KOPIJA

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STATE JOINT STOCK COMPANY IN PRIVATISATION

LATVIAN SHIPPING COMPANY
AND ITS SUBSIDIARIES

REPORT AND FINANCIAL STATEMENTS

31st DECEMBER 2001

LATVIAN SHIPPING COMPANY

STATE JOINT STOCK COMPANY IN PRIVATISATION

LATVIAN SHIPPING COMPANY

Registered Office

2 Basteja Blvd
Riga LV1807
Latvia

THE SUPERVISORY BOARD

Chairman of the Supervisory Board	Druvis Skulte
Members of the Supervisory Board	Andris Pauls-Pāvuls
	Antons Ikaunieks
	Eižens Cepurnieks *(until 02.11.2001)*
	Halfors Krasts
	Imants Kapsis
	Jānis Maršāns
	Jāzeps Bernāns
	Māris Kaijaks
	Miķelis Elsbergs
	Pēteris Strubergs
	Uģis Magone
	Vita Gerharde

THE MANAGEMENT BOARD

Chairman of the Management Board LSC President	Andris Kļaviņš
Vice - President Finance	Anders Hedberg
Members of the Management Board	Elmārs Vītoliņš
	Jānis Brūnavs
	Roberts Joma
	Vladislavs Skrebelis

STATEMENT BY THE PRESIDENT
MR. ANDRIS KLAVINSH

2001 was a year when in financial terms it was confirmed that the changes in our organization and the implementation of our strategy had been positive leading to improved results and the year ended with a strong profit for the LSC Group. Although the second half of the year was largely influenced by the reduced activity in the world economy the LSC Group could anyhow realize the best profit so far during the ten years history of the Group. This was achieved by a fleet that grew another year older and it is without doubt that the faster implementation of the tanker fleet renewal that the Management have argued for would have further improved the result and return to the Shareholder.

The product tanker business developed very well in a good market environment during the beginning of the year. However, later the charter rates were influenced by the slowing world economy in general and the reduced oil production and inventory pick up in particular. This lead to lower volumes and lower transportation mileage and charter rates fell during the latter part of the year.

However, 2001 also finally led to the start of the tanker fleet renewal and although coming late during the year the new vessels contributed in profit terms favorably in comparison to the old. But the contribution was not only financial. The decision to start the tanker fleet renewal, the fleet that is the backbone of the LSC Group and the one with substantial strategic value, also had a very positive impact on how our customers, financiers and employees viewed the Group. This was also enhanced by the fact that our decision to buy these vessels that recently had been delivered from the yard instead of waiting three years for the delivery of a new order of vessels had an immediate positive impact on the organization and its partners.

During the Summer of 2001 the governing bodies of LSC approved the start of the renewal of the tanker fleet. During October and November the LSC Group purchased three Panamax product tankers built in Japan and delivered to the original buyer during early 2001. This constitutes the first step of a series of investments necessary during the coming years to renew the ageing tanker fleet of the LSC Group. Raising US $ 90 million of loans from three international Banks financed the investment on advantageous terms. These loans have a repayment profile that allows for the build up of cash in the Group for the further product tanker investment programs needed to keep the fleet intact and profitable.

The recent trend of the market to reject or discount old tonnage worsened and from that point of view our position with an ageing fleet deteriorated further. However, we were still successful in keeping our oldest tonnage fully employed and its technical and financial performance during 2001 is confirmation of the importance of continuous and professional maintenance, which has always been the LSC policy.

During 2000 we decided to change our strategy within the reefer business and ultimately reduce our presence in that market. As a consequence vessel values were corrected in the accounts of 2000 and part of the fleet was put up for sale. Unfortunately, probably related to the lack of return for the operators in the reefer market, the sale of a part of our reefer fleet was hampered, not by lack of interest, but by the lack of financing available to operators from financial institutions for such transactions.

STATEMENT BY THE PRESIDENT
MR. ANDRIS KLAVINSH
(Continued)

The reefer market rates improved marginally during 2001 and this together with reduced depreciation and lower operating costs lead to a significant improvement of the result, although still negative.

The LPG fleet performed well as part of the Scandigas Pool but just as the tanker market deteriorated during the year so did the market for Gas Carriers.

Following our strategy to concentrate the activities of the LSC Group to the product tanker business the future of the Dry Cargo business of LSC was reviewed during 2001. This is a marginal activity for the LSC Group and different from the other more traditional shipping activities. The conclusions of the review was that the position of the LSC Dry Cargo business was not favorable in the longer term and only investments in markets and equipment could change that. During the Autumn a decision was taken to sell the business and during February of 2002 all the fixed assets related to the liner business were sold at a profit.

PRODUCT TANKERS

At the beginning of the year the product tanker fleet consisted of 37 ice-classed vessels of single and double hull configuration. By the end of the year the fleet had increased by three 68.500 dwt tankers delivered during 2001. The total fleet has an overall size of 1.218.000 dwt, vessels vary in size from 6.200 dwt to 68.500 dwt. Three smaller tankers are on bare boat charters with purchase options.

The fleet is trading all over the world with a particular strong presence in Northern Europe. The tanker fleet accounts for over 80 % of the Net Voyage Result of the LSC Group.

The first part of the year was very favorable with good rates and volumes. However, as the world economy started to slow down during the second half of the year demand was reduced following inventory build up. The OPEC oil production was cut a number of times during the second half of the year leading to lower productions of refined products. By the end of the year rates were significantly lower than during the same period of 2000.

After a strong start of the year, the oldest part of the tonnage also faced increasing pressure from customers due to age and more oil companies and traders rejected older tonnage as a matter of principle and regardless of conditions. This lead to a widening of the discount on market rates for older tonnage, in particular during the second half of the year. By the end of the year the rates offered by the market were close to the operational cost of the oldest vessels.

Due to the positive market conditions during the first part of the year, a large number of vessels on time charter as spot rates deteriorated during the latter part of the year and the addition to the fleet of the new tankers, the result of the product tanker business improved substantially. However, the improvement over last year was reduced in the latter part of 2001 and the operating result from the last quarter was lower than in 2000.

STATEMENT BY THE PRESIDENT
MR. ANDRIS KLAVINSH
(Continued)

REEFERS

The reefer fleet at the beginning of 2001 comprised 17 ice-classed vessels in sizes from 262.000 cubic feet to 387.000 cubic feet. The fleet is mostly operating from the Southern Hemisphere to Northern Europe carrying mainly bananas and other fruits but the vessels are also utilized for frozen and other goods. During 2001 the reefer fleet generated 7 % of the Net Voyage result of the LSC Group. Of the 17 reefers five were on bare boat charters with a purchase option and such options were utilized during the year with the effect that three reefers were sold. A further two of these vessels are expected to be sold during 2002.

2001 showed an improvement in the market rates for the first time since 1997. Although insufficient to materially change the general state of negative results in the business it anyhow led to some improvements. However, in combination with the effect of the lower vessel values after last year's write down and a further expansion of the low season lay up program a substantial improvement of the result was recorded.

