PUBLIC JOINT STOCK COMPANY

LATVIAN SHIPPING COMPANY
AND ITS SUBSIDIARIES

REPORT
AND
FINANCIAL STATEMENTS

31^{st} DECEMBER 2003

LATVIAN SHIPPING COMPANY

PUBLIC STOCK COMPANY

LATVIAN SHIPPING COMPANY

Registered Office

2 Basteja Blvd
Riga LV 1807
Latvia

THE COUNCIL

Chairman of the Council	-
Deputy Chairman of the Council	Ģirts Rungainis
Members of the Council:	Aldis Āķis
	Egīls Kietis
	Igors Skoks (until 30.05.2003)
	Jānis Ādamsons
	Māris Kaijaks
	Oļegs Stepanovs
	Vladimirs Solomatins

THE BOARD OF DIRECTORS

Chairman of the Board of Directors **LSC President**	Imants Vikmanis
Members of the Board of Directors	
Vice President	Valerijs Godunovs
	Alvis Akmens (from 30.05.2003)
	Aivars Enkuzens (from 30.05.2003)
	Gints Bukovskis (until 30.05.2003)
	Juris Kārlis Viktors Reinhards (until 30.05.2003)

STATEMENT BY THE PRESIDENT
MR. IMANTS VIKMANIS

Performance in 2003

At the General Shareholders Meeting on 30 of May 2003 the new members of LSC Management Board were elected. Structural changes were made to improve the company's performance and cost effectiveness as well.

A working group was established to prepare LSC's future strategy. Leading shipping consultants were involved in the elaboration of the Group's Strategic Plan. The efforts of the working group resulted in a fleet renewal strategy which was approved by the General Shareholders' Meeting on 30.05.2003. The privatization process was completed in 2003 by selling all state owned shares to private investors and restructuring process which begun in 2002 was continued in 2003. The LSC shares are traded on the Riga Stock Exchange and the price was fluctuating from 20 to 39 santims per share. The biggest rise in share price was in September 2003.

LSC Group's profit in 2003 were U.S.$ 15.4 million. The favourable tanker market situation and high scrap prices were the main contributors to these profits.

In compliance with LSC policy the Group performed its fleet valuation. Independent professional valuers estimates revealed significant difference between certain vessels market value and their book values. The difference was especially notable for the two *LPG* vessels. The vessels' estimated value in use also testifies to the value discrepancy. Therefore an impairment loss of U.S.$ 10 million was recognised in respect of these gas carriers.

Taking into account LSC's ageing fleet, last year's trends in the world economy and the industry, as well as recent changes in the company itself, the Group's result for 2003 can be considered as positive.

Product Tankers

With its tonnage in the range of 6.300 to 68.500 DWT LSC Group's Product Tanker Fleet traded all over the world with a particularly strong presence in Northern Europe and West Africa. It generated more than 82 % of the Group's total Net Voyage Results.

At the beginning of 2003 LSC Product Tanker Fleet consisted of 36 vessels of single and double hull construction. 5 vessels were scrapped during the year. As a result the Fleet's tonnage reduced to 980.000 DWT, which is 180.000 DWT less compared to the beginning of 2003.

Due to an especially harsh winter in Europe the favourable market conditions with high freight rates and stable demand prevailed in the tanker segment during the first quarter of 2003. However, a plunge of rates, caused by the decreased oil product demand and planned maintenance works at many refineries, followed in the second quarter.

The third quarter was relatively stable and saw a switching of the Group's single hull tankers to carry light oil products in compliance with EC regulations, which bans the transportation of heavy fuel oil in single-hulled tankers to or from ports of the Member States. To comply with the requirement mentioned, the Group was forced to employ the older tonnage in the transportation of solely light oil products, thus losing part of its niche in the dark product market. The ballast tanks for three Asari type tankers were upgraded from single hull to double hull.

STATEMENT BY THE PRESIDENT
MR. IMANTS VIKMANIS

Continued

A growth of freight rates (especially those in the dark product segment) was registered at the end of the year, and was explained by the oncoming winter season, creation of oil stocks, as well as fresh memories of the severe winter of 2002. The growth in the freight rates was caused also by Turkey introducing restrictions for vessels over 200m in length to transit the Bosphorus. Unfortunately, due to the above EC regulations, LSC Group was not able to make use of the favourable conditions prevailing in the market at the end of 2003.

