

AS "LIEPĀJAS AUTOBUSU PARKS"

**ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

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ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Information on the Company

Name of the Company	AS "LIEPĀJAS AUTOBUSU PARKS"
Legal status of the Company	Joint Stock Company
Number, place and date of registration	40003015652 Commercial Registry Riga, September 3, 1991
Address	Cukura street 8/16, Liepaja, LV-3402 Latvia
Names and addresses of shareholders	Liepāja City Council (34,85%) Rožu street 6, Liepaja, LV-3401 Latvia VSAA (3,54%) Lāčplēša street 70a, Riga, LV-1011 Latvia LAP1R SIA (46,46%) Vaļņu street 4 – 5 , Riga, LV – 1050, Latvia Other private individuals (15,15%)
Names and positions of Board members	Gundars Kristapsons – chairman of the board Laima Kutuzova – member of the board (from 28.11.2008) Uldis Arnicāns- member of the board (till 30.10.2008) Edgars Dupats- deputy chairman of the board (till 24.11.2008)
Names and positions of Council members	Juris Jirgens- chairman of the council (till 28.11.2008) Andris Bražis- member of the council (till 28.11.2008) Jānis Svīklāns- member of the council (till 28.11.2008) Rita Gailuma- member of the council (till 28.11.2008) Armins Henzels- member of the council (till 29.05.2008) Rūdolfs Embūtnieks – member of the council (from 29.05.2008 till 28.11.2008) Ronalds Fricbergs – deputy chairman of the council (from 28.11.2008) Edgars Dupats- member of the council (from 28.11.2008) Jānis Leimanis – chairman of the council (from 28.11.2008) Ivars Muravskis - member of the council (from 28.11.2008) Oskars Špickopfs - member of the council (from 28.11.2008)

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Information on the Company (continued)

Financial year 1 January - 31 December 2008

Name and address of the auditor SIA "Potapoviča un Andersone"
Certified Auditors' Company
Licence Nr. 99
Slokas street 13,
Riga LV-1048

Responsible Certified Auditor
Kristīne Potapoviča
Certificate Nr. 99

AS "LIEPĀJAS AUTOBUSU PARKS"
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Management report

Type of operations

AS Liepājas Autobusu Parks ("the Company") basic operations consist of passenger transportation services on municipal, regional and long-distance routes. During the accounting period the Company also offered international transportation services, as well as continued cooperation with tour operators. The Company also offers transportation and related services to other transportation companies.

Performance of the Company during the year

Net sales in 2008 amounted to Ls 5 763 374, achieving sales increase of Ls 1 501 398 in absolute figures or 35.23% increase compared to 2007 results. The noted net sales volume includes revenues for passenger transportation services in the amount of Ls 3 691 182. In 2007 net sales amounted to Ls 4 261 976 (inclusive of passenger transportation revenues in the amount of Ls 3 164 280). Total 2008 revenues as compared to 2007 results have increased by 35,23% and 16,65% correspondingly.

In 2008 cost of sales have increased by 29,28%. The increase is mainly explained by the increase of payroll and related social security expenditure, as well as increased depreciation charges and increased fuel and oil costs. Cost of sales in 2008 amounted to Ls 5 303 284.

On 14 November 2008 the extraordinary shareholders meeting of AS Liepājas Autobusu Parks took place. The shareholders meeting revoked the power of the former council and elected the following new council members:

- Jānis Leimanis;
- Edgars Dupats;
- Ivars Muravskis;
- Ronalds Fricbergs;
- Oskars Špickopfs.

On 14 November 2008 Laima Kutuzova, finance director of the Company, was elected as a board member of AS Liepājas Autobusu Parks.

During 2008 the Company acquired 23 used buses for municipal, regional and long-distance routes, as well as eight new VOLVO buses for municipal transportation services.

The average number of employees in AS Liepājas Autobusu Parks in 2008 was 283.

AS Liepājas Autobusu Parks regularly and on due time has performed all the legally required tax, salary and other payments. During 2008 the average salary of the employees has increased by 20%, and amounted to Ls 430 gross monthly (as compared to Ls 359 in 2007). The Company has paid taxes in the amount of Ls 542 791.

