Stock corporation's "Tosmare shipyard" annual report of 2007

(audited)

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Information about the Company

Name of the Company	Stock company "Tosmare shipyard"
Legal status of the Company	Stock company
Registration number, place and date	210302283, 3 January 2000, Company register, Liepaja. 42103022837, 12 May, 2004 Commercial register, Liepaja
Address	42/44G. Baloza Street, Liepaja, LV-3402
The main forms of Company's activities	Construction and repair of technological equipment, ships, yachts, catamarans, containers, roltrailers port services
Names, surnames and held positions of members of the board Alvils Pomerancis Ivica Galic Igors Komarovs	Chairman of the board, Id. No. 160869-10810 (to 28 December of 2007.g.) Member of the board, Id. No. 190463-14655 Member of the board, Id. No. 040756-10902
Names, surnames and held positions of members of the council Vasilijs Melniks Sergejs Golicin Anatolijs Ustinovs Larisa Artemenko Boris Galcovich	Chairman of the council, Id. No.310867-10726 Vice-chairman of the council Id. No.250154-10952 Member of the council, Id. No.010146-10964 Member of the council, Id. No. 030349-12926 Member of the council Id. No.020774-12900 (to 28 December of 2007)
Year of account	1 January 2007 - 31. December 2007
Name and address of the auditor	Natalija Zaiceva Certified auditor (LZRA certificate No.138) Company of certified auditors SIA " UHY Orients N" LZRA License No.28 A.Caka Street 83/85-12
	Riga LV-1011

<u>AS "Tosmare shipyard"</u> <u>Management's report</u> <u>for report of activities of year 2007</u>

At 2007 the enterprise - Joint stock company (JSC) "Tosmares shipyard" continued the course of increasing the production volume.

At 2007 year turnuver of the enterprise was equal to sum 7,708,799. LVL what is on 1,547,980. LVL more than turnover of the enterprise at 2006 year, and it is equal to 125 % from turnover of the enterprise at 2006 year.

Moreover 93,9 % from turnover of 2007 year are income from ships repairing services, 5.0 % or 384,316. LVL - income from ships building "s orders execution and 1.1 % or 84,764. LVL - income from execution of small repairing orders.

At 2007 year the market of enterprise"s rendered services was very vast - Cyprus (18,3%), Russia (44,1%), Norway (5,2%), Panama (4,8%), Malta, Lithuania, Germany, Netherlands a.o. Income from services of repairing of Latvian ships was equal to 745,134. LVL or 9, 7%.

At 2007 year profit from main business of the enterprise was equal to 516,272. LVL. What was less at 15,3 % than at 2006 year.

At 2007 year net profit of the enterprise was equal to 170 563 LVL or 2,2 % of annual turnover. At 2007 year management of the enterprise dedicated great attention not only to ships repairing works, but also continued to develop the production capacities in the enterprise for needs of ships building. As well, there was modernized the entrance road in the department which was reconstructed at previous years for needs of order execution for small volume ships building. Building of ships of such types, which began at 2006 year. Due to this at the account year 2007 there were built up 5 small ships and as a result, the profit of the enterprise from ship building industry was increased nealy 3 times.

At 2007 year there were continued the works in the enterprise in connection with replacing of electric transformers by more powerful ones, as well the works of electric cables reconstructing. The enterprise acquired 2 heating generators for his needs, 2 lifting equipments for providing of repairing works at dry docks.

At 2007 year there were also reconstructed premises for everyday necessities of the workers in the enterprise At 2007 year there were completed the works of strengthening the walls of Dry dock No.2.

At 2007 year the average number of workers in the enterprise diminished by 12 persons and it was equal to 253 persons. Moreover, average wages of workers increased at 25,9 % or at 60 LVL, and it was equal to 292 LVL (excepted management expenses of the enterprise).

The financial situation of the enterprise JSC "Tosmare shipyard" at 2007 year was stable

In the period of time between the last day of annual report and when the board examines the annual report there hasn"t been any significant or extraordinary circumstances that would influence the annual results an company"s financial standing.

The board suggests the earnings of 2007 to invest in company's further development

Chairman of the board Member of board Member of board Ivica Galich Igor Komarov Boris Galcovich

23 April of 2008 year

Announcement for management's responsibility.

Company's management is responsible for finance preparation, basing on the initial accounting register for each accounting period, that truly reflects the company's financial standing at the end of the year 2007 account, as well as results of activities and cash flow for this period.

Management confirms that for compiling this report that ends at 31. December 2007, corresponding methods of accounting were used, their application was consequent, reasonable and cautious decisions were made. Management confirms that corresponding International Accounting standards were observed, and financial reports were compiled according to activity continuation principle.

Management is responsible for keeping of corresponding accounting registers, for company's means maintenance, as well as for prevention of deception and other unfair action.

Chairman of the board

/ Ivica Galich/

23 April 2008 year

PROFIT OR LOSS STATEMENT

for years 2007 and 2006

for years 2007 and 2000					
	Appendix	LVI	<u>ـ</u>	EU	R
		2007	2006	2007	2006
Net turnover	(1)	7 708 799	6 160 819	10 968 633	8 766 056
Production costs of sold output	(2)	7 192 527	5 550 994	10 234 044	7 898 353
Gross profit or losses		516 272	609 825	734589	867 703
Selling costs	(3)	46 073	66 992	65 556	95 321
Administration costs	(4)	181 538	161 475	258 305	229 758
Other company's economic activity incomes	(5)	133 980	644 311	190 636	916 772
Other company's economic activity costs	(6)	115 764	591 641	164 717	841 829
Incomes from membership in holding company's branch and associated					
Incomes from securities and loans that have formed the long-term investments	S				
Other interest incomes and similar incomes	(7)	142	76	202	108
Long-term financial investments and write off of short-term securities values					
Interest payments and similar costs	(8)	50 937	38 580	72 477	54 894
Profit or loss before extraordinary items and taxes		256 082	395 524	364372	562 781
Extraordinary incomes					
Extraordinary costs					
Profit or loss before taxes		256 082	395 524	364372	562 781
Company's income tax for the year of account		4 201		5 977	
Deferred tax	(9)	36 174	54 544	51 471	77 609
Other taxes	(10)	45 144	38 954	64 234	55 427
Profit or loss of the year of account		170 563	302 026	242 689	429 745

