AS Daugapils Lokomotīvju Remonta Rūpnīca

ANNUAL REPORT

for the 12 months period ended 31 December 2008

prepared under International Financial reporting Standards

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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 15.7 million LVL (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 967 384 LVL. 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 12.8 million LVL (in 2006 - 13.2 milllion LVL), but turnover in Latvia was 2.9 million (in 2006 - 5 million). In 2007 Company started to export production to Mongolia. Main export directions are EU countries: Lithuania and Estonia and third 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 Ls	2006 Ls
Net sales	(2)	15 725 257	18 310 830
Cost of sales	(3)	(14 526 513)	(17 006 707)
Gross profit or losses		**1 198 744**	**1 304 123**
Selling costs	(4)	(308 766)	(139 600)
Administrative expenses	(5)	(1 930 568)	(1 254 935)
Other operating income	(6)	77 209	258 326
Other operating expenses	(7)	(34 288)	(74 228)
Financial income	(9)	293 173	225 089
Financial expenses	(10)	(344 535)	(225 176)
Profit or losses before taxes		**(1 049 031)**	**93 599**
Corporate income tax	(11)	81 647	(43 932)
Net profit or losses		**(967 384)**	**49 667**
Earning per share (in santim's)	(10)		
Basic		**(11,66)**	**0,60**
Adjusted		**(11,66)**	**0,60**

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. Ls	31.12.2006. Ls
Assets			
Non-current assets			
Property, plant and equipment		7 048 647	6 894 270
Total non-current investments:		**7 048 647**	**6 894 270**
Current assets			
Inventories		3 257 399	2 507 491
Trade receivables	(15)	2 927 361	3 310 980
Accrued income	(17)	2 509 830	1 673 755
Corporate income tax			109 422
Other currents assets		331 446	300 536
Cash and cash equivalents	(18)	120 660	33 151
Total current assets:		**9 146 696**	**7 935 335**
Total assets		**16 195 343**	**14 829 605**
Equity			
Share capital	(19)	8 294 219	8 294 219
Retained earnings			
a) previous year's retained earnings		(2 577 304)	(2 626 971)
b) current years profit/loss		(967 384)	49 667
Total equity:		**4 749 531**	**5 716 915**
Provisions:	(20)	955 542	819 541
Liabilities:			
Non-current liabilities:			
Loans	(21)	2 281 364	2 789 918
Other liabilities	(23)	105 561	105 561
Deferred income tax liabilities	(11)	207 390	475 322
Total non-current liabilities:		**2 594 315**	**3 370 801**
Current liabilities:			
Loans	(21)	3 455 468	1 989 677
Trade payables	(22)	2 855 044	2 170 010
Corporate income tax		150 990	0
Other liabilities	(23)	1 434 453	762 661
Total current liabilities:		**7 895 955**	**4 922 348**
Total liabilities:		**10 490 270**	**8 293 149**
Total equity, provisions and liabilities		**16 195 343**	**14 829 605**

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
		Ls	**Ls**	**Ls**
31.12.2005.		**8 294 219**	**(2 626 971)**	**5 667 248**
Profit for the year			49 667	49 667
31.12.2006.		**8 294 219**	**(2 577 304)**	**5 716 915**
Losses for the year			(967 384)	(967 384)
31.12.2007.		**8 294 219**	**(3 544 688)**	**4 749 531**

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 Ls	2006 Ls
Cash flow from operating activities			
Profit or losses before taxes		**(1 049 031)**	**93 599**
Adjustments for:			
depreciation		335 916	196 258
profit from disposal of fixed assets		(16 981)	(171 224)
foreign exchange (gains)/losses		(306 931)	(201 037)
interest expenses		331 237	207 097
provisions		770 582	(58 173)
Cash flow prior to changes in current assets and liabilities		**64 792**	**66 520**
Inventory (increase)/decrease		(826 779)	1 033 989
Account receivable (increase)/decrease		(931 654)	(498 085)
Account payable increase/(decrease)		1 243 067	(6 859 850)
Gross cash flow generated from operating activities		**(450 574)**	**(6 257 426)**
Interests paid		(342 501)	(207 097)
Corporate income tax paid		74 255	(189 939)
Net cash flow generated from operating activities		**(718 820)**	**(6 654 462)**
Cash flow from investing activities			
Acquisition of fixed assets		(477 074)	(1 825 616)
Proceeds from sales of fixed assets		19 235	315 180
Net cash flow generated from investing activities		**(457 839)**	**(1 510 436)**
Cash flow from financing activities			
Loans received		2 080 066	2 710 992
Loans repaid		(815 898)	(290 601)
Net cash flow generated from financing activities		**1 264 168**	**2 420 391**
Net increase / (decrease) in cash and cash equivalents		**87 509**	**(5 744 507)**
Cash and cash equivalents at the beginning of the financial year		**33 151**	**5 777 658**
Cash and cash equivalents at the end of the financial year	(18)	**120 660**	**33 151**

