



LATVIJAS KUĢNIECĪBA

# ANNUAL REPORT 2007

New ships, new horizons...





**LATVIJAS KUĢNIECĪBA**

**Public Joint Stock Company  
Latvian Shipping Company  
and its subsidiaries**

**ANNUAL REPORT 2007**

**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER**

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## JSC Latvijas kuģniecība in Brief

### Mission

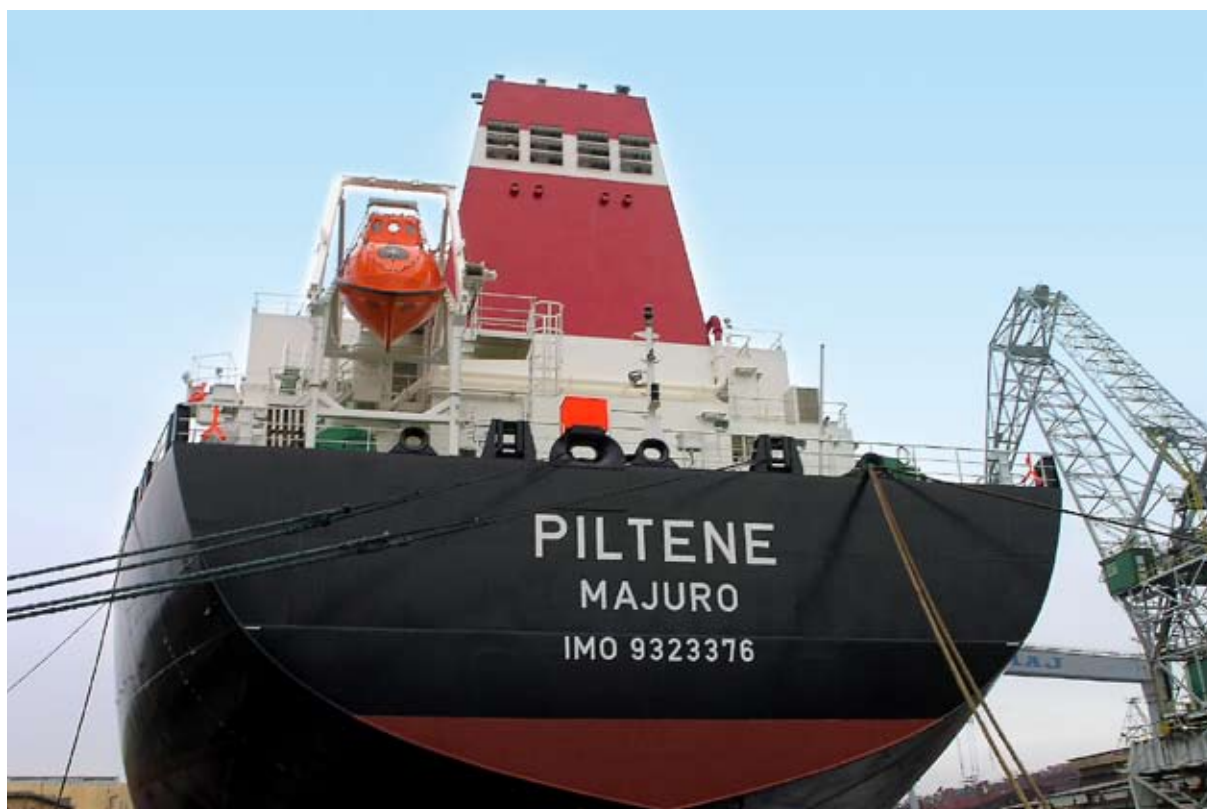
JSC Latvijas kuģniecība is a competitive company in the world's shipping industry that focuses its activity on a handy sized and middle range tankers segment providing to its clients highly qualified services in compliance with international safety standards.

### Strategy

JSC Latvijas kuģniecība strategy guidelines provide maintaining and increasing total handy sized and middle range tankers fleet tonnage by acquisition of newer and economically more efficient fleet.

### Strategic Objectives

In accordance with "JSC Latvijas kuģniecība Strategic Plan to the year 2015" developed by JSC Latvijas kuģniecība Management Board with the consent of the Supervisory Council the objectives of JSC Latvijas kuģniecība provide for increase in the company's value by raising its equity along with maintaining the company's position amongst the ten leading handy sized and middle range tankers owners in the world simultaneously keeping the leader's position in the Northern European market.





## Activities of JSC Latvijas kuģniecība

The core activity of JSC Latvijas kuģniecība is sea cargoes shipments between world's ports. Today JSC Latvijas kuģniecība under the management of Chairman of the Management Board Imants Sarmulis plays significant role in the world's shipping business, ranking in 6 – 8 place in the tankers segment having tonnage from 27,500 to 52,000 dwt. JSC Latvijas kuģniecība is unquestionable leader in the Northern Europe by the volumes of the transported oil products in mentioned segment. JSC Latvijas kuģniecība offers wide and variable range of sea shipments and as such its vessels can be met in all ports, seas and oceans of the world. Following the best Latvian maritime traditions JSC Latvijas kuģniecība carries out safe and qualitative cargoes shipments as well as performs training and recruiting of crews compliant with international conventions for both its own vessels and vessels owned by other shipping companies. Also JSC Latvijas kuģniecība provides technical management for diverse international shipments.



## JSC LATVIJAS KUĢNIECĪBA 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.

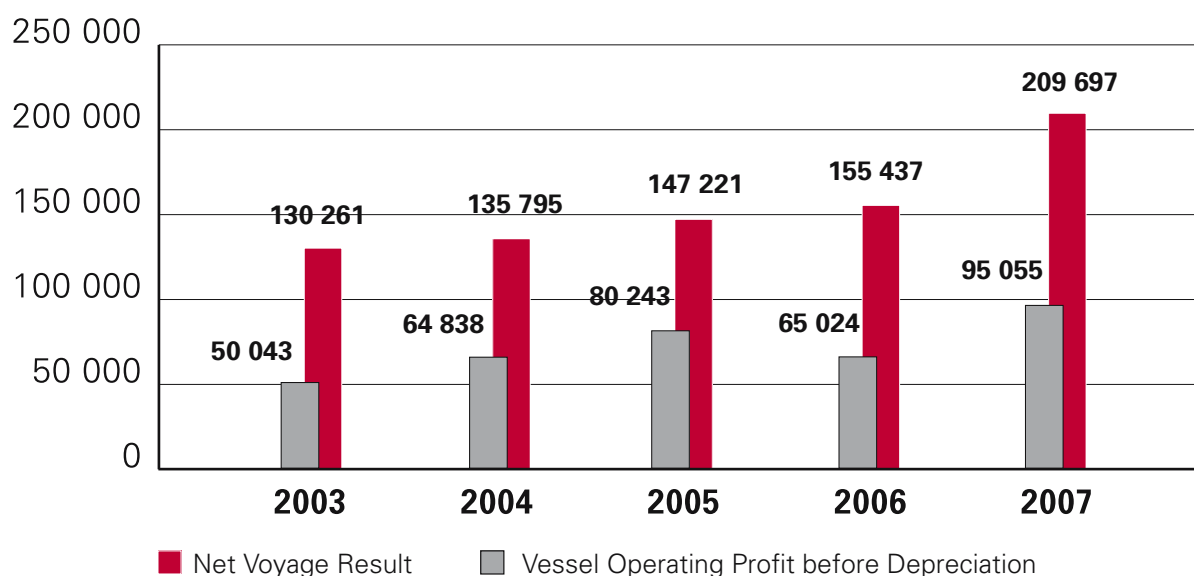
During the reporting period JSC Latvijas kuģniecība Group focusing its efforts on the core business – cargo shipments worldwide – expanded its activities in handy sized and middle range tankers markets covering Far East, Americas, West Africa, Indian Ocean, Western Europe, as well as Mediterranean, Baltic 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.



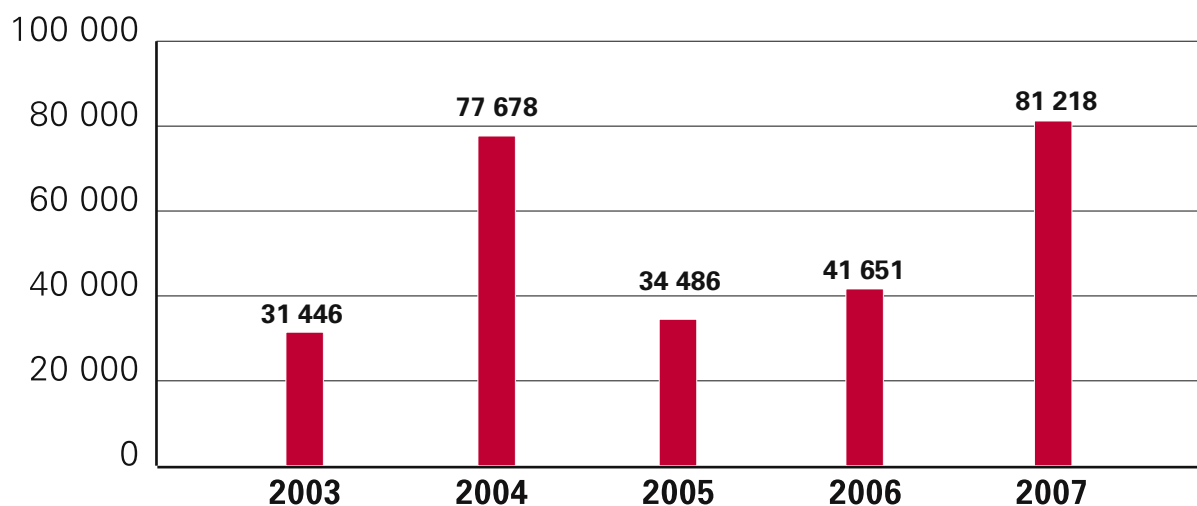
## JSC Latvijas kuģniecība Group Performance during the Reporting Period

In 2007 Net Profit of JSC Latvijas kuģniecība Group reached USD 67,0 million (LVL 34,4 million), that is double or by USD 33,3 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.

### Net Voyage Result and Vessel Operating Profit before Depreciation (USD '000)



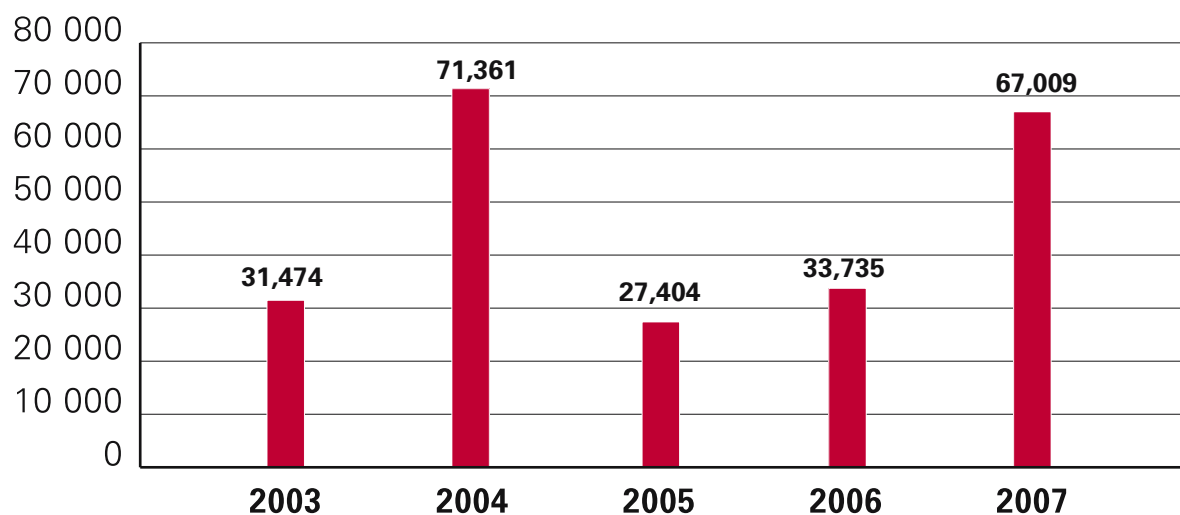
### Operating Profit (USD '000)



During the reporting period Net Voyage Result or net income from vessels' operations of JSC Latvijas kuģniecība has grown considerably reaching USD 209,7 million (LVL 107,7 million) exceeding the respective result of the previous reporting period by USD 54,3 million (LVL 20,6 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 USD 69,8 million (LVL 35,8 million), that is by USD 24,7 million USD (LVL 10,6 million) higher than in 2006.