To ensure the implementation of the Group's Fleet Renewal Programme, in December 2003 an Agreement was reached with 3 Maj shipyard in Croatia on the building of eight plus two 51.800 DWT product tankers. The first vessel is scheduled for delivery in summer 2006.

Reefers

At the beginning of 2003 the reefer fleet consisted of 13 ice-class vessels with a capacity varying from 262.000 to 387.000 cubic feet. The fleet was traditionally employed on banana and other fruit trades, as well as carrying frozen cargoes from Southern Hemisphere to Northern Europe. The net voyage result from reefer operations in 2003 was 9% of the whole LSC Group's net voyage results. One vessel out of 13 was under Bareboat Charter Agreement with a Purchase Option which was excercised in 2003.

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

On the whole, compared to 2002 the segment showed an increase in freight rates especially during winter months on the traditional routes to St. Petersburg because of the heavy ice situation in the Bay of Finland.

Implementing the strategy of the Group, seven Kurska type reefer vessels were sold at the end of 2003.

The increase of freight rates and the sale of Kurska type reefers resulted in a profitable 2003 year result for the reefer fleet.

LPG

LSC Group owns two modern 20.500 cubic meter LPG carriers. In 2003 the LPG Fleet generated 7% of the Group's total Net Voyage Results.

In 2003 both vessels remained members of the Scandigas Pool throughout the year, one of the largest in the world. Unfortunately, the traditional seasonal growth of LPG rates was lower than 15% projected at the end of 2002. Compared to 2002 the actual growth reached the level of 9 % only. The situation remained unfavourable throughout the summer and autumn. It was only in the last quarter that LPG rates developed in a positive way. The low level of the LPG rates still could be explained by the insufficient growth rate of trade volumes. During the second half of the year further consolidation of the LPG market participants (ship owners) took place: with the aim of income improvement a new pool was established by Norgas and Scandigas companies.

STATEMENT BY THE PRESIDENT
MR. IMANTS VIKMANIS

Continued

Dry Cargo

Time-chartering out of m/v Juris Avots resulted in a stable and predictable cash-flow for the whole year.

In June 2003 a time charter agreement was signed to charter m/v "Kaptan Burhanettin Isim" and a regular ro-ro service was started from Ventspils to Traveminde in Germany. Expenses relating to starting the liner service were the main reason for the results of the dry-cargo fleet.

In 2003 the net voyage result of dry-cargo fleet was 2% of the total LSC Group's net voyage results.

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. Considering the favourable tonnage tax regime adopted in Latvia at the end of the 2003, the m.t. Zoja 11 changed the flag to Latvian. The reflaging of the whole fleet is being considered.

Outlook

Although a positive upward trend in freight rates has been noticed in the very end of 2003, there are no grounds to believe in the long-term perspective thereof, considering historically high order books at world shipyards and tightening regulatory regime for oil transportation. The European Union regulations that came into force on 21st October 2003 will accelerate the phase-out process of single-hull tankers and ban the transportation of heavy grades of fuel in single-hull vessels within the EU. Any eventual decrease in demand for maritime transportation services will in the first place affect the oldest part of the fleet, since the charterers prefer modern, reliable and safe tonnage.

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 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.

Implementing the Fleet Fenewal Programme agreements were signed in February 2004 for purchasing three 2003 built 37.000 DWT modern product tankers for delivery mid 2004 as well as a contract with Hyundai Mipo shipyard in Korea was signed to build four 37.000 DWT product tankers with delivery in 2007.

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

Riga, Latvia
March 26, 2004

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
March 26, 2004

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

We have audited the accompanying consolidated balance sheet of Latvian Shipping Company & its Subsidiaries as at 31st December 2003 (the Group) and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the group as at 31st December 2003 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens

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

MOORE STEPHENS

Chartered Accountants

March 26, 2004

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2003

(Expressed in US $ '000s)

