AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA"

CONSOLIDATE REPORT

For 6 months 2010

TABLE OF CONTENTS:

INFORMATION ON THE COMPANY

Name of the company	DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA
Legal status of the company	Joint-stock company
Number, place and date of registration	Enterprise Register Nr.40003030219 Riga, 3 October 1991 Commercial register Riga, 8 June 2004
Address	Marijas street 1, Daugavpils LV-5401 Latvia
Type of operations	Railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts
Names of the major shareholders	AS SKINEST RAIL – 49,9% Moisa 4, 13522 Tallinn, Estonia AS SPACECOM - 25,27% Kadaka tee 1, 10621 Tallinn, Estonia LLC LOKOMOTIIV IVESTEERINGUUD - 13,39% Tartu street 18-18, 10115 Tallinn, Estonia Other shareholders - 11,44%
Names and positions of the Counsel members	Oleg Ossinovski - Chairman of the Council (from 15.06.2010) Aivar Keskula - Vice Chairman of the Council (from 15.06.2010) Juri Krasnošlik – Member of the Council (from 15.06.2010) Natalja Kumar – Member of the Council (from 15.06.2010) Aleksandr Golubnitši – Member of the Council (from 15.06.2010) Vasily Barashkov– Member of the Council (until 20.04.2010) Maarika Piir - Member of the Council (until 20.04.2010) Oleg Rumjantsev – Member of the Council (until 20.04.2010)
Names and positions of the Board members	Natālija Petrova – Chairman of the Board Andrejs Šilovs – Member of the Board (until 15.06.2010) Kazimirs Steļmačenoks - Member of the Board
Auditor`s name and address	Report not vise

Report of the management.

I. The key figures of the enterprise.

In 6 months 2010 year joint-stock company „Daugavpils Lokomotīvju Remonta Rūpnīca" has distributed goods for **7 241.0** thousand lats, which constitutes 181.7% compared to the appropriate period of 2009.

Displayed below is the dynamics of the output of the production of the basic classification.

Table No.1

The basic classification of the production.

thousands,Ls

Designation	6 months 2010	6 months 2009	(+, -)
Diesel locomotive repair, section	2 865.7	2 048.5	+817.2
Electric train repair,carrige	143.8	20.7	+123.1
Wheel pair repair, pieces	223.0	597.4	-374.4
Electric machines repair,pieces	178.9	394.9	-216.0
Diesel repair, peaces	8.6	-	+8.6
Other production	3 821.0	924.7	+2 896.3
Total	**7 241.0**	**3 986.2**	**+3 254.8**

Table No.2

The structure of the distributed goods by the clients.

The client	6 months 2010		6 months 2009	
	sum	%	sum	%
Latvia	766.7	10.6	1 297.3	32.6
Lithuania	332.4	4.6	202.4	5.1
Estonia	3 490.6	48.2	108.7	2.7
Belarus	157.2	2.2	175.5	4.4
Uzbekistan	785.9	10.8	383.5	9.6
Russia	1 613.7	22.3	1 205.4	30.2
Other	94.5	1.3	613.4	15.4
Total	**7 241.0**	**100.0**	**3 986.2**	**100.0**

II. Financial figures.

The enterprise finished 6 months 2010 year at la profit 1.3 thousand Ls.

The enterprise for the means of the increase of the turnover resources, has invested 67.8 thousand lats of investments, including:

- Equipment putting into operation - 10.4 thousand Ls
- Equipment repairs - 56.6 thousand Ls
- Furniture and equipment - 0.8 thousand Ls

Chairman of the Board Natālija Petrova

Statement of Director's responsibility

The Board of Directors of the Joint Stock Company "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" (hereinafter – the Company) is responsible for the preparation of the interim financial statements of the Company. Interim financial statements of the Company are not audited.

The financial statements on pages 7 to 23 are prepared in accordance with the underlying accounting records and source documents and present fairly the financial position of the Company as of Junie 30, 2010 and the result of its operations and cash flows for of the year 2010.

The financial statements are prepared in accordance with International Financial Reporting Standarts on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Board of Directors in the preparation of the financial statements.

