AS Daugapils Lokomotīvju Remonta Rūpnīca

ANNUAL REPORT

for the 12 months period ended 31 December 2008

prepared under International Financial reporting Standards

ENG

EUR	**0,702804**

CONTENTS

BOARD AND COUNSEL OF THE COMPANY

Board of the Company

Until 28 October 2007

Aivars Keskula	Chairman of the board
Andrejs Silovs	Member of the board
Jelena Karklina	Member of the board

From 29 October 2007

Aivars Keskula	Chairman of the board
Andrejs Silovs	Member of the board
Natalija Petrova	Member of the board
Kazimirs Stelmacenoks	Member of the board

Council of the Company

Until 6 May 2007

Oleg Ossinovski	Chairman of the board
Juri Krasnoslok	Vice chairman of the board
Vasily Barashkov	Member of the counsel
Roman Ait	Member of the counsel
Jelena Grjadunova	Member of the counsel

From 7 May 2007

Oleg Ossinovski	Chairman of the counsel
Juri Krasnoslok	Vice chairman of the counsel
Vasily Barashklov	Member of the counsel
Roman Ait	Member of the counsel
Aleksandr Snatkin	Member of the counsel

REPORT OF THE MANAGEMENT

Type of operations

Basic activity of the Holding company "DAUGAVPILS LOKOMOTIVJU REMONTA RUPNICA" (hereinafter-Company) is repair of railway rolling stock, maintenance and modernizing as well as producing and repairing of their spare parts. Holding company provide a repair services of all types of railway rolling stock - diesel-electric locomotives and electric trains. Aim of the Concern is permanently increase market not only in rage of basic activity but also acquire new ways of realization of products and attraction of new customers for enlargement of economic activity.

Performance of the Company during the financial year

In 2007 consolidate turnover of the Company was 22,37 million EUR (compairing with 2006 - 86%).

2007 was first year when Company has made consolidated financial statements report including 11 subsidiaries and A/S "DLRR". Subsidiaries was established onto base of previous A/S "DLRR" workshops; aim of restucturing was provision of transparency of financial economic activities. Restructuring has allowed to increase responsibility of operation results of each of subsidiary , to discover weak points of complicated technological producing process. Nevertheless in 2007 Concern suffered a losses of 1 376 463 EUR. Lack of the sufficient volume of production in first half a year in 2007 (because of changes in arrangament of conclusion of a contract with Russian Relay), increase of main producing cost, including of workforce and overall increase of inflation in Latvia has influenced the sales and profit of the Company in current financial year.

In 2007 has Company exported it's production to 8 countries and total amount was 18.21 million EUR (in 2006 - 18.78 milllion EUR), but turnover in Latvia was 4.13 million EUR (in 2006 - 7.11 million EUR). In 2007 Company started to export countries: Russia, Uzbekistan and Mongolia.

In 2008 Company is provided with repairing objects during all of the year and it set a targets: increase of quality of existing products according to new requirements of market, acquire new services, increase of net turnover and profit. Existing situation in Russia is very hopefully that's why Company is planning to widen economic activities in all Russia.

Research and development

One of the Company's priority is improvement of existing repair services, thereby improving and widening choice of solutions which is very important precondition of successful economic activity. In 2007 concern acquired repairing of railway diesel-electric locomotives M62 with many modernizations which improve work of locomotive brigade. Company considers that will increase it's marketing position.

Financial risk management

The policy of financial risk management of the Company is described in financial report's Note 29

Post balance sheet events

In the time period between the last day of the financial year and the date of signing the financial statements by the Board there have been no important events that would have a significant effect on the financial results of the year or the financial position of the company.

Future prospects

In 2008 Company is planning to continue economic activity which was started in 2007, by increasing range of repair services, as well as adoption of new services, which are not connected with repair of rolling stocks. Fundamental priority - control of producing costs, increasing the liability of each Group company by final result and efficiency in present condition of world economic.

Natālija Petrova
board member

Daugavpils, 21 May, 2008

Responsibility of the Management

The Management is responsibility the preparation of the financial statements in accordance with International Financial Reporting Standards as adopted the EU. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 7 to page 31 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent in comparance with the previous year. The Management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the Company's and Concern assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Natālija Petrova
board member

Daugavpils, 21 May, 2008

INCOME STATEMENT

	Note	2007 EUR	2006 EUR
Net sales	(2)	22 375 025	26 053 964
Cost of sales	(3)	(20 669 366)	(24 198 363)
Gross profit or losses		**1 705 659**	**1 855 601**
Selling costs	(4)	(439 334)	(198 633)
Administrative expenses	(5)	(2 746 951)	(1 785 612)
Other operating income	(6)	109 859	367 565
Other operating expenses	(7)	(48 788)	(105 617)
Financial income	(9)	417 148	320 273
Financial expenses	(10)	(490 229)	(320 397)
Profit or losses before taxes		**(1 492 636)**	**133 180**
Corporate income tax	(11)	116 173	(62 510)
Net profit or losses		**(1 376 463)**	**70 670**
Earning per share	(10)		
Basic		**(16,60)**	**0,85**
Adjusted		**(16,60)**	**0,85**

Notes on pages 11 to 31 are an integral part of these financial statements.

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Natālija Petrova
board member

Daugavpils, 21 May, 2008

BALANCE SHEET

		31.12.2007. EUR	31.12.2006. EUR
Assets			
Non-current assets			
Property, plant and equipment		10 029 321	9 809 662
Total non-current investments:		**10 029 321**	**9 809 662**
Current assets			
Inventories		4 634 862	3 567 838
Trade receivables	(15)	4 165 260	4 711 101
Accrued income	(17)	3 571 166	2 381 539
Corporate income tax			155 693
Other currents assets		471 605	427 624
Cash and cash equivalents	(18)	171 684	47 170
Total current assets:		**13 014 577**	**11 290 965**
Total assets		**23 043 898**	**21 100 627**
Equity			
Share capital	(19)	11 801 610	11 801 610
Retained earnings			
a) previous year's retained earnings		(3 667 173)	(3 737 843)
b) current years profit/loss		(1 376 463)	70 670
Total equity:		**6 757 974**	**8 134 437**
Provisions:	(20)	1 359 614	1 166 102
Liabilities:			
Non-current liabilities:			
Loans	(21)	3 246 089	3 969 696
Other liabilities	(23)	150 200	150 200
Deferred income tax liabilities	(11)	295 089	676 322
Total non-current liabilities:		**3 691 378**	**4 796 218**
Current liabilities:			
Loans	(21)	4 916 688	2 831 055
Trade payables	(22)	4 062 362	3 087 646
Corporate income tax		214 839	0
Other liabilities	(23)	2 041 043	1 085 169
Total current liabilities:		**11 234 932**	**7 003 870**
Total liabilities:		**14 926 310**	**11 800 088**
Total equity, provisions and liabilities		**23 043 898**	**21 100 627**

Notes on pages 11 to 31 are an integral part of these financial statements.