In 2008 net profit per share reached Ls 0,658, in 2007 - Ls 0,282 (based on adjusted results for 2007).

The Board of AS Liepājas Autobusu Parks confirms the efficiency of internal control systems and that risk management and internal control procedures have been complied with throughout 2008. Corporate governance statement has been prepared and will be submitted to NASDAQ OMX Riga together with the audited financial statements.

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Management report (continued)

Research and development

During the reporting period the Company continued work on modernisation of transportation vehicles and equipment, as well as improvement of personnel management and service organisation.

Risk management

The Company is not subject to material foreign exchange risks, as income and expenditure is mainly denominated in lats. During prior years the Company has received bank loans with floating interest rate, thus the Company is subject to interest rate fluctuations risk. The operational results of the Company depend on the state and local government donations (loss compensation) that are granted in accordance with the regulations on loss compensation issued by the Cabinet of the Ministers of the Republic of Latvia.

Foreign subsidiaries and representation offices

The Company does not have any subsidiaries or representative offices.

Post balance sheet events

During the period between the last day of the financial year and the date of signing of this report there have been no significant events that would have a material effect on the year end results.

Distribution of profit proposed by the Board

	2008
	Ls
Profit share to be distributed	412 659
Profit distribution proposed:	
- retained earnings	412 659

Future prospects

In 2008 AS Liepājas Autobusu Parks participated in tender on rights to provide public transportation services in the routes of the regional inter-city network (lot "Dienvidrietumi"). According to the tender results, VSIA Autotransporta direkcija (Transportation department) as the state representative concluded the service concession agreement with the Company for transportation services in the noted inter-city network for 12 years.

On 19 March 2009 Petras Nemanis, the driver of AS Liepājas Autobusu Parks, was granted the title of „Honorary Liepāja citizen” in the service industry.

As of 1 January 2009 AS Liepājas Autobusu Parks also provides transportation services on routes „Centrs 1” within the regional inter-city network.

Gundars Kristapsons
Chairman of the board

Laima Kutuzova
Member of the board

Liepāja, 2009. gada ____.

The annual accounts have been approved at the general shareholders' meeting on _____ 2009.

Chairman of the general shareholders' meeting _____

AS “LIEPĀJAS AUTOBUSU PARKS”
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Corporate Governance statement

Corporate governance statement of AS Liepājas Autobusu Parks has been prepared in accordance with Riga Stock Exchange Corporate Governance guidelines issued in 2005 and recommendation to their implementation.

Corporate governance statement has been prepared by the Board of AS Liepājas Autobusu Parks and reviewed by the Council of the Company.

Corporate Governance principles used have been tailored specifically to the needs of the Company, and during 2008 AS Liepājas Autobusu Parks has followed most of the principles stated. Based on “comply or explain” principle, the Company has provided explanations on any deviations or partial deviations during 2008 from the accepted corporate governance policies in the Detailed Corporate Governance report, disclosing the circumstances that have caused the noted deviations.

Detailed Corporate Governance report will be submitted to AS NASDAQ OMX Riga (hereinafter – “the Stock Exchange”) simultaneously with the audited financial statements of AS Liepājas Autobusu Parks for the year ended 31 December 2008 and will be published in the home page of the Stock Exchange <http://www.baltic.omxnordicexchange.com/> , as well as in the home page of AS Liepājas Autobusu Parks www.aslap.lv in the section “For Investors” in Latvian and English.

Gundars Kristapsons
Chairman of the board

Laima Kutuzova
Member of the board

Liepāja, _____ 2009

AS "LIEPĀJAS AUTOBUSU PARKS"
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Statement of management`s responsibility

The Management of AS Liepājas Autobusu Parks ("the Company") is responsible for preparation the Financial Statements of the Company.