The Board of Directors of JSC "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. The Board of Directors is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Natālija Petrova
Chairman of the Board

August 25, 2010

30.06.2010. balance Sheet

0.702804

ASSETS						
	30.06.2010.		30.06.2009.		01.01.2010.	
	LVL	**EUR**	**LVL**	**EUR**	**LVL**	**EUR**
Non current assets						
Property, plant and eguipment:						
Land, buildings and networks	5 200 368	7 399 457	5 344 357	7 604 335	5 273 381	7 503 345
Machinery and eguipment	1 099 031	1 563 780	1 212 631	1 725 418	1 133 900	1 613 394
Other property, plant and eguipment	134 411	191 250	203 204	289 133	166 118	236 365
Construction in progress	8 373	11 914	21 280	30 279	19 805	28 180
Total property, plant and eguipment	6 442 183	9 166 401	6 781 472	9 649 165	6 593 204	9 381 284
Embedding long-term financial						
Other embedding long-term financial						
Total embedding long-term financial						
Total embedding long-term	6 442 183	9 166 401	6 781 472	9 649 165	6 593 204	9 381 284
Current assets						
Inventory	2 734 151	3 890 346	2 529 471	3 599 113	2 856 179	4 063 977
Debtors:						
Debts custom, customer	2 118 113	3 013 803	2 193 779	3 121 466	2 279 713	3 243 739
Other current assets	174 298	248 004	246 848	351 233	761 321	1 083 262
Corp. income tax (overpay)			19 042	27 094	113 592	161 627
Accumulate income	1 264 319	1 798 964	1 918 268	2 729 449	792 494	1 127 617
Cash and cash eguivalents	149 674	212 967	165 401	235 344	111 965	159 312
Total current assets	6 440 555	9 164 084	7 072 809	10 063 699	6 915 264	9 839 534
Total assets	12 882 738	18 330 485	13 854 281	19 712 864	13 508 468	19 220 818

30.06.2010. balance Sheet

0.702804

LIABILITIES						
	30.06.2010.		30.06.2009.		01.01.2010.	
	LVL	**EUR**	**LVL**	**EUR**	**LVL**	**EUR**
Shareholder' equity						
Share capital	8 294 219	11 801 610	8 294 219	11 801 610	8 294 219	11 801 610
Topheavy reserves	-2 360 822	-3 359 146	-2 114 064	-3 008 042	-2 114 064	-3 008 042
Previous year unappropriated result	1 285	1 828	-512 676	-729 472	-246 758	-351 105
Previous year unappropriated result	5 934 682	8 444 292	5 667 479	8 064 096	5 933 397	8 442 463
Total shareholders' eguity						
Creditors						
Long-term loan from credit institution	1 800 517	2 561 906	1 957 788	2 785 681	1 636 143	2 328 022
Other liability	91 303	129 912	105 561	150 200	91 303	129 912
Deffered tax liability	335 251	477 019	374 921	533 465	335 251	477 019
Total	2 227 071	3 168 837	2 438 270	3 469 346	2 062 697	2 934 953
Short-term creditors						
Long-term loan from credit institution	584 618	831 836	1 699 326	2 417 923	1 107 585	1 575 951
Debts provider and employer	2 335 641	3 323 318	1 638 530	2 331 418	2 048 923	2 915 356
Accumulation	71 989	102 431	220 834	314 218	120 172	170 989
Corporate income tax liabilities			63 994	91 055	8 509	12 107
Other liabilities	1 728 737	2 459 771	2 125 848	3 024 808	2 227 185	3 168 999
Total current liabilities	4 720 985	6 717 356	5 748 532	8 179 422	5 512 374	7 843 402
Total	6 948 056	9 886 193	8 186 802	11 648 768	7 575 071	10 778 355
Total liabilities	12 882 738	18 330 485	13 854 281	19 712 864	13 508 468	19 220 818

Profit or loss account

For 6 months 2010

0.702804

	6 months 2010		6 months 2009	
	LVL	EUR	LVL	EUR
Net sales	7 430 939	10 573 274	4 089 985	5 819 524
Cost of sales	-6 549 570	-9 319 199	-3 735 984	-5 315 825
Gross profit (loss)	881 369	1 254 075	354 001	503 699
Sales and distribution expenses	-72 007	-102 457	-69 217	-98 487
Administrative expense	-694 301	-987 901	-635 362	-904 039
Other operating income	55 559	79 053	59 475	84 625
Other expenses	-6 022	-8569	-5 678	-8 079
Financial incomings/loss	-163 313	-232 373	-215 895	-307 191
Profit or loss before extraordinary post and taxes	1 285	1 828	-512 676	-729 472
Profit or loss before taxes	1 285	1 828	-512 676	-729 472
Profit or losses report on period	1 285	1 828	-512 676	-729 572
Profit coefficient on stock	+0.0002	+0.0002	-0.062	-0.088