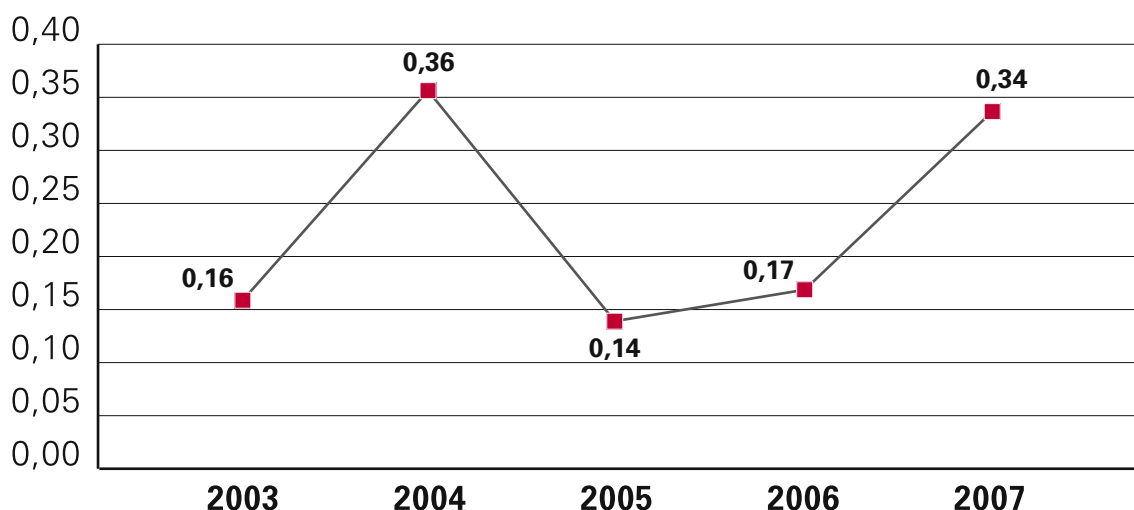
### Net Profit (USD '000)



At the end of the reporting period JSC Latvijas kuģniecība Group equity reached USD 487,6 million (LVL 236,0 million) or by USD 68,6 million (LVL 11,4 million) higher compared to the previous year. Group's return on equity is 15% for 12 months, but earnings per share have augmented to USD 0.34 (LVL 0.17).

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.

### Earning per Share (USD)



In order to ensure successful performance of JSC Latvijas kuģniecība Group in future the Supervisory Council of the company has assessed 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.



### 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 new-buildings 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.

### **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.

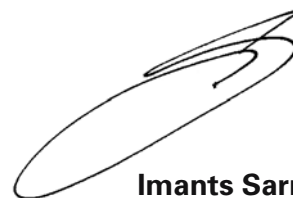
In accordance with the decision of JSC Latvijas kuģniecība Supervisory Council the changes in Management Board of the company were made. Two of the former Management Board members – Ilva Purēna and Guntis Tīrmanis were re-elected for the period of three years and newly elected Board members – First Vice-President 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.

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

## Supervisory Council



### Chairman of the Council

Uldis Pumpurs (until 10.02.2008.,  
from 15.02.2008.)

**Uldis Pumpurs**

JSC Latvijas kuģniecība  
Chairman of the Council

### Deputy Chairpersons of the Council

Vladimirs Solomatins (from 15.02.2008.)  
Andris Vilcmeiers (from 15.02.2008.)  
Andris Linužs (until 10.02.2008.)  
Olga Pētersone (until 10.02.2008.)

### Members of the Council

Ansis Sormulis (until 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 Staņevičs (from 15.02.2008.)  
Vladimirs Koškuls (from 15.02.2008.)  
Kārlis Boldiševics (from 15.02.2008.)  
Aldis Āķis (until 10.02.2008.)  
Laimonis Junkers (until 10.02.2008.)  
Mamerts Vaivads (until 10.02.2008.)  
Pēteris Putniņš (until 10.02.2008.)  
Vladimirs Krastiņš (until 10.02.2008.)  
Vladimirs Solomatins (until 10.02.2008.)



## Professional experience of the members of the Supervisory Council of JSC Latvijas kuģniecība (Latvian Shipping Company), 2004 – 2008

### Uldis Pumpurs – Chairman of the Supervisory Council

Since 2005	JSC Latvijas kuģniecība, Chairman of the Supervisory Council
2003 – 2007	Ventspils nafta termināls Ltd., Chairman of the Supervisory Council
2000 – 2006	JSC Ventspils nafta, Member of the Supervisory Council
Since 1995	Zaksi Ltd., Director
Since 1993	Puses Ltd., Director

### Andris Vilcmeiers – Deputy Chairman of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Deputy Chairman of the Supervisory Council, Ventspils nafta termināls Ltd., Member of the Supervisory Council
Since 2007	JSC ALA Investments, Chairman of the Supervisory Council
Since 2007	JSC Ventspils nafta, Deputy Chairman of the Supervisory Council
2006 – 2007	JSC Ventspils nafta, Member of the Supervisory Council
Since 2006	Baltic Juice Terminal Ltd., Deputy Chairman of the Supervisory Council
2004 – 2007	JSC ALA Investments, Chairman of the Management Board
2003 – 2008	JSC Latvijas kuģniecība, Member of the Audit Committee
Since 2002	JSC LSF Holdings, Member of the Management Board, Finance Director

### Vladimirs Solomatins – Deputy Chairman of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Deputy Chairman of the Supervisory Council
Since 2007	JSC Ventspils nafta, Chairman of the Supervisory Council
	LatRosTrans Ltd., Member of the Supervisory Council
	2003 – 2007 JSC Ventspils nafta, Member of the Supervisory Council
Since 2002	JSC Latvijas kuģniecība, Member of the Supervisory Council
	1996 – 2007 JSC Latvijas Naftas Tranzīts, Member of the Management Board, Vice-president
1995 – 2006	JSC Multibanka, Member of the Supervisory Council

### Olga Pētersone – Member of the Supervisory Council

Since 2008	JSC Latvijas kuģniecība, Member of the Supervisory Council
	Ventspils nafta terminals Ltd., Chairperson of the Supervisory Council
	2005 – 2008 JSC Latvijas kuģniecība, Deputy Chairperson of the Supervisory Council
Since 2004	LatRosTrans Ltd., Member of the Supervisory Council
	Ventspils Development Agency, Member of the Management Board
	JSC Ventspils nafta, Chairperson of the Management Board, President

**Miks Ekbaums – Member of the Supervisory Council**

- Since 2008 JSC Latvijas kuģniecība, Member of the Supervisory Council
- 2006 – 2008 JSC Latvijas kuģniecība, Member of the Management Board,  
First Vice President
- 2003 – 2006 JSC Ventbunkers, Chairman of the Management Board

**Normunds Staņēvičs – Member of the Supervisory Council**

- Since 2008 JSC Latvijas kuģniecība, Member of the Supervisory Council
- Since 2007 JSC Ventspils nafta, Investment Director  
JSC Preses nams, Chairman of the Supervisory Council
- 2006 – 2007 Jaunrīgas attīstības uzņēmums Ltd., Member of the Supervisory Council
- Since 2004 Eurodeal Advisory Services Ltd., Member of the Management Board
- 2003 – 2005 British Chamber of Commerce in Latvia,  
Member of the Management Board

**Ansis Sormulis – Member of the Supervisory Council**

- Since 2005 JSC Latvijas kuģniecība, Member of the Supervisory Council
- Since 2002 JSC Ventspils Tirdzniecības Osta, Finance Director  
LSF Holdings Ltd., Member of the Management Board

**Svens Zālītis – Member of the Supervisory Council**

- Since 2008 JSC Latvijas kuģniecība, Member of the Supervisory Council
- 2006 – 2008 JSC Latvijas kuģniecība, Legal Advisor to the Management Board
- 2002 – 2006 JSC Latvijas kuģniecība, Lawyer, Internal Audit Department
- Since 1998 Fidelity Corporate Services Limited, Head of the Office, Co-owner

**Guntis Ločmelis – Member of the Supervisory Council**

- Since 2008 JSC Latvijas kuģniecība, Member of the Supervisory Council
- 2001 – 2007 Ventspils City Council, Deputy Chairman of the Health Committee
- 1996 – 2007 AOB Ltd., Director  
Kronoss Ltd., Director
- 1994 – 2007 Pārventa Ltd., Physician, Director of the Seafarers Medical Examination Board

### **Māris Gailis – Member of the Supervisory Council**

- Since 2008 JSC Latvijas kuģniecība, Member of the Supervisory Council
- Since 2006 JSC Ventspils nafta, Member of the Supervisory Council
- Since 1996 JSC Māris Gailis, (Real Estate Development),  
Chairman of the Management Board  
MG nekustamie īpašumi Ltd, Chairman of the Management Board  
Māris Gailis un partneri Ltd, Chairman of the Management Board

### **Vladimirs Koškuls – Member of the Supervisory Council**

- Since 2008 JSC Latvijas kuģniecība, Member of the Supervisory Council
- 2004 – 2008 Wallem (Hong Kong), Master on reefer vessels

### **Kārlis Boldiševics – Member of the Supervisory Council**

- Since 2008 JSC Latvijas kuģniecība, Member of the Supervisory Council
- 2005 – 2006 JSC Ventspils nafta, Member of the Supervisory Council
- Since 2004 JSC Latvijas valsts meži, Member of the Management Board
- Since 2002 Advisor to the Saeima Parliamentary Group



## Management Board

<b>Chairman of the Management Board</b>	Imants Sarmulis (from 01.11.2007.)
<b>Chairman of the Management Board</b>	Imants Vikmanis (until 01.11.2007.)
<b>Member of the Management Board, First Vice President</b>	Andris Linužs (from 14.02.2008.) Miks Ekbaums (until 13.02.2008.)
<b>Member of the Management Board, Vice President</b>	Raivis Veckāgans (from 14.02.2008.)
<b>Member of the Management Board, Vice President</b>	Solvita Deglava (until 13.02.2008.)
<b>Members of the Board</b>	Guntis Tīrmanis Ilva Purēna

## Professional experience of the members of the Management Board of JSC Latvijas kuģniecība (Latvian Shipping Company), 2004 – 2008

### Imants Sarmulis – Chairman of the Management Board

Since 2007	JSC Latvijas kuģniecība, Chairman of the Management Board
Since 1995	Manager of the Ventspils Free Port

### Andris Linužs – Member of the Management Board

Since 2008	JSC Latvijas kuģniecība, Member of the Management Board, First Vice-President
2006 – 2007	JSC Preses nams, Chairman of the Management Board, President
2005 – 2008	JSC Latvijas kuģniecība, Deputy Chairman of the Supervisory Council
2004 – 2007	JSC Latvijas naftas tranzīts, Member of the Supervisory Council
2003 – 2006	JSC Ventbunkers, Director of Investment and Development Department, Member of the Management Board JSC Preses nams, Member of the Supervisory Council

### Raivis Veckāgans – Member of the Management Board

Since 2008	JSC Latvijas kuģniecība, Member of the Management Board, Vice-President
Since 2008	LSC Shipmanagement Ltd., Member of the Management Board
2007 – 2008	Ventall Termināls Ltd., Member of the Supervisory Council
2006 – 2008	BIO-Venta Ltd., Member of the Management Board, Finance Director
Since 2005	JSC L.V.K., Chairman of the Management Board
2005 – 2008	Kurzemes investīcijas Ltd., Chairman of the Management Board
2005 – 2008	VK Tranzīts Ltd., Member of the Management Board, Finance Director
2005 – 2006	JSC Baltic Coal terminal, Member of the Management Board, Finance Director
2003 – 2005	JSC Ventspils zivju konservu kombināts, President of the Council
2002 – 2005	JSC Ventspils tirdzniecības osta, Member of the Management Board, Director of the Finance Department

**Ilva Purēna – Member of the Management Board**

- Since 2005 JSC Latvijas kuģniecība, Member of the Management Board
- Since 2004 JSC Preses nams, Member of the Supervisory Council
- Since 2003 JSC Ventspils nafta, Member of the Management Board
- Since 2003 JSC Ventspils nafta, Legal Director

**Guntis Tirmanis – Member of the Management Board**

- Since 2005 JSC Latvijas kuģniecība, Member of the Management Board
- Since 2003 JSC Ventspils nafta, Member of the Management Board;
- Since 2002 Ventspils Free Port Authority, Deputy Chief Executive

**The Election of Supervisory Council and Management Board**

In accordance with internal regulations of JSC Latvijas kuģniecība to ensure effective planning and management of the company's operations and to allocate specific area of supervision to each member of the Management Board to encourage the preparation, approval and execution of competent and well prepared Management Board decisions, the areas of supervision are distributed and allocated between the members of the Management Board by decision made by the Management Board and consent received from the Supervisory Council. Before election the education and previous work experience in the respective area of the potential member of the Management Board is evaluated.

The members of the Supervisory Council of JSC Latvijas kuģniecība are nominated to election in Supervisory Council in compliance with the Commercial Law and best corporate governance practices according to which members of the Supervisory Council are independent and unaffected in the decision-making process.