Natālija Petrova
board member

Daugavpils, 21 May, 2008

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Retained earnings	Total
		EUR	EUR	EUR
31.12.2005.		**11 801 610**	**(3 737 843)**	**8 063 767**
Profit for the year			**70 670**	70 670
31.12.2006.		**11 801 610**	**(3 667 173)**	**8 134 437**
Losses for the year			**(1 376 463)**	(1 376 463)
31.12.2007.		**11 801 610**	**(5 043 636)**	**6 757 974**

Notes on pages 11 to 31 are an integral part of these financial statements.

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Natālija Petrova
board member

Daugavpils, 21 May, 2008

CASH FLOW STATEMENT

	Notes	2007 EUR	2006 EUR
Cash flow from operating activities			
Profit or losses before taxes		**(1 492 636)**	**133 180**
Adjustments for:			
depreciation		477 965	279 250
profit from disposal of fixed assets		(24 162)	(243 630)
foreign exchange (gains)/losses		(436 723)	(286 050)
interest expenses		471 308	294 672
provisions		1 096 439	(82 773)
Cash flow prior to changes in current assets and liabilities		**92 191**	**94 649**
Inventory (increase)/decrease		(1 176 401)	1 471 234
Account receivable (increase)/decrease		(1 325 624)	(708 711)
Account payable increase/(decrease)		1 768 725	(9 760 687)
Gross cash flow generated from operating activities		**(641 109)**	**(8 903 515)**
Interests paid		(487 335)	(294 672)
Corporate income tax paid		105 655	(270 259)
Net cash flow generated from operating activities		**(1 022 789)**	**(9 468 446)**
Cash flow from investing activities			
Acquisition of fixed assets		(678 815)	(2 597 618)
Proceeds from sales of fixed assets		27 369	448 461
Net cash flow generated from investing activities		**(651 446)**	**(2 149 157)**
Cash flow from financing activities			
Loans received		2 959 667	3 857 394
Loans repaid		(1 160 918)	(413 488)
Net cash flow generated from financing activities		**1 798 749**	**3 443 906**
Net increase / (decrease) in cash and cash equivalents		**124 514**	**(8 173 697)**
Cash and cash equivalents at the beginning of the financial year		**47 170**	8 220 867
Cash and cash equivalents at the end of the financial year	(18)	**171 684**	**47 170**

Notes on pages 11 to 31 is an integral part of these financial statements.

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Natālija Petrova
board member

Daugavpils, 21 May, 2008

NOTES TO THE FINANCIAL STATEMENTS

A/S "DAUGAVPILS LOKOMOTIVJU REMONTA RUPNICA" (further in text - Company) is registered in Company register of Republic of Latvia in Daugavpils on 3 October 1991 and in Commercial register of Republic of Latvia in Daugavpils on 8 June 2004. Legal address of the Company is 1, Marijas street, Daugavpils, LV-5404, Latvia.

Company is public holding company and it's shares are quoted in Riga Stock Exchange in Latvia.

Basic activity is repair of railway rolling stocks, servicing and modernizing, producing and repair of their spare parts.

These financial statements are consolidated financial statements. Company is a parent company and at the end of 2006 it has established 11 subsidiaries with 100% participation in each of them.

The Company's financial year is from 1 January 2007 till 31 January 2007.

Board of the Company has corroborated this financial statement on 21 May 2008.

On December 2006 Company established 11 subsidiaries and their economic activity started on January 2007.

Name of the subsidiary	Address	Type of operations	Share capital	Participation % in a capital
"Rel" SIA	1 Marijas st., Daugavpils	Repair of diesel-electric locomotives and electric trains.	2 846	100
"Elap" SIA	1 Marijas st., Daugavpils	Repair of electric equipment of rolling stock	2 846	100
"Remdīz" SIA	1 Marijas st., Daugavpils	Repair of engine and it's knots of rolling stock	2 846	100
"Ritrem" SIA	1 Marijas st., Daugavpils	Repair of couple wheels and lorry of rolling stock	2 846	100
"Elektromaš" SIA	1 Marijas st., Daugavpils	Repair and producing of electromotors, generators and transformers	2 846	100
"Krāsotājs" SIA	1 Marijas st., Daugavpils	Dyeing of rolling stock	2 846	100
"SPZČ" SIA	1 Marijas st., Daugavpils	Repair and producing of spare parts	2 846	100
"Metalurgs" SIA	1 Marijas st., Daugavpils	Metal foundry	2 846	100
"Remenergo" SIA	1 Marijas st., Daugavpils	Maintenance of fixture, technical control and capital repair of buildings, constructions and producing equipment, service rendering of public facilities to group companies	2 846	100
"Instruments" SIA	1 Marijas st., Daugavpils	Repair and producing of instruments and utilities	2 846	100
"Loģistika" SIA	1 Marijas st., Daugavpils	Transportation service Material purchasing for Concern's need	2 846	100
			31 306	

I. ACCOUNTING POLICIES

(1) General principles

These financial statements have been prepared in accordance with the EU-approved International Financial Reporting Standards (IFRS). All standards which are legislated by council of International Accounting standards which are law in force are attested in EU. Financial statements are prepared at cost base which is modified by appreciating fixed assets at their fair value.

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgments applying the accounting policies adopted by the Company.

(2) First time adoption of IFRS

This is first year when company has made their financial statements under International Financial Reporting Standards (IFRS).