During the low season only three of the reefer vessels operated by the LSC Group were trading, the remaining were laid up for approximately six months. Since December 2001 all vessels are operating and employed.

The efforts to sell seven of the reefers after the high season last year lead to a letter of intent but failed as the customer was unable to raise finance. The necessary market consolidation of reefer operators in order to improve the financial efficiency of the whole sector has now started with a number of new large international pools being formed. These groups have during the fall showed interest in forms of cooperation with or direct purchase of the LSC reefer business and these possibilities will be evaluated after the 2002 high season.

LPG

The LSC Group owns and operates two modern 20.500 cubic meter LPG vessels. In 2001 the LPG vessels accounted for 8 % of the Net Voyage Result of the Group.

The vessels operated again throughout the year in the Scandigas Pool. Similar to the situation in the product tanker trade the LPG market rates developed in a positive way during the first part of the year but later deteriorated. As with the product market this was explained by the lack of growth in the trade but also due to the fact that an unusually large number of new built vessels were delivered from yards and entered the market. The increased capacity together with the reduction in overall activity lead to that the result of the LPG business was lower than for 2000 but remained profitable.

STATEMENT BY THE PRESIDENT
MR. ANDRIS KLAVINSH
(Continued)

DRY CARGO

During most of 2001 the LSC Group operated a number of routes between the Baltic and Western Europe. The operation involved chartered container vessels, slot charters and land transportation and a container park. As part of this activity the Group also operates and charters out one vessel in other geographical areas and has a second vessel on a bare boat charter with a purchase option. The Dry Cargo activity generated during 2001 2 % of the Net Voyage Result of the Group.

The market was characterized by growth lead by demand in Russia but also fierce competition in price and capacity. Actions were taken with the intention to improve the result and the service on one of the routes was terminated. However, this was insufficient and the result deteriorated compared to 2000. After a review of the business' position for the future it was decided late in 2001 to close it down. The assets were sold during 2002 at a book profit. The two Ro-Ro vessels remain owned and was not part of the sale and remain chartered out.

The LSC Group has a number of service activities around its pure shipping businesses. These are operated in subsidiary form and are consolidated as Profit Centers. All of these units except the ship repairing activity in Riga were profitable. During 2001 all vessels within the LSC Group were taken over into the management of LSC Ship Management.

The Group continued to generate substantial cash. During the year the Group repaid and prepaid in total US $ 37,4 million of long-term loans. This in combination with the new loans for the financing of the first step of the product tanker fleet renewal left total credits of US $ 142,7 million by the end of the year. The Group remains financially strong and capable to finance the necessary futher renewal projects.

Another privatization round during the beginning of the year did not answer the question of the future ownership of the LSC Group. Late in December a new set of privatization regulations were decided upon and if concluded this will lead to the disposal of all of the shares in LSC during 2002. In accordance with the privatization terms, 32 % of the shares of the LSC Group are presently available for purchase against privatization vouchers.

After the sale of the shares for privatization vouchers, which will be finalized by April, the LSC Group will change its status from a Company under privatization to a privatized Company. Later during the year the privatization plan assumes that 51 % of the shares will be offered to potential investors for cash. I sincerely hope that this will lead to a situation where the LSC Group will be allowed to realize strategies that are fully based on commercial realities and that the process to defend and develop the position of the LSC Group in the international product tanker market will be speeded up.

Andris Kļaviņš
President and Chairman of the Management Board of LSC,

Riga, Latvia
March 28, 2002

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the results of the Group for that period in accordance with International Accounting Standards. In preparing those financial statements, they:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that financial statements drawn up from them comply with International Accounting Standards. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Andris Kļaviņš
Chairman of the Management Board

Riga, Latvia
March 28, 2002

PRICEWATERHOUSECOOPERS

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REPORT OF THE AUDITORS

To the shareholders of VAS Latvian Shipping Company

We have audited the accompanying balance sheet of VAS Latvian Shipping Company and its Subsidiaries (the Group) as of 31 December 2001 and related income and cash flow statements for the year then ended. These financial statements set out on pages 11 to 41 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2001 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers SIA

28 March 2002

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2001
(Expressed in US $ '000s)

	Note	2001	2000
Voyage income		172,902	178,953
Voyage costs		(40,792)	(61,474)
Net Voyage Result		**132,110**	**117,479**
Vessel Operating costs		(74,779)	(73,907)
Vessel Operating Result before Depreciation		**57,331**	**43,572**
Vessel depreciation		(24,228)	(28,301)
Vessel Operating Profit		**33,103**	**15,271**
Exceptional write downs and provisions		-	(25,500)
Net result of Profit Centers	3	1,079	694
Administration expenses	4	(9,068)	(7,778)
Gain on sale of assets		1,781	567
Operating Profit/ (Loss)		**26,895**	**(16,746)**
Interest income		2,114	2,576
Exchange rate gain		2,708	2,799
Interest expenses		(4,997)	(8,535)
Income from associates	9	53	419
Other financial items	6	(469)	(754)
Net Financial Items		**(591)**	**(3,495)**
Profit/ (Loss) before Taxation		**26,304**	**(20,241)**
Taxation	17	(173)	(194)
Profit/ (Loss) after Taxation		**26,131**	**(20,435)**
Minority interest	18	(61)	(90)
Net Profit/ (Loss)		**26,070**	**(20,525)**

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER 2001

(Expressed in US $ '000s)

	Note	2001	2000
ASSETS			
LONG TERM ASSETS			
Fleet	7	413,535	314,101
Other fixed assets	8	8,104	9,456
Assets under construction		31	-
Investments	9	1,227	1,185
Vessels subject to disposal	10	-	2,404
TOTAL LONG TERM ASSETS		**422,897**	**327,146**
CURRENT ASSETS			
Inventories	11	7,022	7,230
Vessels subject to disposal	10	2,859	4,032
Accounts receivable and prepayments	12	25,101	30,519
Available-for-sale investments	13	1,525	2,224
Bank and cash balances		31,823	48,779
TOTAL CURRENT ASSETS		**68,330**	**92,784**
TOTAL ASSETS		**491,227**	**419,930**
SHAREHOLDERS' EQUITY & LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		362,319	362,319
Translation reserve		(19,056)	(9,760)
Retained earnings		(35,916)	(61,986)
TOTAL SHAREHOLDERS' EQUITY		**307,347**	**290,573**
MINORITY INTEREST		**764**	**793**
LONG TERM LIABILITIES			
Long term portion of bank loans	14	127,360	63,962
Provision for deferred taxation	15	37	61
Provisions and accruals		7,775	8,174
TOTAL LONG TERM LIABILITIES		**135,172**	**72,197**
CURRENT LIABILITIES			
Current portion of bank loans	14	15,359	26,119
Trade and other payables	16	32,585	30,248
TOTAL CURRENT LIABILITIES		**47,944**	**56,367**
TOTAL LIABILITIES		**183,116**	**128,564**
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		**491,227**	**419,930**

