PUBLIC JOINT STOCK COMPANY

LATVIAN SHIPPING COMPANY
AND ITS SUBSIDIARIES

REPORT
AND
FINANCIAL STATEMENTS

31st DECEMBER 2002

LATVIAN SHIPPING COMPANY

PUBLIC STOCK COMPANY

LATVIAN SHIPPING COMPANY

Registered Office

2 Basteja Blvd
Riga LV 1807
Latvia

THE COUNCIL

From July 26, 2002

Chairman of the Council	Zigurds Vaivods (until 07.11.2002)
Deputy Chairman of the Council	Ģirts Rungainis
Members of the Council:	Aldis Āķis
	Egīls Kietis
	Igors Skoks
	Jānis Ādamsons
	Māris Kaijaks
	Oļegs Stepanovs
	Vladimirs Solomatins
	Vladislavs Skrebelis (until 07.11.2002)
	Ivars Muravskis (until 07.11.2002)
	Ivars Teišerskis (until 07.11.2002)

Until July 26, 2002

Chairman of the Council	Druvis Skulte
Members of the Council	Andris Pauls-Pāvuls
	Antons Ikaunieks
	Halfors Krasts
	Imants Kapsis
	Jānis Maršāns
	Jāzeps Bernāns
	Māris Kaijaks
	Miķelis Elsbergs
	Pēteris Strubergs
	Uģis Magone
	Vita Gerharde

THE BOARD OF DIRECTORS

From July 26, 2002

Chairman of the Board of Directors LSC President	Imants Vikmanis
Members of the Board of Directors	
Vice President	Valerijs Godunovs
	Gints Bukovskis
	Juris Kārlis Viktors Reinhards
	Ilmārs Krūms (until 07.11.2002)
	Jānis Rocēns (until 07.11.2002)

Until July 26, 2002

Chairman of the Board of Directors LSC President	Andris Kļaviņš
Vice - President Finance	Anders Hedberg
Members of the Board of Directors	Elmārs Vītoliņš
	Jānis Brūnavs
	Roberts Joma
	Vladislavs Skrebelis (until 10.06.2002)

STATEMENT BY THE PRESIDENT
MR. IMANTS VIKMANIS

Performance in 2002

The 2002 was a year of considerable change in the history of *JSC Latvian Shipping Company*. The Privatisation process of the Group's parent company *JSC Latvian Shipping Company* (LSC) was completed during the year, which brought more than 83% of *LSC* shares into private ownership. LSC privatisation was implemented in several stages. At the first stage 32% of the shares were sold for privatisation vouchers through a public offer announced at the beginning of 2002. At the second stage in the middle of the year 51% of LSC shares were sold for cash through an auction at *Riga Stock Exchange*. Finally, 6% of the shares were offered for sale to LSC employees against privatisation vouchers during 2002. Since 26 June 2002 LSC shares are listed on official list of *Riga Stock Exchange*. During 2002 LSC share price fluctuated from LVL 0.20 to LVL 0.38, although the number of shares traded was relatively small.

After the changes in the company's ownership new members of LSC Management Board and Supervisory Council were elected at the first General Shareholders Meeting on 26 July 2002. Structural changes were made to improve the company's performance and cost effectiveness. A working group was established to prepare LSC's future strategy. Leading shipping consultants are involved in the elaboration of the Group's Strategic Plan. Considering LSC's ageing fleet and the potential changes in the vessel age restrictions, formulation of the Group's strategy in the nearest future is of great importance for the company's further operation.

LSC Group's losses in 2002 were USD 54,4 million. The losses principally were not incurred from operating activities. The main reasons for the Group showing losses in 2002 was writing down of fleet values and the Agreement of Settlement with *Stocznia Gdanska Shipyard.*

In compliance with LSC policy the Group performed its fleet valuation. Independent professional valuers estimates revealed significant difference between certain vessels market value their book values. The difference was especially notable for the two *LPG* vessels and three *Panamax* product tankers purchased within the last five years at relatively high prices. Therefore an impairment loss of USD 47,5 million in total was recognised in the accounts in respect of the fleet.

Legal proceedings with *Stocznia Gdanska Shipyard* lasted for more than nine years. The last court judgement was unfavourable for LSC. The Company's actions were proved to be a breach of the contract, and the compensation amount was to be set at the quantum hearing. Based on several aspects, such as the legal opinion of Group's reputable consultants, costs of litigation in Great Britain, the potential amount of claim estimated of USD 40 million, and the fact, that during litigation two vessels continued to remain under arrest, it was decided to sign the Agreement of Settlement before the quantum hearing. After settlement of a legal dispute with *Stocznia Gdanska Shipyard* both tankers *Razna* and *Taganroga* were released from arrest and more than USD 600,000 of restricted cash was unblocked. The costs of maintaining both tankers while at arrest exceeded more than USD1.4 million per annum.

But for these two factors LSC would have made a small profit of USD 1.1 million in 2002. Taking into account LSC's ageing fleet, last year's trends in the world economy and the industry, as well as recent changes in total the company itself, the Group's result for 2002 from operation can be considered as positive.