Chairman of the board Member of board Member of board 23 April 2008 year /Ivica Galic/ /Igor Komarov/ / Boris Galcovich /

ACTUVE Non-Schemets Long-term investments Inadjbb investments Company 4 development costs Company 4 development costs In 363 Concessions, pattern licenses, transmitter rights Other transgible transmitter rights 11363 Inadjbb investments 1986 9.890 I1363 Advance payments for intragible transmitter 101 7.96 9.980 II 363 Lands, buildings, constructions, presential plantations 1179.917 1.55.411 2.460.447 2 Long term investments to taid of the assets 116.842 120.658 16.81.858 1 Port fixed asset and memotrary 59.88 6.009 83.353 6.687 Advance payments for fixed assets 6.687 Advance payments for fixed assets (12) 2.99.902 2.81.914 4182.055 III 1.02.015 <th>BALANCE on 31. December 2007 and 2006</th> <th></th> <th colspan="2">LVL</th> <th colspan="2">EUR</th>	BALANCE on 31. December 2007 and 2006		LVL		EUR	
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II. For selling held long-term investmentsII. PobtorsIII. DebtorsDebts of customers and clients(16)1 121 5971 298 4701 595 8891Accrued incomes165 956190 902236 134236 134236 1341Debts of associated companies(17)47 51292 03967 6031Other debtors(17)47 51292 03967 6031Undeposited shares in company's capital Short - term loans to joint owners and management Next periods costs(18)6 87110 7249 777Debtors total1 341 9361 592 13519094032IV. Short-term financial investments Participation in capitals of related companies Own stocks and shares Other securities and participation in capitals Derivative financial instruments197 771Securities and participation in capitals total11197 74190 7061V. Cash assets(19)7 174196 76610 208211<		(15)				605
III. Debtors (16) 1 121 597 1 298 470 1 595 889 1 Accrued incomes 165 956 190 902 236 134 1 1 1 1 1 1 1 1 1 595 889 1 1 1 595 889 1 1 595 889 1 1 595 889 1 1 595 889 1 1 595 899 1 595 899 1 595 899 1 595 899 1 595 899 1 596 902 236 134 1 595 899 1 <t< td=""><td></td><td></td><td>1 038 012</td><td>762 480</td><td>1476958</td><td>1 084 912</td></t<>			1 038 012	762 480	1476958	1 084 912
Debts of customers and clients (16) 1 121 597 1 298 470 1 595 889 1 Accrued incomes 165 956 190 902 236 134 1 Debts of associated companies (17) 47 512 92 039 67 603 Other debtors (17) 47 512 92 039 67 603 Undeposited shares in company's capital 1 341 936 1 592 135 9777 Debtor stotal 1 341 936 1 592 135 1909403 2 IV. Short-term financial investments 1 5 887 1 9 1 Participation in capital of related companies 0 5 5 1 9 1 Other securities and participation in capitals 1 196 766 10 208 1 10 208 1 V. Cash assets (19) 7 174 196 766 10 208 3 </td <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
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Debts of associated companies(17)47 51292 03967 603Other debtors(17)47 51292 03967 603Undeposited shares in company's capitalShort - term loans to joint owners and management9 777Short - term loans to joint owners and management(18)6 87110 7249 777Debtors total1 341 9361 592 13519094032IV. Short-term financial investments1 341 9361 592 13519094032Participation in capital of related companies0 erivative financial instruments		(10)				271 629
Other debtors(17)47 51292 03967 603Undeposited shares in company's capital Short - term loans to joint owners and management Next periods costs(18)6 87110 7249 777Debtors total1 341 9361 592 13519094032IV. Short-term financial investments Participation in capital of related companies Other securities and participation in capitals Derivative financial instruments			105 950	190 902	230 134	271 029
Undeposited shares in company's capital Short - term loans to joint owners and management Next periods costs(18)6 87110 7249 777Debtors total1 341 9361 592 13519094032IV. Short-term financial investments Participation in capital of related companies Own stocks and shares Other securities and participation in capitals Derivative financial instrumentsSecurities and participation in capitals totalV. Cash assets(19)7 174196 76610 208Current assets total2 387 1222 551 38133965693Actives total5 343 1245 384 96076025817	*	(17)	47 512	02.020	67 602	130 960
Short - term loans to joint owners and management Next periods costs(18)6 87110 7249 777Debtors total1 341 9361 592 13519094032IV. Short-term financial investments Participation in capital of related companies Own stocks and shares Other securities and participation in capitals Derivative financial instruments Securities and participation in capitals total		(17)	47 312	92 039	07 005	150 900
Next periods costs (18) 6 871 10 724 9 777 Debtors total 1 341 936 1 592 135 1909403 2 IV. Short-term financial investments Participation in capital of related companies Image: Company of the securities and participation in capitals Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total Image: Company of the securities and participation in capitals total<						
IV. Short-term financial investments Participation in capital of related companies Own stocks and shares Other securities and participation in capitals Derivative financial instruments Securities and participation in capitals total V. Cash assets (19) 7 174 196 766 10 208 Current assets total 2 387 122 2 551 381 Actives total 5 343 124 5 384 960 7602581	Next periods costs	(18)	6 871	10 724	9 777	15 259
Participation in capital of related companies	Debtors total		1 341 936	1 592 135	1909403	2 265 404
Own stocks and shares Other securities and participation in capitals Other securities and participation in capitals total Image: Comparison of the securities and participation of the securities and participation in capitals total V. Cash assets (19) 7 174 196 766 10 208 Current assets total 2 387 122 2 551 381 3396569 33 Actives total 5 343 124 5 384 960 7602581 7	IV. Short-term financial investments					
Other securities and participation in capitals						
Derivative financial instruments Image: constraint of the system Securities and participation in capitals total Image: constraint of the system Image: constof the system Image: constraint of the system <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
Securities and participation in capitals total 100 V. Cash assets (19) 7 174 196 766 10 208 Current assets total 2 387 122 2 551 381 3396569 3 Actives total 5 343 124 5 384 960 7602581 7						
V. Cash assets (19) 7 174 196 766 10 208 Current assets total 2 387 122 2 551 381 3396569 3 Actives total 5 343 124 5 384 960 7602581 7						
Current assets total 2 387 122 2 551 381 3396569 3 Actives total 5 343 124 5 384 960 7602581 7		(19)	7 174	196 766	10 208	279 973
<u>Actives total</u> 5 343 124 5 384 960 7602581 7		(**/)				3 630 289
						7 662 108
Member of board /Igor Komarov/						
Member of board / Boris Galcovich /	•					