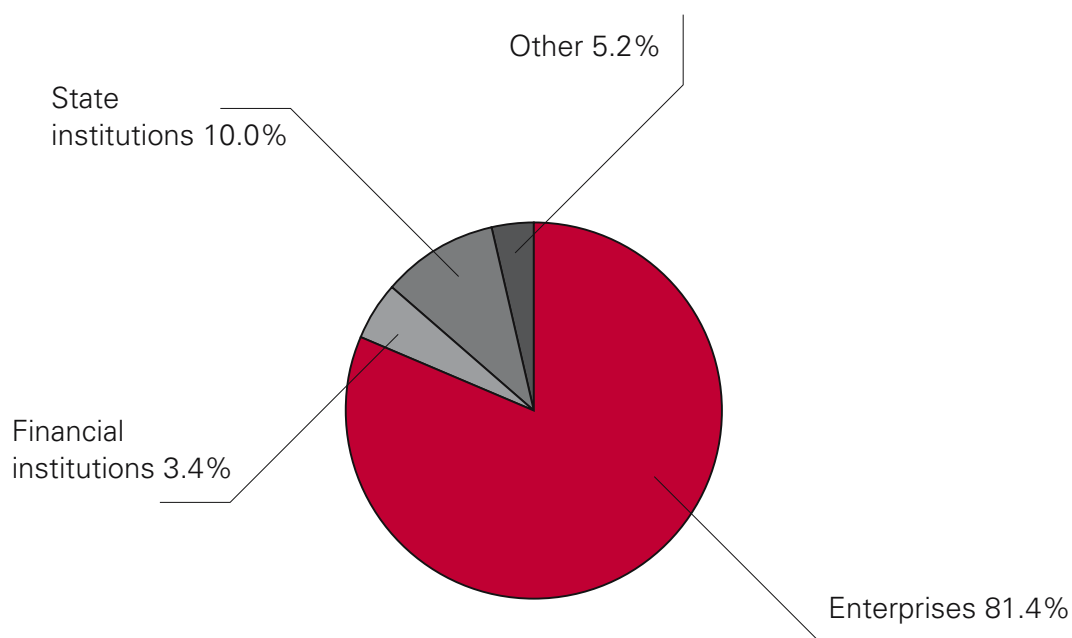




## Major Shareholders as at 31 December 2007

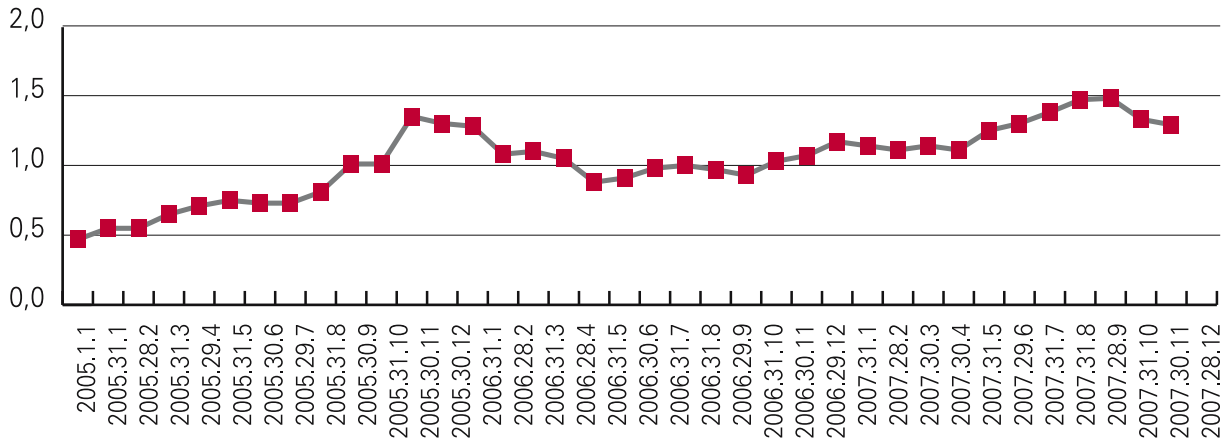
• JSC Ventspils nafta – 23 Ostas street., Ventspils, LV–3601, Latvia	49.94 %
• Ojay Limited – P.O.Box 175, Frances House, SLR William Place, St.Peter, Guernsey, Channel Islands GYI 4HQ	17.66 %
• SJSC Valsts sociālās apdrošināšanas aģentūra – 70B Lāčplēša street, Riga, LV–1011, Latvia	10%,
• Eastgate Properties Limited –	9.89 %
• Skandinaviska Enskilda Banken AB –	2.85%
• JSC Hansabanka customer account –	2.02%
• JSC J.Lauritzen –	1.28%
• Other –	6.36%

### Shareholders Structure

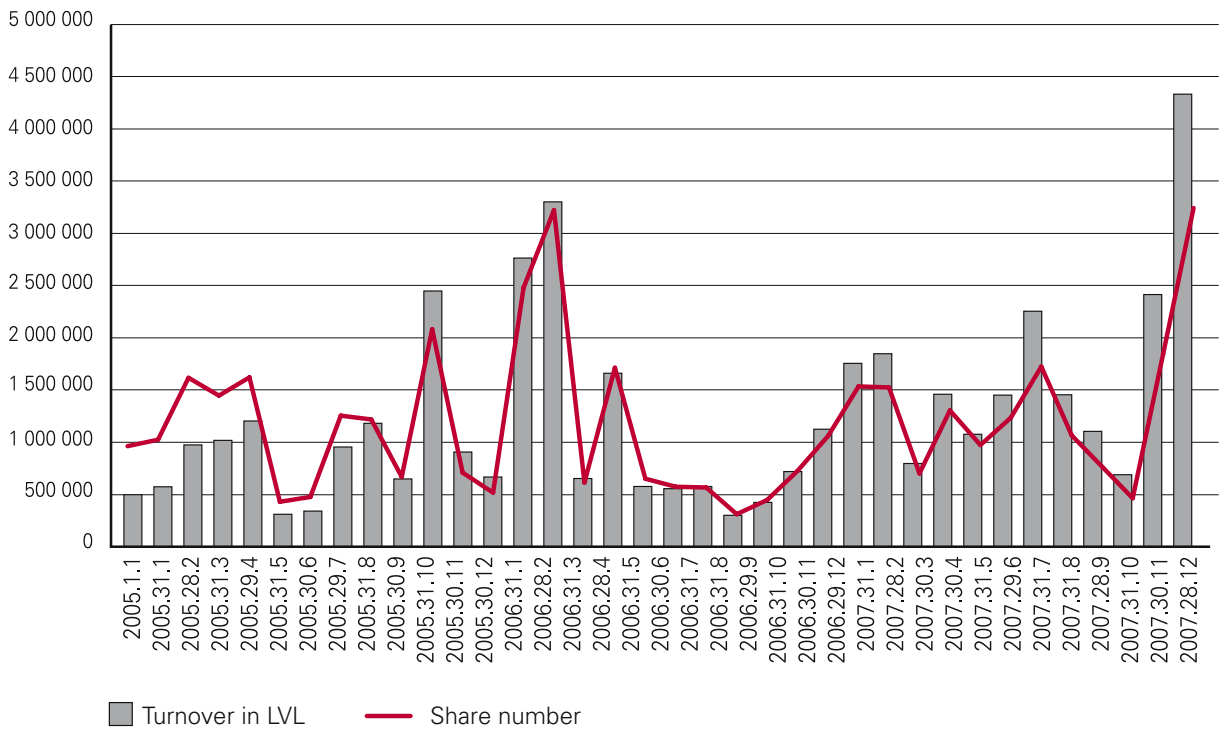


## Review of Shares

### Share price development (LVL)



### Turnover of number and value of shares 2005 – 2007



## Review of Shares

### Basic information

ISIN	LV0000101103
Name	LSC1R
List	Baltic main list
Stock exchange	OMX Nordic Exchange
Inclusion in indexes	OMX Baltic Benchmark (OMXBBGI), OMX Baltic (OMXB), OMX Riga All Share (OMXR)
Liquidity providers	Hansabanka, Parex Banka, SEB Banka
Nominal value	LVL 1.00
Total number of securities	200,000,000
Number of listed securities	200,000,000
Listing date	26.06.2002.

### Information about share price and turnover

	2007	2006	2005
Last transaction price	LVL 1.30	LVL 1.07	LVL 1.30
Highest share price	LVL 1.57	LVL 1.31	LVL 1.42
Lowest share price	LVL 1.07	LVL 0.84	LVL 0.47
Average share price	LVL 1.26	LVL 1.04	LVL 0.82
Number	16 355 655	12 850 514	13 477 984
Turnover	LVL 20 642 417	LVL 13 328 329	LVL 11 063 369
Capitalisation	LVL 260 000 000	LVL 214 000 000	LVL 260 000 000

## Key Financial Indicators (USD '000)

<b>Financial results</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Voyage income	239 864	216 292	198 688	181 097	193 693
Net voyage income	209 697	155 437	147 221	135 795	130 261
Vessel operating profit					
before depreciation	95 055	65 024	80 243	64 838	50 043
– share of the Voyage income %	40%	30%	40%	36%	26%
Vessel operating profit	69 764	45 097	53 313	40 620	27 771
– share of the Voyage income %	29%	21%	27%	22%	14%
<b>Operating profit</b>	<b>81 218</b>	<b>41 651</b>	<b>34 486</b>	<b>77 678</b>	<b>31 446</b>
– share of the Voyage income %	34%	19%	17%	43%	16%
<b>Profit before interest, tax and depreciation (EBITD)</b>	<b>113 623</b>	<b>68 901</b>	<b>66 184</b>	<b>91 610</b>	<b>70 465</b>
– share of the Voyage income %	47%	32%	33%	51%	36%
Profit before taxes	67 042	33 759	27 427	71 327	31 390
– share of the Voyage income %	28%	16%	14%	39%	16%
<b>Net profit</b>	<b>67 009</b>	<b>33 735</b>	<b>27 404</b>	<b>71 361</b>	<b>31 474</b>
– share of the Voyage income %	28%	16%	14%	39%	16%
<b>Financial ratios</b>					
Return on Equity (ROE) %	15%	8%	7%	22%	12%
Return on Assets (ROA) %	9%	5%	5%	15%	8%
Liquidity ratios					
– quick liquidity %	182%	145%	259%	279%	372%
– current liquidity %	191%	152%	275%	296%	387%
<b>Earnings per share USD</b>	<b>0.34</b>	<b>0.17</b>	<b>0.14</b>	<b>0.36</b>	<b>0.16</b>
P/E ratio USD	3.84	6.29	9.29	1.30	2.31

## Information on the Performance of the Company

### Dividends Policy

Decision on dividends payment is made by Shareholders Meeting. In 2007 the Management Board of JSC Latvijas kuģniecība has developed and with the consent of the Supervisory Council approved "JSC Latvijas kuģniecība Strategic Plan to the year 2015" that provides for increase in the Company's value and raising its equity along with maintaining the Company's position amongst the ten leading handy sized and middle range tankers owners in the world simultaneously keeping the leader's position in the Northern European market. The strategic objective reveals the necessity to invest the Company's profits in the development of JSC Latvijas kuģniecība Group to enhance its value in future.

### Internal Control System in the Group

The internal control system of the Group is based on internal regulations describing the procedures of all significant business cycles, the process of risk evaluation and decision making, the control procedures for processes and transactions as well as process results evaluation criteria. The independent review of the internal control system is performed by Internal Audit Department. The work of the Internal Audit Department is organised based on approved Strategic 3 Years' Audit Plan which provides the annual review of high risk business cycles as well as review of all business cycles once in a three years. The Internal Audit Department functions in accordance with Standards issued by Institute of Internal Auditors and best practises.

### Personnel Policy

In today's globally competitive environment highly professional and motivated personnel makes a ground for success of the company. JSC Latvijas kuģniecība Personnel Policy aims to ensure equal development opportunities for all the employees and personnel potential development and utilisation for achievement of maximum performance results of the JSC Latvijas kuģniecība Group. To reach the objectives set the company expects its employees to apply their skills and competence, efficient and dynamic work, as well as further development of professional knowledge and skills. The personnel evaluation policy implemented in the company provides setting annual objectives for each employee as well as the evaluation of achievement of the objectives and overall participation in meeting the company's operations results. The results of the personnel evaluation are linked to the revision of remuneration and bonuses system of the JSC Latvijas kuģniecība Group.



At the end of 2007 JSC Latvijas kuģniecība Group employed 237 people ashore. The company is glad to announce that the personnel turnover has been minimal during the reporting period proving that the company's personnel is comprised of experienced, loyal and highly professional employees in their field. To ensure the development of the company it is very important to attract new employees having relevant qualifications therefore JSC Latvijas kuģniecība Group actively cooperates with professional educational institutions and personnel recruitment companies.

One of the basic principles of JSC Latvijas kuģniecība Group Personnel Policy is enhancing professional development of the employees providing them with opportunities to participate in highly valuable courses and workshops increasing the qualification as well as supporting the learning and implementation of quality management principles. Considering the international business of JSC Latvijas kuģniecība Group and its high reputation in the world's shipping markets the personnel of the company is comprised of highly professional specialists who have gained experience through aimful work. Therefore encouraging individual's initiative and independence along with involvement into decision making process makes an important part of the company's Personnel Policy.

The bonus system of JSC Latvijas kuģniecība Group is linked to the financial results of the operations of the JSC Latvijas kuģniecība Group by evaluating the investment of each individual in succeeding the achievement of the company's profits. The observation of this principle is equally attributable to both the management of the JSC Latvijas kuģniecība Group and its employees thus stimulating the interest and loyalty of the employees in successful development of the JSC Latvijas kuģniecība Group.

The company provides its employees with comfortable and compliant with security conditions requirements working environment equipped with modern technical appliances to ensure employees of JSC Latvijas kuģniecība Group with all necessities to perform their duties. JSC Latvijas kuģniecība Group pays special attention to the personnel social policy providing social guarantees as well as health and accident insurance.