	Note	2003	2002
Voyage income		193,693	170,892
Voyage costs		(63,432)	(49,032)
Net Voyage Result		**130,261**	**121,860**
Vessel Operating costs		(80,218)	(75,186)
Vessel Operating Result before Depreciation		**50,043**	**46,674**
Vessel depreciation		(22,272)	(26,523)
Vessel Operating Profit		**27,771**	**20,151**
Vessel impairments and provisions	9	(10,000)	(55,550)
Administration expenses	4	(11,460)	(13,693)
Gain on sale of assets		9,059	813
Operating Profit / (Loss)		**15,370**	**(48,279)**
Interest income		624	838
Exchange rate profit/(loss)		2,702	(1,420)
Interest expenses		(3,415)	(4,867)
Income from associates	11	15	5
Other financial items	6	18	(679)
Net Financial Items		**(56)**	**(6,123)**
Profit / (Loss) before Taxation		**15,314**	**(54,402)**
Taxation	7	25	(36)
Profit / (Loss) after Taxation		**15,339**	**(54,438)**
Minority interest	20	59	(9)
Net Profit/(Loss) for the Year		**15,398**	**(54,447)**
Earnings per share	8	**US$ 0,08**	**US$ (0,27)**

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER 2003

(Expressed in US $ '000s)

	Note	2003	2002
ASSETS			
LONG TERM ASSETS			
Fleet	9	281,430	337,100
Other fixed assets	10	7,982	7,852
Assets under construction		173	1
Investments	11	84	579
TOTAL LONG TERM ASSETS		**289,669**	**345,532**
CURRENT ASSETS			
Inventories	12	4,389	8,024
Finance lease receivables	13	-	221
Accounts receivable and prepayments	14	22,884	22,125
Available-for-sale investments	15	2,204	2,180
Bank and cash balances		78,548	27,162
TOTAL CURRENT ASSETS		**108,025**	**59,712**
TOTAL ASSETS		**397,694**	**405,244**
SHAREHOLDERS' EQUITY & LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		362,319	362,319
Translation reserve		(13,557)	(14,996)
Retained earnings		(78,811)	(94,209)
TOTAL SHAREHOLDERS' EQUITY		**269,951**	**253,114**
MINORITY INTEREST		**620**	**802**
LONG TERM LIABILITIES			
Long term portion of bank loans	16	99,200	112,280
Provision for deferred taxation	17	30	48
Provisions	18	560	778
TOTAL LONG TERM LIABILITIES		**99,790**	**113,106**
CURRENT LIABILITIES			
Current portion of bank loans	16	13,080	13,080
Accounts payable	19	14,253	25,142
TOTAL CURRENT LIABILITIES		**27,333**	**38,222**
TOTAL LIABILITIES		**127,123**	**151,328**
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		**397,694**	**405,244**

These Financial Statements were approved by the Board of Directors on 26 March, 2004
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 2003

(Expressed in US $ '000s)

	Share Capital	Translation Reserve	Retained Earnings	Total
Balance at 1st January 2002	362,319	(19,056)	(35,916)	307,347
Net 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
Balance at 1st January 2003	362,319	(14,996)	(94,209)	253,114
Net Profit for the year	-	-	15,398	15,398
Currency translation differences	-	1,439	-	1,439
Balance at 31st December 2003	362,319	(13,557)	(78,811)	269,951

In the statutory financial statements LVL 3,213,363 (US$ 5,939,673) 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 2003 of LVL 13,933,068 (US$ 25,754,285) less proposed dividends will be transferred to this non-distributable reserve.

The authorized 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 2003

(Expressed in US $ '000s)

	Note	2003	2002
Cash Inflow from Operations	23	**50,684**	**29,725**
Returns on Investments and Servicing of Finance			
Interest received		548	1,033
Interest paid		(3,824)	(5,259)
Dividends received		-	648
Sale of shares		-	50
Taxation			
Corporate taxes paid		(225)	(174)
Net Cash Inflow from Operating Activities		**47,183**	**26,023**
Investing Activities			
Purchase of other fixed assets		(357)	(638)
Prepaid financing expenses		-	(351)
Purchase of available-for-sale investments		(57)	(532)
Proceeds on sale of available-for-sale investments		1,165	-
Proceeds on sale of assets		23,656	2,057
Charter payments for finance lease receivables		238	2,882
Drydock expenditure		(4,191)	(12,895)
Assets under construction and on order		(172)	(2)
Net Cash Inflow/(Outflow) from Investing Activities		**20,282**	**(9,479)**
Cash Inflow before Financing Activities		**67,465**	**16,544**
Financing Activities			
Bank loans repaid		(13,080)	(17,359)
Dividends paid		-	(3,846)
Net Cash Outflow from Financing Activities		**(13,080)**	**(21,205)**
Increase/(decrease) in Cash and Cash Equivalents		**54,385**	**(4,661)**
Cash and Cash Equivalents :			
at 1st January		**24,163**	**28,824**
Cash and Cash Equivalents : at 31st December		**78,548**	**24,163**

Cash at 31 December 2003 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 2003

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.