STATEMENT BY THE PRESIDENT
MR. IMANTS VIKMANIS

Continued

Product Tankers

LSC Product Tanker Fleet continues to trade all over the world with a particularly strong presence in Northern Europe, with Rotterdam as a focal point. The Tanker Fleet accounts for over 82 % of the Net Voyage Result of the LSC Group.

At the beginning of the year LSC Product Tanker Fleet consisted of 40 vessels of single and double hull construction. Two tankers under arrest in France remained unemployed. Upon signing of the Agreement of Settlement with *Stocznia Gdanska Shipyard* in September 2002 the two vessels were released and arrived in Riga.

Three tankers were delivered to bareboat charterers who decided to exercise purchase options upon expiry of the Bareboat Charter Agreement in the middle of the year. One of the oldest product tanker was scrapped during the second part of 2002. The total tanker fleet has an overall size of 1.153.339 dwt.

The market situation in the tanker segment was unfavourable during the whole year, except for the very beginning and end of 2002. The rates were relatively low. Demand for oil product transportation increased at the end of the year due to rise in oil product prices caused by the crisis in Venezuela, increasing tension about the Iraq conflict, congestion in Bosphorus, as well as by a relatively cold winter and complicated ice navigation. The demand especially grew for ice-class vessels. However, on the whole average freight rates in 2002 were considerably lower than the exceptionally high rates experienced in 2001, which was the main reason for a worse Group's operating result compared to the previous year.

Moreover, due to their age older vessels had to face pressure by customers throughout the year, since more and more oil companies and traders rejected older tonnage as a matter of principle and regardless of its technical condition. The pressure especially increased after the *Prestige* accident off the coast of Spain. As a result *LSC* had to employ its older vessels (*Talava* class in particular) at rates below market levels.

Reefers

At the beginning of 2002 LSC Reefer Fleet comprised 14 ice-class vessels varying in size from 262.000 to 387.000 cubic feet. The fleet was traditionally employed for carrying bananas, other fruits and frozen food from the Southern Hemisphere to Northern Europe. During 2002 the Reefer Fleet generated 10% of the total LSC Group's Net Voyage Result. Two vessels out of 14 were under Bareboat Charter Agreement with Purchase Option, one of which was exercised during the year.

As in previous years, 9 out of 12 reefers were laid up during the low season.

On the whole market rates in the reefer segment in 2002 were slightly higher compared to 2001. However, market rates in 2002 continued to remain low. Therefore another attempt to dispose of seven reefers was made. The interest shown in the purchase of the vessels was rather weak, and the deal with the only potential buyer failed due to insufficient collateral. Upon commencement of the high season all the reefers, including those offered for sale, were employed in the 'spot' market. After the end of the high season in April – May 2003 LSC will continue active attempts to sell seven old unprofitable vessels. The decision on the remaining five will be taken in line with the Group's strategy.

STATEMENT BY THE PRESIDENT
MR. IMANTS VIKMANIS

Continued

LPG

LSC Group owns two modern 20.500 cubic meter LPG vessels. In 2002 the LPG vessels generated 7% of the Net Voyage Result of the Group.

As in 2001 both vessels continued to be employed in the *Scandigas Pool* throughout the year, one of the largest in the world. Unfortunately, the traditional seasonal growth of LPG rates at the beginning of the year in 2002 was lower than in the previous years. Similar to product tanker rates LPG rates developed in a positive way in the last quarter of the year. The drop in the LPG rates was explained by both insufficient growth rate of trade volumes due to the weak world economy and oversupply of tonnage. During the second half of the year the *Scandigas Pool* reduced its pool by five vessels, thus making a positive contribution to both freight rate development and profit distribution within the *Scandigas Pool.*

Dry Cargo

In compliance with a strategy approved by the previous Management Board in 2001 the decision was made to discontinue operation in the dry cargo segment. All the lines were closed down by the end of 2001, and all, except for one *ro-ro* type vessel *Juris Avots*, were sold through signing Bareboat Charter Agreements with Purchase Option. Although the Group's 2002 Budget approved by the previous management provided for disposal of the remaining vessel in 2002, it was not sold, since it was successfully chartered out on favourable terms and generated a positive cash flow during 2002. In 2002 dry cargo activity generated 1 % of the total LSC Group's Net Voyage Result.

Other operations

Along with maritime transportation services rendered by the company the Group is also involved in other shipping-related activities. These are performed by LSC Group's subsidiaries. All of these units, except for Riga Ship Repair Base, made a profit in 2002. In 2001 the technical management of all the vessels within the Group was overtaken by LSC Ship Management.

Outlook

Although a positive upward trend in freight rates, partly caused by the military conflict in Iraq, has been noticed in the last few months, there are no grounds to believe in the long-term perspective thereof, considering the ongoing weakness of the world economy. Any decrease in demand for maritime transportation services will in the first place affect the oldest part of the fleet, since the charterers prefer well-equipped modern tonnage. Therefore LSC Group's Strategic Plan will comprise a Fleet Renewal Programme, which is being developed to preserve the future competitiveness of the Company, which will take several years to fully implement. The European Union is expected to make a final announcement in June 2003, which will restrict the employment of single hull vessels.