Preparing first financial statement under IFRS, the Company appreciated a part of fixed assets - real estate - at their fair value and by using them as their redeemed costs at this date. Taking into consideration that it was done in 2007, which is later than transition date to IFRS as well as correction of market value of real estate at the end of 2007, the appraised value of real estate is decreased by 30%.

In the Financial year the fair value of technological equipment and other fixed assets also has been evaluated by independent experts. There was no material differences between book value and fair value of these assets, and no adjustments has been made.

See Note 27 to financial statement for the effect of the change of the accounting policy by transition to IFRS.

(3) Standard passing

a) Interpretations, which are effective from 1 January 2007 and are related to Company's activity

IFRS 7 Financial instruments: disclosures and complementary amendments to IAS 1, Presentation of financial statements – Capital disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures of information relating to financial assets. The standard requirements include both qualitative and quantitative data about risks arising from the financial instruments, incorporating specific requirements to disclosures about credit risk, liquidity risk and market risk. The standard replaces IAS 32, Financial instruments: Disclosures. The standard must be adopted by all companies which prepare financial statements in compliance with IFRS. Amendments to IAS 1 introduce disclosures requirements about sufficiency of the capital and management of the capital by the Company.

b) Standards, amendments and interpretations that are effective from 1 January 2007, and relevant for operations of the Company

There is published or transcribed IFRS interpretations, which are obligatory for periods of accounting which begin from 1 January 2007, but do not relevant for operations of the Company:
IFRS 7 ”Repeated adoption of IAS 39 „Financial reporting in hyperinflation cautionary economies”
IFRS 8 ”Scope of IFRS No. 2”
IFRS 9 ”Reassessment of embedded derivatives”
IFRS 10 ”Interim financial reporting and impairment”

c) Standards, amendments and interpretations, which are not yet obligatory adaptive and their adaptation previously Company has not done

IAS 23 Borrowing costs
(signed on Mart 2007; effective for annual periods which started in 1 January 2009 and later)

Signed IAS 23 was published on Mart 2007. Main alteration IAS 23 affects intercepted possibility directly include borrowing cost into expenses which relate with assets which need remarkable time period for preparing them for utilization or selling. Wherewith all companies need to capitalize these borrowing costs as a part from expenses of assets. Signed standard is relating to borrowing costs which are connected with qualifying of assets whose capitalizing starting date is 1 January 2009.

IAS 1 Presentation of financial statements
(effective from the date of adoption by the European Union but not earlier than in than period that begins on 1 January 2009 or later)
IAS 1 was revised to improve use of the disclosures in the financial statements. Many amendments have been introduced including new definitions, representation of disclosures on equity transactions as well as other amendments. The Company at the moment considers amendments to the disclosures in accordance with these amendments. The Company will adopt the amendments to IAS 1, beginning on 1 January 2009.

IAS 27 – Consolidated and separate financial statements (effective for accounting periods beginning on or after 1 January 2009).

Processed standard requires that changes in participation in subsidiaries is considered as transactions of equity. Calculation of losses of subsidiaries was changed. The Company now is appraising influence of processed standards to further financial statements and planning to make allegations of IAS 27 starting from accounting period on 1 January 2009.

d) Standards, amendments and interpretations that are not yet effective and not relevant for operations of the Company

The following standards and IFRS interpretations have been published and are mandatory for the accounting periods beginning on or after 1 March 2007 but are not relevant to, or need not affect accounting policy of the Company or presentation in the financial statements:

IFRS 3- Business combinations and – revised (effective for periods beginning on or after 1 January 2009).
IFRIC 11, “IFRS 2 – “Group and treasury share transactions” (effective for periods beginning on or after 1 March 2007).
IFRIC 12, “Service concession arrangements (effective for periods beginning on or after 1 January 2008).
IFRIC 13, „Customer loyalty programs” (effective for periods beginning on or after 1 July 2008).
IFRIC 14, „IAS No. 19 – The limit on a defined benefit asset, minimum funding and their interaction” (effective for periods beginning on or after 1 January 2008).

(4) Principles of consolidation and purchase of companies

Consolidated financial statement includes financial statements of the Company and it's subsidiaries. Accounting policy and financial year of the Company and subsidiaries do not differ. Financial statements of the subsidiaries included in consolidated financial statements of the Company under the full consolidation method. Since the Company has established all of the subsidiaries no goodwill arise. Subsidiaries are consolidated from their incorporation date.

(5) Segment reporting

A business segment is the identified business segment engaged in selling goods and providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is the identified business segment engaged in selling goods or providing services within a particular economic environment that are subject to risks and returns that are different from those of business segments operating in other economic environments.

(6) Foreign currency translation to LVL

(a) Functional and presentation currency

Items are shown in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). Financial statements are presented in Latvian lat (LVL), which is the Company’s functional and presentation currency.

(b) Transactions and balances

All foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement for the period.

	31.12.2007.	**31.12.2006.**
	Ls	**Ls**
1 USD	0,484	0,536
1 EUR	0,702804	0,702804
1 RUB	0,0197	0,0203
1 LTL	0,204	0,204
1 EEK	0,0449	0,0449

(7) Income recognition

Main operation of the Company is repair and modernization of railway rolling stock. Net sales represent the total of goods and services sold during the year net of discounts, value added tax and excise tax.

Income from repairing and modernizing services are recognized by percentage completion method (see Note 8 to accounting policies "Long term contracts").

Income from sales of goods in Latvia is recognized when the customer has accepted the goods. Income from sales of goods outside Latvia is recognized in accordance with the terms of delivery. Income from penalties is recognized at the moment of receipt. Income from provision of other services is recognized at the period of rendering the services.

Interest income or expenses are recognized in the income statement for all loans and borrowings assessed at amortized cost applying the effective interest rate method.

(8) Long term contracts

Costs which are connected with longterm contract are recognised at the time when they appear. If result of long term contract is not possible to estimate, then Company recognises the income at the amount of contract related expenses which is possible to recover. If it is probable to estimate the financial result and it is planned to be a profit the income recognised during the period of contract. If there is material probability that total expenses of this agreement will exceed total income, then potencial losses are recognised immediately as expenses.