(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 2003. 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 shareholders' equity. On disposal of the foreign entity, such translation differences are recognised in the Consolidated Income Statement as part of the gain or loss on sale.

On acquisition, the assets and liabilities of a subsidiary are measured at their far values at the date of acquisition. Any excess (deficiency) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognized as goodwill (negative goodwill).

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2003

(Continued)

1. Accounting Policies *(Continued)*

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis over its estimated useful life.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognized as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognized in income immediately.

(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 bunkers and port expenses. For vessels operating on time charter, these costs are carried by the charterer.

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

(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.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2003

(Continued)

1. Accounting Policies *(Continued)*

(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 additions at cost.

Where the carrying amount of an asset is greater than its estimated recoverable amount at the balance sheet date, the impairment is recognized down to its recoverable amount, being the higher of its market value and value in use. Market values are prepared by professional independent valuers and discounted value in use calculations are prepared 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 supported by a professional valuation in 1997, 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

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 to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2003

(Continued)

1. Accounting Policies *(Continued)*

(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.

Investments, which are not associates, are classified 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.

(j) Inventories

Inventories are stated at the lower of cost and net realizable value, where cost is calculated on a first in first out basis, and comprise bunkers, luboils, victualling and slop chest 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.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2003

(Continued)

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

(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) Trade payables

Trade payables are stated at their nominal values.

(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.

(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 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.

(q) 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 2003

(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
Latmar Holdings Corporation	Liberia	Holding company
Abava Shipping Co. Ltd.	Malta	m.v. "Abava"
Amata Shipping Co. Ltd.	Malta	m.v. "Amata"
Apollo Holdings Corporation	Cayman Islands	m.t. "Mar"
Cape Wind Trading Company	Liberia	m.t. "Indra"
Clipstone Navigation S. A.	Liberia	m.t. "Inga"
Dawnlight Shipping Co. Ltd.	Cyprus	m.t. "Estere"
Juris Avots Shipping Co.	Cyprus	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	Former owner of m.t. "Janis Sudrabkalns" *(Dormant)*
Radar Shipping Ltd.	Liberia	Former owner of m.t. "Pablo Neruda" *(Dormant)*
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	Former owner of m.t. "Mate Zalka" *(Dormant)*

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2003

(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	Former owner of m.t. "Davids Sikeiross" *(Dormant)*
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	Former owner of m.t. "Talava" *(Dormant)*
Reeferlat Holdings Corporation	Liberia	Intermediate holding company
Akademikis Artobolevskis Shipping Co. Ltd.	Cyprus	Dormant
Akademikis Artobolevskis Shipping Co. Ltd.	Malta	Dormant
Akademikis Bocvars Shipping Co. Ltd.	Cyprus	Dormant
Akademikis Bocvars Shippng Co. Ltd.	Malta	Former owner of m.v. "Akademikis Bocvars" *(Dormant)*
Akademikis Celomejs Shipping Co. Ltd.	Cyprus	Dormant
Akademikis Celomejs Shipping Co. Ltd.	Malta	Former owner of m.v. "Akademikis Celomejs" *(Dormant)*
Akademikis Hohlovs Shipping Co. Ltd.	Cyprus	Dormant
Ventlines Shipping Limited	Malta	Liner activities
Aristarhs Belopolskis Shipping Co. Ltd.	Malta	Dormant
Belgoroda Shipping Co. Ltd.	Cyprus	Dormant
Belgoroda Shipping Co. Ltd.	Malta	Former owner of m.v. "Belgoroda" *(Dormant)*
Fjodors Bredihins Shipping Co. Ltd.	Malta	In liquidation
Ivans Kulibins Shipping Co. Ltd.	Malta	In liquidation
Ivans Polzunovs Shipping Co. Ltd.	Malta	In liquidation
Kamilo Sjenfuegoss Shipping Co. Ltd.	Cyprus	Dormant
Kamilo Sjenfuegoss Shipping Co. Ltd.	Malta	Former owner of m.v. "Kamilo Sjenfuegos" *(Dormant)*
Kurska Shipping Co. Ltd.	Cyprus	Dormant
Kurska Shipping Co. Ltd.	Malta	Former owner of m.v. "Kurska" *(Dormant)*
Mihails Lomonosovs Shipping Co. Ltd.	Malta	In liquidation
Nikolajs Koperniks Shipping Co. Ltd.	Malta	In liquidation
Pavels Parenago Shipping Co. Ltd.	Malta	In liquidation
Pavels Sternbergs Shipping Co. Ltd.	Malta	In liquidation
Pure Shipping Co. Ltd.	Cyprus	Dormant
Pure Shipping Co. Ltd.	Malta	Former owner of m.v. "Pure" *(Dormant)*
Vasilijs Fesenkovs Shipping Co. Ltd.	Malta	In liquidation