STATEMENT BY THE PRESIDENT
MR. IMANTS VIKMANIS

Continued

The restriction by the EU on limiting the employment of single hull vessels will in the short term cause LSC to reduce its fleet size. However, implementation of the Fleet Renewal Programme will enable the Group to develop and preserve its market share, since it is economically sounder to maintain a younger and smaller tonnage, than an older but a larger fleet. Furthermore, a reorganization of the Group was begun in 2002, which will enable LSC to reduce its overheads, thus making a positive impact on the Company's future performance. Similarly, all subsidiaries are being reviewed in 2003 to assess their contribution to the Group.

Imants Vikmanis
President and Chairman of the Board of Directors of LSC,

Riga, Latvia
May 7, 2003

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Board of Directors 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 Financial Reporting Standards. 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 Board of Directors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards. 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.

Imants Vikmanis
Chairman of the Board of Directors

Riga, Latvia
May 7, 2003

MOORE STEPHENS
CHARTERED ACCOUNTANTS

Report of the Auditors to the Members of Latvian Shipping Company

We have audited the accompanying consolidated balance sheet of Latvian Shipping Company and its subsidiaries (the Group) as at 31st December 2002 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements 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 from 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 policies 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 at 31st December 2002 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Moore Stephens

St. Paul's House,
London, EC4P 4BN

MOORE STEPHENS

Chartered Accountants

7th May 2003

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2002
(Expressed in US $ '000s)

	Note	2002	2001
Voyage income		170,892	172,902
Voyage costs		(49,032)	(39,752)
Net Voyage Result		**121,860**	**133,150**
Vessel Operating costs		(75,186)	(68,480)
Vessel Operating Result before Depreciation		**46,674**	**64,670**
Vessel depreciation		(26,523)	(24,228)
Vessel Operating Profit		**20,151**	**40,442**
Vessel impairments and provisions	9/18	(55,550)	-
Administration expenses	4	(13,693)	(15,328)
Gain on sale of assets		813	81
Operating (Loss)/Profit		**(48,279)**	**25,195**
Interest income		838	3,814
Exchange rate (loss)/gain		(1,420)	2,708
Interest expenses		(4,867)	(4,997)
Income from associates	11	5	53
Other financial items	6	(679)	(469)
Net Financial Items		**(6,123)**	**1,109**
(Loss)/Profit before Taxation		**(54,402)**	**26,304**
Taxation	7	(36)	(173)
(Loss)/Profit after Taxation		**(54,438)**	**26,131**
Minority interest	20	(9)	(61)
Net (Loss)/Profit		**(54,447)**	**26,070**
Earnings per share	8	**US$ (0,27)**	**US$ 0,13**

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER 2002

(Expressed in US $ '000s)

	Note	2002	2001
ASSETS			
LONG TERM ASSETS			
Fleet	9	337,100	413,535
Other fixed assets	10	7,852	8,104
Assets under construction		1	31
Investments	11	579	1,227
TOTAL LONG TERM ASSETS		**345,532**	**422,897**
CURRENT ASSETS			
Inventories	12	8,024	7,022
Finance lease receivables	13	221	2,859
Accounts receivable and prepayments	14	22,125	25,101
Available-for-sale investments	15	2,180	1,525
Bank and cash balances		27,162	31,823
TOTAL CURRENT ASSETS		**59,712**	**68,330**
TOTAL ASSETS		**405,244**	**491,227**
SHAREHOLDERS' EQUITY & LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		362,319	362,319
Translation reserve		(14,996)	(19,056)
Retained earnings		(94,209)	(35,916)
TOTAL SHAREHOLDERS' EQUITY		**253,114**	**307,347**
MINORITY INTEREST		**802**	**764**
LONG TERM LIABILITIES			
Long term portion of bank loans	16	112,280	127,360
Provision for deferred taxation	17	48	37
Provisions	18	778	7,775
TOTAL LONG TERM LIABILITIES		**113,106**	**135,172**
CURRENT LIABILITIES			
Current portion of bank loans	16	13,080	15,359
Accounts payable	19	25,142	32,585
TOTAL CURRENT LIABILITIES		**38,222**	**47,944**
TOTAL LIABILITIES		**151,328**	**183,116**
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		**405,244**	**491,227**

These Financial Statements were approved by the Board of Directors on 7 May, 2003 and signed on its behalf by

Imants Vikmanis
President of LSC

Valerijs Godunovs
Vice President of LSC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2002

(Expressed in US $ '000s)

	Share Capital	Translation Reserve	Retained Earnings	Total
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
Balance at 1st January 2002	362,319	(19,056)	(35,916)	307,347
Loss for the year	-	-	(54,447)	(54,447)
Dividends*	-	-	(3,846)	(3,846)
Currency translation differences	-	4,060	-	4,060
Balance at 31st December 2002	362,319	(14,996)	(94,209)	253,114

* Dividends approved for the year 2001 represent State Capital use tax. This amount was paid in 2002 to the State, the sole owner of the company at that time.