JSC Latvijas kuģniecība acknowledges the importance of the employees' unity for future development and positive performance results of the company. JSC Latvijas kuģniecība has created and supports company's traditions for celebrating events and holidays to stimulate team spirit of its employees.

### **Environmental Protection**

JSC Latvijas kuģniecība recognises the importance of responsible environmental protection policy therefore the company's attention is paid to ensure safe vessels operations and environmental protection. Taking care about the environmental protection is one of the Group's priorities and testifies the growing corporate social responsibility of JSC Latvijas kuģniecība Group for the ocean and coastline protection.

JSC Latvijas kuģniecība Group key objectives with respect to environmental protection are ensuring appropriate environmental protection management targeted at "zero-spill practice" and safe management of its vessels' operations eliminating environmental pollution and minimising the possibility of accidents. In order to achieve these objectives JSC Latvijas kuģniecība Group has set the following rules to be observed by the crew members:

- follow all the procedures set for the preventing all kinds of environmental pollution;
- organise regular trainings and courses to master the necessary skills of action in case of contamination;
- identify security risks and take corresponding measures to minimise possibilities of accidental contamination;
- be prepared professionally to take actions in case of pollution and eliminate the consequences.

Motivated, highly professional and responsible personnel is an important part of the environmental protection policy. Company personnel must follow such basic principles as continuous improvement of individual skills with respect to security requirements both on-board the vessels and ashore, building personal responsibility and personal involvement in health, safety and environment issues.

To ensure the implementation of the environmental protection policy of JSC Latvijas kuģniecība Group in accordance with the highest standards, the Group has developed an effective safety and quality management system ensuring complete adherence with national and international environmental regulations and guidelines. The safety and quality system is maintained in accordance with the requirements of International Security Management (ISM) Code.

### Corporate Social Responsibility

JSC Latvijas kuģniecība as an absolute industry leader in Latvia and one of the largest shipping companies in the world in its segment recognises its corporate social responsibility towards society and the state. In 2007 JSC Latvijas kuģniecība has continued supporting significant sponsorship projects important for Latvian society, taking care about the environment where the administrative offices are located. The sponsorship policy guidelines of JSC Latvijas kuģniecība provide for involvement in realisation of projects related to culture of Latvia, historical objects and sports activities.

JSC Latvijas kuģniecība is also among the companies involved in promotion of the professional education – the long term cooperation with Latvian Maritime Academy includes both financial and intellectual support from JSC Latvijas kuģniecība.



JSC Latvijas kuģniecība finds obliged to participate actively in preserving Latvian shipping history and traditions, therefore supporting Ainaži Nautical School Museum and seafarers' reunions organised are among the priorities of the Company's corporate social responsibility initiatives.

All through the year there have been numerous small and large scale charity projects implemented with courtesy of JSC Latvijas kuģniecība rejoicing both the parties involved.

**In 2007 the most significant projects supported by JSC Latvijas kuģniecība were:**

- Ainaži Nautical School
- Latvian National Theatre, Theatre festival in Jaunmoku Castle
- Basketball Club "Ventspils"
- Football Club "Ventspils"
- Ventspils City Marine Celebration
- Latvian National Book Publishers



## 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, the cash flows and the results of the Group for that period in accordance with International Financial Reporting Standards as adopted by the 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, financial performance and cash flows of the Company and the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the EU.

On behalf of the Management Board



Imants Sarmulis  
Chairman of the Management Board  
JSC Latvian Shipping Company

Riga, Latvia  
14 April, 2008



## INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas kugniecība

### Report on the Financial Statements

We have audited 2007 consolidated financial statements of AS Latvijas kugniecība and its subsidiaries ("the Group"), which are set out on pages 31 through 81 of the accompanying 2007 Annual Report and which comprise the consolidated balance sheet as at 31 December 2007, 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

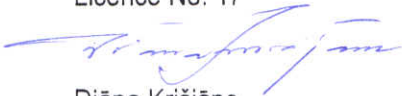
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**INDEPENDENT AUDITORS' REPORT (cont'd)**

**Report on Compliance of the Management Report**

Furthermore, we have read the Management Report for the year ended 31 December 2007 (included on pages 5 through 12 of the accompanying 2007 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 2007.

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, 14 April 2008



## CONSOLIDATED INCOME STATEMENT

	Note	2007 US\$ '000	2006 US\$ '000	2007 LVL '000	2006 LVL '000
Voyage income		239,864	216,292	123,207	121,172
Voyage costs	5	(30,167)	(60,855)	(15,496)	(34,092)
<b>Net Voyage Result</b>		<b>209,697</b>	<b>155,437</b>	<b>107,711</b>	<b>87,080</b>
Vessel operating costs	6	(114,642)	(90,413)	(58,886)	(50,652)
<b>Vessel Operating Profit before Depreciation</b>		<b>95,055</b>	<b>65,024</b>	<b>48,825</b>	<b>36,428</b>
Vessel depreciation	13	(25,291)	(19,927)	(12,991)	(11,164)
<b>Vessel Operating Profit</b>		<b>69,764</b>	<b>45,097</b>	<b>35,834</b>	<b>25,264</b>
Administration expenses	7	(25,417)	(20,216)	(13,055)	(11,326)
Other operational income		1,219	2,022	626	1,133
Other operational expenses		(2,418)	(938)	(1,242)	(525)
Gain on sale of assets	13,15	38,070	15,686	19,555	8,788
<b>Operating Profit</b>		<b>81,218</b>	<b>41,651</b>	<b>41,718</b>	<b>23,334</b>
Financial income	9	6,159	4,078	3,163	2,284
Financial expense	10	(20,335)	(11,970)	(10,445)	(6,706)
<b>Profit before Taxation</b>		<b>67,042</b>	<b>33,759</b>	<b>34,436</b>	<b>18,912</b>
Taxation	11	(33)	(24)	(17)	(13)
<b>Net Profit for the Year</b>		<b>67,009</b>	<b>33,735</b>	<b>34,419</b>	<b>18,899</b>
<b>Earnings per share</b>	<b>12</b>	<b>US\$ 0.34</b>	<b>US\$ 0.17</b>	<b>LVL 0.17</b>	<b>LVL 0.09</b>

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

Imants Sarmulis  
Chairman of the Management Board



## CONSOLIDATED BALANCE SHEET

	Note	31.12.2007 US\$ '000	31.12.2006 US\$ '000	31.12.2007 LVL '000	31.12.2006 LVL '000
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Fleet	13	636,565	460,967	308,097	247,078
Other property, plant and equipment	14	11,041	6,216	5,344	3,332
Investment properties	15	1,542	1,803	746	966
Assets under construction	16	71,446	71,393	34,580	38,267
Investments in associates accounted for using the equity method	17	27	25	13	13
Other financial assets	18	1,523	4,335	737	2,324
<b>TOTAL NON-CURRENT ASSETS</b>		<b>722,144</b>	<b>544,739</b>	<b>349,517</b>	<b>291,980</b>
<b>CURRENT ASSETS</b>					
Inventories	19	6,698	5,547	3,242	2,973
Trade accounts receivable	20	9,799	14,154	4,743	7,587
Prepayments and other receivables	21	10,563	8,137	5,112	4,361
Deposits with maturity more than three months	22(a)	47,966	47,995	23,216	25,725
Financial assets designated at fair value through profit or loss	22(b)	5,760	11,948	2,788	6,404
Cash and cash equivalents	23	54,097	33,092	26,183	17,737
<b>TOTAL CURRENT ASSETS</b>		<b>134,883</b>	<b>120,873</b>	<b>65,284</b>	<b>64,787</b>
<b>TOTAL ASSETS</b>		<b>857,027</b>	<b>665,612</b>	<b>414,801</b>	<b>356,767</b>
<b>EQUITY &amp; LIABILITIES</b>					
<b>EQUITY</b>					
Share capital	24	362,319	362,319	200,000	200,000
Translation reserve		(11,503)	(13,079)	(37,413)	(14,402)
Retained earnings		136,774	69,765	73,407	38,988
<b>TOTAL EQUITY</b>		<b>487,590</b>	<b>419,005</b>	<b>235,994</b>	<b>224,586</b>
<b>NON-CURRENT LIABILITIES</b>					
Non-current portion of bank loans	25	298,954	167,231	144,694	89,636
Deferred tax liabilities	26	37	22	18	12
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>298,991</b>	<b>167,253</b>	<b>144,712</b>	<b>89,648</b>
<b>CURRENT LIABILITIES</b>					
Banku aizdevumu iestērmiņa daļa	25	41,775	49,703	20,219	26,640
Trade accounts payable		3,569	5,020	1,727	2,691
Other liabilities	27	25,102	24,631	12,149	13,202
<b>TOTAL CURRENT LIABILITIES</b>		<b>70,446</b>	<b>79,354</b>	<b>34,095</b>	<b>42,533</b>
<b>TOTAL LIABILITIES</b>		<b>369,437</b>	<b>246,607</b>	<b>178,807</b>	<b>132,181</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>857,027</b>	<b>665,612</b>	<b>414,801</b>	<b>356,767</b>

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

  
 Imants Sarmulis  
 Chairman of the Management Board

## CONSOLIDATED CASH FLOW STATEMENT

	2007 US\$ '000	2006 US\$ '000	2007 LVL '000	2006 LVL '000
<b>Profit before taxation</b>	<b>67,042</b>	<b>33,759</b>	<b>34,436</b>	<b>18,912</b>
Adjustments for:				
Depreciation	26,332	20,619	13,525	11,551
Profit on sale of fleet and other property, plant and equipment	(38,070)	(15,686)	(19,555)	(8,788)
Dry-docking deferred expenditure depreciation	6,924	7,261	3,557	4,068
Currency translation difference	1,981	(1,129)	(1,328)	(3,756)
Interest expenses	19,354	11,363	9,941	6,366
Interest income	(5,981)	(4,053)	(3,072)	(2,270)
	<b>77,582</b>	<b>52,134</b>	<b>37,504</b>	<b>26,083</b>
<b>Movement in net working capital – net of provisions</b>				
Inventories	(1,151)	1,365	(591)	765
Trade accounts receivable, prepayments and other receivables	380	1,373	195	769
Trade accounts payable and other liabilities	(628)	3,077	(322)	1,724
	<b>(1,399)</b>	<b>5,815</b>	<b>(718)</b>	<b>3,258</b>
<b>Cash Flow from Operations</b>	<b>76,183</b>	<b>57,949</b>	<b>36,786</b>	<b>29,341</b>
Corporate income taxes paid	(18)	(14)	(10)	(8)
<b>Net Cash Flow from Operating Activities</b>	<b>76,165</b>	<b>57,935</b>	<b>36,776</b>	<b>29,333</b>
<b>Investing Activities</b>				
Purchase of fleet	(199,132)	(86,971)	(102,285)	(48,723)
Purchase of other property, plant and equipment	(5,116)	(2,832)	(2,628)	(1,587)
Purchase of financial assets designated at fair value through profit or loss	(46,856)	-	(24,068)	-
Settlement of financial assets designated at fair value through profit or loss	52,761	7,004	27,102	3,924
Proceeds on sale of fleet, other property, plant and equipment	106,281	21,275	54,594	11,919
Deposits with maturity more than three months	-	(47,995)	-	(26,888)
Dry-dock expenditure	(4,934)	(9,894)	(2,534)	(5,543)
Assets under construction	(71,354)	(33,221)	(36,651)	(18,611)
Interest received	6,824	2,719	3,505	1,523
<b>Net Cash Flow from Investing Activities</b>	<b>(161,526)</b>	<b>(149,915)</b>	<b>(82,965)</b>	<b>(83,986)</b>

## CONSOLIDATED CASH FLOW STATEMENT (continued)

	2007 US\$ '000	2006 US\$ '000	2007 LVL '000	2006 LVL '000
<b>Cash Flow before Financing Activities</b>	<b>(85,361)</b>	<b>(91,980)</b>	<b>(46,189)</b>	<b>(54,653)</b>
<b>Financing Activities</b>				
Bank loans received	219,962	86,075	112,984	48,221
Bank loans repaid	(92,177)	(18,657)	(47,347)	(10,452)
Prepaid financing expenses	(1,941)	(2,002)	(997)	(1,122)
Interest paid on loans	(19,478)	(11,168)	(10,005)	(6,256)
<b>Net Cash Flow from Financing Activities</b>	<b>106,366</b>	<b>54,248</b>	<b>54,635</b>	<b>30,391</b>
<b>Increase / (decrease) in Cash and Cash Equivalents</b>	<b>21,005</b>	<b>(37,732)</b>	<b>8,446</b>	<b>(24,262)</b>
<b>Cash and Cash Equivalents at 1 January:</b>	<b>33,092</b>	<b>70,824</b>	<b>17,737</b>	<b>41,999</b>
<b>Cash and Cash Equivalents at 31 December:</b>	<b>54,097</b>	<b>33,092</b>	<b>26,183</b>	<b>17,737</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital		Translation Reserve		Retained Earnings		Total	
	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000
<b>Balance at 31 December 2005</b>	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)
<b>Balance at 31 December 2006</b>	<b>362,319</b>	<b>200,000</b>	<b>(13,079)</b>	<b>(14,402)</b>	<b>69,765</b>	<b>38,988</b>	<b>419,005</b>	<b>224,586</b>
Net Profit for the year	-	-	-	-	67,009	34,419	67,009	34,419
Currency translation differences	-	-	1,576	(23,011)	-	-	1,576	(23,011)
<b>Balance at 31 December 2007</b>	<b>362,319</b>	<b>200,000</b>	<b>(11,503)</b>	<b>(37,413)</b>	<b>136,774</b>	<b>73,407</b>	<b>487,590</b>	<b>235,994</b>

# Notes to the Financial Statements

## 1. Corporate information

JSC 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 are 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 Group for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Management Board on 04 April 2008.

