2,182	1,981	165,187	164,957
Voyage costs	(20,170)	(42,031)	(621)	(4,260)	(62)	(8)	78	(113)	(20,775)	(46,412)
Net voyage result	123,558	94,441	7,398	7,519	11,196	14,717	2,260	1,868	144,412	118,545
Vessel operating costs	(66,919)	(58,265)	(6,889)	(6,293)	(3,638)	(2,737)	(1,505)	(1,659)	(78,951)	(68,954)
Vessel depreciation	(13,991)	(11,404)	(1,045)	(1,157)	(2,381)	(2,637)	-	-	(17,417)	(15,198)
Vessel operating profit	42,648	24,772	(536)	69	5,177	9,343	755	209	48,044	34,393
Gain on sale of assets	26,104	11,940	-	-	-	-	-	-	26,104	11,940
Segment result	68,752	36,712	(536)	69	5,177	9,343	755	209	74,148	46,333
Unallocated sale of assets									114	23
Unallocated administration expenses									(17,504)	(15,418)
Other operational income									839	1,542
Other operational expenses									(1,665)	(715)
Operating profit									55,932	31,765
Financial income									4,242	3,110
Financial expense									(14,004)	(9,129)
Profit before taxation									46,170	25,746
Taxation									(23)	(18)
Net profit for the year									46,147	25,728

Latvian Shipping Company & its Subsidiaries
Condensed Consolidated Financial Statements for the year ended 31 December 2007

NOTES

2. SEGMENT INFORMATION (continued)

	Tankers		Reefers		LPG		Dry Cargo		Total	
	31.12.07 EUR' 000	31.12.06 EUR' 000	31.12.07 EUR' 000	31.12.06 EUR' 000	31.12.07 EUR' 000	31.12.06 EUR' 000	31.12.07 EUR' 000	31.12.06 EUR' 000	31.12.07 EUR' 000	31.12.06 EUR' 000
Segment assets	451,824	367,273	14,609	17,601	43,174	50,446	1,134	1,344	510,741	436,664
Unallocated assets									79,468	70,972
Total assets									590,209	507,636
Segment liabilities	248,755	172,360	1,169	809	454	12,241	209	246	250,587	185,656
Unallocated liabilities									3,833	2,422
Total liabilities									254,420	188,078
Investments in vessels	188,915	99,508	424	356	298	-	-	323	189,637	100,187
Depreciation	13,991	11,404	1,045	1,157	2,381	2,637	-	-	17,417	15,198
Dry-docking deferred expenditure depreciation	4,083	4,926	368	370	198	120	119	122	4,768	5,538