In the statutory financial statements LVL 26,865,010 (US$ 45,227,290) has been 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 for 2002 of LVL 1,259,994 (US$ 2,121,202) 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. 199,990,000 shares are publicly traded shares at Riga Stock Exchange. 10,000 of the shares (non-voting) have been allocated to Board Members.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2002

(Expressed in US $ '000s)

	Note	2002	2001
Cash Inflow from Operations	22	**29,725**	**70,247**
Returns on Investments and Servicing of Finance			
Interest received		1,033	3,759
Interest paid		(5,259)	(5,580)
Dividends received		648	86
Sale of shares		50	-
Taxation			
Corporate taxes paid		(174)	(197)
Cash Intflow from Operating Activities		**26,023**	**68,315**
Investing Activities			
Fleet additions		-	(123,900)
Purchase of other fixed assets		(638)	(447)
Prepaid financing expenses		(351)	(461)
Purchase of available-for-sale investments		(532)	-
Disposal available-for-sale investments		-	948
Proceeds on sale of assets		2,057	242
Charter payments for finance lease receivables		2,882	3,352
Drydock expenditure		(12,895)	(17,611)
Assets under construction and on order		(2)	(31)
Cash Outflow from Investing Activities		**(9,479)**	**(137,908)**
Cash Inflow before Financing Activities		**16,544**	**(69,593)**
Financing Activities			
Bank loans repaid		(17,359)	(37,363)
Proceeds from borrowings		-	90,000
Dividends paid		(3,846)	-
Cash Outflow from Financing Activities		**(21,205)**	**52,637**
Decrease in Cash and Cash Equivalents		**(4,661)**	**(16,956)**
Cash and Cash Equivalents : at 1st January		**28,824**	**45,780**
Cash and Cash Equivalents : at 31st December		**24,163**	**28,824**

Cash at 31 December 2002 includes a blocked deposit of U.S.$ 2,4 million to comply with certain loan covenants. See also Note 16.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002

1. Accounting Policies

(a) Basis of accounting

The financial statements are prepared in accordance with and comply with International Financial Reporting 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 accounts for substantial part of the turnover of the Group and therefore the lay out of the Consolidated 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 "Administration Expenses". See Note 4.

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.
The financial effect of adopting these standards were reported in the previous year's consolidated financial statements.

(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 2002. The results of subsidiaries sold or acquired are included in the Consolidated Income Statement up to, or from, the date control passes. All intra-group transactions, including chartering of vessels and fleet support, have been eliminated on consolidation.

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

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 Consolidated Income Statement as part of the gain or loss on sale.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002
(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, 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.

(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.

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 professional valuers and value in use by management.

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 (i)).

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 - 10 % per annum
Machinery and equipment	5 - 33,33 % per annum
Other assets	14,29 - 50 % per annum

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002
(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 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 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 Consolidated 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) Dry-docking and special surveys

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

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002

(Continued)

1. Accounting Policies *(Continued)*

(j) 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.

(k) 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 trade receivables in the balance sheet.

(l) Voyages in progress

Credit is made in the Consolidated 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.

(m) 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.

(n) 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.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002

(Continued)

1. Accounting Policies *(Continued)*

(o) Fair Values

The Company'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. 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.

(p) Finance lease receivables

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 2002
(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 Co. Ltd.	Cyprus	m.t. "Estere"
Juris Avots Shipping Co.	Cyprus	m.v. "Juris Avots"
Kriti Sea Shipping Co. Ltd.	Cyprus	Former owner of m.t. "Indra" *(Dormant)*
Latgale Shipping Co. Ltd.	Malta	m.t. "Latgale"
Latmar Services Ltd.	England	Provision of maritime services *(Dormant)*
Latreefers Inc.	Liberia	Reefer Newbuildings *(Dormant)*
Latmar Shipping Co. Ltd.	Cyprus	Former owner of m.t. "Mar" *(Dormant)*
Limetree Shipping Co. Ltd.	Malta	m.t. "Riga"
New Spring Shipping Co. Ltd.	Cyprus	Former owner of m.v."Komponists Caikovskis" *(Dormant)*
Noella Maritime Co. Ltd.	Cyprus	m.t. "Janis Sudrabkalns"
Radar Shipping Ltd.	Liberia	m.t. "Pablo Neruda"
Renda Maritime Co. Ltd.	Cyprus	Former owner of m.t. "Renda" *(Dormant)*
Rhodos Shipping Co. Ltd.	Cyprus	Charterer *(Dormant)*
Rundale Shipping Co.	Cyprus	m.t. "Rundale"
Sagewood Trading Inc.	Liberia	Former owner of m.t. "Zaks Diklo" *(Dormant)*
Samburga Shipping Co.	Cyprus	m.t. "Samburga"
Saturn Trading Corporation	Liberia	m.t. "Lielupe"
Scanreefer Navigation Co. Ltd.	Cyprus	Former owner of m.t. "Amata" *(Dormant)*
Scanreefer Marine Co. Ltd.	Cyprus	Former owner of m.t. "Abava" *(Dormant)*
S. Tomskis Shipping Co. Ltd.	Malta	m.v. "Skulptors Tomskis"
S. Tomskis Shipping Co. Ltd.	Cyprus	Former owner of m.t. "Skulptors Tomskis" *(Dormant)*
Viktorio Shipping Corporation	Liberia	m.t. "Viktorio Kodovilja"
Zemgale Shipping Co. Ltd.	Malta	m.t. "Zemgale"
Wilcox Holdings Ltd.	Liberia	m.t. "Pols Robsons"
World Reefer Corporation	Liberia	m.t. "Mate Zalka"