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 LVL	Participation % in a capital
"Rel" SIA	1 Marijas st., Daugavpils	Repair of diesel-electric locomotives and electric trains.	2 000	100
"Elap" SIA	1 Marijas st., Daugavpils	Repair of electric equipment of rolling stock	2 000	100
"Remdīz" SIA	1 Marijas st., Daugavpils	Repair of engine and it's knots of rolling stock	2 000	100
"Ritrem" SIA	1 Marijas st., Daugavpils	Repair of couple wheels and lorry of rolling stock	2 000	100
"Elektromaš" SIA	1 Marijas st., Daugavpils	Repair and producing of electromotors, generators and transformers	2 000	100
"Krāsotājs" SIA	1 Marijas st., Daugavpils	Dyeing of rolling stock	2 000	100
"SPZČ" SIA	1 Marijas st., Daugavpils	Repair and producing of spare parts	2 000	100
"Metalurgs" SIA	1 Marijas st., Daugavpils	Metal foundry	2 000	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	2 000	100
"Instruments" SIA	1 Marijas st., Daugavpils	Repair and producing of instruments and utilities	2 000	100
"Loģistika" SIA	1 Marijas st., Daugavpils	Transportation service Material purchasing for Concern's need	2 000	100
			22 000	

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 100 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 builc

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:

Income from sales of goods/services in Latvia	2 904 900	5 082 199
Income from sales of goods/services to EU	2 192 900	2 221 234
Income from sales of goods/services to Russia	2 252 300	8 415 155
Income from sales of goods/services to Belarus	693 200	2 144 942
Income from sales of goods/services to Uzbekistan	1 168 300	325 000
Income from sales of goods/services to Mongolia	2 139 200	
Others	4 374 457	122 300
	15 725 257	**18 310 830**

(2) Net sales

Income from repair service of railway rolling stocks	11 909 656	15 927 661
Income from sales of spare parts and materials	2 286 874	1 671 843
Other income	1 528 727	711 326
	15 725 257	**18 310 830**

(3) Cost of sales

Raw materials and consumables	6 114 299	9 468 912
Cost of spare parts sold	2 217 192	1 639 725
Salary expenses	3 176 957	3 192 054
Social expenses	746 391	753 791
Impairment of inventories, receivables and other provisions	706 755	107 383
Utility expenses	580 874	660 791
Depreciation	239 648	134 524
Cost of delivery of goods	220 793	410 721
Other costs	523 334	638 806
	14 526 243	**17 006 707**

(4) Selling costs	**2007 Ls**	**2006 Ls**
Transportation costs	192 531	70 854
Salary expenses	61 814	33 797
Social insurance costs	14 891	8 141
Other selling costs	39 530	26 808
	308 766	**139 600**

(5) Administrative expenses		
Salary expenses	1 221 244	785 338
Social insurance costs	287 330	187 898
Depreciation	96 268	61 734
Utility expenses	68 724	26 019
Professional service costs	43 000	8 500
Office costs	42 086	56 413
Representation costs	11 410	6 724
Other administrative expenses	160 506	122 309
	1 930 568	**1 254 935**

(6) Other operating income		
Net income from sale of fixed assets	16 981	171 224
Rental income	16 556	13 085
Other income	43 672	74 017
	77 209	**258 326**

(7) Other operating expenses		
Cost of collective agreement with employees	16 281	35 002
Other expenses	18 007	39 226
	34 288	**74 228**