Based on the information available to the Board of the Company, the financial statements are prepared on the basis of the relevant source documentation and in accordance with the requirements of the Latvian Annual Accounts Act, effective Latvian Accounting Standards and other accounting legislation and present true and fair view of the Company's assets, liabilities and financial position as at 31 December 2008 and its profit and cashflows for the year then ended.

The management of the Company confirms that consistent and appropriate accounting policies and management estimates have been used throughout the reporting period. The management of the Company has applied prudence and going concern principles in preparation of the financial statements.

The management of the Company is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. They are also responsible for operating in compliance with legislation of the Republic of Latvia.

The management report contains a clear overview of the Company's business development and operational results.

Gundars Kristapsons
Chairman of the board

Laima Kutuzova
Member of the board

Liepāja, _____ 2009

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Profit or loss account for the year ended 31 December 2008

	Note	2008 Ls	2008 EUR	2007 Ls	2007 EUR
1. Net sales	1	5 763 374	8200542	4 261976	6064245
2. Cost of sales	2	(5 303 84)	(754668)	(4 102 225)	(5836940)
3. Gross profit		460 090	654649	159 751	227305
4. Selling expenses	3	(5 854)	(8329)	(5 257)	(7480)
5. Administrative expenses	4	(123 798)	(176148)	(102 375)	(145666)
6. Other operating income	5	243 892	347027	178 043	253332
7. Other operating expenses	6	(64 145)	(91270)	(4 414)	(6280)
10. Interest income and similar income	7	826	1175	9 727	13840
12. Interest expenses and similar expenses	8	(13 452)	(19140)	(14 277)	(20314)
16. Profit before taxes		497 559	707962	221 198	314736
17. Corporate income tax for the reporting year	9	(84 524)	(120266)	(43 550)	(61966)
17.a Deferred tax	9; 26	8 464	12043	9 886	14066
18. Other taxes		(8 840)	(12578)	(10 554)	(15016)
19. Current year's profit		412 659	587160	176 980	251819
Profit per share		0.658	0.936	0.282	0.401

Exchange rate 31.12.2008 EUR 0.702804

Notes on pages from 14 to 24 are integral part of these financial statements.

Gundars Kristapsons
Chairman of the board

Laima Kutuzova
Member of the board

Liepāja, _____ 2009

AS "LIEPĀJAS AUTOBUSU PARKS"
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Balance sheet as at 31 December 2008

(1)

		31.12.2008.	31.12.2007.	31.12.2007	
	Note	31.12.2008. Ls	EUR	Ls	EUR
Assets					
Long-term investments					
I. Intangible assets:					
2. Concessions, patents, licences, trade marks and similar rights		1 016	1445	1 752	2492
Total intangible assets:	10	1 016	1445	1 752	2492
II. Fixed assets:					
1. Land and buildings		993 958	1414274	1 037 373	1476048
3. Equipment and machinery		1 062 349	1511586	1 151 954	1639082
4. Other fixed assets and inventory		18 227	25934	12 775	18177
5. Fixed assets under construction		-		4 605	6552
6. Advances for fixed assets		428 710	609999	5 035	7164
Total fixed assets:	11	2 503 244	3561795	2 211 742	3147025
V. Long-term financial investments:					
5. Other securities and investments		-		6 000	8537
Total long-term financial investments:	12	-		6 000	8537
Total long-term investments:		2 504 260	3563240	2 219 494	3158055
Current assets					
I. Stock:					
1. Raw materials and consumables		117 890	167742	137 397	195498
Total stock:	13	117 890	167742	137 397	195498
III. Debtors:					
1. Trade debtors	14	81 467	115917	111 906	159227
4. Other debtors	15	177 083	251966	22 614	32176
7. Deferred expenses	16	21 306	30315	8 332	11855
Total debtors:		279 856	398199	142 852	203260
V. Cash and bank:	17	387 006	550659	261 866	372601
Total current assets:		784 752	1116601	542 115	771360
Total assets		3 289 012	4679842	2 761 609	3929415

Notes on pages from 14 to 24 are integral part of these financial statements.
Exchange rate 31.12.2008 EUR 0.702804

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Balance sheet as at 31 December 2008

(2)