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003
(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	Former owner of m.v. "Perle" *(Dormant)*
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 2003
(Continued)

2. Corporate Structure *(Continued)*

Name	Country of Incorporation	Activity / Vessels
Balt Dutch Holding N.V. (60%)	N. Antilles	Holding Company
Balt - Dutch Shipping Agencies B.V.(55.5%)	Netherlands	Shipping Agents
Crewing Agency Ltd.	Latvia	Crewing and Seafarers Training Services
Kristaps Insurance Ltd.	Bermuda	Insurance
Latvian - Finnish Maritime Agency Ltd.*	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
Crown Navigation Inc.	Marshall Islands	Dormant Company

* During the year the remaining 40% of the shares of Latvian - Finnish Maritime Agency Ltd. was acquired. Negative goodwill which arose on the transaction was recognised immediately in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003
(Continued)

3. Segment Information

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

Year ended 31 December 2003

US $ '000s	Tankers	Reefers	LPG	Dry Cargo	Total
Voyage income	154,943	24,833	9,354	4,563	193,693
Vessel Operating Profit/(Loss)	**25,444**	**(659)**	**3,411**	**(425)**	**27,771**
Vessel impairments	-	-	(10,000)	-	(10,000)
Gain on sale of assets	5,745	3,220	-	-	8,965
Unallocated sale of assets					94
Segment result	**31,189**	**2,561**	**(6,589)**	**(425)**	**26,830**
Unallocated corporate expenses					(11,460)
Operating Profit					**15,370**
Net Financial Items					(56)
Profit before Taxation					**15,314**
Taxation					25
Profit after Taxation					**15,339**
Minority interest					59
Net Profit for the Year					**15,398**
Segment assets	240,417	20,974	51,513	2,401	315,305
Unallocated assets					82,389
Total assets					**397,694**
Segment liabilities	90,646	1,373	33,541	335	125,895
Unallocated liabilities					1,228
Total liabilities					**127,123**
Other segment items					
Drydocking expenditure	4,191	-	-	-	4,191
Depreciation	16,153	2,907	2,902	310	22,272
Drydocking deferred expenditure amortization	10,970	1,552	374	164	13,060

The Group's principial place of business is 2 Basteja Boulevard, Riga LV 1807, Latvia.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003
(Continued)

3. Segment Information *(Continued)*

Year ended 31 December 2002

US $ '000s	Tankers	Reefers	LPG	Dry Cargo	Total
Voyage income	133,948	27,036	8,344	1,564	170,892
Vessel Operating Profit/(Loss)	**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 for the Year					**(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**
Other segment items					
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.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003
(Continued)

4. Administration expenses

	US $ '000s	
	2003	2002
Staff Costs	(7,537)	(10,464)
Travel and Transport	(616)	(636)
Occupation and Repairs	(1,497)	(1,240)
IT and Communication	(638)	(683)
Professional Fees	(1,129)	(991)
Advertising and Marketing	(592)	(430)
Other Income and Costs	1,805	2,260
Property and Land Tax	(122)	(103)
Movements in Provision of claims and other	(241)	(342)
Depreciation	(893)	(1,064)
TOTAL	**(11,460)**	**(13,693)**

5. Employment Costs and Staff Numbers

	2003		2002	
	US $ '000	Number	US $ '000	Number
Shore based staff	6,402	283	9,182	404
Seamen*	26,817	921	28,561	1,231
	33,219	**1,204**	**37,743**	**1,635**