23 April 2008 year

BALANCE on 31. December 2007 and 2006		LVL		EU	R
	Appendix	2007	2006	2007	2006
PASSIVE					
I. Equity capital					
Stock or share capital (equity capital)	(20)	3203397	3 203 397	4558023	4 558 023
Stock issue extra charge					
Long - term investment reestimation reserve					
Financial instruments reestimantion reserve					
Reserves:					
reserves prescribed by law					
reserves for own stocks and shares					
reserves prescribed by company's statutes					
other reserves					
Retained profit					
retained profit of previous years		307 608	69 649	437 687	99 102
retained profit of the year of accountant		170 563	302 026	242 689	429 744
retained profit, amont		478 171	371 675	680376	528 846
Equity capital total		3 681 568	3 575 072	5238399	5 086 869
II. Provisions					
Provision for pensions and similar obligations					
Provision for prospective taxes					
Other provisions					
Provisions total		0	0		
III. Creditors					
I. Long-term debts to creditors					
Borrowings from credit institutions					
Other borrowings					
Leasing liabilities					
From customers received borrowings					
Debts to suppliers and contractors					
Debts to related companies					
Debts to associated companies					
Tax and social security payments					
Other creditors	(21)	207 221	171 147	204.001	2 4 2 5 2 0
Deferred income liabilities	(21)	207 321	171 147	294 991	243 520
Unpaid dividends		4		6	
Next periods incomes				AA A AAF	
Long-term debts to creditors total		207 325	171 147	294 997	243 520
II. Short-term debts to creditors	(22)	757 920	822.002	1 079 209	1 105 202
Borrowings from credit institutions	(22)	757 839	833 092	1 078 308	1 185 383
Other borrowings			11 770		16760
Leasing liabilities		120	11 779	105	16 760
From customers received borrowings		130	150 210	185	213 730
Debts to suppliers and contractors		553 082	515 409	786 965	733 361
Debts to related companies					
Debts to associated companies					
Tax and social security payments	(23)	44 610	47 445	63 474	67 508
Other creditors	(24)	57 360	44 896	81 616	63 881
Next periods incomes					
Unpaid dividends	·				
Accrued liabilities	(25)	41 210	35 910	58 637	51 095
Derivative financial instruments			1 (20 - 1)		
Short-term debts to creditors total:		1 454 231	1 638 741	2069185	2 331 718
Creditors total:		1 661 556	1 809 888	2364182	2 575 239
Passives total		5 343 124	5 384 960	7602581	7 662 108

Chairman of the board Member of board Member of board /Ivica Galic/ /Igor Komarovs/ / Boris Galcovich/

23 April 2008 year

CASH FLOW STATEMENT

for years 2007 and 2006 (according to direct method)

	LVI	L	EU	R
I. Cash flow of basic activity	2007	2006	2007	2006
Incomes from selling the products and rendering of services	7 819 282	5 242 109	11 125 836	7 458 849
Payments to suppliers, employees, other basic activity expenses	7 432 793	5 263 655	10 575 912	7 489 506
Other company's basic activity incomes or expenses				
Gross cash flow of basic activity	386 489	(21 546)	549 924	(30 657)
Expenses for interest payments	43 060	38 258	61 269	54 436
Expenses for company's income tax payments				
Cash flow before extraordinary items	343 429	(59 804)	488 655	(85 093)
Cash flow from extraordinary items				
Net cash flow of basic activity	343 429	(59 804)	488 655	(85 093)
II. Cash flow of investment activity				
Acquisition of stocks or shares of related or associated companies				
Incomes from detinue of stocks or shares of related or associated companies				
Acquisition of fixed assets and intangible investments	398 834	140 376	567 490	199 737
Incomes from selling fixed assets and intangible investments	5 130	486 744	7 299	692 574
Issued loans				
Incomes from repayment of loans				
Received interests				
Received dividends				
Net cash flow of investment action	(393 704)	346 368	(560 191)	492 837
III. Cash flow of financing action				
Incomes from shares and bonds or capital participation stock investments				
Received loans				
Received subsidies, grants, gifts or donations				
Expenses for repayment of loans	75 253	76 079	107075	108 251
Expenses for ransom of leased fixed asset		22 713		32 318
Paid dividends	64 064		91 154	
Net cash flow of financing action	(139 317)	(98 792)	(198 229)	(140 569)
IV. Result of foreign exchange rate fluctuations				
Net increase or decrease of cash and its equivalents	(189 592)	187 772	(269 765)	267 175
Cash and its equivalents residue at the beginning of the year of account	196 766	8 994	279973	12 797
			10 800	
Cash and its equivalents residue at the end of the year of account	7 174	196 766	10 208	279 972
Cash and its equivalents residue at the end of the year of account Chairman of the board /Ivica Galich/	7 174	196 766	10 208	279 972