Company applies precentage completion method to estimate the recognized income amount in the curent period. According to that method the Company determines completion degree of work by as percentage of total planned contract expenses toward contract expenses which are ensued until balance sheet date or by reviewing the actual work done. Expenses which are incurred in current period but related to work in future periods, are extracted from current year expenses in calculating of work percentage completion. These expenses are recognzed as inventories or other assets, depends from the nature of expenses

(9) Property, plant and equipment (fixed assets)

Fixed assets are initially accounted at the purchase cost. Purchase cost includes costs, which are directly related to the purchase of fixed assets. In financial statements the intangible and fixed assets are shown at purchase cost less depreciation.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful live, as follows:

	Depreciation % per annum
Buildings	1-5
Technological equipment	5-20
Other machinery and equipment, transport vehicles	5-35

The Company capitalizes its fixed assets valued over Ls 100 with useful life exceeding 1 year. Depreciation for improvements and other low costs items valued less than 50 Ls is recalculated as 100% of purchase amount after putting into operation.

Repair and maintenance costs of fixed assets are expensed when incurred. If sufficient evidence is acquired that by repair and maintenance future economic benefit associated with it will flow to the Company, which exceeds the previously set return, costs are capitalized as additional costs to the fixed asset. Capitalizing the cost of mounted spare parts, the carrying value of the part replaced is expensed.

Net profit or loss from disposal of fixed assets is calculated, as the difference between the carrying amount of the fixed asset and the income from sale, and expensed when disposal are incurred.

If any circumstances or events exist, by which it could the concluded, that the carrying amount of a fixed asset could be higher of its recoverable value, the value of a fixed or intangible asset is written down to its recoverable amount. Recoverable value is the higher of the fair value less costs to sell and the value in use of the related fixed asset.

(10) Inventory

Inventory is recorded at the lower of purchase or production costs and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventory at their current position and value. The costs of used materials and other expenses that are directly connected with the production of the appropriate item. Cost is stated on the FIFO method. When the net realizable value of inventories is lower than their cost, provisions are created to reduce the value of inventories.

(11) Impairment of tangible assets

All material assets of the Company have their estimated useful lives and they are amortized or depreciated. Assets that are subject to amortization and depreciation are revaluated every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Loss from value decrease is recognized at difference between book value of the asset and its recoverable value. Recoverable value is the higher of an asset’s fair value less costs to sell and its value in use. In order to determine decrease of the value, assets are classified based on the lower level of identifiable cash flows (cash-bearing units). Assets, which value has been decreased, are assessed at the end of every reporting year to identify the probable value decrease reservation.

(12) Account receivable

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’ s carrying amount and the present value of estimated future cash flows, discounted at the original effective rate. Changes in inventories are shown in the income statement.

(13) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the remaining cash, balance of current bank accounts and current deposits with maturities up to 90 days.

(14) Share capital and dividends

Ordinary shares are classified as equity. Dividends to be paid to shareholders of the Company are represented as liabilities during the financial period of the Company, within which shareholders of the Company approve the dividends.

(15) Provisions

Provisions are recognized, when there is a present obligation as a result of current or previous years events, it is probable that an outflow or resources will be required, and the amount has been reliably estimated.

(16) Loans

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(17) Accruals for unused annual leave

Accruals for unused annual leave are based on actual number of outstanding days of paid leave as at the end of the reporting period multiplied by the average daily salary over the last six months of each employee.

(18) Corporate income tax

Corporate income tax is calculated in accordance with tax laws of the Republic of Latvia. Effective laws provide for 15 % tax rate.

(19) Deferred Tax

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. However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business dilution, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognized.

Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the deferred income tax is settled. The principal temporary differences, in general, arise from different fixed assets depreciation rates as well as provisions for slow-circulating goods, accruals for unused annual leave and accruals for bonuses. Where an overall deferred income tax arises it is only recognized to the extent it is probable which the temporary differences can be utilized.

(20) Pension obligations

The Company pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian laws. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognized as an expense on an accrual basis and are shown in the staff costs.

(21) Disability pension

Company has obligation to make long term payments to existing and previous employees if some of them now are disabled person because of injury of work.

Amount of this pension depends from the form of disability, total income of employee and overall indexation of pensions. Liability about further disability pensions is appreciated as amortized costs of future payments of pensions at balance sheet's date. In calculation is supposed that that effective interest rate is equal with indexation percentage of pensions.

(22) Earnings per share

Earnings per share are determined dividing the net gains or losses attributable to shareholders of the Company by the average weighted quantity of the shares in the reporting year.

(23) Related parties

Related parties are considered shareholders, Board and Council members, their close family members and Companies, in which the previously mentioned persons have significant influence or control.

(24) Critical accounting estimates and judgments

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Very rare estimates are the same as results. Financial statement does not involve items which are subordinate to subjective and complicated estimates. In many items of financial statements in appreciation are used assumptions and estimates which affects financial statements.

1. Estimates about periods of preferable use of fixed assets as it is dealt in methods description of accounting and appreciation. Preparing first financial statement in line with IFRS, the Company appreciated a part of fixed assets - real estate - at their fair value and by using them as their redeamed costs at this date. Taking into consideration that it was done in 2007, which is later than transition date to IFRS as well as correction of market value of real estate at the end of 2007, the appaised value of real estate is decreased by 30%.

2. The Company accounts and depreciates the fixed assets by it's material components as per IAS 16. Estimates of the Company about allocation of fixed assets to it's components and density of each part in total value of fixed assets are build

3. The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not existed at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment.

4. Estimates about completeness of long term project at balance sheet's date has calculated as described in Note 9 of accounting policy.

5. Estimates about impairment of inventories. Management count on knowledge when it appreciates inventories, to take into past experience, basic information, possible assumptions and situation in future. Determining decrease of value of inventories, they consider selling possibility as well as value of selling.