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	
	2003	2002
Gain on disposal of available –for-sale investment	602	-
Negative Goodwill	151	-
Mortgage fee and insurance	(71)	(75)
Prepaid financing expenses amortization	(98)	(111)
Bank charges	(566)	(493)
TOTAL	**18**	**(679)**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003

(Continued)

7. Taxation

	US $ '000s	
	2003	2002
Deferred income tax of current year	18	(11)
Corporate income tax of current year	7	(25)
TOTAL	**25**	**(36)**
Profit/ (Loss) before tax	15,314	(54,402)
Tax calculated at tax rate of 19 % (2002-22%)	2,910	(11,968)
Income and expenses not subject to corporate income tax	(38)	17,172
Profit of subsidiaries and associates	(4,632)	(449)
Effect of the changes in tax rates	397	1,145
Increase/(Decrease) of unrecognized deferred tax asset	1,338	(1,275)
Utilization of previously unrecognized deferred tax asset	-	(4,589)
Tax charge for the year	**(25)**	**36**

Corporate income tax is payable in Latvia at a rate of 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
1999	51	2004
2000	39	2005
2001	2	2006
2002	-	2007
2003	4,519	2008
	4,611	

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003

(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.

	2003	2002
Net profit / (loss) for the year attributable to shareholders	15,398	(54,447)
Weighted average number of ordinary shares in issue (thousands)	200,000	200,000
Basic earnings/(loss) per share	US$ 0,08	US$ (0,27)

9. Fleet

	US $ '000s 2003	US $ '000s 2002
Net Book Value	272,073	318,265
Drydocking deferred expenditure	9,357	18,835
	281,430	337,100

US $ '000s

	Valuation/ Cost	Depreciation	Net Book Value
At 1st January 2003	**602,034**	**(283,769)**	**318,265**
Depreciation charge for the year	-	(22,272)	(22,272)
Impairment	-	(10,000)	(10,000)
Disposals	(23,536)	9,616	(13,920)
At 31st December 2003	**578,498**	**(306,425)**	**272,073**

During 2003 the Group sold all 7 "Kurska" type reefer vessels and 5 tankers: m.t. "Janis Sudrabkalns", m.t. "Pablo Neruda", m.t. "Mate Zalka", m.t. "Davids Sikeiross" and m.t. "Talava". The title to one reefer that was included under finance leases receivable as at 31st December 2002 was transferred to the bareboat charterer when the purchase option on the expiry of the charter was exercised. No other changes to the fleet took place during 2003.

The Group has 2 gas carrier vessels, whose carrying amount is greater than its market value provided by professional valuers. According to accounting policy (f), Management has estimated the value in use of these vessels by assessing its net present value from operations. This calculation was done applying an annual discount rate of 9%. The calculation shows that an impairment loss of U.S.$ 10,0 million in respect of the 2 gas carriers is to be recognized as at 31st December 2003.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003

(Continued)

9. Fleet *(Continued)*

Part of the fleet (with net book value of U.S.$ 210,0 million) has been used as security for bank loans. See note 16 for details.

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

	2003	2002
Tankers	31	36
Reefers	5	13
Dry cargo	1	1
LPG fleet	2	2
TOTAL	39	52

Total dead-weight Tonnage

31st December 2003	Dwt	**1,067,924**
31st December 2002	Dwt	**1,305,816**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003

(Continued)

9. Fleet *(Continued)*

At 31st December 2003 the group fleet comprises:

		Year of Building	Dwt
Product Tankers:			
1.	Antonio Gramsci	1978	39,870
2.	Asari	1984	28,750
3.	Bulduri	1983	28,750
4.	Dubulti	1982	29,610
5.	Dzintari	1985	17,585
6.	Dzons Rids	1978	39,870
7.	Estere	1989	28,610
8.	Gaida	1991	41,465
9.	Hose Marti	1978	39,870
10.	Indra	1994	33,115
11.	Inga	1990	28,610
12.	Kemeri	1985	17,610
13.	Klements Gotvalds	1978	39,870
14.	Latgale	2001	68,467
15.	Lielupe	1979	39,870
16.	Majori	1980	29,690
17.	Mar	1990	28,610
18.	Ojars Vacietis	1985	16,341
19.	Pols Robsons	1978	39,870
20.	Pumpuri	1987	28,610
21.	Razna	1984	6,269
22.	Riga	2001	68,467
23.	Ropazi	1985	16,341
24.	Rundale	1977	17,025
25.	Samburga	1976	17,125
26.	Taganroga	1983	6,297
27.	Viktorio Kodovilja	1976	40,030
28.	Zanis Griva	1985	17,585
29.	Zemgale	2001	68,467
30.	Zoja l	1986	28,610
31.	Zoja ll	1987	28,610
			979,869