These Financial Statements were approved by the Management Board on 28 March, 2002
and signed on its behalf by

ANDRIS KĻAVIŅŠ President

ANDERS HEDBERG Vice - President Finance

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2001

(Expressed in US $ '000s)

	Share Capital	Translation Reserve	Retained Earnings	Total
Balance at 1st January 2000	362,319	(2,286)	(41,461)	318,572
Loss for the year	-	-	(20,525)	(20,525)
Currency translation differences	-	(7,474)	-	(7,474)
Balance at 31st December 2000	362,319	(9,760)	(61,986)	290,573
Balance at 1st January 2001	362,319	(9,760)	(61,986)	290,573
Profit for the year	-	-	26,070	26,070
Currency translation differences	-	(9,296)	-	(9,296)
Balance at 31st December 2001	362,319	(19,056)	(35,916)	307,347

In the statutory financial statements LVL 7,444 thousand is transferred from retained earnings to a non-distributable reserve representing the parent company's share of profits of subsidiaries and associates which have not yet been paid up to the parent company by way of dividend. In addition at the annual general meeting the share of profits of the subsidiaries and associates in 2001 of LVL 20,119 thousand less proposed dividends will be transferred to this non-distributable reserve.

The authorised issued and fully paid share capital of the company is 200,000,000 shares of 1 Lat each. 10,000 of the shares (non-voting) have been allocated to Board Members.

The sole shareholder at 31 December 2001 and as at the date of signing these accounts, other than Board shares, was the Latvian Privatisation Agency.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2001
(Expressed in US $ '000s)

	Note	2001	2000
Cash Inflow from Operations	20	**70,247**	**52,255**
Returns on Investments and Servicing of Finance			
Interest received		2,059	2,551
Interest paid		(5,580)	(8,707)
Dividends received		86	550
Taxation			
Corporate taxes paid		(197)	(133)
Cash Intflow from Operating Activities		**66,615**	**46,516**
Investing Activities			
Fleet additions		(123,900)	-
Purchase of other fixed assets		(447)	(944)
Prepaid financing expenses		(461)	-
Disposal available-for-sale investments		948	-
Proceeds on sale of assets		242	1,631
Charter payments for vessels subject to disposal		5,052	5,851
Drydock expenditure		(17,611)	(14,522)
Assets under construction and on order		(31)	74
Cash Outflow from Investing Activities		**(136,208)**	**(7,910)**
Cash Inflow before Financing Activities		**(69,593)**	**38,606**
Financing Activities			
Bank loans repaid		(37,363)	(31,099)
Proceeds from borrowings		90,000	-
Cash Outflow from Financing Activities		**52,637**	**(31,099)**
(Decrease)/ Increase in Cash Balances		**(16,956)**	**7,507**
Cash and Cash Equivalents Balances: at 1st January		**45,780**	**38,273**
Cash and Cash Equivalents Balances: at 31st December		**28,824**	**45,780**

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001

1. Accounting Policies

(a) Basis of accounting

The financial statements are prepared in accordance with and comply with International Accounting Standards. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of the Group's fleet and properties and investments available-for-sale.

The Shipping activity of the Group accounts for more than 90% of the turnover of the Group and therefore the lay out of the Income Statement is adapted thereto. This reporting form is less suitable for the non-shipping activities of the Group and the result of these activities before Financial Items are recorded as "Net Result of Profit Centers". See Note (3).

The Financial Statements are prepared in U.S. dollars as this is widely accepted as the standard trading currency in the shipping world and is the predominant currency used by the Group in its day to day operations and capital expenditure.

In 2001 the group adopted IAS 39 – Financial Instruments: recognition and measurement. Further information is disclosed in accounting policies (g) Investments.

(b) Basis of consolidation

The consolidated income statement and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31st December 2001. The results of subsidiaries sold or acquired are included in the consolidated income statement up to, or from, the date control passes. Intra-group chartering of vessels are eliminated on consolidation. In order to show the result and performance of the different profit centers supporting the business of the Group charges by these profit centers and fleet departments to operating companies in the group have not been eliminated. This has the impact of increasing "Voyage Costs", "Vessel operating costs", "Net Result of Profit Centers" and "Administration Expenses", but has no impact on the reported "Operating profit".

The Group's share of profits less losses of associated undertakings is included in the consolidated income statement, and the Group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned.

Assets and liabilities of entities in the group denominated in foreign currencies are translated into US 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 for the year. Differences on exchange arising from retranslating the opening net investment in subsidiary companies, and from the translation of the results of those companies at the average rate of exchange, are taken to the "Translation reserve" in shareholder's equity. On disposal of the foreign entity, such translation differences are recognised in the income statement as part of the gain or loss on sale.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

1. **Accounting Policies** *(Continued)*

(c) **Voyage income**

Sales include gross freight and hire receivable, demurrage and time-charter hires.

(d) **Voyage costs/ Vessel operating costs**

Voyage costs include the costs related to vessels that operate in the spot market, where the owner carries costs like bunker and port expenses. For vessels operating on time charter, t/c, these costs are carried by the charterer.

Vessel operating costs are cost related to the running of the vessels like crew, repairs, equipment, insurance and dry-docking costs.

(e) **Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand, cash on board vessels/in hand, and short term deposits which do not exceed three months maturity on the date of placement less overdrafts.

(f) **Fixed assets and depreciation**
Fleet

The Group's fleet was initially recorded at valuation, carried out in 1991 (when the Latvian Shipping Company came into existence in its current form taking over vessels from the former Soviet Fleet), or for subsequent addition's at cost. Adjustments have been made for subsequent valuations. Valuations are as assessed by the management of the parent company supported by independent professional indicative estimates of market value.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the loss is recognized immediately to its recoverable amount being the higher of its market value and value in use. Market value is assessed by the directors as noted above.

Depreciation has been provided on the basis that the book value of the vessels, less an estimated scrap value of US $ 100 per lightweight ton, is written off on a straight line basis over the remainder of their anticipated useful lives, taken to be between 23 - 26 years from date of building.

The part of the cost of a new vessel or newly acquired vessel representing that element which will be utilized over the period to the next dry docking is amortised over the remaining period to the expected next drydocking (also see accounting policy (j)).

Other fixed assets

Buildings are initially stated at cost and subsequently management's valuation based on a professional valuation less accumulated depreciation.

Fixed assets are being depreciated on a straight-line basis at the following rates:

Buildings	1 - 15 % per annum
Machinery and equipment	8 – 33 % per annum
Other assets	10 - 35 % per annum

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

1. **Accounting Policies** *(Continued)*

(f) **Fixed assets and depreciation** *(Continued)*

Other fixed assets *(Continued)*

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

Provisions are established where there is uncertainty of ownership or when there is a possible other than temporary impairment in value in the asset.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(g) **Investments**

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

At 1 January 2001 the group adopted IAS 39 and classified its investments, which are not associates, as assets available-for-sale. Assets available-for-sale are measured at their fair values at balance sheet date. All gains and losses from revaluation and disposal of these securities are reported in the income statement.