II. OTHER NOTES

(1) Segment reporting

a) Primary Reporting Segment – Business Segment

Core activity of the Company is repairing and modernizing of railway rolling stock, as well as it's producing and repair of spare parts. Company does all means of repairing and modernizing of railways rolling stocks (diesel-electric locomotives and electric trains), as well as producing and repairing large amount of spare parts and knots of rolling stocks. Since the Company's core activity is mainly repair of railway rolling stocks, the Company has only one reporting business segment. These financial statements represent the information related to the primary business segment.

(b) Secondary Reporting Segment – Geographical Segment

The Company operates in Latvia by selling repair services and spare parts in domestic market, as well as exporting these services and spares.

The operations of the Company can be divided into several geographical segments, which are sales in Latvia, sales to overseas markets, which could be divided by the country of the residence of the client/locomotives. Distribution of sales among these segments is as follows:

	2007	**2006**
Income from sales of goods/services in Latvia	4 133 300	7 231 318
Income from sales of goods/services to EU	3 120 216	3 160 531
Income from sales of goods/services to Russia	3 204 734	11 973 687
Income from sales of goods/services to Belarus	986 335	3 051 978
Income from sales of goods/services to Uzbekistan	1 662 341	462 433
Income from sales of goods/services to Mongolia	3 043 807	0
Others	6 224 292	174 017
	22 375 025	**26 053 964**

(2) Net sales

Income from repair service of railway rolling stocks	16 945 913	22 663 020
Income from sales of spare parts and materials	3 253 929	2 378 818
Other income	2 175 183	1 012 126
	22 375 025	**26 053 964**

(3) Cost of sales

Raw materials and consumables	8 699 864	13 473 049
Cost of spare parts sold	3 154 780	2 333 118
Salary expenses	4 520 403	4 541 884
Social expenses	1 062 019	1 072 548
Impairment of inventories, receivables and other provisions	1 005 622	152 792
Utility expenses	826 509	940 221
Depreciation	340 988	191 410
Cost of delivery of goods	314 160	584 403
Other costs	745 021	908 939
	20 669 366	**24 198 364**

(4) Selling costs	2007 EUR	2006 EUR
Transportation costs	273 947	100 816
Salary expenses	87 953	48 089
Social insurance costs	21 188	11 584
Other selling costs	56 246	38 144
	439 334	**198 633**

(5) Administrative expenses		
Salary expenses	1 737 675	1 117 436
Social insurance costs	408 834	267 355
Depreciation	136 977	87 840
Utility expenses	97 785	37 022
Professional service costs	61 183	12 094
Office costs	59 883	80 268
Representation costs	16 235	9 567
Other administrative expenses	228 379	174 030
	2 746 951	**1 785 612**

(6) Other operating income		
Net income from sale of fixed assets	24 162	243 630
Rental income	23 557	18 618
Other income	62 140	105 317
	109 859	**367 565**

(7) Other operating expenses		
Cost of collective agreement with employees	23 166	49 803
Other expenses	25 622	55 814
	48 788	**105 617**

(8) Expenses by nature		
Row materials, consumables and cost of goods sold	11 854 644	15 806 166
Salary expenses	6 346 030	5 707 408
Social insurance costs	1 492 040	1 351 486
Impairment of inventories, receivables and other provisions	1 005 622	152 792
Rent and utility expenses	924 295	977 243
Depreciation of fixed assets	477 965	279 250
Cost of delivery of goods	314 160	584 403
Transportation costs	273 947	100 816
Office costs	59 883	80 268
Advertisement and representation costs	16 235	9 567
Other costs	1 090 830	1 133 208
	23 855 651	**26 182 607**

(9) Financial income		
Net income from exchange rate fluctuations	416 651	320 273
Interest income	497	
	417 148	**320 273**

(10) Financial costs

	2007 EUR	2006 EUR
Interest charge	493 325	330 603
(Interest capitalized)	(22 018)	(32 861)
Penalties paid	18 921	22 655
	490 228	**320 397**

(11) Corporate income tax

a) Components of corporate income tax

Deferred income tax	(381 233)	62 510
Corporate income tax according to the tax return	265 060	
	(116 173)	**62 510**

The deferred company income tax has been calculated from the following temporary differences between value of assets and liabilities and their values for the purpose of calculating the company's income tax:

	2007 EUR	2006 EUR
Profit before corporate income tax	(1 492 636)	133 180
Theoretically calculated tax at 15% tax rate	(223 895)	19 977
Tax effects on:		
Non-deductible expenses for tax purposes	107 723	42 532
Total corporate income tax expenses	**(116 172)**	**62 509**

b) Movement and components of deferred tax

Deferred tax losses at the beginning of the financial year	676 322	613 812
Deferred tax charged to the income statement	(381 233)	62 510
Deferred tax losses at the end of the financial year	**295 089**	**676 322**

The deferred company income tax has been calculated from the following temporary differences between value of assets and liabilities and their values for the purpose of calculating the company income tax:

	31.12.2007. EUR	31.12.2006. EUR
Temporary difference on depreciation of fixed and intangible assets	880 913	868 312
Gross deferred tax liabilities	**880 913**	**868 312**
Temporary difference on provisions for potential losses	18 265	9 604
Temporary difference on provisions for potential liabilities	203 943	174 916
Temporary difference on provisions for slow moving stock	23 877	7 470
Losses transferred to the next taxation periods for the purpose of the company income tax	339 739	
Gross deferred tax assets	**585 824**	**191 990**
Net deferred tax liability	**295 089**	**676 322**

The Company offsets the deferred tax assets and the deferred tax liabilities only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax is related to the same taxation authority.

The movement of deferred tax assets and liabilities during the reporting year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated depreciation of fixed assets	Provisions for potential losses	Provisions for slow moving stock	Other provisions	Transferred tax losses	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Cost/valuation						
01.12.2006.	832 329	0	(2 134)	(216 382)	0	613 813
Charged / (credited) to income st	35 983	(9 604)	(5 336)	41 466	0	62 509
2006.12.31	868 312	(9 604)	(7 470)	(174 916)	0	676 322
Charged / (credited) to income st	12 601	(8 661)	(16 407)	(29 027)	(339 739)	(381 233)
2007.12.31	**880 913**	**(18 265)**	**(23 877)**	**(203 943)**	**(339 739)**	295 089

(12) Earnings per Share

Since the Company has not executed any transactions that could cause changes in the share capital, which would change the amount of earning per share, the adjusted earnings per share is equivalent to the basic earnings per share.
Earnings per share are calculated by dividing the profit of the reporting year by the average number of shares in the reporting year.