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

### 2.1. Basis of accounting

The financial statements have been prepared under the historical cost convention, except for financial assets, which have been designated at fair value through profit or loss as discussed in the accounting policies hereafter.

### Statement of compliance

The consolidated financial statements of the Company and its subsidiary undertakings have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

### Basis of consolidation

The consolidated income and cash flow statements 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 period as the Parent company, using consistent accounting policies. All intra-group transactions, including chartering of vessels, commercial 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.

The functional and presentation currency of the Group companies is U.S. Dollar, except for the Parent Company and subsidiary undertakings SIA LSC Shipmanagement, SIA Marine Training, SIA Jūras Servisa Centrs, SIA Karavella Property, SIA Kuģu menedžments and other insignificant entities incorporated in Latvia, the functional currency of which is Latvian Lats. 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.

# Notes to the Financial Statements

## 2.1. Basis of accounting (continued)

On acquisition, the assets and liabilities of the subsidiary are measured at their fair values at the date of acquisition. Any excess (deficit) 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.

IFRS 7 Financial Instruments: Disclosures

IAS 1 Amendment – Presentation of financial statements.

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:

### **IFRS 7 Financial Instruments: Disclosures**

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. There has been no effect on the financial position or results, but there has been a change in the presentation of certain items in the financial statements, including the renaming of the 31 December 2006 balance sheet item "Loans and receivables" to "Deposits with maturity more than three months", see Notes 22 (a) and 32.

### **IAS 1 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. These new disclosures are added to Note 32.

The following new interpretations, which became effective in 2007 were not applicable to the Group and as such did not have any impact on the accounting policies: IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflation Economies, IFRIC 8 – Scope of IFRS 2, IFRIC 9 – Reassessment of Embedded Derivatives and IFRIC 10 – Interim Financial Reporting and Impairment.

## 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.



## Notes to the Financial Statements

### 2.3. Estimates and assumptions (continued)

#### ***Fleet depreciation***

Fleet is depreciated over the expected useful life using the straight line method down to the expected scrap value, typically over a useful life of 23–26 years estimated at US\$ 300 per lightweight ton of a respective vessel. Estimates of useful life and scrap value are reassessed annually in view of long-term perspective and in order to disregard temporary market fluctuations which may be significant. Changes in estimates of useful life and scrap value may significantly affect the depreciation charge and thereby the net profit for the year.

#### ***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 valuers 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 fleet 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.

### 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 (LVL) 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 U.S. dollars (US\$) 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.

# Notes to the Financial Statements

## 2.4. Summary of significant accounting policies (continued)

Foreign currency transactions are accounted in U.S. 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 weighted average exchange rates for the reporting year, whilst resulting exchange differences are recognised as separate component of equity.

LB rate of exchange as at 31.12.2007 US\$/LVL – 0.484 (average – 0.513652)

LB rate of exchange as at 31.12.2006 US\$/LVL – 0.536 (average – 0.560225)

### **Property, plant, equipment and depreciation**

#### ***(a) Fleet***

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 (2006: US\$ 300), 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 utilised over the period to the next dry-docking is depreciated over the remaining period to the expected next dry-docking.

The fleet'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

## 2.4. Summary of significant accounting policies (continued)

### ***(b) Other Property, Plant and Equipment***

Other property, plant and equipment are recorded at historical cost less accumulated depreciation.

Other property, plant and equipment are depreciated on a straight-line basis using the following rates:

Buildings	1.25 – 20% per annum
Machinery and equipment	5 – 33.33% per annum
Other assets	14.29 – 50% per annum

Maintenance and repairs on other property, plant and equipment are expensed in the year they are incurred. Improvements to other property, plant and equipment are capitalised only if they are considered to extend the assets originally assessed useful life or capacity.

An item of other 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 assets' 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 1.25% 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.

# Notes to the Financial Statements

## 2.4. Summary of significant accounting policies (continued)

### Summary of significant accounting policies (continued)

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.

### Associates

The Group's investment in its associates 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.

# Notes to the Financial Statements

## 2.4. Summary of significant accounting policies (continued)

### **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) Financial assets designated at fair value through profit or loss***

Financial assets at fair value through profit and loss include financial 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. The Group meets requirements of the criteria (ii) above.

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 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.

# Notes to the Financial Statements

## 2.4. Summary of significant accounting policies (continued)

### **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 recognised. Such reversal is recognised in income statement.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value, where the 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.

### **Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand, cash on board of the vessels/on hand, and short term deposits, which do not exceed three months maturity on the date of placement.

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

### **Interest bearing loans**

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 settled or cancelled or expired.

# Notes to the Financial Statements

## 2.4. Summary of significant accounting policies (continued)

### **Derecognition of financial assets and liabilities**

#### ***a) Financial assets***

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.

#### ***b) Financial liabilities***

A financial liability is derecognised when the obligation under the liability is settled 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.



# Notes to the Financial Statements

## 2.4. Summary of significant accounting policies (continued)

### **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 expensed to the income statement.

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.

# Notes to the Financial Statements

## 2.4. Summary of significant accounting policies (continued)

### **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 accrued (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.

### **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 a 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.

# Notes to the Financial Statements

## 2.4. Summary of significant accounting policies (continued)

### **a) Current income tax (continued)**

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 other 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, other 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 and associates, 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.

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.

## Notes to the Financial Statements

### 2.4. Summary of significant accounting policies (continued)

#### *b) Taxes (continued)*

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;
- 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 other receivables or other liabilities in the balance sheet.

#### **Fair Values**

The Group's financial assets and liabilities are stated at fair value. Fair value represents the amount at which an asset could be exchanged or liability settled on an arms length basis.

#### **Subsequent events**

Post balance sheet events that provide additional information about the Group'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.

### 2.5. Future changes in accounting policies

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

IAS 1 – Presentation of financial statements (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. The Group expects that the adoption of the Standard will have no significant impact on the Group's financial statements in the period of initial application.

## Notes to the Financial Statements

### 2.5. Future changes in accounting policies (continued)

*IFRS 3 (Revised) Business Combinations* (issued in January 2008, effective for financial years beginning on or after 1 January 2009). The Standard introduces a number of changes in the accounting of business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The Group expects that the adoption of the revised Standard will have no significant impact on the Group's financial statements in the period of initial application.

*IFRS 8 – Operating Segments* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard 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. IFRS 8 supersedes IAS 14 Segment Reporting. The Group expects that the adoption of the Standard will have no significant impact on the Group's financial statements in the period of initial application.

*Amendments to IAS 23 – Borrowing cost* (effective periods on or after 1 January 2009). This amendment establishes that all borrowing costs must be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed. The Group has not assessed the impact of capitalisation of borrowing costs in accordance to amendments of IAS 23 yet.

*IAS 27 (Revised) Consolidated and Separate Financial Statements* (issued in January 2008, effective for financial years beginning on or after 1 January 2009) required that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The Group expects that the adoption of the revised Standard will have no significant impact on the Group's financial statements in the period of initial application.

*Amendment to IAS 32* (issued in February 2008, effective for annual periods beginning on or after 1 January 2009) requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The Group expects that the adoption of the amendment to the Standard will have no significant impact on the Group's financial statements in the period of initial application.

# Notes to the Financial Statements

## 2.5. Future changes in accounting policies (continued)

*IFRIC 11 IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group expects that the adoption of the Interpretation will have no significant impact on the Group's financial statements in the period of initial application.

*IFRIC 12 Service Concession Agreements* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements. The Group expects that the adoption of the Interpretation will have no significant impact on the Group's financial statements in the period of initial application.

*IFRIC 13 Customer Loyalty Programmes* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2008). The Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that the adoption of the Interpretation will have no significant impact on the Group's financial statements in the period of initial application.

*IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that the adoption of the Interpretation will have no significant impact on the Group's financial statements in the period of initial application.

## Notes to the Financial Statements

### 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.

<b>Name</b>	<b>Country of Incorporation</b>	<b>Activity /Vessels</b>
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	Dormant
Juris Avots Shipping Co.	Cyprus	Dormant
Kriti Sea Shipping Co. Ltd.	Cyprus	Dormant
Latalpha Holding Corporation	Liberia	Holding company
Latgale Shipping Co. Ltd.	Malta	Dormant
Latmar Shipping Co. Ltd.	Cyprus	Dormant
Latstrand Holdings Corporation	Liberia	Holding company
Lattanker Holdings Corporation	Liberia	Holding company
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"
Reeferlat Holdings Corporation	Liberia	Holding company
Renda Maritime Co. Ltd.	Cyprus	Dormant
Rhodos Shipping Co. Ltd.	Cyprus	Dormant
Rundale Shipping Co.	Cyprus	m.t. "Rundale"
Sagewood Trading Inc.	Liberia	Dormant
Samburga Shipping Co.	Cyprus	m.t. "Samburga"
Saturn Trading Corporation	Liberia	m.t. "Asari"
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	m.t. "Estere"
Zemgale Shipping Co. Ltd.	Malta	Dormant
Wilcox Holdings Ltd.	Liberia	m.t. "Bulduri"
World Reefer Corporation	Liberia	m.t. "Ojars Vacietis"



# Notes to the Financial Statements

## 3. Corporate Structure (continued)

Name	Country of Incorporation	Activity /Vessels
Lattanker Holdings Corporation	Liberia	Intermediate holding company
Antonio Gramsi Shipping Corporation	Liberia	m.t. "Pumpuri"
Davids Sikeiross Shipping Corporation	Liberia	m.t. "Maria M"
Dzons Rids Shipping Corporation	Liberia	m.t. "Blue Star"
Hose Marti Shipping Corporation	Liberia	m.t. "Green Star"
Imanta Shipping Company Ltd.	Malta	m.t. "Dubulti"
Klements Gotvalds Shipping Corporation	Liberia	Dormant
Majori Shipping Company Ltd.	Malta	Dormant
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	Dormant
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Arctic Seal Shipping Company Ltd.	Cyprus	Dormant
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

# Notes to the Financial Statements

## 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	Dormant
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
Crown Navigation Inc.	Marshall Islands	Holding company
Kabile Navigation Inc.	Marshall Islands	m.t. "Krisjanis Valdemars"
Kaltene Navigation Inc.	Marshall Islands	m.t. "Kaltene"
Kandava Navigation Inc.	Marshall Islands	m.t. "Kandava"
Kazdanga Navigation Inc.	Marshall Islands	m.t. "Kazdanga"
Kolka Navigation Inc.	Marshall Islands	m.t. "Kolka"
Kuldiga Navigation Inc.	Marshall Islands	m.t. "Kuldiga"
Kursa Navigation Inc.	Marshall Islands	m.t. "Kraslava"
Sabile Navigation Inc.	Marshall Islands	m.t. "Ugale"
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	m.t "Piltene"
Sloka Navigation Inc.	Marshall Islands	m.t "Ance"
Smiltene Navigation Inc.	Marshall Islands	m.t "Usma"
Stende Navigation Inc.	Marshall Islands	m.t "Targale"
Straupe Navigation Inc.	Marshall Islands	established for newbuilding purposes
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

## 3. Corporate Structure (continued)

<b>Name</b>	<b>Country of Incorporation</b>	<b>Activity /Vessels</b>
Kristaps Insurance Ltd.	Bermuda	Insurance
SIA Latvian - Finnish Maritime Agency	Latvia	In liquidation
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	In reorganisation
SIA Kuģu menedžments	Latvia	Real estate maintenance
SIA Karavella Property	Latvia	Real estate maintenance
SIA Jūrnieku Mācību Centrs	Latvia	In reorganisation

# Notes to the Financial Statements

## 4. Segment information

Year ended 31 December 2007

	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	208,704	107,201	11,645	5,981	16,347	8,397	3,168	1,627	239,864	123,206
Voyage costs	(29,289)	(15,044)	(902)	(463)	(89)	(46)	113	58	(30,167)	(15,495)
<b>Net voyage result</b>	<b>179,415</b>	<b>92,157</b>	<b>10,743</b>	<b>5,518</b>	<b>16,258</b>	<b>8,351</b>	<b>3,281</b>	<b>1,685</b>	<b>209,697</b>	<b>107,711</b>
Vessel operating costs	(97,172)	(49,911)	(10,004)	(5,139)	(5,282)	(2,714)	(2,184)	(1,122)	(114,642)	(58,886)
Vessel depreciation	(20,316)	(10,436)	(1,517)	(779)	(3,458)	(1,776)	-	-	(25,291)	(12,991)
<b>Vessel operating profit</b>	<b>61,927</b>	<b>31,810</b>	<b>(778)</b>	<b>(400)</b>	<b>7,518</b>	<b>3,861</b>	<b>1,097</b>	<b>563</b>	<b>69,764</b>	<b>35,834</b>
Gain on sale of assets	37,905	19,470	-	-	-	-	-	-	37,905	19,470
<b>Segment result</b>	<b>99,832</b>	<b>51,280</b>	<b>(778)</b>	<b>(400)</b>	<b>7,518</b>	<b>3,861</b>	<b>1,097</b>	<b>563</b>	<b>107,669</b>	<b>55,304</b>
Unallocated sale of assets									165	85
Unallocated administration expenses									(25,417)	(13,055)
Other operational income									1,219	626
Other operational expenses									(2,418)	(1,242)
<b>Operating profit</b>									<b>81,218</b>	<b>41,718</b>
Financial income									6,159	3,163
Financial expense									(20,335)	(10,445)
<b>Profit before taxation</b>									<b>67,042</b>	<b>34,436</b>
Taxation									(33)	(17)
<b>Net profit for the year</b>									<b>67,009</b>	<b>34,419</b>

## Notes to the Financial Statements

### 4. Segment information (continued)

Year ended 31 December 2007

	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	656,081	317,543	21,214	10,268	62,692	30,343	1,647	797	741,634	358,951
Unallocated assets									115,393	55,850
<b>Total assets</b>									<b>857,027</b>	<b>414,801</b>
Segment liabilities	361,211	174,826	1,698	822	659	319	303	147	363,871	176,114
Unallocated liabilities									5,566	2,693
<b>Total liabilities</b>									<b>369,437</b>	<b>178,807</b>
<b>Other segment items</b>										
Investments in vessels	274,319	140,905	615	316	433	222	-	-	275,367	141,443
Depreciation	20,316	10,436	1,517	779	3,458	1,776	-	-	25,291	12,991
Dry-docking deferred expenditure depreciation	5,928	3,045	535	275	288	148	173	89	6,924	3,557

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 services 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 reasonably available and provided.