OVERWIEW OF EQUITY CAPITAL CHANGES

For 6 months 2010

0.702804

	30.06.2010.		30.06.2009.	
	LVL	**EUR**	**LVL**	**EUR**
Share capital				
Post-balance residue at the beginning of year	8 294 219	11 801 610	8 294 219	11 801 610
Post-balance residue at the end of period	8 294 219	11 801 610	8 294 219	11 801 610
Retained profit				
Post-balance residue at the beginning of year	-2 360 822	-3 359 147	-2 114 064	-3 008 042
Post-balance residue at the end of period	-2 359 537	-3 357 318	-2 626 740	-3 737 514
Share capital (total)				
Post-balance residue at the beginning of year	5 933 397	8 442 463	6 180 155	8 793 568
Post-balance residue at the end of period	5 934 682	8 444 292	5 667 479	8 064 096

AS “Daugavpils Lokomotīvju Remonta Rūpnīca”
Unified registration number 40003030219
Address: Daugavpils, Marijas iela 1

rate 0.702804

Cash flow statement

I. Cash flow from operating activities for 6 month 2010

Activities	Uz 30.06.2010. LVL		Uz 30.06.2010. EUR		Uz 30.06.2009. LVL		Uz 30.06.2009. EUR	
	income	expences	income	expences	income	expences	income	expences
Profit before taxes	1 285		1 828			512 676		729 472
Adjustments: a) depreciation	216 545		308 116		218 305		310 620	
b) provision		48 183		68 559		18 146		25 820
c) profit or loss from fluctuacions of currency exchange	186 956		266 014		19 741		28 089	
Provision decrease								
Income from sale of fixed assets								
Interest exspenses								
Adjustments: a) Trade			555 476		1 053 837		1 499 475	
b) Net cash flow from operating activities	390 390		173 630		154 740		220 175	
c) Cash flow before extraordinary items	122 028	220 240		313 373	16 378		23 304	
Gross cash flow operating activities	917 204	268 423	1 305 064	381 932	1 463 001	530 822	2 081 663	755 292
Corporate income tax paid								
Cash flow before extraordinary items	917 204	268 423	1 305 064	381 932	932 179		1 326 371	
Net cash flow from operating activities	648 781		923 132					
II. Cash flows from investing activities								
Activities	Uz 30.06.2010. LVL		Uz 30.06.2010. EUR		Uz 30.06.2009. LVL		Uz 30.06.2009. EUR	
	income	expences	income	expences	income	expences	income	expences
Acguisition of fixed assets and intangible assets		66 763		94 995		61 970		88 175
Income from sale of fixed assets and intangible assets	1 240		1 764					
Parficipation in other companies								
Net cash flow from investing activities		65 523		93 231		61 970		88 175
III. Cash flows from financing activities								
Activities	Uz 30.06.2010. LVL		Uz 30.06.2010. EUR		Uz 30.06.2009. LVL		Uz 30.06.2009. EUR	
	income	expences	income	expences	income	expences	income	expences
Loans from credit institution								
Borrowing repaid		545 549		776 246		737 389		1 049 210
Net cash flows from financing activities		545 549		776 246		737 389		1 049 210
IV. Total cash flow								
Activities	Uz 30.06.2010. LVL		Uz 30.06.2010. EUR		Uz 30.06.2009. LVL		Uz 30.06.2009. EUR	
	income	expences	income	expences	income	expences	income	expences
Cash flow from operating activities	648 781		923 132		932 179		1 326 371	
Cash flows from investing activities		65 523		93 231		61 970		88 175
Cash flows from financing activities		545 549		776 246		737 389		1 049 210
Net cash flow of the current period	37 709		53 655			132 820		188 986
Cash and cash eguivalents at the beginning of the reporting period	111 965		266 622		165 401		235 344	
Cash and cash eguivalents at the end of the reporting period	149 674		212 967		32 581		46 358	

Chairman of the Board N.Petrova
Date 25.08.2010

Accounting policies

(1) Basis of preparation

These financial statements have been prepared in accordance with the EU-approved International Financial Reporting standards (IFRS).

a) Standards, amendments and interpretations effective in the current year

IAS 1, Presentation of Financial Statements
The main changes in IAS 1 is the replacement of income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of property, plant and equipment and available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has decided to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (previously - balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but no impact on the recognition or measurement of specific transactions or balances.