	2007	2006
	EU	EUR
Profit attributed to shareholders of the Company	(1 376 463)	70 670
Average annual number of shares	8 294 219	8 294 219
Earnings per share	**(16,60)**	**0,85**

(13) Fixed assets

	Land and buildings	Equipment and machinery	Other fixed assets	Advances for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR
2006.01.01					
Initial cost	8 815 132	6 811 363	767 645	121 629	16 515 769
Accumulated depreciation	(2 111 321)	(6 053 291)	(655 020)	0	(8 819 632)
Book value	**6 703 811**	**532 776**	**112 625**	**85 481**	**7 696 137**
Year 2006					
Initial book value	6 703 811	758 072	112 625	121 629	7 696 137
Purchased	1 550 586	556 479	139 806	350 736	2 597 607
Written off and sold	(201 049)	(1 767)	(2 016)	0	(204 832)
Calculated depreciation	(72 774)	(166 059)	(40 417)	0	(279 250)
End book value	**7 980 574**	**1 146 725**	**209 998**	**331 980**	**9 809 662**
2006.12.31					
Initial cost/ overrated	10 100 411	7 249 879	729 901	472 365	18 552 556
Accumulated depreciation	(2 119 837)	(6 103 154)	(519 903)	0	(8 742 894)
Book value	**7 980 574**	**1 146 725**	**209 998**	**331 980**	**9 809 662**
Year 2007					
Initial book value	7 980 572	1 146 725	209 999	472 365	9 809 661
Purchased	94 668	725 370	264 953	(384 160)	700 831
Written off and sold	0	(3 206)	0	0	(3 206)
Calculated depreciation	(211 531)	(204 250)	(62 184)	0	(477 965)
End book value	**7 863 709**	**1 664 639**	**290 095**	**(61 991)**	**10 029 321**
2007.12.31					
Initial cost/ overrated	8 547 633	7 782 183	963 074	88 205	17 381 095
Accumulated depreciation	(683 925)	(6 117 543)	(550 306)	0	(7 351 774)
Book value	**7 863 708**	**1 664 640**	**290 095**	**61 991**	**10 029 321**

Preparing first financial statement in line with IFRS, the Company appreciated a part of fixed assets - real estate - at their fair value and by using them as their redeemed costs at this date. Valuation was done by the independent expert AS BDO Invest Riga. Taking into consideration that it was done in 2007, which is later than transition date to IFRS as well as correction of market value of real estate at the end of 2007, the appraised value of real estate is decreased by 30%. Total correction of fixed assets -3 606 792 EUR.

In Company's individual financial statements revaluation of fixed assets 3 606 792 EUR is shown in 2007.

In the Financial year the fair value of technological equipment and other fixed assets also has been evaluated by independent experts. There was no material differences between book value and fair value of these assets, and no adjustments has been made.

Capitalized interest of loans in 2007 was 22 018 EUR (in 2006 - 32 861 EUR).

All fixed assets are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from Norvik banka (see Note 21).

(14) Inventories	**2007.12.31 EUR**	**2006.12.31 EUR**
Raw materials	3 789 485	2 403 158
Work in progress	174 625	303 112
Finished goods	829 930	911 369
(Provisions for impairment of inventories)	(159 178)	(49 801)
	4 634 862	**3 567 838**

All inventories are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the Norvik banka (see Note xx).

Movement of provisions of decrease of value of inventories

Provisions opening balances	49 801	0
Changes in provisions in the financial year	109 378	49 801
	159 179	**49 801**

(15) Trade receivables

Book value of trade receivables	6 965 399	6 775 430
(Provisions for doubtful debts)	(2 800 139)	(2 064 329)
	4 165 260	**4 711 101**
Including debts for related parties (see also note 26)	285 459	

Movement of provisions of for doubtful debts

Provisions - opening balances	2 064 329	2 046 710
Increase of provisions in the financial year	735 810	17 619
	2 800 139	**2 064 329**

(16) Accrued income

Accrued income from long-term contracts	4 749 908	3 067 730
Provisions for potential losses	(121 771)	(64 029)
Advances received	(1 215 437)	(639 329)
Gross value for accrued income	**3 412 700**	**2 364 372**
from them:		
Accumulated income as assets	3 571 166	2 381 539
Accumulated income as liabilities (in balance row "Accrued liabilities")	(158 467)	(17 167)

(17) Other receivables	**2007.12.31**	**2006.12.31**
VAT overpaid	236 329	0
Guaranties	98 147	103 764
Income tax paid overseas	77 248	77 248
Provisions for overseas paid taxes	(77 248)	0
VAT for advances received	24 556	57 108
Advances for raw materials	87 720	163 625
Deferred expenses	15 798	18 423
Other receivables	9 055	7 456
	471 605	**427 624**

(18) Cash and cash equivalents		
Cash on hand	424	95
Cash at bank	171 260	47 075
	171 684	**47 170**

(19) Share capital

Registered fully paid share capital of the Company is 11 801 610 EUR, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is 1.423 EUR. All shares guarantees equal rights to dividends, reception of liquidation quotas and suffrage in shareholder's meeting. One share gives rights to 1 vote. All shares are dematerialized. The Company do not hold own shares or someone else in it's interest. Shares are not convertible, exchangeable or guaranteed.

From 2001 1 299 367 shares has been quoted in AS Riga Exchange stock in second list. At the end of financial year there are 1 299 367 listed shares.

(20) Provisions

	31.12.2007. EUR	**31.12.2006. EUR**
Provisions for warranty repair and other liabilities	1 359 614	1 166 102
	1 359 614	**1 166 102**

In line with agreements , Concern provides warranty repair under overall terms of repair services.