# Notes to the Financial Statements

## 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
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)
<b>Net voyage result</b>	<b>123,833</b>	<b>69,374</b>	<b>9,858</b>	<b>5,523</b>	<b>19,296</b>	<b>10,810</b>	<b>2,450</b>	<b>1,373</b>	<b>155,437</b>	<b>87,080</b>
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)	(1,938)	-	-	(19,927)	(11,164)
<b>Vessel operating profit</b>	<b>32,484</b>	<b>18,198</b>	<b>89</b>	<b>50</b>	<b>12,249</b>	<b>6,861</b>	<b>275</b>	<b>155</b>	<b>45,097</b>	<b>25,264</b>
Gain on sale of assets	15,656	8,771	-	-	-	-	-	-	15,656	8,771
<b>Segment result</b>	<b>48,140</b>	<b>26,969</b>	<b>89</b>	<b>50</b>	<b>12,249</b>	<b>6,861</b>	<b>275</b>	<b>155</b>	<b>60,753</b>	<b>34,035</b>
Unallocated sale of assets									30	17
Unallocated administration expenses									(20,216)	(11,326)
Other operational income								2,022	1,133	
Other operational expenses								(938)	(525)	
<b>Operating profit</b>									<b>41,651</b>	<b>23,334</b>
Financial income									4,078	2,284
Financial expense									(11,970)	(6,706)
<b>Profit before taxation</b>									<b>33,759</b>	<b>18,912</b>
Taxation									(24)	(13)
<b>Net profit for the year</b>									<b>33,735</b>	<b>18,899</b>

## Notes to the Financial Statements

### 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
<b>Total assets</b>									<b>665,612</b>	<b>356,767</b>
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
<b>Total liabilities</b>									<b>246,607</b>	<b>132,181</b>
<b>Other segment items</b>										
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
Dry-docking deferred expenditure depreciation	6,459	3,618	485	272	157	88	160	90	7,261	4,068



## Notes to the Financial Statements

### 5. Voyage costs

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Bunkering	(15,419)	(38,572)	(7,920)	(21,609)
Commission	(7,559)	(7,766)	(3,883)	(4,350)
Port expenses	(7,020)	(13,154)	(3,606)	(7,369)
Provision for debts of doubtful recovery	(169)	(1,363)	(86)	(764)
<b>Total</b>	<b>(30,167)</b>	<b>(60,855)</b>	<b>(15,495)</b>	<b>(34,092)</b>

### 6. Vessel operating costs

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Crew expenses	(31,839)	(27,655)	(16,354)	(15,493)
Repairs and spares	(27,638)	(26,872)	(14,196)	(15,054)
Chartering expenses	(22,245)	(5,815)	(11,426)	(3,258)
Insurance	(8,733)	(7,688)	(4,486)	(4,307)
Equipment maintenance expenses	(7,434)	(6,801)	(3,818)	(3,810)
Dry-docking	(6,924)	(7,261)	(3,557)	(4,068)
Luboil	(4,877)	(3,875)	(2,505)	(2,171)
Other operating expenses	(2,634)	(2,159)	(1,353)	(1,210)
Provisions	(2,227)	(2,203)	(1,144)	(1,234)
Management fee	(91)	(84)	(47)	(47)
<b>Total</b>	<b>(114,642)</b>	<b>(90,413)</b>	<b>(58,886)</b>	<b>(50,652)</b>

### 7. Administration expenses

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Staff costs	(15,878)	(12,214)	(8,156)	(6,842)
Professional fees	(2,487)	(1,846)	(1,277)	(1,034)
Advertising and marketing	(1,888)	(1,289)	(970)	(722)
Other administration expenses	(1,529)	(1,804)	(784)	(1,012)
Depreciation	(1,040)	(692)	(534)	(387)
Occupation and repairs	(1,029)	(1,278)	(529)	(716)
Travel and transport	(785)	(661)	(403)	(371)
IT and communication	(457)	(427)	(235)	(239)
Movements in provision of claims and other	(235)	35	(121)	19
Real estate tax	(89)	(40)	(46)	(22)
<b>Total</b>	<b>(25,417)</b>	<b>(20,216)</b>	<b>(13,055)</b>	<b>(11,326)</b>

# Notes to the Financial Statements

## 8. Employment costs and staff numbers

	2007			2006		
	US\$ '000	LVL '000	Number	US\$ '000	LVL '000	Number
Seamen*	31,839	16,354	863	27,655	15,493	805
Shore based staff	15,743	8,086	237	12,077	6,766	256
<b>Total</b>	<b>47,582</b>	<b>24,440</b>	<b>1 100</b>	<b>39,732</b>	<b>22,259</b>	<b>1 061</b>

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

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

## 9. Financial income

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Interest income from bank account balances and deposits	6,028	3,371	3,096	1,889
Fair value changes in Financial assets designated at fair value through profit or loss, net	117	649	60	364
Foreign currency exchange gain, net	14	58	7	31
<b>Total financial income</b>	<b>6,159</b>	<b>4,078</b>	<b>3,163</b>	<b>2,284</b>

Of which: from financial instruments relating to financial instrument categories:

<i>Loans and receivables *</i>	6,028	3,371	3,096	1,889
<i>Financial assets designated at fair value through profit or loss</i>	117	649	60	364
<b>Total</b>	<b>6,145</b>	<b>4,020</b>	<b>3,156</b>	<b>2,253</b>

\* Loans and receivables balances comprise cash and cash equivalents and deposits with maturity more than 3 months. See Notes 22(a), 23 and 32.

## 10. Financial expense

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Interest expense	(19,354)	(11,363)	(9,941)	(6,366)
Bank charges	(843)	(520)	(433)	(291)
Mortgage insurance fees	(138)	(87)	(71)	(49)
<b>Total financial expense</b>	<b>(20,335)</b>	<b>(11,970)</b>	<b>(10,445)</b>	<b>(6,706)</b>

Of which: from financial instruments relating to financial instrument categories:

<i>Financial liabilities measured at amortised cost</i>	(19,354)	(11,363)	(9,941)	(6,366)
<b>Total</b>	<b>(19,354)</b>	<b>(11,363)</b>	<b>(9,941)</b>	<b>(6,366)</b>

# Notes to the Financial Statements

## 11. Taxation

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Deferred income tax of current year (see Note 26)	(15)	(10)	(6)	(5)
Corporate income tax of current year	(18)	(14)	(11)	(8)
<b>Total</b>	<b>(33)</b>	<b>(24)</b>	<b>(17)</b>	<b>(13)</b>
Profit before tax	67,042	33,759	34,436	18,912
Tax calculated at tax rate of 15%	10,056	5,064	5,165	2,837
Income and expenses not subject to corporate income tax	(11,287)	(7,316)	(5,435)	(3,819)
Increase in unrecognised deferred tax asset, net	1,264	2,276	287	995
<b>Tax charge for the year</b>	<b>33</b>	<b>24</b>	<b>17</b>	<b>13</b>

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's company directly subject to corporate income tax is 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:

Year	Losses		Expires
	US\$ '000	LVL '000	
2003	10,141	4,908	2008
2004	8,537	4,132	2009
2005	4,708	2,279	2010
2006	18,256	8,836	2011
2007	5,291	2,561	2012
<b>Total</b>	<b>46,933</b>	<b>22,716</b>	

There is uncertainty regarding availability of future taxable profit for the Group's Latvian resident companies, therefore, deferred tax assets have not been recognised in these financial statements (see Note 26).

## 12. 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.

	2007		2006	
	US\$ '000	LVL '000	US\$ '000	LVL '000
Net profit for the year attributable to shareholders	67,009	34,419	33,735	18,899
Weighted average number of ordinary shares in issue (thousands)	200 000	200 000	200 000	200 000
<b>Basic earnings per share</b>	<b>US\$ 0,34</b>	<b>LVL 0,17</b>	<b>US\$ 0,17</b>	<b>LVL 0,09</b>

Diluted earnings per share equal basic earnings per share as there no factors leading to the dilution effect.

## Notes to the Financial Statements

### 13. Fleet

	31.12.2007.		31.12.2006.	
	US\$ '000	LVL '000	US\$ '000	LVL '000
Net book value	627,621	303,769	450,033	241,218
Dry-docking deferred expenditure	8,944	4,328	10,934	5,860
	<b>636,565</b>	<b>308,097</b>	<b>460,967</b>	<b>247,078</b>

#### Year ended 31 December 2007

	Cost		Depreciation		Net Book Value	
	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000
<b>At 1 January 2007</b>	<b>745,798</b>	<b>399,748</b>	<b>(295,765)</b>	<b>(158,530)</b>	<b>450,033</b>	<b>241,218</b>
Additions	270,433	138,909	-	-	270,433	138,909
Depreciation charge for the year	-	-	(25,291)	(12,991)	(25,291)	(12,991)
Disposals	(84,602)	(43,456)	17,048	8,757	(67,554)	(34,699)
Exchange differences	-	(44,292)	-	15,624	-	(28,668)
<b>At 31 December 2007</b>	<b>931,629</b>	<b>450,909</b>	<b>(304,008)</b>	<b>(147,140)</b>	<b>627,621</b>	<b>303,769</b>

In year 2007 the Group sold 4 vessels m.t. "Zemgale" – built 2001 (68,467 DWT), m.t. "Latgale" – 2001 (68,467 DWT), m.t. "Majori" – 1980 (29,690 DWT), and m.t. "Pablo Neruda" – 1979, (39,870 DWT), resulting in gain of US\$ 37.9 million.

#### Capitalised dry-docking costs

	US\$ '000	LVL '000
<b>At 1 January 2007</b>	<b>10,934</b>	<b>5,860</b>
Depreciation charge for the year	(6,924)	(3,557)
Additions	4,934	2,534
Exchange differences	-	(509)
<b>At 31 December 2007</b>	<b>8,944</b>	<b>4,328</b>

#### Year ended 31 December 2006

	Cost		Depreciation		Net Book Value	
	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000
<b>At 1 January 2006</b>	<b>642,812</b>	<b>381,188</b>	<b>(275,945)</b>	<b>(163,636)</b>	<b>366,867</b>	<b>217,552</b>
Additions	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)
<b>At 31 December 2006</b>	<b>745,798</b>	<b>399,748</b>	<b>(295,765)</b>	<b>(158,530)</b>	<b>450,033</b>	<b>241,218</b>

## Notes to the Financial Statements

### 13. Fleet (continued)

#### Capitalised dry-docking costs

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

Part of the fleet (with the net book value of US\$ 454.8 million) has been used as security for bank loans. See Note 25 for details.

Part of the fleet having net carrying amount US\$ 6.7 million (2006: US\$ 8.7 million) is fully depreciated down to scrap value of US\$ 6.7 million (2006: US\$ 8.7 million) and is still in active use.

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

	2007	2006
Tankers	34	30
Reefers	5	5
LPG carriers	2	2
Dry cargo vessel	1	1
<b>Total</b>	<b>42</b>	<b>38</b>

The Group operates also 3 tankers chartered in from other ship owners. As a result total number of vessels operated by the Group as at 31 December 2007 is 45.