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002
(*Continued)*

2. Corporate Structure *(Continued)*

Name	Country of Incorporation	Activity /Vessels
Lattanker Holdings Corporation	Liberia	Intermediate holding company
Antonio Gramsi Shipping Corporation	Liberia	m.t. "Antonio Gramsi"
Davids Sikeiross Shipping Corporation	Liberia	m.t. "Davids Sikeiross"
Dzons Rids Shipping Corporation	Liberia	m.t. "Dzons Rids"
Hose Marti Shipping Corporation	Liberia	m.t. "Hose Marti'
Imanta Shipping Company Ltd.	Malta	m.t. "Dubulti"
Klements Gotvalds Shipping Corporation	Liberia	m.t. "Klements Gotvalds'
Majori Shipping Company Ltd.	Malta	m.t. "Majori"
Pablo Neruda Shipping Company Ltd.	Cyprus	Dormant
Talava Shipping Company Ltd.	Malta	m.t. "Talava"
Reeferlat Holdings Corporation	Liberia	Intermediate holding company
Akademikis Artobolevskis Shipping Co. Ltd.	Cyprus	Dormant
Akademiks Artobolevskis Shipping Co. Ltd.	Malta	Dormant
Akademikis Bocvars Shipping Co. Ltd.	Cyprus	Dormant
Akademikis Bocvars Shippng Co. Ltd.	Malta	m.v. "Akademikis Bocvars"
Akademikis Celomejs Shipping Co. Ltd.	Cyprus	Dormant
Akademikis Celomejs Shipping Co. Ltd.	Malta	m.v. "Akademikis Celomejs"
Akademikis Hohlovs Shipping Co. Ltd.	Cyprus	Dormant
Akademikis Hohlovs Shipping Co. Ltd.	Malta	Dormant
Aristarhs Belopolskis Shipping Co. Ltd.	Malta	Dormant
Belgoroda Shipping Co. Ltd.	Cyprus	Dormant
Belgoroda Shipping Co. Ltd.	Malta	m.v. "Belgoroda"
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	m.v. "Kamilo Sjenfuegos"
Kurska Shipping Co. Ltd.	Cyprus	Dormant
Kurska Shipping Co. Ltd.	Malta	m.v. "Kurska"
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	m.v. "Pure"
Vasilijs Fesenkovs Shipping Co. Ltd.	Malta	Dormant

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002
(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	Former owner of m.t. "Kasira"*(Dormant)*
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	Former owner of m.t. "Ventspils" *(Dormant)*
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 ll"
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 – 31ST DECEMBER 2002
(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(*Dormant*)
Ship Management Ltd.	Latvia	Ship management
Ship Repair Base Ltd.	Latvia	Ship repair service

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002
(Continued)

3. Segment Information

The Group is employing fleet consisting of four different types of vessels:
- Tankers
- Reefers
- LPG (gas carriers)
- Dry Cargo

The types of vessels are the basis on which the Group reports its primary segment information.

US $ '000s

	Tankers	Reefers	LPG	Dry Cargo	Total
Voyage income	133,948	27,036	8,344	1,564	170,892
Vessel Operating Profit	**21,823**	**(3,225)**	**1,321**	**232**	**20,151**
Vessel impairments	(29,000)	(2,550)	(16,000)	-	(47,550)
Gain on sale of assets	550	(1)	-	279	828
Unallocated sale of assets					(15)
Segment result	**(6,627)**	**(5,776)**	**(14,679)**	**511**	**(26,586)**
Unallocated corporate expenses					(13,693)
Unallocated provisions					(8,000)
Operating Loss					**(48,279)**
Net Financial Items					(6,123)
Loss before Taxation					**(54,402)**
Taxation					(36)
Loss after Taxation					**(54,438)**
Minority interest					(9)
Net Loss					**(54,447)**
Segment assets	269,638	38,778	64,745	2,515	375,676
Unallocated assets					29,568
Total assets					**405,244**
Segment liabilities	97,579	3,602	39,614	110	140,905
Unallocated liabilities					10,423
Total liabilities					**151,328**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002
(Continued)

3. Segment Information *(continued)*

US $ '000s

Other segment items	Tankers	Reefers	LPG	Dry Cargo	Total
Drydocking expenditure	10,160	1,793	942	-	12,895
Depreciation	19,337	3,229	3,688	269	26,523
Drydocking deferred expenditure amortization	13,600	1,612	509	164	15,885

The Group is operating on worldwide basis. However, because of difficulty to determine the geographical segment in shipping industry no such information is provided.

In year 2002 the Group's parent Company shares were listed in Riga Stock Exchange. Therefore this is first year when segment information was required. Because of limitation of readily obtainable information regarding segment information no comparative segment analysis is provided for the year 2001.