(21) Loans

		31.12.2007. Ls	31.12.2006. Ls
Non-current			
Non-current loan in USD	a)	1 823 241	2 282 490
Loan for installation of gas equipment in euro	b)	255 879	383 921
Loan for privatization of land in euro	c)	1 140 368	1 280 590
Other loan in LVL	d)		22 695
Other loan in euro	e)	26 601	
		3 246 089	**3 969 696**
Current			
Current part of non-current loan in USD	a)	237 815	263 365
Current part of non-current loan for gas equipment in euro	b)	128 040	128 040
Current part of loan for privatization of land in euro	c)	141 840	142 281
Current part of other loan in lats	d)		9 391
Current part of other loan in euro	e)	8 401	
Overdraft in USD	f)	1 839 093	2 287 978
Overdraft in euro	g)	961 500	
Short-term loan in euro	h)	1 599 999	
		4 916 688	**2 831 055**

a)
In 2004 the Company has received a loan in amount of 4 000 000 USD from A/S NORVIK banka for increase of current assets. The loan must be repaid till April, 2016. The interest rate is 1.3% plus 3 months LIBOR.

b)
In 2005 the Company has received a loan in amount of 640 000 euro from A/S NORVIK banka for installation of gas equipment. The loan must be repaid till December, 2010. The interest rate is 1.6% plus 6 months LIBOR.

c)
In 2006 the Company has received a loan in amount of 1 000 000 LVL from A/S NORVIK banka for privatization of land plots. In 2007 the loan has been refinanced in euro with repayment till December 2016. The interest rate is 1.6% plus 6 months LIBOR.

d)
In 2005 the Company has received a loan in amount of 33 000 LVL from A/S NORVIK. Loan is repaid.

e)
In 2007 the Company has received a loan in amount of 42 000 EUR from A/S NORVIK banka. It must be repaid until February 2012. The interest rate is 1.6% plus 6 months LIBOR.

f)
In 2006 Company signed overdraft agreement with A/S Norvik banka with maximum financing amount of 3,000,000 USD with the repayment till September 2007. Company prolonged contract until September 2008. Interest rate 1.2 % + 3 month LIBOR.

g)
In 2007 Company signed overdraft agreement with A/S Norvik banka with maximum amount of 1 000 000 EUR for supplement of current assets with the repayment until April 2008. Interest rate 1.8 % + 3 month LIBOR.

h)
In 2007 company received a loan from A/S Norvik banka in amount of 1 600 000 EUR for supplement of current assets. Loan must be repaid until December 2008. Interest rate 2.25% + 3 month LIBOR.

Movement of loans in financial year

At the beginning of financial year	6 800 751	3 642 893
Loans received in financial year	2 959 667	3 857 394
Repaid loans in financial year	(1 160 918)	(413 487)
Fluctuations of currency exchange rate	(436 723)	(286 049)
At the end of financial year	**8 162 777**	**6 800 751**

The effective interest rates at the balance sheet date were as follows:

	2007	2006
Borrowings	6,25%-7,15%	4,24%-6,82%
Overdraft	6,33%-6,57%	5,39%

Borrowings made by the Company are exposed to the interest rate fluctuations in the following revaluation periods:

Non-current	**2007.12.31 EUR**	**2006.12.31 EUR**
6 months or less	8 162 777	6 800 751
6 – 12 months		
	8 162 777	**6 800 751**

Payable in 1 year	4 916 688	2 831 055
Payable in 2 – 5 years	516 094	543 078
Payable in more than 5 years	2 729 995	3 426 618
	8 162 777	**6 800 751**

Fulfillment of the Company's liabilities is secured and enforced by the mortgage of all real estate owned by the Company and commercial pledge of all Company's assets as aggregation of property on the date of pledging as well as parts of the aggregation of property. Carrying amount of the pledged assets of the Company as at 31 December 2007 was EUR 25 120 894 (on 31 December 2006 - EUR 17 493 833).

(22) Trade payables	**2007.12.31 EUR**	**2006.12.31 EUR**
Debts to related parties (see note 26)	10 983	1 480 904
Other trade payables	4 051 379	1 606 742
	4 062 362	**3 087 646**

(23) Other liabilities

Non-current		
Accrued liabilities to disability pensions (non-current part)	150 200	150 200
	150 200	**150 200**
Current		
Salaries	343 968	262 298
VAT	68 810	124 091
Social insurance costs	339 800	155 639
Personnel income tax	210 289	86 482
Other taxes	1 770	2 103
Accrued liabilities to disability pensions (current part)	10 683	10 683
Accumulated liabilities to long-term contracts (see Note 19)	158 467	17 167
Advances received	1 761 416	991 295
Less advances for long-term contracts (see Note 19)	(1 215 437)	(639 329)
Accruals for unused annual leave	237 820	31 248
Other liabilities	123 457	43 492
	2 041 043	**1 085 169**

	2007	2006
(24) Average number of employees in concern	**2007**	**2006**
Average number of people employed during the financial year	1 346	1 648
Average number of people employed during the financial year	1 274	1 505

(25) Personnel expenses

Salary expenses and social insurance tax (production costs)	5 582 422	5 614 432
Salary expenses and social insurance tax (selling costs)	109 141	59 673
Salary expenses and social insurance tax (administration costs)	2 146 509	1 384 791
	7 838 072	**7 058 896**
including:		
Renumuration for Board members	157 937	84 852
	157937	**84852**

Members of the Council do not receive remuneration for the performance of their duties.

In accordance with the regulations of the Cabinet of Ministers of the Republic Latvia 74% (2006: 74%) of the mandatory State social insurance contributions are used to finance the State defined contribution pension system.