(8) Expenses by nature		
Row materials, consumables and cost of goods sold	8 331 491	11 108 637
Salary expenses	4 460 015	4 011 189
Social insurance costs	1 048 612	949 830
Impairment of inventories, receivables and other provisions	706 755	107 383
Rent and utility expenses	649 598	686 810
Depreciation of fixed assets	335 916	196 258
Cost of delivery of goods	220 793	410 721
Transportation costs	192 531	70 854
Office costs	42 086	56 413
Advertisement and representation costs	11 410	6 724
Other costs	766 370	796 423
	16 765 577	**18 401 242**

(9) Financial income		
Net income from exchange rate fluctuations	292 824	225 089
Interest income	349	
	293 173	**225 089**

(10) Financial costs	2007 Ls	2006 Ls
Interest charge	346 711	232 349
(Interest capitalized)	(15 474)	(23 095)
Penalties paid	13 298	15 922
	344 535	**225 176**

(11) Corporate income tax

a) Components of corporate income tax

Deferred income tax	(267 932)	43 932
Corporate income tax according to the tax return	186 285	
	(81 647)	**43 932**

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 Ls	2006 Ls
Profit before corporate income tax	(1 049 031)	93 599
Theoretically calculated tax at 15% tax rate	**(157 355)**	**14 040**
Tax effects on:		
Non-deductible expenses for tax purposes	75 708	29 892
Total corporate income tax expenses	**(81 647)**	**43 932**

b) Movement and components of deferred tax

Deferred tax losses at the beginning of the financial year	475 322	431 390
Deferred tax charged to the income statement	(267 932)	43 932
Deferred tax losses at the end of the financial year	**207 390**	**475 322**

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. Ls	31.12.2006. Ls
Temporary difference on depreciation of fixed and intangible assets	619 109	610 253
Gross deferred tax liabilities	**619 109**	**610 253**
Temporary difference on provisions for potential losses	12 837	6 750
Temporary difference on provisions for potential liabilities	143 331	122 931
Temporary difference on provisions for slow moving stock	16 781	5 250
Losses transferred to the next taxation periods for the purpose of the company income tax	238 770	
Gross deferred tax assets	**411 719**	**134 931**
Net deferred tax liability	**207 390**	**475 322**

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
	Ls	Ls	Ls	Ls	Ls	Ls
Cost/valuation						
01.12.2006.	584 964	0	(1 500)	(152 074)	0	431 390
Charged / (credited) to income s	25 289	(6 750)	(3 750)	29 143	0	43 932
2006.12.31	610 253	(6 750)	(5 250)	(122 931)	0	475 322
Charged / (credited) to income s	8 856	(6 087)	(11 531)	(20 400)	238 770	(267 932)
2007.12.31	**619 109**	**(12 837)**	**(16 781)**	**(143 331)**	**(238 770)**	**207 390**

(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
	Ls	Ls
Profit attributed to shareholders of the Company	(967 384)	49 667
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in santims)	**(11,66)**	**0,60**

(13) Fixed assets

	Land and buildings	Equipment and machinery	Other fixed assets	Advances for fixed assets	Total
	Ls	Ls	Ls	Ls	Ls
2006.01.01					
Initial cost	6 195 310	4787053	539 504	85 481	11 607 348
Accumulated depreciation	(1 483 845)	(4254277)	(460 351)		(6 198 473)
Book value	**4 711 465**	**532 776**	**79 153**	**85 481**	**5 408 875**
Year 2006					
Initial book value	4 711 465	532 776	79 153	85 481	5 419 875
Purchased	1 089 758	391 096	98 256	246 499	1 825 609
Written off and sold	(141 298)	(1 242)	(1 416)		(143 956)
Calculated depreciation	(51 146)	(116 707)	(28 405)		(196 258)
End book value	**5 608 779**	**805 923**	**147 588**	**331 980**	**6 905 270**
2006.12.31					
Initial cost/ overrated	7 098 609	5 095 244	512 977	331 980	13 038 810
Accumulated depreciation	(1 489 830)	(4 289 321)	(365 389)		(6 144 540)
Book value	**5 608 779**	**805 923**	**147 588**	**331 980**	**6 894 270**
Year 2007					
Initial book value	5 608 778	805 923	147 588	331 980	684 269
Purchased	66 533	509 793	186 210	(269 989)	762 536
Written off and sold		(2 253)			(2 253)
Calculated depreciation	(148 665)	(143 548)	(47 703)		(335 916)
End book value	**5 526 646**	**1 169 915**	**290 095**	**(61 991)**	**838 647**
2007.12.31					
Initial cost/ overrated	6 007 311	5 469 349	676 852	61 991	12 215 503
Accumulated depreciation	(480 665)	(4 299 434)	(386 757)		(5 166 856)
Book value	**5 526 646**	**1 169 915**	**290 095**	**61 991**	**7 048 647**

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 - 2 534 868 LVL.