 Chairman of the board
 /Ivica Galich/

 Member of board
 /Igor Komarov/

 Member of board
 /Boris Galcovich/

 23 April 2008 year
 //Boris Galcovich/

EQUITY CAPITAL CHANGE REPORT

for years 2007 and 2006

for years 2007 and 2006	Stock or share capital	Reserves prescribed by law	Reestimantion r of long-term investments	eserve	Other reserves	Retained profits	Total
	LVL	LVL	LVL		LVL	LVL	LVL
Residue on 31.12.2004	3 203 397					69 649	3 273 046
Increase/decrease of stock or share capital							0
Increase of reestimantion reserve							0
Decrease of reestimation reserve							0
Calculated dividends for year 2005							
Net profit or loss of accounting period						302 026	302 026
Residue on 31.12.2006	3 203 397	0		0	0	371 675	3 575 072
Increase/decrease of stock or share capital							0
Increase of reestimantion reserve							0
Decrease of reestimantion reserve	•						
Calculated dividends for year 2006						64 067	64 067
Net profit or loss of accounting period						170 563	170 563
Residue on 31.12.2007	3 203 397	0		0	0	478 171	3 681 568
	EUR	EUR	EUR		EUR	EUR	EUR
Residue on 31.12.2005	4 558 023					99 102	4 657 125
Increase/decrease of stock or							
share capital							0
share capital Increase of reestimantion reserve							0
Increase of reestimantion reserve							
Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2005							0
Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2005 Net profit or loss of accounting period						429 744	0 0 429 744
Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2005 Net profit or loss of accounting	4 558 023	0		0	0	429 744 528 846	0 0
Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2005 Net profit or loss of accounting period		0		0	0		0 0 429 744
Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2005 Net profit or loss of accounting period Residue on 31.12.2006 Increase/decrease of stock or		0		0	0		0 0 <u>429 744</u> <u>5 086 869</u>
Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2005 Net profit or loss of accounting period Residue on 31.12.2006 Increase/decrease of stock or share capital	4 558 023	0		0	0		0 0 <u>429 744</u> <u>5 086 869</u> 0
Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2005 Net profit or loss of accounting period Residue on 31.12.2006 Increase/decrease of stock or share capital Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2006	4 558 023	0		0	0		0 0 <u>429 744</u> <u>5 086 869</u> 0
Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2005 Net profit or loss of accounting period <u>Residue on 31.12.2006</u> Increase/decrease of stock or share capital Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year	4 558 023	0		0	0	528 846	0 0 <u>429 744</u> <u>5 086 869</u> 0 0
Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2005 Net profit or loss of accounting period Residue on 31.12.2006 Increase/decrease of stock or share capital Increase of reestimantion reserve Decrease of reestimantion reserve Calculated dividends for year 2006 Net profit or loss of accounting	4 558 023	0		0	0	528 846 91 159	0 0 <u>429 744</u> <u>5 086 869</u> 0 0 91 159

EPS on 31.12.2006. LVL (302 026 : 3203397) = 0,0943 LVL or 0,1342 EUR;

Chairman of the board/Ivica Galich/Member of board/Igor Komarov/Member of board/Boris Galcovich/Appendix from 10. to 22 page is an itegral part of this annual report.23 April 2008 year

<u>APPENDIX</u> ACCOUNTING POLICY

(1) General principles

Annual report is prepared according to laws of the Republic of Latvia "About book-keeping", "About annual report" and by the Republic of Latvia Treasury Department Accounting council issued Latvia accounting standards that are to be applied in the year of account.

Profit or loss statement is composed according to turnover outlay scheme.

Cash flow statement is composed according to_direct _method.

Comparing with previous year of account, accounting and evaluation methods used by the Company has not been changed.

Annual report has been prepared on the base of activity continuation conception. According to company's 01.10.2007.direction No.108 a stocktaking of items was carried out. The supplemented financial statements have been compiled in national currency of Latvia - lats (LVL).

(2) Acknowledgement of incomes and net turnover

Net turnover includes the value of rendered services in the year of account (value of sold production), excepting value added taxes and with selling connected discounts.

Other incomes are acknowledged as following:

- incomes from rent at the moment of their emergence;
- incomes from fines and delay payments at the moment of receipt;
- dividends at the moment when legal rights on them arise.

(3) Long-term contract.

Contract about formation an active and performed actions because of the character the beginning and ending date of contract fulfillment is in differen accounting periods. Incomes from long-term contracts are acknowledged according to accomplishment level. Accomplishment level is defined having inspected the result of the work done and establishing the completion of physically definable part of work.

ccording to the standard the following sums are explained in the report

	LVL	EUR
With contract connected incomes that are acknowledged as incomes.	165 956	236 134
Expenses connected with the contract.	82 569	117 485
Received advance payments.	0	0
Gross profit.	83 387	118 649

(4) Foreign currency's reestimantion in lats

Company's accounting has been made in Latvian lats. All operations in foreign currencies are reestimated in lats according to official currency rate defined by the Bank of Latvia in the corresponding day of operation.

Monetary instruments, as well as debtors and creditors in foreign currencies t the end of year are recalculated in lats according to the official currency exchange rate defined by the bank of Latvia in the last day of accounting year.

The gained profit or loss from foreign currency exchange rate fluctuations are reflected in profit or loss statement of the of corresponding period in net value.