(26) Transactions with related parties

Chairman of the counsel Oleg Osinovskis has material influence to largest shareholder of the Company - AS Skinest Rail (Estonia). Concern has participated in transactions with other companies which are related to AS Skinest Rail: SIA Skinest Latvia, Spacecom (Estonia), UAB Skinest Baltija (Lithuania) and OOO Skinest SPB (Russia).

b) claims and liabilities

	31.12.2007.		**31.12.2006.**	
	Receivables EUR	**Payables EUR**	**Receivables EUR**	**Payables EUR**
AS Skinest Rail		7 389		686 651
AS Spacecom	221 336			713
SIA Skinest Latvija	64 123			793 540
UAB Skinest Baltija		3 594		0
OOO Skinest SPB (advances)		54 660		0
	285 459	**65 643**	**0**	**1 480 904**

c) transactions

	Notes	**2007 EUR**	**2006 EUR**
Servicing and selling of goods related to Company's core activities			
AS Skinest Rail		1 978 048	1 092 000
AS Spacecom		144 803	33 028
SIA Skinest Latvija		1 328 359	960 582
UAB Skinest Baltija		27 029	
OOO Skinest SPB		252 362	
		3 730 601	**2 085 610**

	2007	2006
Purchase of goods and services related to Company's core activities		
AS Skinest Rail	884 174	1 914 481
AS Spacecom	2 398	1 921
SIA Skinest Latvija	1 781 243	3 056 852
UAB Skinest Baltija	20 911	
	2 688 726	**4 973 254**

(27) Effect from transition to IFRS

This is first financial year when company prepares financial statements according to International Financial Reporting standards (IFRS). Effect from changes of accounting policy are these:

	2005.12.31	
	Net assets	**Retained earnings**
	EUR	**EUR**
Before IFRS	5 231 662	**(7 772 513)**
<u>Effect of changed accounting policy</u>		
Increase of value of fixed assets appreciating them in fair value using this value as deemed costs (see Note 13) *	3 606 794	3 606 794
Effect of adjustment of differed income tax for revaluation of fixed assets*	(613 806)	(613 806)
Previous accumulated fixed assets revelation reserve's reclassification to retained earnings	0	1 202 564
Recognized liabilities for future disability pensions (see Note 21)	(160 883)	(160 883)
Effect of transition to IFRS	**2 832 105**	**4 034 669**
In IFRS Financial statements	**8 063 767**	**(3 737 844)**

* In Company's individual financial statements revaluation of fixed assets and with that related adjustment of deferred tax liabilities has recognized and has effect on changes in net assets in 2007. The effect of this adjustment in IFRS statements has only a temporary difference with the Company's individual financial statements.

(28) Tax Contingent Liabilities

The tax authorities have conducted complex tax audit of the Company for the period from 2002 to 2004. The outcome of this audit was not material to these financial statements.

The tax authorities may at any time conduct the accounting audit for the last three years after the taxation period and apply additional tax liabilities and penalties. At present the tax authorities started the complex tax audit for 2005 and 2006 years. The tax audit has not finished at the moment of signing the financial statements. The Management of the Company is not aware of any circumstances that could cause potential significant liabilities in the future.

(29) Managing of capital and financial risks

a) Financial risks

The principal financial instruments of the Company is cash and receivables. The main objective of these financial instruments is to provide financing for the operations of the Company. The Company interacts with various other financial instruments, for example, other receivables and payables and other creditors, following directly from its operations.

Financial risks, connected with the financial instruments of the Company, mainly, are interest rate risk, liquidity risk and credit risk.

Foreign currency risks

The company is subject to foreign currency fluctuations, mainly due to its loans and other operations performed with euro and USD currency, and trade receivables is USD and RUB currency.

Since 2005 the Bank of Latvia has stated a fixed currency exchange rate for LVL against euro, i.e. 0.702804, and ensure that the market rate will not differ from the official rate by more than 1%. As far as the Bank of Latvia maintains the above mentioned exchange corridor, the Company will not have a significant currency exchange risks in respect of assets and liabilities nominated in euro.

	31.12.2007.	31.12.2006.
Financial assets, USD	4 940 767	3 399 719
Financial liabilities, USD	-15 213 580	-10 772 972
Position of balance sheet, USD, net	-10 272 813	-7 373 253
Position of balance sheet, EUR, net	(4 972 042)	(3 952 061)
Financial assets, EUR	513 704	196 140
Financial liabilities, EUR	-6 165 486	-1 438 491
Position of balance sheet, EUR, net	(5 651 782)	(1 242 351)
Position of balance sheet, LVL, net	(2 791 605)	(613 638)
Financial assets, RUB	53 317 798	73 147 445
Financial liabilities, RUB	-50 765 383	-17 135 193
Position of balance sheet, RUB, net	2 552 415	56 012 252
Position of balance sheet, EUR, net	50 283	1 137 048

Interest rate risks

The Company is subject to the interest rate risk, mainly with respect to its borrowings. The average interest rate of the Company loans is reflected in Note 21.

Credit risk

The Company is subject to the credit risk with respect to the debts of its buyers and customers, issued short-term loans and money and its equivalents. The Company manages its credit risk constantly reviewing the repayment history of the client debts and stating the credit conditions for each client separately.

Total open position of credit risk	2007.12.31 EUR	2006.12.31 EUR
Trade receivables, net	4 165 260	4 711 101
Other current assets	471 605	427 624
Cash and cash equivalent	171 684	47 170
Financial assets opened to credit risk	**4 808 549**	**5 185 895**
Aging of receivables		
Debts undue	3 403 237	2 613 572
Debts due till 180 days	684 892	905 639
Debts due over 180 days	77 131	1 191 890
Trade receivables, net	**4 165 260**	**4 711 101**

Movement of provision for doubtful receivables shown in Note 15.

Value risk

Concern is dependent from increase of value of producing materials. Company signed long-term agreements for purchase of materials. to of minimizing utility cost, Company permanently is supposing about increasing efficiency of production.

Liquidity risk

The Company manages its liquidity risk, maintaining the appropriate amount of money and money equivalents and uses credit line. The Company pursues a prudent liquidity risk management maintaining sufficient credit resources that allow settling liabilities when they fall due. On 31 December 2007 current assets overfill current liabilities by 1.78 million EUR (31.12.2006 - 4.28 EUR). Total maximum amount of overdraft is 3.07 million EUR. On 31 December 2007 unused part of credit line was 265.37 thousand EUR

b) Fair Value

There are no material difference between the carrying amount of financial assets and liabilities of the Company and fair value thereof.

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c) Capital Management

Equity of the Company meets the requirements of the Commercial Law of the Republic of Latvia. The Management of the Company ensures capital adequacy management in accordance with the best practice of the sector.

(30) Subsequent events

There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2007.

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Natālija Petrova
board member

Daugavpils, 21 May, 2008

The annual report has been approved by the general meeting of members ____ ______________ 2008