(h) **Currency translation**

Monetary assets and liabilities of the Group denominated in currencies other than US dollars are translated at the Bank of Latvia's rate of exchange ruling on the balance sheet date. Transactions denominated in foreign currencies are translated at the exchange rate ruling on the date of the transaction, or an approximation thereto. All gains and losses arising from such foreign exchange differences are taken to the income statement in the year in which they arise.

(i) **Revaluation reserve**

Adjustments arising on the revaluation of the group's fixed assets are transferred to a revaluation reserve. The balance of the reserve is released to retained earnings on a straight-line basis over the remaining anticipated useful lives of the assets involved, or on disposal if earlier.

The balance on the revaluation reserve in the books of Latvian Shipping Company was capitalised during 1996 as a consequence of the restructuring of the Company's equity at the commencement of the privatisation process of the Company.

The outstanding balance of the revaluation reserve arising in subsidiary companies was written down against vessel values at 31st December 1998.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

1. Accounting Policies *(Continued)*

(j) Dry-docking and special surveys

The cost of dry-dockings are capitalised and then written off over the following 30 months period representing the normal time between dry-dockings.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value, where cost is calculated on a first in first out basis, and comprise bunkers, luboils, victualling and slopchest stocks, materials and spares. Where necessary, provision is made for obsolete, slow moving and defective stock.

(l) Trade receivables

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written of when identified.

In addition to specific provisions a general provision is made against demurrages. The overall provision is re-assessed at the end of each year for its reasonableness and adjusted where necessary. This provision is offset against the receivable in the balance sheet.

(m) Voyages in progress

Credit is made in the Income Statement for all hire receivable to the balance sheet date in respect of voyages in progress while hire receivable that relates to the next accounting period is deferred. The pro-rata share of expenses in respect of voyages in progress that relate to the current year is also included in the Income Statement while expenses that relates to the next accounting period are deferred. Full provision is made for any losses known or expected on voyages in progress at the balance sheet date.

(n) Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fleet, property, plant and equipment and tax losses carried forward. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001

(Continued)

1. Accounting Policies *(Continued)*

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that a payment will be required to settle the obligation and a reliable estimate of the obligation can be made.

(p) Fair Values

The Company's financial assets and liabilities consist of cash and bank, trade receivables, trade payables. Fair value represents the amount at which an asset could be exchanged or liability settled on an arms length basis. Where in the opinion of management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are disclosed in the notes to the financial statements.

(q) Vessels subject to disposal

When vessels are bareboat chartered out with the charterer having an option to purchase at the end of the charter period, the vessels are held at the present value of future charter payments and the purchase price. The difference between the gross receivables and the present value of the receivables is recognised as unearned finance income. Finance income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

2. Corporate Structure

The subsidiary undertakings, all of which are effectively controlled by the Company, are stated below. All are wholly-owned except where indicated.

Name	Country of Incorporation	Activity /Vessels
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 Company Ltd.	Cyprus	m.t. "Estere"
Juris Avots Shipping Company Ltd.	Cyprus	Bareboat charterer
Kriti Sea Shipping Company Ltd.	Cyprus	Former owner of m.t. "Indra" *(Dormant)*
Latgale Shipping Company Ltd.	Malta	m.t. "Latgale"
Latmar Holdings Corporation	Liberia	Holding company
Latmar Services Ltd.	England	Provision of maritime services *(Dormant)*
Latmar Shipping Company Ltd.	Cyprus	Former owner of m.t. "Mar" *(Dormant)*
Latreefers Inc.	Liberia	Reefer Newbuildings *(Dormant)*
Limetree Shipping Company Ltd.	Malta	m.t. "Riga"
New Spring Shipping Company Ltd.	Cyprus	m.v. "Komponists Chaikovskis" *(Bareboat chartered from 15.01.1999*)*
Noella Maritime Company Ltd.	Cyprus	Bareboat Charterer
Radar Shipping Ltd.	Liberia	former owner of m.t. "Gunta" *(Dormant)*
Renda Maritime Company Ltd.	Cyprus	m.t. "Renda" *(Bareboat chartered from 22.07.1999*)*
Rhodos Shipping Company Ltd.	Liberia	Charterer *(Dormant)*
Rundale Shipping Company Ltd.	Cyprus	m.t. "Rundale"
S. Tomskis Shipping Company Ltd.	Malta	m.v. "Skulptors Tomskis"
S. Tomskis Shipping Company Ltd.	Cyprus	Former owner of m.t. "Skulptors Tomskis" *(Dormant)*
Sagewood Trading Inc.	Liberia	m.t. "Zaks Diklo"
Samburga Shipping Company Ltd.	Cyprus	m.t. "Samburga"
Saturn Trading Corporation	Liberia	Bareboat charterer
Scanreefer Marine Company Ltd.	Cyprus	Former owner of m.t. "Amata" *(Dormant)*
Scanreefer Navigation Company Ltd.	Cyprus	Former owner of m.t. "Abava" *(Dormant)*
Viktorio Shipping Corporation	Liberia	m.v. "Viktorio Kodovilja"
Zemgale Shipping Company Ltd.	Malta	m.t. "Zemgale"
Wilcox Holdings Ltd.	Liberia	Bareboat charterer
World Reefer Corporation	Liberia	Reefer Charterer *(Dormant)*

* bareboat chartered with purchase option

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

2. Corporate Structure *(Continued)*

Name	Country of Incorporation	Activity /Vessels
Lattanker Holdings Corporation	Liberia	Intermediate holding company
Antonio Gramsi Shipping Corporation	Liberia	Bareboat Charterer
Davids Sikeiross Shipping Corporation	Liberia	Bareboat Charterer
Dzons Rids Shipping Corporation	Liberia	Bareboat Charterer
Hose Marti Shipping Corporation	Liberia	Bareboat Charterer
Imanta Shipping Company Ltd.	Malta	Bareboat Charterer
Klements Gotvalds Shipping Corporation	Liberia	Bareboat Charterer
Majori Shipping Company Ltd.	Malta	Bareboat Charterer
Pablo Neruda Shipping Company Ltd.	Cyprus	Bareboat Charterer
Talava Shipping Company Ltd.	Malta	Bareboat Charterer

The subsidiaries of Lattanker Holdings Corporation operate as bareboat charterers for Latvian Shipping Company vessels.