	31.12.2007.	31.12.2006.
	LVL	LVL
1 USD	0.484000	0.536000
1 EUR	0.702804	0.702804

(5) Intangible investments

Intangible investments are estimated according to their initial expanse value, excepting the accrued depreciation. Depreciation is calculated according to linear method for 4 years.

(6) Fixed assets and low-grade inventory

Fixed assets are estimated according to their initial expense value or reestimated initial value, excluding accrued depreciation. Depreciation is calculated according to (linear) method, using the rates of fixed assets depreciation calculation, that are based on the evaluation of fixed assets useful service duration:

	Years	%
Buildings, constructions	33.3	3
Equipment and technical utilities	10	10
Furniture and office machines	10	10
Computers and facilities	4	25
Vehicles	10	10
Instruments and inventory	10	10

The depreciation of fixed assets is started to calculate with the first day of next month after its commissioning and is finished with the first day of next month after its exclusion from fixed assets.

Company capitalizes fixed assets whose value exceeds LVL 50 and the period of useful utilization exceeds 1 year.

Reestimating the fixed assets, their value increase is reflected as movement in long-term investment reestimation reserve. To incomes in profit or loss statement is applied to fixed assets liquidation.

For calculation of company's income tax the fixed assets calculation is calculated according to requirements and rates of LR law "About company's income tax" 13.paragraph.

Low-grade inventory is entered in purchase prices and in expenses written off for 100% after commissioning.

(7) Long-term investments in leased fixes assets

Expenses of leased fixed assets overhaul are written off according to linear method rate in time of the period.

(8) Rate with ransom (financial leasing)

In cases when fixed assets that are obtained in lease with ransom (financial leasing)in relation to what all risks and liabilities pass over to the company, that is characteristic to ownership, is considered as company's actives at such value as they could be acquired for spot cash. Leasing interest payments and similar payments are included in profit or loss statement of the period when they have arisen.

(9) Lease without rights of ransom (operative leasing)

In cases when fixed assets are leased on lease provisions without rights on ransom, lese payments and prepayments for lease are included in profit or loss statement according to linear method in the period of lease.

(10) Stocks

Stocks are reflected at the lowest market or purchase value, using the FIFO (weighted average) method. In case of necessity the value of obsolete, slow turnover or damaged stock is written off.

In prime costs of produces goods are included the costs of used raw materials and materials and other expenses that are directly connected with production of corresponding object.

(11) Debtors

Debtors are estimated observing the principle of caution showing in balance sheet only the actual debtors. The actual sums of debtors conform with the ones shown in contacts and other accounting original documents. A comparison of debtors has been made and hopeless debts are written off, provisions for suspicious debtors was formed as well (or provisions has not been formed), on the base of evaluation of separate client financial standing and economic activity, considering the repayment of debt according to the concluded agreement (or otherwise – explain).

(12) Accrued incomes.

Incomes from ship building orders according to the level of their accomplishment.

(13) Investments in sister or associated companies

Investments in sister or associated companies are listed according to prime cost method. According to this method the value of investments is formed from participation acquisition value and with acquisition connected expenses.

(14) Other investments

Long-term investments, excluding investments in holding company's sister or associated companies, are listed at acquisition value that is corrected in cases of their permanent value increase or decrease.

(15) Cash and cash equivalents

For cash flow statement purposes cash and cash equivalents consist of residues in cash-desk, current bank account residues and short-term deposits with term to 90 days.

(16) **Provisions for not used holidays**

Provisions for not used holidays are estimated multiplying the average daily earnings of a worker for the last six month of the year of account with accrued number of days of not used holidays at the end of the year of account.

(17) Company's income tax

Company's income tax is calculated according to the tax legislation of Republic of Latvia. The legislation in force in year 2007 and in future sets a tax rate of 15%.

(18) Deferred company's income tax

Deferred company's income tax is calculated according to liability method in relation to all interim differences between active and liability values in financial statements and their values for tax calculation purposes. In deferred tax calculations a tax rate is used that is prospective in periods, when interim difference equalizes. Interim differences mainly arise using different depreciation rates of fixed assets, as well as from tax losses that are to be posted on next taxation periods. In cases when the deferred tax calculation result should be reflected in balance active, it is included in financial statement only then when it is anticipated that a profit imposable with tax shall be available, to that it will be possible to relate the deductible interim

(19) Grants

For fixed assets formation received grants are regarded as next periods incomes, that gradually includes the in incomes received of for grants acquired fixed assets in useful utilization time of period. Other grants are related to results of the year of account in the period of grant receipt.

(20) Use of calculations

Preparing the financial statements, company's management has to make calculations and assumptions that influence the actives and passives shown in statements and off-balance for the day of statement preparation, as well as shown incomes and expenses of accounting period. The actual results can differ from these calculations.