Total deadweight tonnage:

31 December 2007	DWT	<b>1,210,790</b>
31 December 2006	DWT	<b>1,054,833</b>

# Notes to the Financial Statements

## 13. Fleet (continued)

At 31 December 2007 the Group own fleet comprises:

	<b>Year of Building</b>	<b>(DWT)</b>
<b>Product Tankers:</b>		
1. Ance	2006	52,622
2. Asari	1984	28,656
3. Bulduri	1983	28,647
4. Dubulti	1982	29,610
5. Dzintari	1985	17,585
6. Estere	1989	28,557
7. Indra	1994	33,115
8. Inga	1990	28,637
9. Jurkalne	2006	52,620
10. Kaltene	2003	37,261
11. Kandava	2007	37,258
12. Kazdanga	2007	37,312
13. Kemeru	1985	17,610
14. Kolka	2003	37,211
15. Kraslava	2007	37,258
16. Kr.Valdemars	2007	37,266
17. Kuldiga	2003	37,237
18. Mar	1990	28,637
19. Ojars Vacietis	1985	16,341
20. Piltene	2007	52,648
21. Pumpuri	1987	28,537
22. Puze	2006	52,622
23. Razna	1984	6,269
24. Riga	2001	68,467
25. Ropazi	1985	17,610
26. Rundale	1977	17,025
27. Samburga	1976	17,125
28. Taganroga	1983	6,297
29. Targale	2007	52,660
30. Ugale	2007	52,642
31. Usma	2007	52,684
32. Zanis Griva	1985	17,585
33. Zoja1	1988	28,557
34. Zoja2	1989	28,557
		<b>1,122,725</b>

## Notes to the Financial Statements

### 13. Fleet (continued)

	Year of Building	(DWT)
<b>Reefers</b>		
1. Abava	1991	6,366
2. Akademikis Vavilovs	1985	7,673
3. Akademikis Zavarickis	1986	7,673
4. Amata	1991	6,232
5. Skulptors Tomskis	1986	7,673
		<b>35,617</b>
<b>LPG carriers</b>		
1. Kurzeme	1997	23,469
2. Vidzeme	1997	23,479
		<b>46,948</b>
<b>Dry Cargo vesel</b>		
1. Telo	1983	5,500
		<b>5,500</b>
<b>Total Dwt</b>		<b>1,210,790</b>



## Notes to the Financial Statements

### 14. Other property, plant and equipment

Year ended 31 December 2007

	Land		Buildings		Machinery, equipment and other		Total	
	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000
<b>Cost</b>								
At 1 January 2007	<b>1,267</b>	<b>679</b>	<b>3,850</b>	<b>2,064</b>	<b>6,012</b>	<b>3,222</b>	<b>11,129</b>	<b>5,965</b>
Transfer to investment properties	(239)	(123)	-	-	-	-	(239)	(123)
Reclassification	-	-	-	-	46	24	46	24
Additions	2,709	1,392	1,603	823	804	413	5,116	2,628
Disposals during the year	-	-	-	-	(973)	(500)	(973)	(500)
Exchange differences	288	-	475	(18)	638	-	1,401	(18)
<b>At 31 December 2007</b>	<b>4,025</b>	<b>1,948</b>	<b>5,928</b>	<b>2,869</b>	<b>6,527</b>	<b>3,159</b>	<b>16,480</b>	<b>7,976</b>
<b>Depreciation</b>								
At 1 January 2007	-	-	<b>605</b>	<b>324</b>	<b>3,867</b>	<b>2,072</b>	<b>4,472</b>	<b>2,396</b>
Charge for the year	-	-	173	89	813	418	986	507
Disposals	-	-	-	-	(929)	(477)	(929)	(477)
Exchange differences	-	-	31	(22)	411	1	442	(21)
<b>At 31 December 2007</b>	-	-	<b>809</b>	<b>391</b>	<b>4,162</b>	<b>2,014</b>	<b>4,971</b>	<b>2,405</b>
<b>Accumulated impairment</b>								
At 1 January 2007	-	-	436	234	5	3	441	237
At 31 December 2007	-	-	468	227	-	-	468	227
<b>Net book value</b>								
<b>At 31 December 2007</b>	<b>4,025</b>	<b>1,948</b>	<b>4,651</b>	<b>2,251</b>	<b>2,365</b>	<b>1,145</b>	<b>11,041</b>	<b>5,344</b>

## Notes to the Financial Statements

### 14. Other property, plant and equipment (continued)

Year ended 31 December 2006

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

## Notes to the Financial Statements

### 15. Investment properties

#### Year ended 31 December 2007

	Cost		Depreciation		Net Book Value	
	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000
<b>At 1 January 2007</b>	<b>2,265</b>	<b>1,214</b>	<b>(462)</b>	<b>(248)</b>	<b>1,803</b>	<b>966</b>
Transfer from other property, plant and equipment	239	123	-	-	239	123
Disposal	(1,098)	(564)	484	248	(614)	(316)
Depreciation charge for the year	-	-	(54)	(27)	(54)	(27)
Exchange differences	191	-	(23)	-	168	-
<b>At 31st December 2007</b>	<b>1,597</b>	<b>773</b>	<b>(55)</b>	<b>(27)</b>	<b>1,542</b>	<b>746</b>

#### Year ended 31 December 2006

	Cost		Depreciation		Net Book Value	
	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000
<b>At 1 January 2006</b>	-	-	-	-	-	-
Transfer from other property, plant and equipment	2,047	1,214	(376)	(223)	1,672	991
Depreciation charge for the year	-	-	(44)	(25)	(44)	(25)
Exchange differences	218	-	(42)	-	175	-
<b>At 31 December 2006</b>	<b>2,265</b>	<b>1,214</b>	<b>(462)</b>	<b>(248)</b>	<b>1,803</b>	<b>966</b>

In year 2007 the Group has sold property resulting in gain of US\$ 140 thousand.

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 2007 amounted to US\$ 5.1 million (2006: US\$ 5.3 million).

### 16. Assets under construction

	US\$ '000		LVL '000	
	2007	2006	2007	2006
At 1 January	71,393	59,763	38,267	35,439
Additions during the year	270,486	122,908	138,936	68,856
Reclassification to fleet	(270,433)	(111,278)	(138,909)	(62,341)
Exchange differences	-	-	(3,714)	(3,687)
<b>At 31 December</b>	<b>71,446</b>	<b>71,393</b>	<b>34,580</b>	<b>38,267</b>

As at 31 December 2007 assets under construction are principally 7 product tankers referred to in Note 29.

## Notes to the Financial Statements

### 17. 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	45%	Latvija

### 18. Other financial assets

	US\$ '000		LVL '000	
	2007	2006	2007	2006
<b>Prepaid financial expenses</b>				
Book value as at 1 January	4,132	3,601	2,215	2,136
Additions	1,941	2,002	997	1,122
Transferred to borrowings	(4,753)	(1,471)	(2,440)	(824)
Exchange differences	-	-	(133)	(219)
<b>At 31 December</b>	<b>1,320</b>	<b>4,132</b>	<b>639</b>	<b>2,215</b>
<b>Non-current receivables</b>				
Book value as at 1 January	203	296	109	175
Received payments	-	(93)	-	(52)
Exchange differences	-	-	(11)	(14)
<b>At 31 December</b>	<b>203</b>	<b>203</b>	<b>98</b>	<b>109</b>
<b>Total as at 31 December</b>	<b>1,523</b>	<b>4,335</b>	<b>737</b>	<b>2,324</b>

### 19. Inventories

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Luboil and provisions	3,931	2,897	1,902	1,553
Bunkers	2,524	2,270	1,222	1,217
Ship and shore spares	291	491	141	263
Provision against slow moving and obsolete inventories	(48)	(111)	(23)	(60)
<b>Total</b>	<b>6,698</b>	<b>5,547</b>	<b>3,242</b>	<b>2,973</b>

The carrying amount of inventories carried at net realizable value is US \$ 110 thousand as at 31 December 2007 (2006: US \$ 156 thousand). The amount of inventories recognised as an expense are included in Note 5 and Note 6.

## Notes to the Financial Statements

### 20. Trade accounts receivable

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Trade accounts receivable	16,421	20,723	7,948	11,108
Provision for doubtful debts	(6,622)	(6,569)	(3,205)	(3,521)
<b>Total</b>	<b>9,799</b>	<b>14,154</b>	<b>4,743</b>	<b>7,587</b>

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

As at 31 December, the ageing analysis of trade accounts receivable is as follows:

<b>Past due</b>							
Total US\$ '000	Neither past due nor impaired US\$ '000	up to 45 days US\$ '000	46 to 90 days US\$ '000	91 to 180 days US\$ '000	181 to 365 days US\$ '000	More than 365 days US\$ '000	
<b>At 31 December</b>							
<b>2007</b>	9,799	8,519	438	68	114	435	225
<b>At 31 December</b>							
<b>2006</b>	14,154	11,988	90	1,177	607	16	276

<b>Past due</b>							
Total US\$ '000	Neither past due nor impaired US\$ '000	up to 45 days US\$ '000	46 to 90 days US\$ '000	91 to 180 days US\$ '000	181 to 365 days US\$ '000	More than 365 days US\$ '000	
<b>At 31 December</b>							
<b>2007</b>	4,743	4,123	213	33	55	210	109
<b>At 31 December</b>							
<b>2006</b>	7,587	6,426	48	631	325	9	148

Movements in the provision for impairment of receivables were as follows:

	US\$ '000		LVL '000	
	2007	2006	2007	2006
At 1 January	6,569	5,162	3,521	3,061
Additions	1,062	3,725	545	2,087
Settlements	(1,009)	(2,318)	(518)	(1,299)
Currency translation difference	-	-	(343)	(328)
<b>At 31 December</b>	<b>6,622</b>	<b>6,569</b>	<b>3,205</b>	<b>3,521</b>

## Notes to the Financial Statements

### 21. Prepayments and other receivables

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Prepayments	4,940	4,597	2,391	2,464
Other debtors	2,809	1,376	1,359	737
Deferred expenses	1,478	684	715	367
Claims receivable	1,336	1,480	647	793
<b>Total</b>	<b>10,563</b>	<b>8,137</b>	<b>5,112</b>	<b>4,361</b>

### 22 (a) Deposits with maturity more than three months

	US\$ '000		LVL '000	
	2007	2006	2007	2006
At 1 January	47,995	-	25,725	-
Bank deposits maturing more than 3 months from the date of placement	-	46,500	-	24,924
Previous accrual reversal	(1,495)	-	(768)	-
Interest accrued	1,466	1,495	710	801
Exchange differences	-	-	(2,451)	-
<b>At 31 December</b>	<b>47,966</b>	<b>47,995</b>	<b>23,216</b>	<b>25,725</b>

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

	US\$ '000		LVL '000	
	2007	2006	2007	2006
At 1 January	11,948	18,476	6,404	10,956
Additions	46,856	-	24,068	-
Settlements	(52,762)	(7,004)	(27,101)	(3,924)
Change in fair value	(795)	(96)	(409)	(54)
Exchange differences	513	572	(174)	(574)
<b>At 31 December</b>	<b>5,760</b>	<b>11,948</b>	<b>2,788</b>	<b>6,404</b>

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

### 23. Cash and cash equivalents

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Bank deposits maturing less than 3 months from the date of placement	42,189	19,193	20,419	10,287
Cash in banks and on hand	11,908	13,899	5,764	7,450
<b>Cash and cash equivalents total</b>	<b>54,097</b>	<b>33,092</b>	<b>26,183</b>	<b>17,737</b>

Cash in 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

### 24. Share capital

The authorised, issued and fully paid share capital of the parent company consists of 200,000,000 ordinary fully paid shares with nominal value of 1 Lat each, which are publicly traded on OMX Nordic Exchange. There have been no changes in the share capital and nominal value of the shares since 1991.

### 25. Interest bearing bank loans

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Repayments due within next twelve months	24,484	50,012	11,850	26,806
Overdraft received	18,076	-	8,749	-
Unamortised prepaid financing expenses*	(785)	(309)	(380)	(166)
<b>Net current portion</b>	<b>41,775</b>	<b>49,703</b>	<b>20,219</b>	<b>26,640</b>
Non-current portion	304,608	169,371	147,430	90,783
Unamortised prepaid financing expenses*	(5,654)	(2,140)	(2,736)	(1,147)
<b>Net non-current portion</b>	<b>298,954</b>	<b>167,231</b>	<b>144,694</b>	<b>89,636</b>
Total loans outstanding	347,168	219,383	168,029	117,589
Total unamortised prepaid financing expenses*	(6,439)	(2,449)	(3,116)	(1,313)
<b>Total loans, net of unamortised financing costs</b>	<b>340,729</b>	<b>216,934</b>	<b>164,913</b>	<b>116,276</b>

\* Prepaid financing expenses are amortised within loan repayment period.

During the year Latmar Holdings Corporation signed short term overdraft agreement. According to agreement the overdraft limit is US \$ 20.2 million. Overdraft is repayable in full in March 2008, carry interest at margin linked to US\$ 3 month LIBOR. The Parent Company has issued a corporate guarantee to secure the overdraft. In March 2008 Latmar Holdings Corporation prolonged the overdraft period till March 2009.

The loans are denominated in US\$ and are advanced to the Group's single vessel companies. Latvian Shipping Company 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 quarterly instalments and carry interest at a margin linked to US\$ LIBOR.

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
2008	42,6	20,6
2009	24,5	11,8
2010	24,5	11,8
2011	24,5	11,8
2012	24,5	11,8
2013 till 2017	206,6	100,2
<b>Total</b>	<b>347,2</b>	<b>168,0</b>



## Notes to the Financial Statements

### 25. Interest bearing bank loans (continued)

For the purpose of financing the newbuilding programme, a loan agreement was signed in the amount of US\$ 360 million out of which US\$ 200.9 million were withdrawn in 2007 (2006: US\$ 86.1 million). Undrawn loan facilities as at 31 December 2007 are US\$ 73.0 million (2006: US\$ 273.9 million).