IAS 23, Borrowing Costs
The amendment to IAS 23 removes the option of immediately recognising as an expense the borrowing costs and requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. As the Group has not previously used that option the amendments do not impact the measurement of assets.

IFRS 8, Operating Segments
IFRS 8 replaced IAS 14 Segment Reporting. The Group concluded that the operation segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are disclosed in Note 2 *Segment Information* , including the related revised comparative information.

IFRS 7, Financial Instruments: Disclosure
The amendment to IFRS 7 requires additional disclosure on the fair value measurements and liquidity risks. The Group is required to disclose analysis of financial instruments by using three-level hierarchy for fair value measurements. The enhanced disclosures are included in these financial statements.

b) Standards, amendments and interpretations that are effective from 1 January 2009, but not relevant for operations of the Group

IFRS 1, First-time Adoption of IFRS - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)

IFRS 2, Share-based Payment - Vesting Conditions and Cancellations (Amendments)

IAS 27, Consolidated and Separate Financial Statements - Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)

IAS 32, Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendment)

Annual Improvements to IFRS, issued in May 2008.

IFRIC 13, Customer Loyalty Programmes

IFRIC 14 IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

c) Standards, amendments and interpretations, which are not yet effective and not yet adopted by the Group

Improvements to IFRS issued in April 2009
Amendments to IFRS 2, IAS 38, IFRIC 16 are effective for annual periods beginning on or after 1 July 2009, amendments to IFRS 5, IFRS 8, IAS1, IAS 36, and IAS 39 are effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU). Improvements consist of a mixture of substantive changes and clarifications in the different areas. The Company does not expect the amendments to have any material effect on its financial statements.

IFRS 3, Business Combinations and IAS 27, Consolidated and Separate Financial Statements - Amendments (effective for financial years beginning on or after 1 July 2009).

Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27A requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The Group is currently considering the effect of amendments on the financial statements. The Group intends to apply the amendment to IAS 1, starting with the reporting period on 1 January 2010.

IAS 24, Related Party Disclosures - Amendments (effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU).
The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group is currently assessing the impact of the amendments on disclosure in its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurements, issued in November 2009 (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
The IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption.

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

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items - Amendments (effective for financial years beginning on or after 1 July 2009).

IFRIC 9 and IAS 39 Embedded Derivatives - Amendment issued in March 2009 (effective for annual periods beginning on or after 30 June 2009, amendments to IFRIC 9 and IAS 39 as adopted by the EU is effective fro annual periods beginning after 31 December 2009).

IAS 32 Classification of Rights Issues - Amendment issued in October 2009 (effective for annual periods beginning on or after 1 February 2010).

IFRS 1 First-time Adoption of IFRS - Revised in December 2008 (effective for annual periods beginning on or after 1 July 2009, restructured IFRS 1 as adopted by the EU is effective fro annual periods beginning after 31 December 2009).

IFRS 1 First-time Adoption of IFRS - *Additional Exemptions for First-time Adopters* - Amendments (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU).

IFRS 2 Group settled Share-based Payment Transactions - Amendments (effective for annual periods beginning on or after 1 January 2010, not yet adopted by EU).

IFRS 7 Limited exemption from comparative disclosures for first-time adopters - Amendments (effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU)

IFRIC 12 Service Concession Arrangements (IFRIC as adopted by the EU is effective for annual periods beginning on or after 30 March 2009)

IFRIC 14, Prepayments of a Minimum Funding Requirements - Amendment (effective for annual periods beginning on or after 1 January 2011, not yet adopted by EU).

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2008, IFRIC 15 as adopted by the EU is effective fro annual periods beginning after 31 December 2009).

IFRIC 16, Hedges of a net investment in a foreign operation (effective for annual periods beginning on or after 1 October 2008, IFRIC 16 as adopted by the EU is effective fro annual periods beginning after 31 June 2009).

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009, IFRIC 17 as adopted by the EU is effective fro annual periods beginning after 31 October 2009).

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009, IFRIC 18 as adopted by the EU is effective fro annual periods beginning after 31 October 2009).

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010, not yet adopted by EU).

(2) Methods of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. The financial year and accounting principles of the Company and subsidiary companies are the same. Financial statements of subsidiaries are included in the consolidated financial statements of the Group based on the full consolidation method. Taking into consideration that all subsidiaries of the Company were established by the Company, no goodwill of acquisition has appeared. Subsidiary companies are consolidated from the time of its incorporation.