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003

(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 Vavilovs	1985	7,673
3. Akademikis Zavarickis	1986	7,673
4. Amata	1991	6,232
5. Skulptors Tomskis	1986	7,673
		35,617
Dry Cargo		
1. Juris Avots	1983	5,500
		5,500
TOTAL DWT		**1,067,924**

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003

(Continued)

10. Other Fixed Assets

	US $ '000s			
	Buildings	Containers	Machinery and Equipment	Total
Valuation/cost				
At 1st January 2003	**8,380**	5	**7,527**	**15,912**
Additions	-	-	357	**357**
Reclassification	-	-	(48)	**(48)**
Disposals during the year	(3)	-	(1,108)	**(1,111)**
Exchange differences	820	1	743	**1,564**
At 31st December 2003	**9,197**	6	**7,471**	**16,674**
Depreciation				
At 1st January 2003	**1,716**	5	**5,926**	**7,647**
Charge for the year	146	-	746	892
Released on disposal	(3)	-	(1,039)	(1,042)
Reclassification	-	-	(25)	(25)
Exchange differences	176	1	595	772
At 31st December 2003	**2,035**	6	**6,203**	**8,244**
Accumulated impairment				
At 1st January 2003	413	-	-	413
At 31st December 2003	448	-	-	448
Net book value				
At 31st December 2003	**6,714**	-	**1,268**	**7,982**
At 31st December 2002	**6,251**	-	**1,601**	**7,852**

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.

One of the buildings, 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 2003

(Continued)

11. Investments

	US $ '000s 2003	2002
Investments in associated undertakings (note 11(a))	80	59
Available-for-sale investments (note 11 (b))	4	520
TOTAL	84	579

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

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

	US $ '000s 2003	2002
At the beginning of year	59	749
Disposals	-	(50)
Share of Profits		
Profit for the year	15	5
Dividends received	-	(648)
Translation reserve	6	3
At the end of year	80	59

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003
(Continued)

11. Investments *(Continued)*

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

	US $ '000s	
	2003	2002
At the beginning of year	520	478
Exchange differences	-	37
Additions	-	5
Disposal	(516)	-
At the end of year	4	**520**

Available-for-sale investments are:

Name (Holding %)	Country of Incorporation	Activity
Silver Star Agencies B.V. (6,5%)	Netherlands	Agency
Aviva Investments Ltd. (30%)	Republic of Ireland	Termination of participation
Transterminal Ltd. (50%)	Russia	In liquidation

The investments in Ventamarine, Inmarsat Ventures plc., Shipping Trading and Transport B.V., Star Alliance Shipping Sarl, BTV Shipping and Agencies GmbH. were sold in 2003.

12. Inventories

	US $ '000s	
	2003	2002
Ship and shore spares	1,487	1,538
Bunkers	1,243	3,989
Consumables	2,114	2,719
Provision against inventories	(455)	(222)
TOTAL	4,389	8,024

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003

(Continued)

13. Finance lease receivables

	US $ '000s	
	2003	2002
Gross receivables – bareboat charter hire:		
Within 1 year	-	221
Less unearned future finance income	-	-
Current receivables	**-**	**221**

One reefer vessel m.v. "Akademikis Artobolevskis" was delivered to bareboat charterer in 2003 when the purchase option on expiry of the charter was exercised.

14. Accounts receivable and prepayments

	US $ '000s	
	2003	2002
Trade debtors	16,108	15,915
Other debtors	1,251	1,289
Claims receivable	309	1,107
Prepayments	5,216	3,814
TOTAL	**22,884**	**22,125**

Trade debtors are shown net of doubtful debt provisions of US$ 5,6 million. (2002 US$ 4,3 million)

The five largest customers represent 67% (2002: 28%) of trade debtors as at 31 December 2003.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2003

(Continued)

15. Available-for-sale investments

	US $ '000s	
	2003	2002
Opening net book value	2,180	1,525
Addition	57	532
Disposal	(28)	-
(Decrease)/Increase in market value	(10)	123
Exchange differences	5	-
Closing net book value	**2,204**	**2,180**

The available-for-sale investments are principally units in single bond fund held by Kristaps Insurance Ltd.