In Company's individual financial statements revaluation of fixed assets 2 534 868 LVL 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 15 474 LVL (in 2006 - 23 095).

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 Ls**	**2006.12.31 Ls**
Raw materials	2 663 265	1 688 949
Work in progress	122 727	213 028
Finished goods	583 278	640 514
(Provisions for impairment of inventories)	(111 871)	(35 000)
	3 257 399	**2 507 491**

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	35 000	0
Changes in provisions in the financial year	76 871	35 000
	111 871	**35 000**

(15) Trade receivables

Book value of trade receivables	4 895 310	4 761 799
(Provisions for doubtful debts)	(1 967 949)	(1 450 819)
	2 927 361	**3 310 980**
Including debts for related parties (see also note 26)	200 622	

Movement of provisions of for doubtful debts

Provisions - opening balances	1 450 819	1 438 436
Increase of provisions in the financial year	517 130	12 383
	1 967 949	**1 450 819**

(16) Accrued income

Accrued income from long-term contracts	3 338 254	2 156 013
Provisions for potential losses	(85 581)	(45 000)
Advances received	(854 214)	(449 323)
Gross value for accrued income	**2 398 459**	**1 661 690**
from them:		
Accumulated income as assets	2 509 830	1 673 755
Accumulated income as liabilities (in balance row "Accrued liabilities")	(111 371)	(12 065)

(17) Other receivables	**2007.12.31**	**2006.12.31**
VAT overpaid	166 093	
Guaranties	68 978	72 926
Income tax paid overseas	54 290	54 290
Provisions for overseas paid taxes	(54 290)	
VAT for advances received	17 258	40 136
Advances for raw materials	61 650	114 996
Deferred expenses	11 103	12 948
Other receivables	6 364	5 240
	331 446	**300 536**

(18) Cash and cash equivalents

Cash on hand	298	67
Cash at bank	120 362	33 084
	120 660	**33 151**

(19) Share capital

Registered fully paid share capital of the Company is 8 294 219 LVL, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is 1 LVL. 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. Ls	**31.12.2006. Ls**
Provisions for warranty repair and other liabilities	955 542	819 541
	955 542	**819 541**

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

(21) Loans		**31.12.2007.**	**31.12.2006.**
		Ls	**Ls**
Non-current			
Non-current loan in USD	a)	1 281 381	1 604 143
Loan for installation of gas equipment in euro	b)	179 833	269 821
Loan for privatization of land in euro	c)	801 455	900 004
Other loan in LVL	d)		15 950
Other loan in euro	e)	18 695	
		2 281 364	**2 789 918**
Current			
Current part of non-current loan in USD	a)	167 137	185 094
Current part of non-current loan for gas equipment in euro	b)	89 987	89 987
Current part of loan for privatization of land in euro	c)	99 686	99 996
Current part of other loan in lats	d)		6 600
Current part of other loan in euro	e)	5 904	
Overdraft in USD	f)	1 292 522	1 608 000
Overdraft in euro	g)	675 746	
Short-term loan in euro	h)	1 124 486	
		3 455 468	**1 989 677**

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 euro 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 euro 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 euro 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	4 779 595	2 560 240
Loans received in financial year	2 080 066	2 710 992
Repaid loans in financial year	(815 898)	(290 600)
Fluctuations of currency exchange rate	(306 931)	(201 037)
At the end of financial year	**5 736 832**	**4 779 595**

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 Ls	2006.12.31 Ls
6 months or less	5 736 832	4 779 595
6 – 12 months		
	5 736 832	4 779 595

Payable in 1 year	3 455 468	1 989 677
Payable in 2 – 5 years	362 713	381 677
Payable in more than 5 years	1 918 651	2 408 241
	5 736 832	4 779 595

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 LVL 17 655 065 (on 31 December 2006 - 12 294 736).