(3) Foreign currencies

(a) Functional and presentation currency
Items are shown in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates the functional currency). Financial statements are presented in Latvian lat (Ls), which is the Group'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 recognised in the income statement for the period.

Exchange rates used at the balance sheet date are as follows:

	30.06.2010.	30.06.2009.
1 USD	0.573	0.501
1 EUR	0.702804	0.702804
1 LTL	0.204	0.204
1 EEK	0.0449	0.0449
1 RUB	0.0184	0.0161

(4) Segment disclosure

An operation segment is a component of the Group which qualifies for the following criteria: (i) engages in business activities from which it may earn revenues and incur expenses; (ii) whose operation results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (iii) for which discrete financial information is available.

Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(5) Income recognition

Net sales represent the total of goods and services sold during the year net of discounts, value added tax and excise tax. Main operation of the Group is repair and modernization of railway rolling stock. Taking into account the type of repair and modernization work and complicity of the order the period of provisioning the services could exceed 3-6 months.

Contract costs related to repair and modernization services are recognised on the basis of completion. Expenses connected with repair service agreement are recognized in the moment when occurred. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group apply the stage of completion method to determine the appropriate amount of revenues to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to balance sheet date as a percentage of total estimated costs for each contract or carrying out surveys of work performed to date, which of them are more reliable. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories or other assets, depending on their nature.

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 provision of other services is recognized by reference to the stage of completion of 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.

(7) Property, plant and equipment (tangible assets)

Property, plant and equipment (tangible assets) are initially accounted at the purchase cost. Purchase cost includes costs, which are directly related to the purchase of tangible assets. In financial statements tangible assets are recognised at purchase cost less depreciation and any impairment losses. See Note 12 for modification of these policies in the first adoption of IFRS.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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 year
Buildings	1,11-20
Plant and equipment	4-20
Other fixtures and fittings, motor vehicles	20

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. The decrease in the value of assets is recognised as the expenses.

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalised during the time that is required to complete and prepare the asset for its intended use as part of the cost of the asset. Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within the income statement for the relevant period.

(8) Impairment of tangible and intangible assets

All tangible and intangible assets of the Group have their estimated useful lives and they are amortised or depreciated. Assets that are subject to amortisation and depreciation are revaluated every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Loss from value decrease is recognised 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.

(9) Lease without redemption rights (operating lease)

In cases, when the material part of the risks and rewards of ownership of the leased assets are remained to the lesser, the transaction is classified as operating lease. Lease payments and prepayment for lease are included in income statement on a straight-line basis over the lease period.

(10) Inventories

The inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of Group's business, less the costs of completion and selling expenses. When the net realisable value of inventories is lower than their cost, provisions are created to reduce the value of inventories to their net realisable value.

(11) Loans and trade receivables

Loans and trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that the Group 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 reorganisation, 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.

(12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, the balances of the current bank account and other current liquid financial assets with maturities up to 90 days.

(13) Share capital and dividends

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

(14) Borrowings

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

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

(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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

(16) Pension obligations

The Group 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 Group 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 recognised as an expense on an accrual basis and are shown in the staff costs.

(17) Accrued liabilities for unused annual leave

Amount of accumulated unused annual leave is determined by multiplying the average day rate of employees for the last six months of the financial year by the amount of accrued but unused annual leave at the end of the reporting year.

(18) Income tax

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

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. 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 tangible 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 recognised to the extent it is probable which the temporary differences can be utilised.

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 recognised.

(19) 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.

(20) Related parties

Related parties are defined as major shareholders of the Company, Board and Council members, their close family members and Companies, in which the previously mentioned persons have significant influence or control. Related parties are considered also the companies, that are being under the ultimate control or significant influence of related parties.