4. Administration expenses

	US $ '000s	
	2002	2001
Staff Costs	(10,464)	(10,912)
Travel and Transport	(636)	(627)
Occupation and Repairs	(1,240)	(1,688)
IT and Communication	(683)	(740)
Professional Fees	(991)	(895)
Advertising and Marketing	(430)	(402)
Other Income and Costs	2,260	1,611
Property and Land Tax	(103)	(113)
Movements in Provision of claims and other	(342)	(288)
Depreciation	(1,064)	(1,274)
TOTAL	**(13,693)**	**(15,328)**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002
(Continued)

5. Employment Costs and Staff Numbers

	2002		2001	
	US $ '000	Number	US $ '000	Number
Shore based staff	9,182	404	9,736	449
Seamen*	28,561	1,231	25,958	1,313
	37,743	**1,635**	**35,694**	**1,762**

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	
	2002	2001
Dividends received	-	49
Gain on disposal of available-for-sale investment (Note 15)	-	184
Mortgage fee and insurance	(75)	(52)
Prepaid financing expenses amortization	(111)	(7)
Bank charges	(493)	(643)
TOTAL	**(679)**	**(469)**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002

(Continued)

7. Taxation

	US $ '000s	
	2002	2001
Deferred income tax of current year	(11)	24
Corporate income tax of current year	(25)	(197)
TOTAL	**(36)**	**(173)**
Profit/ (Loss) before tax	(54,402)	26,304
Tax calculated at tax rate of 22 % (2001-25%)	(11,968)	6,576
Income and expenses not subject to corporate income tax	17,172	10,416
Profit of subsidiaries and associates	(449)	(7,094)
Effect of the changes in tax rates	1,145	(1,011)
Correction for previous periods	-	139
Decrease of unrecognised deferred tax asset	(1,275)	(8,853)
Utilization of previously unrecognised deferred tax asset	(4,589)	-
Tax charge for 2002	**36**	**173**

Corporate income tax is payable in Latvia at a rate of 22% (2003: 19%, 2004: 15%) on the profits of Latvian companies for the year, as adjusted in accordance with local fiscal regulations. The only foreign group companies directly subject to corporate income tax are Latmar Services Ltd. (England), Santomar Holdings Company Ltd. (Cyprus) 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 utilized 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
1998	474	2003
1999	51	2004
2000	39	2005
2001	2	2006
2002	-	2007
	566	

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002

(Continued)

8. Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2002	2001
Net (loss)/profit attributable to shareholders	(54,447)	26,070
Weighted average number of ordinary shares in issue (thousands)	200,000	200,000
Basic earnings per share	US$ (0,27)	US$ 0,13

9. Fleet

	US $ '000s	
	2002	2001
Net Book Value	318,265	391,710
Drydocking deferred expenditure	18,835	21,825
	337,100	413,535

	US $ '000s			
	Valuation/ Cost	Depreciation	Accumulated Impairment	Net Book Value
At 1st January 2002	**717,083**	**(310,346)**	**(15,027)**	**391,710**
Depreciation charge for the year	-	(28,114)	1,594	(26,520)
Impairment	-	(47,550)	-	(47,550)
Intra group sales	(113,632)	100,574	13,058	-
Disposals	(5,833)	4,688	-	(1,145)
Exchange differences	4,416	(3,021)	375	1,770
At 31st December 2002	**602,034**	**(283,769)**	**-**	**318,265**

M.t. "Zaks Diklo" was scrapped in 2002. No other change in the fleet took place during 2002.

The Group has certain tanker and gas carrier vessels, whose carrying amount is greater than it's market value provided by professional valuers. According to accounting policy (f) the Management has estimated the value in use of these vessels by assessing its net present value from operation. This calculation was done applying discount rate of 9%. The calculation shows that an impairment loss of U.S.$ 45 million in respect of tankers and gas carriers is to be recognized as at 31st December 2002.

Impairment of U.S.$ 2,55 million has been recognized for certain reefer vessels to reduce the net book value to its recoverable amount, which is approximated sales price.

During 2002 the parent Company sold its last 20 vessels to its subsidiary Companies. Following the accounting policy established by the Group such transfer of vessels within the Group is undertaken at net book value and recorded in both the individual companies and Group Financial Statements at the cost to the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002

(Continued)

9. Fleet (*Continued*)

Part of the fleet (with net book value of US$ 236,0 million) has been used as security for bank loans. See note 16 for details.

Two vessels owned by subsidiaries of the Latvian Shipping Company, the m.t. Razna and m.t. Taganroga, were released from arrest in France after settlement of a legal dispute with the Stocznia Gdanska S.A. shipyard (See note (18)).

The number of vessels in the fleet, including one vessel under finance lease, at the year-end is:

	2002	2001
Tankers	36	40
Reefers	13	14
Dry cargo	1	2
LPG fleet	2	2
TOTAL	**52**	**58**

Total dead-weight Tonnage

31st December 2002	Dwt	**1,305,816**
31st December 2001	Dwt	**1,375,214**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002
(Continued)

9. Fleet (*Continued*)

At 31st December 2002 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.	Kemeri	1985	17,610
15.	Klements Gotvalds	1978	39,870
16.	Latgale	2001	68,467
17.	Lielupe	1979	39,870
18.	Majori	1980	29,690
19.	Mar	1990	28,610
20.	Mate Zalka	1976	40,030
21.	Ojars Vacietis	1985	16,341
22.	Pablo Neruda	1975	40,030
23.	Pols Robsons	1978	39,870
24.	Pumpuri	1987	28,610
25.	Razna	1984	6,269
26.	Riga	2001	68,467
27.	Ropazi	1985	16,341
28.	Rundale	1977	17,025
29.	Samburga	1976	17,125
30.	Taganroga	1983	6,297
31.	Talava	1977	29,690
32.	Viktorio Kodovilja	1976	40,030
33.	Zanis Griva	1985	17,585
34.	Zemgale	2001	68,467
35.	Zoja l	1986	28,610
36.	Zoja ll	1987	28,610
			1,159,339