Name	Country of Incorporation	Activity /Vessels
Reeferlat Holdings Corporation	Liberia	Intermediate holding company
Akademikis Artobolevskis Shipping Co. Ltd.	Cyprus	Dormant
Akademiks Artobolevskis Shipping Co. Ltd.	Malta	Dormant *(Vessel bareboat chartered from 07.11.2000*)*
Akademikis Bocvars Shipping Co. Ltd.	Cyprus	Dormant
Akademikis Bocvars Shippng Co. Ltd.	Malta	Bareboat Charterer
Akademikis Celomejs Shipping Co. Ltd.	Cyprus	Dormant
Akademikis Celomejs Shipping Co. Ltd.	Malta	Bareboat Charterer
Akademikis Hohlovs Shipping Co. Ltd.	Cyprus	Dormant
Akademikis Hohlovs Shipping Co. Ltd.	Malta	Dormant *(Vessel bareboat chartered from 15.09.2000*)*
Aristarhs Belopolskis Shipping Co. Ltd.	Malta	Dormant
Belgoroda Shipping Co. Ltd.	Cyprus	Dormant
Belgoroda Shipping Co. Ltd.	Malta	Bareboat Charterer
Fjodors Bredihins Shipping Co. Ltd.	Malta	Dormant
Ivans Kulibins Shipping Co. Ltd.	Malta	Dormant
Ivans Polzunovs Shipping Co. Ltd.	Malta	Dormant
Kamilo Sjenfuegoss Shipping Co. Ltd.	Cyprus	Dormant
Kamilo Sjenfuegoss Shipping Co. Ltd.	Malta	Bareboat Charterer
Kurska Shipping Co. Ltd.	Cyprus	Dormant
Kurska Shipping Co. Ltd.	Malta	Bareboat Charterer
Mihails Lomonosovs Shipping Co. Ltd.	Malta	Dormant
Nikolajs Koperniks Shipping Co. Ltd.	Malta	Dormant
Pavels Parenago Shipping Co. Ltd.	Malta	Dormant
Pavels Sternbergs Shipping Co. Ltd.	Malta	Dormant
Pure Shipping Co. Ltd.	Cyprus	Dormant
Pure Shipping Co. Ltd.	Malta	Bareboat Charterer
Vasilijs Fesenkovs Shipping Co. Ltd.	Malta	Dormant

* bareboat chartered with purchase option

The subsidiaries of Reeferlat Holdings Corporation operate as bareboat charterers for Latvian Shipping Company vessels.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

2. Corporate Structure *(Continued)*

Name	Country of Incorporation	Activity /Vessels
Latalpha Holdings Corporation	Liberia	Intermediate holding company
Ak. Vavilovs Shipping Co. Ltd.	Malta	m.v. "Akademikis Vavilovs"
Ak. Zavarickis Shipping Co. Ltd.	Malta	m.v. "Akademikis Zavarickis"
Delacroix Shipping Company Ltd.	Cyprus	Former owner of m.v. "Akademikis Vavilovs" *(Dormant)*
Dzintari Shipping Corporation	Liberia	m.t. "Dzintari"
Griva Maritime Corporation	Liberia	m.t. "Zanis Griva"
Kasira Shipping Company Ltd.	Cyprus	m.t. "Kasira" *(Bareboat chartered from 22.07.1999*)*
Kemeri Navigation Corporation	Liberia	m.t. "Kemeri"
Mahoe Shipping Company Ltd.	Cyprus	Former owner of m.v. "Perle" *(Dormant)*
O. Vacietis Shipping Company Ltd.	Cyprus	m.t. "Ojars Vacietis"
Perle Reefer Shipping Company Ltd.	Malta	m.v. "Perle"
Pinewood Shipping Corporation	Liberia	Gas Carrier – m.t. "Kurzeme"
Ringmare Shipping Company Ltd.	Cyprus	Former owner of m.v. "Akademikis Zavarickis" *(Dormant)*
Rosewood Shipping Corporation	Liberia	Gas Carrier – m.t. "Vidzeme"
Ventspils Shipping Company Ltd.	Cyprus	m.t. "Ventspils" *(Bareboat chartered from 13.07.1999*)*

* bareboat chartered with purchase option

Name	Country of Incorporation	Activity /Vessels
Latstrand Holdings Corporation	Liberia	Intermediate holding company
Arctic Seal Shipping Company Ltd.	Cyprus	m.t. "Asari"
Atlantic Leader Shipping Company Ltd.	Cyprus	m.t. "Ropazi"
Faroship Navigation Company Ltd.	Cyprus	m.t. "Pumpuri"
Gaida Shipping Corporation	Liberia	m.t. "Gaida"
Gevostar Shipping Company Ltd.	Cyprus	m.t. "Bulduri"
Tangent Shipping Company Ltd.	Cyprus	m.t. "Zoja I"
Zoja Shipping Company Ltd.	Cyprus	m.t. "Zoja II"
Latvian Shipping Corporation	Liberia	Holding company
Michelle Finance Corporation	Liberia	Investment Company *(Dormant)*
Razna Shipping Corporation	Liberia	m.t. "Razna" *(Vessel arrested)*
Taganroga Shipping Corporation	Liberia	m.t. "Taganroga" *(Vessel arrested)*

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

2. Corporate Structure *(Continued)*

Name	Country of Incorporation	Activity /Vessels
Balt Dutch Holding N.V. (56%)	N. Antilles	Holding Company
Balt - Dutch Shipping Agencies B.V. (52%)	Netherlands	Shipping Agents
Crewing Agency Ltd.	Latvia	Crewing and Seafarers Training Services
Kristaps Insurance Ltd.	Bermuda	Insurance
Latvian - Finnish Maritime Agency Ltd. (60%)	Latvia	Shipping Agents
Marine Service Center Ltd.	Latvia	Consulting
Port Service Ltd.	Latvia	Rent Service
Santomar Holdings Co. Ltd.	Cyprus	Investment Holding Company
Ship Management Ltd.	Latvia	Ship management
Ship Repair Base Ltd.	Latvia	Ship repair service

3. Net result of Profit Centers

	US $ '000s	
	2001	2000
Kristaps Insurance Ltd.	123	(115)
Balt - Dutch Shipping Agencies B.V.	172	196
Latvian - Finnish Maritime Agency Ltd.	56	130
Crewing Agency Ltd.	409	519
Ship Repair Base Ltd.	(532)	29
Marine Service Center Ltd.	49	15
Ship Management Ltd.	1,020	150
Port Service Ltd.	3	1
Ship Supply Department	-	(231)
Accruals	(221)	-
TOTAL	**1,079**	**694**

Included in the figures above is approximately US $ 6 million of income (2000: 4 US$ million), which has been charged to fellow group companies. This expense of the group companies has in the main been included in "Operating Expenses".

These results are after depreciation but before Financial Items and Corporate Tax.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

4. Administration expenses

	US $ '000s	
	2001	2000
Staff Costs	(6,309)	(4,165)
Travel and Transport	(377)	(403)
Occupation and Repairs	(1,111)	(604)
IT and Communication	(379)	(415)
Professional Fees	(819)	(1,818)
Advertising / Marketing	(291)	(426)
Other Income and Costs*	823	1,020
Property and Land Tax	(85)	(96)
Movements of Provision of claims and other	183	57
Depreciation	(703)	(928)
TOTAL	**(9,068)**	**(7,778)**

* This includes commercial fee income of approximately US$ 1,0 million (2000: US$ 0,9 million), which has been charged to vessel operating subsidiaries. The related expense of the Group companies has been included in "Voyage costs".