16. Bank Loans

	US $ '000s	
	2003	2002
Total outstanding	**112,280**	**125,360**
Repayments due within next twelve months	(13,080)	(13,080)
Long term balance	**99,200**	**112,280**

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 instalments 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 2003

(Continued)

16. Bank Loans *(Continued)*

The loans are scheduled to be repaid as follows:

Year	U.S.$ million
2004	13,1
2005	13,1
2006	13,1
2007	39,0
2008	4,0
2009 until 2011	30,0

According to the loan agreement the borrower must maintain a certain borrowing to collateral ratio. As at 31st December 2003 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.

17. Provision for Deferred Taxation

	US $ '000s	
	2003	2002
Total Deferred Tax:		
Deferred tax liabilities at 1st January	48	37
Income statement	(18)	11
Deferred tax liabilities at 31st December	30	48
Excess of tax allowances over depreciation	423	456
Other temporary differences	(215)	(283)
Tax losses	(1,698)	(307)
Unrecognised deferred tax asset	1,520	182
Deferred tax liabilities at 31st December	**30**	48

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

The calculation of deferred taxation indicates a deferred tax asset arising on taxable losses. The recoverability of the deferred tax asset is dependent on future trading profits of Latvian resident companies.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2003

(Continued)

18. Provisions

	Vacation	Other	Total
At 1st January 2003	499	279	778
Additional provisions	293	-	293
Utilised during the year	(315)	(269)	(584)
Exchange differences	61	12	73
At 31st December 2003	538	22	560

19. Accounts payable

	US $ '000s	
	2003	2002
Bank overdrafts	-	2,999
Trade creditors	5,664	8,299
Other creditors	2,607	3,184
Accrued expenses	4,461	8,338
Deferred income	1,521	2,322
TOTAL	**14,253**	**25,142**

20. Minority interest

	US $ '000s	
	2003	2002
Balt Dutch Holding N.V.	6	(7)
Latvian - Finnish Maritime Agency Ltd.	(65)	16
	(59)	**9**

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 were not yet approved at the balance sheet date. However, based on experience, Management has no reason to believe that these amounts will not be recoverable. In the normal course of business the Group also receives claims for underperformances, however Management is of the opinion that there is no unprovided material liability at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2003

(Continued)

22. Capital commitments

In December 2003 an Agreement was reached with 3 Maj shipyard in Croatia on the building of eight plus two 51.800 DWT product tankers. Price of each tanker will be between US$ 30-35 million. The first vessel is scheduled for delivery in summer 2006.

23. Cash Flow from Operations

	US $ '000s	
	2003	2002
Profit/(Loss) before taxation	15,314	(54,402)
Adjustments for items not involving net liquid funds		
Depreciation	23,164	27,587
Prepaid financing expenses amortisation	98	111
Profit on sale of fixed assets	(9,059)	(813)
Share of profits of associates	(15)	5
Drydocking deferred expenditure amortization	13,060	15,885
Other provisions, accruals and impairments of vessels	6,316	39,643
Currency translation difference	621	1,554
Interest payable	3,415	4,867
Interest receivable	(624)	(838)
Gain on disposal of available-for-sale investments	(602)	-
Negative Goodwill	(151)	-
	51,537	**33,599**
Movement in net working capital – net of provisions		
Inventories	3,635	(1,002)
Accounts receivable	(779)	3,021
Accounts payable	(4,195)	(5,720)
Investments	486	(173)
	(853)	**(3,874)**
Cash Inflow from Operations	**50,684**	**29,725**

NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2003

(Continued)

24. 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.

25. 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.

(c) Currency Risk

During the year some free cash was converted into EURO and placed on term deposits with the Company's servicing banks to minimize potential losses from US $ weakening.

26. Post Balance Sheet Events

(a) One tanker vessel (m.t. "Viktorio Kodovilja") was sold at a profit during February 2004.

(b) Implementing the Fleet Renewal Programme, further agreements were signed in February 2004 at prevailing market rates to purchase three 2003 built 37.000 DWT modern product tankers for delivery mid 2004 as well as a contract with Hyundai Mipo shipyard in Korea to build four 37.000 DWT product tankers with delivery expected to be in 2007.