### 26. Deferred tax liabilities

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Deferred tax liabilities at 1 January	22	12	12	7
Charge to income statement	15	10	6	5
<b>Deferred tax liabilities at 31 December</b>	<b>37</b>	<b>22</b>	<b>18</b>	<b>12</b>
Excess of tax allowances over depreciation	401	296	194	158
Other temporary differences	(818)	(675)	(396)	(362)
Tax losses	(7,040)	(5,829)	(3,407)	(3,124)
Unrecognised deferred tax asset	7,494	6,230	3,627	3,340
<b>Deferred tax liabilities at 31 December</b>	<b>37</b>	<b>22</b>	<b>18</b>	<b>12</b>

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

### 27. Other liabilities

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Accrued expenses	13,945	13,848	6,749	7,423
Deferred income	7,482	7,753	3,622	4,155
Other payables	3,675	3,030	1,778	1,624
<b>Total</b>	<b>25,102</b>	<b>24,631</b>	<b>12,149</b>	<b>13,202</b>

### 28. 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

## 29. Commitments

### 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. The vessel price of each one of the 10 tankers will be in the range of US\$ 31-37 million.

During 2007 the Group took the delivery of four of ten newbuildings ordered at 3. Maj shipyard in Croatia as well as all the four tankers ordered at Hyundai Mipo dockyard in Korea.

In November 2007 the Company signed contracts with Hyundai Mipo Dockyard Co., Ltd. (HMD) on building of four middle-range (MR) ice-classed tankers of 52,000 DWT each. The total value of contract is around US\$ 200 million.

### b) Operating lease commitments – Group as a lessor

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

### c) Operating lease commitments – Group as a lessee

The Group has time chartered in 3 tankers from the other shipowners for three and five years.

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Payments within one year	22,656	22,245	11,637	12,462
Payments after one year	45,596	68,252	23,421	38,236
<b>Total</b>	<b>68,252</b>	<b>90,497</b>	<b>35,058</b>	<b>50,698</b>

## 30. Related party transactions

### a) Compensation of the Management Board and the Supervisory Council members of the Group

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Salary and bonuses	6,773	5,849	3,479	3,135
Social insurance	224	211	115	113
<b>Total</b>	<b>6,997</b>	<b>6,060</b>	<b>3,594</b>	<b>3,248</b>

The remuneration paid to the members of the Supervisory Council is approved by the decision made by the General Shareholders' Meeting. The remuneration paid to the members of the Management Board is approved by the decision made by the Supervisory Council meeting. No other special significant benefits to the members of the Supervisory Council and Management Board apart from salaries and bonuses are paid or made available.

## Notes to the Financial Statements

### 30. Related party transactions (continued)

#### b) Interests of the members of the Supervisory Council and the Management Board

Neither members of the Supervisory Council nor the Management Board held the shares of the Parent Company or its subsidiaries during the current reporting period. Detailed information about shareholdings of the members of the Supervisory Council and the Management Board as well as on their positions in other companies is available in the Parent Company's office upon request.

### 31. Fees paid to external auditors

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Audit of the financial statements	148	112	76	63
Management consulting	56	-	29	-
<b>Total</b>	<b>204</b>	<b>112</b>	<b>105</b>	<b>63</b>

### 32. Financial instruments and financial risk management

The Group's principal financial instruments comprise cash, deposits, trade accounts receivable, bank loans and trade accounts payables. The main purpose of these financial instruments which mainly arise directly from operations is to raise finance for the Group's operations. It is, and has been throughout 2007 and 2006 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. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

## Notes to the Financial Statements

### 32. Financial instruments and financial risk management (continued)

#### Financial instruments

As at 31 December 2007

	Loans and receivables		Financial assets and liabilities at fair value		Financial liabilities at amortised cost		Total	
	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000
Other financial assets	1,523	737	-	-	-	-	1,523	737
Trade accounts receivable	9,799	4,743	-	-	-	-	9,799	4,743
Deposits with maturity more than 3 months	47,966	23,216	-	-	-	-	47,966	23,216
Financial assets designated at fair value through profit or loss	-	-	5,760	2,788	-	-	5,760	2,788
Cash and cash equivalents	54,097	26,183	-	-	-	-	54,097	26,183
<b>Total financial assets:</b>	<b>113,385</b>	<b>54,879</b>	<b>5,760</b>	<b>2,788</b>	<b>-</b>	<b>-</b>	<b>119,145</b>	<b>57,667</b>
Bank loans	-	-	-	-	340,729	164,913	340,729	164,913
Trade accounts payable	-	-	-	-	3,569	1,727	3,569	1,727
<b>Total financial liabilities:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>344,298</b>	<b>166,640</b>	<b>344,298</b>	<b>166,640</b>

## Notes to the Financial Statements

### 32. Financial instruments and financial risk management (continued)

#### Financial instruments

As at 31 December 2006

	Loans and receivables		Financial assets and liabilities at fair value		Financial liabilities at amortised cost		Total	
	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000	US\$ '000	LVL '000
Other financial assets	4,335	2,324	-	-	-	-	4,335	2,324
Trade accounts receivable	14,154	7,587	-	-	-	-	14,154	7,587
Deposits with maturity more than 3 months	47,995	25,725	-	-	-	-	47,995	25,725
Financial assets designated at fair value through profit or loss	-	-	11,948	6,404	-	-	11,948	6,404
Cash and cash equivalents	33,092	17,737	-	-	-	-	33,092	17,737
<b>Total financial assets:</b>	<b>99,576</b>	<b>53,373</b>	<b>11,948</b>	<b>6,404</b>	-	-	<b>111,524</b>	<b>59,777</b>
Bank loans	-	-	-	-	216,934	116,276	216,934	116,276
Trade accounts payable	-	-	-	-	5,020	2,691	5,020	2,691
<b>Total financial liabilities:</b>	-	-	-	-	<b>221,954</b>	<b>118,967</b>	<b>221,954</b>	<b>118,967</b>

# Notes to the Financial Statements

## 32. Financial instruments and financial risk management (continued)

### **Interest rate risk**

The Group is exposed to interest rate risk through its received loans and placed short-term deposits. Interest rate risk is related mainly to the floating interest rate of the loans advanced to the Group. Interest on borrowings is fixed every 3, 6 or 12 months. The Groups policy is to monitor market trends and fix the interest rates for loans and deposits for the subsequent period based on the market expectations.

### **Interest rate risk table**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no impact on the Group's equity.

US\$ '000	2007		2006	
	Increase/ decrease in basis points	Effect on profit before tax	Increase/ decrease in basis points	Effect on profit before tax
U.S. dollar - LIBOR	0%	-	+0,25%	(249)
	-3%	5,118	-1%	996

LVL '000	2007		2006	
	Increase/ decrease in basis points	Effect on profit before tax	Increase/ decrease in basis points	Effect on profit before tax
U.S. dollar - LIBOR	0%	-	+0,25%	(139)
	-3%	2,629	-1%	558

### **Credit risk**

The Group is exposed to credit risk through its trade accounts receivable, deposits with maturity more than 3 months and cash and cash equivalents. The Group's cash equivalents have been invested in secure financial institutions. 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 38% of total trade accounts receivable as of 31 December 2007 (2006: 33%). The maximum credit risk of the Group is US\$ 128,185 thousand (2006: US\$ 115,326 thousand).

### **Foreign currency risk**

The Group operates both in Europe and in the Americas 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 financial assets designated at fair value through profit or loss to monitor the currency position regularly.

# Notes to the Financial Statements

## 32. Financial instruments and financial risk management (continued)

### *Liquidity and cash management risk*

Based on the Group's cash management principle, the Group's cash is accumulated in dedicated bank accounts and managed on a Group level.

To ensure daily liquidity requirements, the Group's management determines minimum cash balances to be maintained on Group's bank accounts.

When forecasts show requirements for additional liquidity, necessary funding is arranged through bank financing.

Risk analysis and designing of risk management plans are conducted at the top management level.

The Group's liquidity risk and cash management policy is based on a conservative approach whose main objective is to secure the safeguarding of the cash flows generated from the operations to ensure sufficient liquidity enabling timely settlement of the liabilities undertaken as well as providing sufficient Group's own funds in realisation of the new projects related to further development of the Group. In addition, by controlling the interest rate risk that mainly arises from the loans received and short term deposits the management of the Group evaluates the optimal utilisation of the accumulated cash balances by means of investing in a short term deposits, deposits with maturity more than 3 months or considering the possibility to repay the received loans in advance.

### US\$ '000

	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
<b>As at 31 December 2007</b>					
Bank loans	29,526	33,146	162,046	247,158	471,876
Trade accounts payable	3,569	-	-	-	3,569
<b>Total</b>	<b>33,095</b>	<b>33,146</b>	<b>162,046</b>	<b>247,158</b>	<b>475,445</b>

	< 3 mēnešiem	3 - 12 mēneši	1 - 5 gadi	> 5 gadiem	Total
<b>As at 31 December 2006</b>					
Bank loans	8,156	56,246	114,365	111,021	289,788
Trade accounts payable	5,020	-	-	-	5,020
<b>Total</b>	<b>13,176</b>	<b>56,246</b>	<b>114,365</b>	<b>111,021</b>	<b>294,808</b>

### LVL

	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
<b>As at 31 December 2007</b>					
Bank loans	14,290	16,043	78,430	119,624	228,387
Trade accounts payable	1,727	-	-	-	1,727
<b>Total</b>	<b>16,017</b>	<b>16,043</b>	<b>78,430</b>	<b>119,624</b>	<b>230,114</b>

	< 3 mēnešiem	3 - 12 mēneši	1 - 5 gadi	> 5 gadiem	Total
<b>As at 31 December 2006</b>					
Bank loans	4,372	30,148	61,300	59,507	155,327
Trade accounts payable	2,691	-	-	-	2,691
<b>Total</b>	<b>7,063</b>	<b>30,148</b>	<b>61,300</b>	<b>59,507</b>	<b>158,018</b>



## Notes to the Financial Statements

### 32. Financial instruments and financial risk management (continued)

#### *Liquidity and cash management risk (continued)*

Reviewing the current situation on a money market which is characterised by an increase in a price and a limited availability of credit resources on a banking market the Group's management policy is to accumulate free cash on deposits with maturity more than 3 months thus fixing the interest income at the same time, if necessary, ensuring the availability of the cash resources to invest in the development of the new projects rather than repaying the outstanding loans balances in advance.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments.

#### **Fair values**

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

	<b>Carrying amount</b>		<b>Fair value</b>	
	US\$ '000		US\$ '000	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Financial assets</b>				
Other financial assets	1,523	4,335	1,523	4,335
Cash and cash equivalents	54,097	33,092	54,097	33,092
Deposits with maturity more than 3 months	47,966	47,995	47,966	47,995
Trade accounts receivable	9,799	14,154	9,799	14,154
Financial assets designated at fair value through profit or loss	5,760	11,948	5,760	11,948
<b>Total</b>	<b>119,145</b>	<b>111,524</b>	<b>119,145</b>	<b>111,524</b>
<b>Financial liabilities</b>				
Interest bearing loans	340,729	216,934	340,729	216,934
Trade accounts payable	3,569	5,020	3,569	5,020
<b>Total</b>	<b>344,298</b>	<b>221,954</b>	<b>344,298</b>	<b>221,954</b>
	<b>Carrying amount</b>		<b>Fair value</b>	
	LVL '000		LVL '000	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Financial assets</b>				
Other financial assets	737	2,324	737	2,324
Cash and cash equivalents	26,183	17,737	26,183	17,737
Deposits with maturity more than 3 months	23,216	25,725	23,216	25,725
Trade accounts receivable	4,743	7,587	4,743	7,587
Financial assets designated at fair value through profit or loss	2,788	6,404	2,788	6,404
<b>Total</b>	<b>57,667</b>	<b>59,777</b>	<b>57,667</b>	<b>59,777</b>
<b>Financial liabilities</b>				
Interest bearing loans	164,913	116,276	164,913	116,276
Trade accounts payable	1,727	2,691	1,727	2,691
<b>Total</b>	<b>166,640</b>	<b>118,967</b>	<b>166,640</b>	<b>118,967</b>

# Notes to the Financial Statements

## 32. Financial instruments and financial risk management (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 shareholders value.

The Group monitors capital using the market adjusted equity / market adjusted total assets ratio above 30%.

The Group calculates market adjusted equity and market adjusted total assets increasing the equity and total assets by the 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 valuers.

	US\$ '000		LVL '000	
	2007	2006	2007	2006
Market adjusted equity	951,000	733,010	460,284	392,893
Market adjusted total assets	1,320,437	979,120	639,092	524,808
<b>Ratio</b>	<b>72%</b>	<b>75%</b>	<b>72%</b>	<b>75%</b>

## 33. Post balance sheet events

In January 2008 the Group took the delivery of the eighth tanker newbuilding (named "Uzava") ordered at 3. Maj Dockyard in Croatia.

One of the reefer vessels "Akademikis Vavilovs" was sold in February 2008.