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002
(Continued)

9. 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 Vavilovs	1985	7,673
6.	Akademikis Zavarickis	1986	7,673
7.	Amata	1991	6,232
8.	Belgoroda	1986	7,496
9.	Kamilo Sjenfuegoss	1985	7,500
10.	Kurska	1983	7,496
11.	Perle	1986	7,524
12.	Pure	1984	7,496
13.	Skulptors Tomskis	1986	7,673
			94,039
Dry Cargo			
1.	Juris Avots	1983	5,500
			5,500
TOTAL DWT			**1,305,816**

- * included in Finance lease receivables. See Note 13.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002
(Continued)

10. Other Fixed Assets

	US $ '000s			
	Buildings	Containers	Machinery and Equipment	**Total**
Valuation/cost				
At 1st January 2002	**7,670**	**216**	**7,637**	**15,523**
Additions	136	-	502	**638**
From assets under construction	-	-	32	**32**
Disposals during the year	-	(218)	(1,217)	**(1,435)**
Exchange differences	574	7	573	**1,154**
At 31st December 2002	**8,380**	**5**	**7,527**	**15,912**
Depreciation				
At 1st January 2002	**1,468**	**216**	**5,671**	**7,355**
Charge for the year	134	-	933	1,067
Released on disposal	-	(218)	(1,118)	(1,336)
Exchange differences	114	7	440	561
At 31st December 2002	**1,716**	**5**	**5,926**	**7,647**
Accumulated impairment				
At 1st January 2002	64	-	-	64
At 31st December 2002	413	-	-	413
Net book value				
At 31st December 2002	**6,251**	**-**	**1,601**	**7,852**
At 31st December 2001	6,138	-	1,966	8,104

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 building was transferred to its former owner, and thus excluded from the balance sheet. Another building, which was included in the Company's balance sheet at early stage of privatization was fully provided for, because legal title was registered on behalf of Ministry of Finance. According to legal advisers opinion there is minimal possibility that legal title will be passed to the Company.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002

(Continued)

11. Investments

	US $ '000s	
	2002	2001
Investments in associated undertakings (note 11(a))	59	749
Available-for-sale investments (note 11 (b))	520	478
TOTAL	**579**	**1,227**

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

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

The Company sold its shares in Latmar Columbia Ltd. during 2002. This had no impact on the Consolidated Income Statement

* During 1998 it was decided to liquidate Lord World Travel Ltd. and to cease operations on 31 December 1998. The liquidation process is expected to be finalized during 2003.

	US $ '000s	
	2002	2001
At the beginning of year	749	702
Disposals	(50)	-
Share of Profits		
Profit for the year	5	53
Dividends received	(648)	-
Translation reserve	3	(6)
At the end of year	**59**	**749**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002
(Continued)

11. Investments *(Continued)*

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

	US $ '000s	
	2002	2001
At the beginning of year	478	483
Exchange differences	37	(19)
Additions	5	14
At the end of year	**520**	**478**

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 Ventures plc. (0,075%)	England & Wales	Communication services
Ventamarine (18,4 %)	Latvia	Shipping Agency

12. Inventories

	US $ '000s	
	2002	2001
Ship and shore spares	1,538	1,896
Bunkers	3,989	2,612
Consumables	2,719	2,930
Provision against inventories	(222)	(416)
TOTAL	**8,024**	**7,022**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002
(Continued)

13. Finance lease receivables

	US $ '000s	
	2002	2001
Gross receivables – bareboat charter hire:		
Within 1 year	221	3,131
Less unearned future finance income	-	(272)
representing	221	2,859
- current receivables	221	2,859
	221	**2,859**

One dry cargo vessel (m.v. "Komponists Chaikovskis"), one reefer (m.v."Akademikis Hohlovs") and three tankers (m.t. "Renda", m.t. "Ventspils" and m.t. "Kasira") were delivered to bareboat charterers during 2002 when they exercised their purchase options on expiry of the charter.
One reefer vessel m.v. "Akademikis Artobolevskis" is currently under a bareboat charter agreement with a purchase option exercisable during 2003.

14. Accounts receivable and prepayments

	US $ '000s	
	2002	2001
Trade debtors	15,915	17,892
Other debtors	1,289	778
Claims receivable	1,107	2,973
Prepayments	3,814	3,458
TOTAL	**22,125**	**25,101**

Trade debtors are shown net of doubtful debt provisions of US$ 4,3 million. (2001 US$ 4,8 million)

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2002

(Continued)

15. Available-for-sale investments

	US $ '000s	
	2002	2001
Opening net book value	1,525	2,224
Addition	532	-
Disposal	-	(967)
Profit on disposal	-	184
Increase in market value	123	84
Closing net book value	**2,180**	**1,525**

The available-for-sale investments are principally units in single bond funds held by Kristaps Insurance Ltd and Balt-Dutch Shipping Agencies B.V.