(22) Trade payables

	2007.12.31 Ls	2006.12.31 Ls
Debts to related parties (see note 26)	7 719	1 040 785
Other trade payables	2 847 325	1 129 225
	2 855 044	2 170 010

(23) Other liabilities

Non-current		
Accrued liabilities to disability pensions (non-current part)	105 561	105 561
	105 561	105 561
Current		
Salaries	241 742	184 344
VAT	48 360	87 212
Social insurance costs	238 813	109 384
Personnel income tax	147 792	60 780
Other taxes	1 244	1 478
Accrued liabilities to disability pensions (current part)	7 508	7 508
Accumulated liabilities to long-term contracts (see Note 19)	111 371	12 065
Advances received	1 237 930	696 686
Less advances for long-term contracts (see Note 19)	(854 214)	(449 323)
Accruals for unused annual leave	167 141	21 961
Other liabilities	86 766	30 566
	1 434 453	762 661

(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)	3 923 348	3 945 845
Salary expenses and social insurance tax (selling costs)	76 705	41 938
Salary expenses and social insurance tax (administration costs)	1 508 574	973 236
	5 508 627	**4 961 019**

including:

Renumuration for Board members	110 999	59 634
	110999	**59634**

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 75% (2006: 75%) 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	**Payables**	**Receivables**	**Payables**
	Ls	**Ls**	**Ls**	**Ls**
AS Skinest Rail		5 193		482 581
AS Spacecom	155 556			501
SIA Skinest Latvija	45 066			557 703
UAB Skinest Baltija		2 526		
OOO Skinest SPB (advances)		38 415		
	200 622	**46 134**	**0**	**1 040 785**

c) transactions

	Notes	**2007**	**2006**
		Ls	**Ls**
Servicing and selling of goods related to Company's core activities			
AS Skinest Rail		1 390 180	767 462
AS Spacecom		101 768	23 212
SIA Skinest Latvija		933 576	675 101
UAB Skinest Baltija		18 996	
OOO Skinest SPB		177 361	
		2 621 881	**1 465 775**

	2007	2006
Purchase of goods and services related to Company's core activities		
AS Skinest Rail	621 401	1 345 505
AS Spacecom	1 685	1 350
SIA Skinest Latvija	1 251 865	2 148 368
UAB Skinest Baltija	14 696	
	1 889 647	**3 495 223**

(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**
	Ls	**Ls**
Before IFRS	**3 676 833**	**(5 462 553)**
Effect of changed accounting policy		
Increase of value of fixed assets appreciating them in fair value using this value as deemed costs (see Note 13) *	2 534 869	2 534 869
Effect of adjustment of differed income tax for revaluation of fixed assets*	(431 385)	(431 385)
Previous accumulated fixed assets revelation reserve's reclassification to retained earnings		845 167
Recognized liabilities for future disability pensions (see Note 21)	(113 069)	(113 069)
Effect of transition to IFRS	**1 990 415**	**2 835 582**
In IFRS Financial statements	**5 667 248**	**(2 626 971)**

* 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.	**32.12.2006**
Financial assets, USD	3 472 391	2 389 336
Financial liabilities, USD	(10 692 165)	(7571288)
Position of balance sheet, USD, net	(7 219 774)	(5 181 952)
Position of balance sheet, LVL, net	(3 494 371)	(2 777 524)
Financial assets, EUR	361 033	137 848
Financial liabilities, EUR	(4 333 128)	(1 010 977)
Position of balance sheet, EUR, net	(3 972 095)	(873 129)
Position of balance sheet, LVL, net	(2 791 605)	(613 638)
Financial assets, RUB	37 471 962	51 408 317
Financial liabilities, RUB	(35 678 114)	(12 042 682)
Position of balance sheet, RUB, net	1 793 848	39 365 635
Position of balance sheet, LVL, net	35 339	799 122

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 Ls**	**2006.12.31 Ls**
Trade receivables, net	2 927 361	3 310 980
Other current assets	331 446	300 536
Cash and cash equivalent	120 660	33 151
Financial assets opened to credit risk	**3 379 467**	**3 644 667**

Aging of receivables		
Debts undue	2 391 808	1 139 469
Debts due till 180 days	481 345	494 971
Debts due over 180 days	54 208	844 350
Trade receivables, net	**2 927 361**	**2 478 790**

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 1.25 million LVL (31.12.2006 - 3.01 LVL). Total maximum amount of overdraft is 2.16 million LVL. On 31 December 2007 unused part of credit line was 186,5 thousand LVL.

b) Fair Value

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

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