5. Employment Costs and Staff Numbers

	2001		2000	
	US $ '000	Number	US $ '000	Number
Shore based staff	9,736	449	7,420	490
Seamen*	25,958	1,313	26,126	1,129
	35,694	**1,762**	**33,546**	**1,619**

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

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

6. Other Financial Items

	US $ '000s	
	2001	2000
Dividends received	49	19
Profit on disposal of available-for-sale investment	-	19
Loss on disposal of associate	-	(29)
Gain on available-for-sale investment (Note 13)	184	90
Mortgage fee and insurance	(52)	(67)
Bank charges	(650)	(786)
TOTAL	**(469)**	**(754)**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

7. Fleet

		US $ '000s 2001		US $ '000s 2000
Net Book Value		391,710		297,726
Drydocking deferred expenditure		21,825		16,375
	US $	413,535	US $	314,101

	US $ '000s Valuation/ Cost	Depreciation	Accumulated Impairment	Net Book Value
At 1st January 2001	**617,715**	**(299,691)**	**(20,298)**	**297,726**
Depreciation charge for the year	-	(26,317)	2,091	(24,226)
Additions	123,900	-	-	123,900
Exchange differences	(24,532)	15,662	3,180	(5,690)
At 31st December 2001	717,083	(310,346)	(15,027)	391,710

During 2001 the Group took delivery of three new coated product tankers with a size of 68.500 dwt each. The vessels were built at a Japanese Yard and delivered to the original customer during the early part of 2001. They were purchased by companies within the Group and delivered during the last quarter of the year. Three reefers that were included in vessels subject to disposal as at 31 December 2000 were sold during the year. No other change in the fleet took place during 2001.

The fleet carrying values were revalued and adjustments booked at 31 December 2000. The management consider there is no need to adjust the carrying values of the fleet as at 31 December 2001.

There are no immediate plans to dispose of any vessels during 2002 other than those included in vessels subject to disposal (See note 10) except for the possible scrapping of old tonnage.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

7. Fleet *(Continued)*

Part of the fleet (with net book value of US$ 314,6 million) has been used as security for bank loans. See note 14 for details.

Two vessels owned by subsidiaries of the Latvian Shipping Company the m.t. Razna and m.t. Taganroga (with net book value of US$ 4,5 million) remain under arrest in France, as part of a legal dispute with the Stocznia Gdanska S.A. shipyard (See note (19)).

Total dead-weight Tonnage		
31st December 2001	Dwt	**1,375,214**
31st December 2000	Dwt	**1,184,829**

The number of vessels in the fleet, including vessels subject to disposal, at the year-end is:

	2001	2000
Tankers	40	37
Reefers	14	17
Dry cargo	2	2
LPG fleet	2	2
TOTAL	**58**	**58**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

7. **Fleet** *(Continued)*

At 31st December 2001 the group fleet comprises:

Product Tankers:	Year of Building	Dwt
1. Antonio Gramsci	1978	39,870
2. Asari	1984	28,750
3. Bulduri	1983	28,750
4. Davids Sikeiross	1976	40,030
5. Dubulti	1982	29,610
6. Dzintari	1985	17,585
7. Dzons Rids	1978	39,870
8. Estere	1989	28,610
9. Gaida	1991	41,465
10. Hose Marti	1978	39,870
11. Indra	1994	33,115
12. Inga	1990	28,610
13. Janis Sudrabkalns	1979	29,690
14. Kasira*	1984	6,296
15. Kemeri	1985	17,610
16. Klements Gotvalds	1978	39,870
17. Latgale	2001	68,467
18. Lielupe	1979	39,870
19. Majori	1980	29,690
20. Mar	1990	28,610
21. Mate Zalka	1976	40,030
22. Ojars Vacietis	1985	16,341
23. Pablo Neruda	1975	40,030
24. Pols Robsons	1978	39,870
25. Pumpuri	1987	28,610
26. Razna	1984	6,269
27. Renda*	1984	6,269
28. Riga	2001	68,467
29. Ropazi	1985	16,341
30. Rundale	1977	17,025
31. Samburga	1976	17,125
32. Taganroga	1983	6,297
33. Talava	1977	29,690
34. Ventspils*	1983	6,297
35. Viktorio Kodovilja	1976	40,030
36. Zaks Diklo	1976	39,983
37. Zanis Griva	1985	17,585
38. Zemgale	2001	68,467
39. Zoja I	1986	28,610
40. Zoja II	1987	28,610
		1,218,184

* included in vessels subject to disposal (See note 10)

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

7. Fleet *(Continued)*

	Year of Building	Dwt
LPG fleet		
1. Kurzeme	1997	23,469
2. Vidzeme	1997	23,469
		46,938
Reefers		
1. Abava	1992	6,366
2. Akademikis Artobolevskis*	1981	5,890
3. Akademikis Bocvars	1985	7,524
4. Akademikis Celomejs	1986	7,496
5. Akademikis Hohlovs*	1980	5,880
6. Akademikis Vavilovs	1985	7,673
7. Akademikis Zavarickis	1986	7,673
8. Amata	1991	6,232
9. Belgoroda	1986	7,496
10. Kamilo Sjenfuegoss	1985	7,500
11. Kurska	1983	7,496
12. Perle	1986	7,524
13. Pure	1984	7,496
14. Skulptors Tomskis	1986	7,673
		99,919
Dry Cargo		
1. Juris Avots	1983	5,500
2. Komponists Chaikovskis*	1986	4,673
		10,173
TOTAL DWT		**1,375,214**

*included in vessels subject to disposal (See note 10)

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

8. Other Fixed Assets

	US $ '000s			
	Buildings	Containers	Machinery and Equipment	Total
Valuation/cost				
At 1st January 2001	8,815	249	9,332	18,396
Additions	1	-	446	447
Disposals during the year	(813)	(24)	(1,759)	(2,596)
Reclassification	-	-	(30)	(30)
Exchange differences	(333)	(9)	(352)	(694)
At 31st December 2001	7,670	216	7,637	15,523
Depreciation				
At 1st January 2001	1,426	249	6,455	8,130
Charge for the year	200	-	1,077	1,277
Released on disposal	(100)	(24)	(1,599)	(1,723)
Reclassification	-	-	(23)	(23)
Exchange differences	(58)	(9)	(239)	(306)
At 31st December 2001	1,468	216	5,671	7,355
Accumulated impairment				
At 1st January 2001	810	-	-	810
At 31st December 2001	64	-	-	64
Net book value				
At 31st December 2001	6,138	-	1,966	8,104
At 31st December 2000	6,579	-	2,877	9,456

The title to some of the properties held by the Company has yet to be registered with the Land Registry of the Republic of Latvia. In view of the difficulties of obtaining adequate documentation concerning each property and its previous ownership, the Company will seek a decision of the relevant authorities, which may take a long time. This is a common situation in Latvia at the present time and executive management does not expect this to pose a difficulty.