Financial statement appendixes

(1) Net turnover		LVL 2007	2006	EUR 2007	2006
noomoo from shin huilding					2000
ncomes from ship building		384 316 7 239 719	141 495 5 984 290	546 833 10 301 192	201 325 8 514 878
ncomes from ship repair services Dther incomes		84 764	5 984 290 35 034	10 301 192	8 514 878 49 849
Fotal		7 708 799	6 160 819	120 008	8 766 050
i otai		1100177	0 100 015	10 700 000	0 700 020
Per geographic regions					
ncomes from service selling in local mark	xet	745 134	446 486	1 060 230	635 292
ncomes from service selling to					
	Russia	3 396 682	1 463 007	4 833 043	2 081 67
	Norway	401 066	283 171	570 666	402 910
	Malta Esterio	149 356	406 168	212 514	577 925
	Estonia	202 505	1 427	121.040	2 030
	Saint Vincent	303 505 2 087	441 005 521 549	431 849 2 970	627 494 742 097
	Great Britain Cyprus	1 413 460	435 993	2 011 172	620 362
	Lithuania	112 435	293 694	159 981	417 889
	Netherlands	128 456		182 776	
			186 076		264 762
	Belize	2 038		2 900	
	Georgia		60 047		85 439
	Antigua Burbuda	/	30 607		43 551
	Newzelande	27 437		39 039	
	Marshale Islande	42 182		60 020	
	Barbados		422		600
	Sent.Kittes Nevs	63 253		90 001	
	Croatia	86 422	171 528	122 967	244 063
	Cambodia		142 497		202 756
	Faroe Islands	285 924	141 495	406 833	201 329
	Panama	368 485	921 469	524 307	1 311 132
	Germany	125 686	164 299	178 835	233 776
	Sweden	55 191 7 708 799	49 879 6 160 819	78 530 10 968 633	70 972 8 766 050
(2) Production costs of sold	l goods				
Material purchase costs		1 463 084	1 226 750	2 081 781	1 745 508
Employees salary		849 232	694 019	1 208 348	987 500
Social insurance costs		195 325	162 766	277 922	231 595
Electricity costs		204 540	146 169	291 034	207 980
Depreciation of fixed assets		272 555	254 016	387 811	361 432
Contagent's services		3 882 219	2 753 997	5 523 900	3 918 585
Running repairs of equipment		105 961	69 483	150 769	98 865
Running repairs of buildings		16 765	24 817	23 855	35 311
Security staff		41 810	28 288	59 490	40 251
Lease payment		27 830	27 640	39 599	39 328
		129 858	158 961	184 771	226 181
			4 088		5 817
Services from outside		3 348		4 / 04	
Services from outside Dther costs		<u> </u>	5 550 994	4 764 10 234 044	
Services from outside Other costs Fotal					
Services from outside Other costs Total (3) Selling costs		7 192 527	5 550 994	10 234 044	7 898 353
Services from outside Other costs Fotal (3) Selling costs Media advertising expenditures		7 192 527 26 174	5 550 994 40 114	10 234 044 37 242	7 898 35 3 57 07
Services from outside Other costs Total		7 192 527 26 174 14 855	5 550 994	10 234 044 37 242 21 137	
Services from outside Other costs Fotal (3) Selling costs Media advertising expenditures		7 192 527 26 174	5 550 994 40 114	10 234 044 37 242	7 898 35 3 57 077

Appendixes to profit or loss statement (continuation)

Appendixes to profit or loss statement (continuation)				
	LVL		EUR	
(4) Administration costs	2007	2006	2007	2006
Communication costs	6 643	6 714	9 452	9 553
Annual report's costs	3 300	3 000	4 696	4 269
Administration's salaries	5 770	16 755	8 2 1 0	23 840
Reward for the board	39 266	32 891	55 871	46 800
Reward for the council	67 200	42 539	95 617	60 528
Social insurance costs	19 683	21 880	28 006	31 132
Office maintenance costs	2 695	3 170	3 835	4 511
Stock exchange costs	5 000	5 000	7114	7114
Lawyer's services	7 164	7 452	10 193	10 603
Transport costs, business trips	14 303	11 656	20 351	16 585
Bank services	4 095	5 427	5 827	7 722
Representation expenses	6 419	4 991	9 1 3 3	7 101
Total	181 538	161 475	258 305	229 758
(5) Other incomes from company's economic activity				
Incomes from realization of materials	11 072	18 810	15 754	26 764
Incomes from realization of materials	523	547 603	744	779 169
Incomes from rent	61 978	31 294	88 187	44 528
Net incomes from exchange rate fluctuations				
Incomes from tugboat's services	51 027	43 943	72 605	62 525
Other incomes	9 380	2 661	13 346	3 786
Total	133 980	644 311	190 636	916 772
(6) Other expenses from company's economic activity				
Written off bad debtors	5482	30 138	7 800	42 882
Accrued liabilities (holiday reserves)	5150	4 030	7 328	5 734
Fixed assets exclusion expenses	5448	506 887	7 752	721 235
Material purchase expenses	3195	4 121	4 546	5 864
Personnel expenses (material assistance)	3935	1 835	5 599	2 611
Costs for tugboat rent		5 400		7 684
Donations	6184	4 530	8 799	6 446
Gifts to employees	7897	7 027	11 236	9 999
Net losses from exchange rate fluctuations	77758	27 140	110 640	38 616
Maintenance expenses of leased fixed assets	715	533	1 017	758
Other expenses				
Total	115764	591 641	164 717	841 829
(7) Other interest incomes and similar incomes				
Bank rates	142	76	202	108
Total	142	76	202	108
(8) Interest payments and similar expenses				
Paid interests	48 079	38 258	68 410	54 436
Paid fines	2 858	154	4 067	219
Other expenses		168		239
Total	50 937	38 580	72 477	54 894

Appendixes to profit or loss statement (continuation)

9 Liability calculation of deferred tax:

Difference between fixed assets remained value in financial accounting and tax needs	1 421 698	1 354 241	2022894	1926911
Deferred tax actives:				
Accruals for holidays	39 560	34 410	56 289	48 961
Accruals for provisions				
Other interim differences				
Accrued tax losses		178 850		254 481
Total interim differences	1 382 138	1 140 981	1 966 605	1 623 469
Deferred tax liabilities/(active), rate 15%	207 321	171 147	294 991	243 520
Unapproved active of deferred tax				
Deferred tax liabilities	207 321	171 147	294 991	243 520
(10) Other taxes				
Immovable property tax for land	17 459	17 473	24 842	24 862
Immovable property tax for buildings and constructions	27 685	21 481	39 392	30 565
Total	45 144	38 954	64 234	55 427

Appendixes to balance sheet on 31.12.2007.