1. Net sales

	6 months 2010	6 months 2009
According to operating activities		
Products production	7 240 950	3 986 170
Other	189 989	103 815
Total	**7 430 939**	**4 089 985**
According to the location		
Income from export to Latvia	766 650	1 297 300
Income from export to Russia	1 613 700	1 205 400
Income from export to EU market	3 823 000	311 100
Income from export to Belarus	157 200	175 500
Income from export to Uzbekistan	785 900	383 500
Other	94 500	613 370
Total	**7 240 950**	**3 986 170**

2. Production costs

Goods delivery expenses	39 738	37 691
Raw, material and spare parts expenses	4 344 654	1 564 674
Utility expenses	411 014	359 917
Salary expenses	1 138 513	1 162 033
Social insurance	271 838	274 185
Depreciation of fixed assets	145 019	149 240
Other production costs	198 794	188 244
Total	**6 549 570**	**3 735 984**

3. Selling expenses

Transportation costs	46 119	43 740
Salary	20 866	20 530
Social insurance	5 022	4 947
Total	**72 007**	**69 217**

4. Administrative expenses

Salary expenses	392 593	350 500
Social insurance	93 868	81 279
Office expenses	67 148	68 285
Representation costs	635	1 244
Depreciation of fixed assets	52 267	50 250
Other administrative costs	42 790	83 804
Total	**649 301**	**635 362**

5. Other income

Income from fixed assets sale	1 240	3 887
Incomes of the basic means	24 354	26 922
Other income	29 965	28 666
Total	**55 559**	**59 475**

6. Other expenses

Expenses of collective agreement	4 481	3 610
Other expenses	1 541	2 068
Total	**6 022**	**5 678**

7. Fixed assets

	Land and buildings	Equipment and machinery	Other fixed assets and inventory	Fixed assets under construction	**Total**
Cost / Valuation 01.01.2010.	**6 048 140**	**5 592 815**	**691 396**	**19 805**	**12 352 156**
Additions		73 855	4 618	67 042	145 515
Disposals	794	33 810	8 458	78 474	121 536
Reclassification					
Revaluation					
30.06.2010.	**6 047 346**	**5 632 860**	**687 556**	**8 373**	**12 376 135**
Depreciation 01.01.2010.	**774 759**	**4 458 915**	**525 278**		**5 758 952**
Charge	72 605	107 614	36 326		216 545
Disposals	386	32 700	8 459		41 545
Reclassification					
Corrections for previous year's error					
30.06.2010.	**846 978**	**4 533 829**	**553145**		**5 933 952**
Net book value 01.01.2010.	**5 273 381**	**1 133 900**	**166 118**	**19 805**	**6 593 204**
Net book value 30.06.2010.	**5 200 368**	**1 099 031**	**134 411**	**8 373**	**6 442 183**

7. Incomplete products

Unfinished production	537 149	190 902

8. Finished good and goods for sale

Finished products on stock	443 988	350 422
Canteen	128	199
Total	**444 116**	**350 621**

10. Trade receivables

Trade receivables	2 118 113	2 193 779
Total	**2 118 113**	**2 193 779**

11. Other current assets

VAT overpaid	25 881	110 584
Guarantee	42 719	13 776
Other debtors	30 284	95 466
Advance payment	70 920	20 091
Payment next periods	4 494	6 931
Total	**174 298**	**246 848**

12. Cash and bank

Cash in hand	825	688
Cash at bank	148 849	164 713
Total	**149 674**	**165 401**

13. Share capital

As at 30 Junie 2010 the subscribed and fully paid share capital consists of 8294219 ordinary shares with a nominal value of Ls 1 each.

14. Loans from credit institutions

Long-term part	1 800 517	1 957 788
Short-term part	584 618	1 699 326
Total	**2 385 135**	**3 657 114**

15. Advances received from consumers

Latvia	56 103	2 161
Russia	102 304	222 964
EU market	364 296	416 938
Other	236 399	332 485
Total	**759 102**	**974 548**

16. Trade payables

Short-term part	2 335 641	1 638 530

17. Taxes and social insurance

	01.01. 2010.	Calculated	Budget restore/ move	(Paid)/ repaid	Transferred and corporate income tax (advances payment)	30.06.2010.
VAT	-32 535	-110 900	96 400	64 784	+85 938	-25 881
Personnel income tax	217 014	294 215		210 573	-54 300	246 356
Social insurance	439 008	521 976		462 608	-136 279	362 097
Corporate income tax	-105 083			8 509	104 641/8 951	
Real estate tax (land)	-172	3 051		2 879		
Real estate tax (buildings)		25 000		25 000		
Natural resource tax	1 001	2 131		2 226		906
The state tax for company's business	218	1 348		1 304		262
Total	**519 451**	**736 821**	**96 400**	**777 883**	**+8 951**	**583 740**

Hereof:

Liabilities/	751 745	609 621
(Overpaid)	232 294	25 881

18. Average number of employees

Average number of employees	870	1 012

Natālija Petrova

Chairman of the Board