16. Bank Loans

	US $ '000s	
	2002	2001
Total outstanding	**125,360**	**142,719**
Repayments due within next twelve months	(13,080)	(15,359)
Long term balance	**112,280**	**127,360**

The total outstanding of the Bank Loans has changed during the year. As well as the scheduled repayments, loans were prepaid in the amount of U.S.$ 2,0 million ahead of maturity.

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.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002

(Continued)

16. Bank Loans *(Continued)*

The loans are scheduled to be repaid as follows:

Year	U.S.$ million
2003	13,1
2004	13,1
2005	13,1
2006	13,1
2007	39,0
2008 until 2011	34,0

According to the loan agreement the borrower must maintain a certain borrowing to collateral ratio. As at 31st December 2002 US$ 2,4 million has been placed in a blocked deposit account to maintain the required ratio. The ratio is reviewed on a semi-annual basis. The latest assessment performed in January, 2003 indicates that half of the blocked deposit, amounting to U.S.$ 1,2 million can be released and used without any restrictions.

17. Provision for Deferred Taxation

	US $ '000s	
	2002	2001
Deferred Tax:		
Deferred tax liabilities at 1 January	37	61
Income statement	11	(24)
Deferred tax liabilities at 31 December	48	37
Excess of tax allowances over depreciation	456	3,751
Other temporary differences	(283)	(4,083)
Tax losses	(307)	(1,088)
Unrecognised deferred tax asset	182	1,457
Deferred tax liabilities at 31 December	**48**	**37**

In the event of distributing off-shore profits, dividends will be taxable. No such provision for tax has been made.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002

(Continued)

18. Provisions

	Vacation	Legal	Other	Total
At 1st January 2002	547	7,000	228	7,775
Additional provisions	261	8,000	123	8,384
Utilised during the year	(309)	(15,000)	(72)	(15,381)
At 31st December 2002	499	-	279	778

The amounts shown includes gross provisions in respect of a certain legal claim brought against the Group. This legal claim was resolved in September 2002 by the Group making payment in a full and final settlement.

19. Accounts payable

	US $ '000s	
	2002	2001
Bank overdrafts	2,999	2,999
Trade creditors	8,299	12,951
Other creditors	3,184	3,291
Accrued expenses	8,338	10,015
Deferred income	2,322	3,329
TOTAL	**25,142**	**32,585**

The Group has bank overdraft with the limit of U.S.$ 3 million, used to facilitate seaman's salary payments. This overdraft is without interest and is secured by seaman's account balances.

20. Minority interest

	US $ '000s	
	2002	2001
Balt Dutch Holding N.V.	(7)	51
Latvian - Finnish Maritime Agency Ltd.	16	10
	9	**61**

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002

(Continued)

21. Contingent Liabilities

(a) There are some legal claims against the company submitted by the ex-employees in respect of compensation. Having received legal advice from professional lawyers, the management of the Company is in opinion that these claims will be refused by the court. Therefore no provision have been made against these claims.

(b) During the normal course of business, the Group as at the year-end had claims outstanding with suppliers and insurance companies. Certain claims are under investigation and 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.

22. Cash Flow from Operations

	US $ '000s	
	2002	2001
(Loss)/Profit before taxation	(54,402)	26,304
Adjustments for items not involving net liquid funds		
Depreciation	27,587	25,503
Prepaid financing expenses amortisation	111	7
Profit on sale of fixed assets	(813)	(81)
Share of profits of associates	5	(53)
Drydocking deferred expenditure amortization	15,885	12,160
Other provisions, accruals and impairments of vessels	39,643	3,180
Currency translation difference	1,554	(3,039)
Interest payable	4,867	4,997
Interest receivable	(838)	(3,814)
Dividends receivable	-	(49)
Gain on disposal of available-for-sale investments	-	(184)
	33,599	**64,931**
Movement in net working capital – net of provisions		
Inventories	(1,002)	208
Accounts receivable	3,021	5,926
Accounts payable	(5,720)	(692)
Investments	(173)	(126)
	(3,874)	**5,316**
Cash Inflow from Operations	**29,725**	**70,247**

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002

(Continued)

23. Related Party Transactions

During the year the group entered into transactions with the associated companies described in note 11. 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.

24. 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 exposed to interest rate risk through its debts.

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 periods 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. According to loan agreements the Group has the right to fix interest rates for up to 12 months.

25. Comparative Figures

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

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2002

(Continued)

26. Reconciliation of Net Profit and Net Assets per International Financial Reporting Standards accounts and Latvian Statutory accounts

	LVL '000s 31/12/2002	Exchange rate	US $ '000s 31/12/2002
Net loss per IFRS accounts			(54,447)
Net loss per Latvian Statutory accounts	(33,510)		
Converted to US $		0,617929	(54,229)
Difference			**(218)**

Difference comprises different treatment of revaluation reserve release between Latvian Statutory and International Financial Reporting Standards.

Net Assets per IFRS accounts			253,114
Net Assets in Latvian Statutory accounts	148,771		
Converted to US $		0,594	250,456
			2,658
Exchange rate difference			**2,658**