(11) Intangible investments

(11) Intan	gible investments Concessions, patents, licenses, trade marks and similar rights	Research work and company's development expenses	intangible investments (computer pr.)			Advance payments for intangible investments	Total
	Ls	Ls	Ls		Ls	Ls	Ls
Undepreciated value 31.12.2006.							0
Purchased			10 326				10 326
Written off			629				629
Reestimated							0
31.12.2007.	0	0	10 955	0		0	10 955
Depreciation							
31.12.2006.			346				346
Calculated			2 623				2 623
Written off							0
31.12.2007.	0	0	2 969	0		0	2 969
Residual value 31.12.2006	0	0	9 980	0		0	9 980
Residual value	0	0	7700	0		0	7700
31.12.2007	0	0	7 986	0		0	7 986
	EUR	EUR	EUR		EUR	EUR	EUR
Undepreciated value							
31.12.2006.							0
Purchased			14 693				14 693
Written off			895				895
Reestimated							0
31.12.2007.	0	0	15 588	0		0	15 588
Depreciation							
31.12.2006.			492				492
Calculated			3 732				3 732
Written off			0 102				0
31.12.2007.	0	0	4 225	0		0	4 225
Residual value							
31.12.2006	0	0	14 200	0		0	14 200
Residual value 31.12.2007	0	0	11 363	0		0	11 363

(12) Fixed assets

	Land, buildings, E construction s	Equipment and machines	Long-term investments in leased fixed assets	Other fixed assets and inventory	Formation of fixed assets	Advance payments for fixed assets	Unfinished construction works	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Undepreciated value								
31.12.2006.	1 884 198	1 930 718		92 526				3 907 442
Purchased	249 290	136 493		9 077			91 054	485 914
Written off		9 272		5 020			86 354	100 646
Reestimated								
31.12.2007.	2 133 488	2 057 939	0	96 583	0	0	4 700	4 292 710
Depreciation								
31.12.2006.	341 767	718 060		32 431				1 092 258
Calculated	62 509	196 863		10 560				269 932
Written off		3 846		4 997				8 843
31.12.2007.	404 276	911 077	0	37 994	0	0	0	1 353 347
Residual value 31.12.2006	1 542 431	1 212 658	0	60 095	0	0	0	2 815 184
Residual value 31.12.2007	1 729 212	1 146 862	0	58 589	0	0	4 700	2 939 363
51.12.2007	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EU

	EUR	EUR	EUR	EUR	EUR	EUR		EUR	EUR
Undepreciated value									
31.12.2006.	2 680 972	2 747 164		131 653					5 559 789
Purchased	354 708	194 212		12 915				129 558	691 393
Written off		13 193		7 143				122 871	143 206
Reestimated									
31.12.2007.	3 035 680	2 928 183	0	137 425		0	0	6 687	6 107 976
Depreciation									
31.12.2006.	486 291	1 021 707		46 145					1 554 143
Calculated	88 942	280 111		15 026					384 079
Written off		5 472		7 110					12 582
31.12.2007.	575 233	1 296 346	0	54 061		0	0	0	1 925 639
Residual value 31.12.2006	2 194 682	1 725 457	0	85 507		0	0	0	4 005 646
Residual value 31.12.2007	2 460 447	1 631 838	0	83 363		0	0	6 687	4 182 335

Appendixes to balance sheet (continuation)

(13) Other expenses and other long-term debtors

LVL

	31.12.2006.	Issued loan in year 2007	Repaid loan in year 2007	Posted loan to short- term in year 2007	Formed accruals	in year 2007	31.12.2007.	Date of the contract	Term of payment
A.Sergeev	4 208	119					4 327	08.08.2002.	2022
K.Mališenko	4 207	120					4 327	08.08.2002.	2022
	8415	239	0	0		0	8654		
			EU	R					
	31.12.2006.	Issued loan in year 2007	Repaid loan in year 2007	Posted loan to short- term in year 2007	Formed accruals	in year 2007	31.12.2007.	Date of the contract	Term of payment
A.Sergeev	5 987	169					6 157	08.08.2002.	2022
K.Mališenko	5 986	171					6 157	08.08.2002.	2022
	11973	340	0	0		0	12314		
(14) l	Raw materials,	direct materi	als and auxil	iary mater		LVL		EUR	
1					2007	2006		2007	2006
 Metal Abrasive 					700 885 7 964	545 828 15 841		997 270 11 332	776 643 22 540
3. Pipes					121 615	92 107		173 043	131 05
4. Non-ferrous	metals				48 829	27 359		69 477	38 92
	echnical rubber				38 638	30 129		54 977	42 87
6. Other expense					110 848	50 791		157 722	72 269
Total					1 028 779	762 055		1 463 821	1 084 307
(15)	Advance payme	ents for goods				1 3/1			
					2007			EUR 2007	
Materials					9 233	2006 425		13 137	2006
Total					9 233 9 233	425		13 137	605
(16)	Names of purch	asers and cus	tomers						
(·····					LVL		EUR	2
Fotal					2007	2006		2007	2006
Accounting value Accruals for doub					1 121 597	1 298 470		1 595 889	1 847 556
Net debts of pure	chasers and clie	ents		_	1 121 597	1 298 470		1 595 889	1 847 556
(17)	Other debtors					LVL		EUR	1
					2007	2006		2007	2006
VAT accepted					9 808	17 759		13 956	25 269
In budget overpai	d taxes or tax ad	vance paymer	nts		25 862	29 344		36 798	41 753
Advance payment		-			2 276	2 057		3 238	2 92
Advance payment					9 566	42 846		13 611	60 96
Claims according		Court							
Other debtors	-					33			4
other debtors									

(18) Expenses of next periods

	LVL		EUR	
	2007	2006	2007	2006
Property insurance	1 416	1 428	2 015	2 032
Subscription to press	511	231	727	329
Employees insurance	4 944	4 806	7 035	6 838
Other expenses of next periods(participation in exhibition)		4 259		6 060
Total	6 871	10 724	9 777	15 259
(19) Cash				
		LVL	EUR	

	2007	2006	2007	2006
Money in cash-desk	684	2 079	973	2 958
Money in current accounts	6 490	193 632	9 235	275 514
Deposit on request		1 055		1 501
Money on the way				
Total	7 174	196 766	10 208	279 973

(20) Information about company's own shares and total stock

The issued and totally paid Company's equity capital consists of 3 203 397 stocks with nominal value LVL 1 for one stock.