During 2001 one of the Head Office buildings was transferred to its former owner, but part of another still was not transferred to its former owner and excluded from the Company's balance sheet, therefore the accumulated impairment has been retained in the 2001 Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

9. Investments

	US $ '000s 2001	2000
Investments in associated undertakings (note 9(a))	749	702
Available-for-sale investments (note 9 (b))	478	483
TOTAL	1,227	1,185

9.(a) The investment in associated undertakings, comprises:

Name	Percentage Holding	Country of Incorporation
Latmar – Columbia Ltd.*	50%	Cyprus
Lord World Travel Ltd.**	50%	Gibraltar
Via Una Ltd.	45%	Latvia

* The corporation is entitled to from 50% up to 55% of the results of Latmar – Columbia Ltd. as per the agreement for the joint venture, of which the Corporation holds 50% of the equity.

As a consequence of Ship Management having taken over the management of the 18 LSC vessels in this joint venture the Company will sell its shares during 2002. This will have no impact on the Consolidated Income Statement.

** During 1998 it was decided to liquidate Lord World Travel Ltd. and to cease operations on 31/12/98. The liquidation process is expected to be finalized during 2002.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

9. Investments *(Continued)*

9.(a) *(Continued)*

	US $ '000s	
	2001	2000
At the beginning of year	702	874
Disposals	-	(33)
Share of Profits		
Share of losses of associate disposed	-	(8)
Profit for the year	53	421
Loss for the year	-	(2)
Dividends received	-	(550)
Translation reserve	(6)	-
At the end of year	**749**	**702**

9.(b) Available-for-sale investments:

	US $ '000s	
	2001	2000
At the beginning of year	483	1,814
Exchange differences/ Revaluation deficit	(19)	(18)
Additions	14	-
Disposals	-	(10)
Reclassification to current available-for-sale investments	-	(1,303)
At the end of year	**478**	**483**

Available-for-sale investments are:

Name (Holding %)	Country of Incorporation	Activity
Aviva Investments Ltd. (30%)	Republic of Ireland	Shipbroking
Shipping Trading and Transport B.V. (13 %)	Netherlands	Agency
Silver Star Agencies B.V. (6,5%)	Netherlands	Agency
Star Alliance Shipping Sarl (7,8%)	France	Agency
BTV Shipping and Agencies GmbH. (5,2%)	Germany	Agency
Transterminal Ltd. (50%)	Russia	In liquidation
Inmarsat Holdings Ltd. (0,075%)	England & Wales	Communication services
Ventamarine (18,4 %)	Latvia	Shipping Agency

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

10. Vessels subject to disposal

	US $ '000s 2001	2000
Gross receivables – bareboat charter hire:		
not later than 1 year	3,131	5,531
later than 1 year and not later than 5 years	-	2,681
	3,131	8,212
Less unearned future finance income	(272)	(1,776)
	2,859	6,436
representing		
- current receivables	2,859	4,032
- non-current receivables	-	2,404
	2,859	**6,436**

As from January 1999 one dry cargo vessel (m.v. "Komponists Chaikovskis) and from July 1999 three tankers (m.t. "Renda", m.t. "Ventspils" and m.t. "Kasira") are under bareboat charter agreement, with a purchase option after 36 month period. The agreement for m.v. "Komponists Chaikovskis" has been extended from January 2002 to April 2002. As from late 2000 two reefer vessels (m.v. "Akademikis Hohlovs", m.v. "Akademikis Artobolevskis") are under bareboat charter agreements, with a purchase option after 24 month period.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2001
(Continued)

11. Inventories

	US $ '000s 2001	2000
Ship and shore spares	1,896	2,274
Bunkers	2,612	2,696
Consumables	2,930	2,688
Provision against inventories	(416)	(428)
TOTAL	**7,022**	**7,230**

12. Accounts receivable and prepayments

	US $ '000s 2001	2000
Trade debtors	17,892	24,946
Other debtors	778	733
Claims receivable	2,973	2,623
Prepayments	3,458	2,217
TOTAL	**25,101**	**30,519**

Trade debtors are shown net of doubtful debt provisions of US$ 4,8 million.

13. Available-for-sale investments

	US $ '000s 2001	2000
Opening net book value	2,224	771
Reclassification from non-current available-for-sale investments	-	1,303
Exchange differences	-	(36)
Disposal	(967)	-
Profit on disposal/ Increase in market value	184	90
Unrealized gain	84	96
Closing net book value	**1,525**	**2,224**

The available-for-sale investments are: units in a single bond fund held by Kristaps Insurance Ltd. and JSC Morbank.

The shares of JSC "Balta" were sold in June, 2002.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

14. Bank Loans

		US $ '000s 2001		2000
Total outstanding		**142,719**		**90,081**
Repayments due within next twelve months		(15,359)		(26,119)
Long term balance	U.S.$	**127,360**	U.S.$	**63,962**

The total outstanding of the Bank Loans has changed during the year. Except for the scheduled repayment, loans were prepaid in the amount of U.S.$' 17,432 ahead of maturity. Three new loans totaling U.S.$' 90,000 were raised in the latter part of the year.

The loans are denominated in U.S.$ and are advanced to the Group's single vessel companies. Both Latvian Shipping Company and Latmar Holdings Corporation are guarantors of these secured debts. These guarantees have been given in the normal course of business.

They are repayable in semi-annual and quarterly installments and carry interest at a margin linked to U.S.$ 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	U.S.$ million
2002	15,4
2003	13,1
2004	13,1
2005	13,1
2006	13,1
2007 until 2011	75,0

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

15. Provision for Deferred Taxation

	US $ '000s	
	2001	2000
Deferred Tax:		
Deferred tax liabilities at 1 January	61	-
Income statement	(24)	61
Deferred tax liabilities at 31 December	37	61
Excess of tax allowances over depreciation	3,751	6,347
Other temporary differences	(4,083)	(5,015)
Tax losses	(1,088)	(11,581)
Unrecognised deferred tax asset	1,457	10,310
Deferred tax liabilities at 31 December	**37**	**61**

In the event of distributing off-shore profits, dividends will be taxable. No such provision for tax has been made. Tax losses above excluded those that will expire in 2002.