(21) Deferred tax liabilities				
Deferred tax liabilities at the beginning of year	171 147	116 603	243 520	165 911
Deferred tax liability increase in the year of account	36 174	54 544	51 471	77 609
Total	207 321	171 147	294 991	243 520
(22) Loans from credit institutions (short-term) Total	757 839 757 839	833 092 833 092	1 078 308 1 078 308	1 185 383 1 185 383

	Short-term part (LVL)	Short-term part (EUR)	Currency	Terms Annual %	6 rate
	757 839	1 078 308	EUR	07.06.2008	
Total	757839	1078308			

Appendixes to balance sheet (continuation)(23)Movement of tax liabilities in 2007

(25) Wovement of tax habitu	ics in 2007	Calculated	Calculated fine and	(Paid)/	Posted to/	
	01.01.2007.	in 2007	delay payment	(l'ald)// repaid	(from) other taxes	31.12.2007.
	LVL	LVL	LVL	LVL	LVL	LVL
Value added tax	(24 602)	(369 167)			(367 907)	(25 862)
Population income tax	25 938	189 065	448	112 552	87 089	15 362
State social insurance compulsory payments	20 931	298 321		14 623	279 922	24 707
Company's income tax		4 201				4 201
Immovable property tax (land)		17 459	22	17 459		0
Immovable property tax (buildings)	(4 742)	27 685	11	22 943		0
Tax of natural resources	512	1 167		1 070	330	279
Risk duty of business	64	755		192	566	61
Total	18 101	169 486	481	168 839	0	18 748
incl.:						
Debt to budget	47 445					44 610
Overpayment	(29 344)					(25 862)
		Calculated	Calculated fine and	(Paid)/	Posted to/	
	01.01.2007.	in 2007	delay payment	repaid	(from) other taxes	31.12.2007.
	EUR	EUR	EUR	EUR	EUR	EUR
Value added tax	(35 005)	(525 277)			(523 484)	(36 798)
Population income tax	36 906	269 015	637	160 147	123 916	21 858
State social insurance compulsory payments	29 782	424 473		20 807	398 293	35 155
Company's income tax		5 977				5 977
Immovable property tax (land)		24 842	31	24 842		0
Immovable property tax (buildings)	(6 747)	39 392	16	32 645		0
Tax of natural resources	729	1 660		1 522	470	397
Risk duty of business	91	1 074		273	805	87
Total	25 756	241 156	684	240 236	0	26 676

incl.:

Debt to budget	67 508	
Overpayment	(41 752)	

(24) Other creditors

	LVL		EUI	EUR	
	2007	2006	2007	2006	
Salary	53 656	41 820	76 346	59 505	
Deductions from salary	788	1 020	1 121	1 451	
Other creditors	2 916	2 056	4 149	2 925	
Total	57 360	44 896	81 616	63 881	

(25) Accrued liabilities

(25) Accided habilities					
	LVL		EUR	EUR	
	2007	2006	2007	2006	
Accruals for holiday grants	39 560	34 410	56 289	48 961	
Other accruals	1 650	1 500	2 348	2 134	
Total	41 210	35 910	58 637	51 095	

63 474 (36 798)

General remarks

	Ls		EUR	
(1) The annual average number of employed ones	2007	2006	2007	2006
The average number of persons employed by the company in the year of account	253	265		
(2) Personnel expenses total	1 193 769	986 208	1 698 580	1 403 248
- salary	971 180	801 562	1 381 865	1 140 520
- social tax	222 589	184 646	316 715	262 728
- including:				
Salary of persons engaged in production (basic activity)				
- salary	858 944	709 377	1 222 167	1 009 353
- social tax	195 566	162 766	278 265	231 595
- total	1 054 510	872 143	1 500 432	1 240 948
Administration's salary				
- salary	5 770	16 755	8 210	23 840
- social tax	1 376	3 976	1 958	5 657
- total	7 146	20 731	10 168	29 497
Reward to the board				
- reward	39 266	32 891	55 870	46 800
- social tax	9 459	7 805	13 459	11 105
- total	48725	40 696	69329	57 905
Reward to the council				
- reward	67200	42 539	95617	60 528
- social tax	16188	10 099	23033	14 369
- total	83388	52 638	23033 118650	74 897
10100	00000	52 050	110000	,, 377

We confirm the annual report of the year 2007 from 1 to 21 page:

Chairman of the board	/Ivica Galich/		
Member of board	/Igor Komarov/		
Member of board	/Boris Galcovich/		

23 April 2008 year



INDEPENDENT AUDITOR'S REPORT

To the shareholder of Tosmarcs kugubūvētava A/S

Report on the financial statements

We have audited the accompanying financial statements (page 5 to 19) of Tosmares kugubűvětava A/S, which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Latvian law "On the Annual Report". This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Tosmares kugubūvētava A/S as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with the Latvian law "On the Annual Report"

Report on the management report

We have read the management report as shown on the page 3 of the annual report and we have not identified any material discrepancies between the historical financial information presented in the management report and the financial statements for the year ended 31 December 2007.

Managing Member of LTD UHY Orients N Commercial Company License No.28

Riga, Latvia 23 April 2008



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