16. Trade and other payables

	US $ '000s	
	2001	2000
Bank overdrafts	2,999	2,999
Trade creditors	12,951	13,643
Other creditors	3,291	3,059
Accrued expenses	10,015	6,987
Deferred income	3,329	3,560
TOTAL	**32,585**	**30,248**

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

17. Taxation

	US $ '000s	
	2001	2000
Deferred income tax of current year	24	(61)
Corporate income tax of current year	(197)	(133)
TOTAL	**(173)**	**(194)**
Profit/ (Loss) before tax	26,304	(20,241)
Tax calculated at tax rate of 25 %	6,576	(5,060)
Income and expenses not subject to corporate income tax	10,416	1,844
Profit of subsidiaries and associates	(7,094)	(1,069)
Effect of the changes in tax rates	(1,011)	-
Correction for previous periods	139	-
Increase/(decrease) of unrecognised deferred tax asset	(8,853)	4,479
Tax charge for 2001	**173**	**194**

Corporate income tax is payable in Latvia at a rate of 25% (2002: 22%, 2003: 19%, 2004: 15%) on the profits of Latvian companies for the year, as adjusted in accordance with local fiscal regulations which includes the Latvian Shipping Company's share of profits of its subsidiaries which have not been subject to Latvian corporate income tax. The only foreign group companies directly subject to corporate income tax are Latmar Services Ltd. (England), Santomar Holdings Company Ltd. (Cyprus) and Balt - Dutch Shipping Agencies B.V. (Netherlands).

In previous years the parent company has had a tax loss. Tax losses in the parent company can be carried forward and utilised against future profits for up to five years.

Tax losses are available to offset against future taxable profit in the parent company from the previous years as follows:

Year	LVL'000s Losses	Expires
1997	12,390	2002
1998	3,527	2003
1999	51	2004
2000	46	2005
2001	2	2006
	16,016	

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

18. Minority interest

	US $ '000s	
	2001	2000
Balt Dutch Holding N.V.	51	84
Latvian - Finnish Maritime Agency Ltd.	10	6
	61	**90**

19. Contingent Liabilities

(a) In 1994 Stocznia Gdanska S.A., a Polish yard presently under liquidation, brought legal proceedings against among others Latreefers Inc. (a subsidiary of Latmar Holdings Corporation), Latmar Holdings Corporation and Latvian Shipping Company as a result of Latreefers Inc.'s cancellation of contracts to construct six reefer vessels.

After various Court proceedings the Shipyard appealed during 1997 to the House of Lords, UK, where some of the main legal issues were clarified. However, legal proceedings have continued.

Two vessels, the 6.300 dwt product tankers Razna and Taganroga, owned by subsidiaries of Latvian Shipping Company have been under arrest in France since 1994 and remained so during 2001. Latreefers Inc. is presently under liquidation and has no assets.

In the beginning of 2001 the judgement from hearings in the UK during 2000 established that Latvian Shipping Company through no other way but a contractual agreement with a third party was liable together with Latreefers Inc. for the payment of possible damages to the Yard. This judgement also clarified some of the issues surrounding the determination of the extent of such damages. Latmar Holdings Corporation was released from liability but the two vessels remain under arrest.

Latvian Shipping Company has been granted the right to appeal the judgement resulting in Latvian Shipping Company carrying responsibility and will do so. The Court hearing on this matter is expected to take place the first half of 2002 and could be followed by further appeals.

The hearing regarding damages is expected to take place late during the second half of 2002 and will lead to a judgement determining the compensation to the Yard payable either by Latreefers (which has no funds) or by Latvian Shipping Company subject to the outcome of the appeal referred to above.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

19. Contingent Liabilities *(Continued)*

(a) *(Continued)*

If the appeals by Latvian Shipping Company fail (which the Company's legal advisors think unlikely, particularly in respect of four out of the six vessels) then the hearing on damages, will determine the amount ultimately payable. The Management of Latvian Shipping Company has evaluated the possible outcome of the various scenarios and supported by its legal advisors is of the opinion that the provisions established are sufficient to cover such compensation to the Yard.

As permitted, some of the information required by IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" has not been provided so as not to prejudice the company's position in its ongoing dispute with the other party.

(b) In the normal course of business the Group as at the year-end had claims outstanding on suppliers and insurance companies. At the time some of these claims were under investigation and not yet approved. However, based on experience, Management has no reason to believe that these amounts should not be recoverable. The Group has also received claims of underperformances. Management is of the opinion that there is no unprovided material liability arising from these. Guarantees for these claims have been issued in the amount of US $ 0,1 million secured by cash deposits.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

20. Cash Flow from Operations

	US $ '000s	
	2001	2000
Profit/(Loss) before taxation	26,304	(20,241)
Adjustments for items not involving net liquid funds		
Depreciation	25,503	29,919
Prepaid financing expenses amortisation	7	-
Profit on sale of fixed assets	(81)	(567)
Income from vessels subject to disposal	(1,700)	-
Share of profits of associates	(53)	(419)
Drydocking deferred expenditure amortisation	12,160	9,779
Other provisions, accruals and write down of vessels	3,180	25,184
Currency translation difference	(3,039)	(3,266)
Interest payable	4,997	8,535
Interest receivable	(2,114)	(2,576)
Dividends received	(49)	(19)
Gain on available-for-sale investments	(184)	(90)
	64,931	**46,239**
Movement in net working capital – net of provisions		
Inventories	208	4,108
Accounts receivable	5,926	(4,809)
Accounts payable	(692)	6,666
Investments	(126)	51
	5,316	**6,016**
Cash Inflow from Operations	70,247	52,255

21. Related Party Transactions

During the year the group entered into transactions with the associated companies described in note 9. These transactions were at an arms-length price and on fully commercial terms. In view of this the management consider that no separate disclosure is required.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001
(Continued)

22. Risk Management and Fair Values

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

(a) Foreign Exchange Risk

The Group operates both in Europe and the Americas' and is thus exposed to foreign exchange risk. The majority of the Group's income is denominated in US $. These financial statements are produced in US $ as this is the universally accepted trading currency in the shipping business.

The principal transaction exposure is against Latvian Lats, because local Latvian employment costs and many repairs are denomited in Lats. It is Group policy not to keep large sums in Latvian Lats in order to minimize exposure to currency fluctuations.

(b) Interest Rate Risk

The Group is through its debts exposed to interest rate risk.

These are related mainly to variable rate of interest on its US $ loan finance. Interest rate exposure is managed by monitoring the market and fixing the interest rate for longer period and where possible also by matching the term of deposits of the Group's cash funds to the interest re-pricing dates of the loans.

23. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

24. Post Balance Sheet Events

During 2001 the long term prospect of the dry cargo business of Latvian Shipping Company was evaluated. Late 2001 a decision was taken to dispose of all assets related to the liner activity. These assets were sold during February 2002 at a profit.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2001

(Continued)

25. Reconciliation of Net Profit and Net Assets per International Accounting Standards accounts and Latvian Statutory accounts

	LVL '000s 31/12/2001	Ex. rate	US $ '000s 31/12/2001
Net profit per IAS accounts			26,070
Net profit per Latvian Statutory accounts	16,383		
Converted to US $		0.627875	26,093
Difference			**(23)**
Net Assets per IAS accounts			307,343
Net Assets in Latvian Statutory accounts	177,063		
Converted to US $		0.638	277,528
			29,815
Exchange rate difference			**29,815**

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