	Note	31.12.2008. Ls	31.12.2008. EUR	31.12.2007. Ls	31.12.2007. EUR
Liabilities					
Shareholders' funds:					
1. Share capital	18	627 441	892768	627 441	892768
2. Share premium		230	327	230	327
3. Long-term investments revaluation reserve		576 485	820264	611 119	869543
5. Reserves:					
c) statutory reserve		5 013	7132	5 013	7132
d) other reserves		578 567	823226	578 567	823226
6. Retained earnings					
a) prior years' retained earnings		195 503	278175	18 523	26355
b) current year's profit		412 659	587160	176 980	251819
Total shareholders' funds:		2 395 898	3409055	2 017 873	2871174
Creditors:					
Long-term creditors:					
3. Loans from credit institutions	19	223 538	318065	64 050	91134
15. Deferred tax liability	26	143 267	203850	157 842	224588
Total long-term creditors:		366 805	521916	221 892	315723
Short-term creditors:					
3. Loans from credit institutions	19	131 959	187760	147 959	210526
5. Advances from customers	20	26 422	37595	-	
6. Trade creditors	21	95 035	135222	27 263	38791
10. Taxes and social insurance	22	103 699	147550	85 957	122305
11. Other creditors	23	72 049	102516	79 400	112976
12. Deferred income	24	52 688	74968	74 145	105498
15. Accrued liabilities	25	44 457	63256	107 120	152418
Total short-term creditors:		526 309	748870	521 844	742517
Total liabilities and shareholders funds		3 289 012	4679842	2 761 609	3929415

Exchange rate 31.12.2008 EUR 0.702804

Notes on pages from 14 to 24 are integral part of these financial statements.

Gundars Kristapsons
Chairman of the board

Laima Kutuzova
Member of the board

Liepāja, _____ 2009

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Statement of changes in equity for the year ended 31 December 2008 in Ls

	Share capital	Share premium	Long-term investments revaluation reserve	Statutory reserve	Other reserve	Prior years' retained earnings	Current year's profit	Total
	Ls		Ls	Ls		Ls	Ls	Ls
As at 31 December 2006	627 441	230	656 369	5 013	578 567	21 980	1 611	1 891 211
Prior year's profit transfer						1 611	(1 611)	-
Fixed asset revaluation reserve write-off	-	-	(47 676)	-	-	-	-	(47 676)
Profit for the year	-	-	-	-	-	-	135 089	135 089
As at 31 December 2007 before prior years adjustments	627 441	230	608 693	5 013	578 567	23 591	135 089	1 978 624
Prior years adjustments	-	-	2 426	-	-	(5 068)	41 891	39 249
As at 31 December 2007 after prior years adjustments	627 441	230	611 119	5 013	578 567	18 523	176 980	2 017 873
Prior year's profit transfer	-	-	-	-	-	176 980	(176 980)	-
Fixed asset revaluation reserve write-off	-	-	(40 745)	-	-	-	-	(40 745)
Write off of deferred tax liabilities on revalued fixed assets	-	-	6 111	-	-	-	-	6 111
Profit for the year	-	-	-	-	-	-	412 659	412 659
As at 31 December 2008	627 441	230	576 485	5 013	578 567	195 503	412 659	2 395 898

Notes on pages from 14 to 24 are integral part of these financial statements.

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Statement of changes in equity for the year ended 31 December 2008 in EUR

	Share capital	Share premium	Long-term investments revaluation reserve	Statutory reserve	Other reserve	Prior years' retained earnings	Current year's profit	Total
	EUR		EUR	EUR		EUR	EUR	EUR
As at 31 December 2006	892768	327	933928	7132	823226	31274	2292	2690950
Prior year's profit transfer						2292	(2292)	-
Fixed asset revaluation reserve write-off	-	-	(67836)	-	-	-	-	(67836)
Profit for the year	-	-	-	-	-	-	192214	192214
As at 31 December 2007 before prior years adjustments	892768	327	866092	7132	823226	33566	192214	2815328
Prior years adjustments	-	-	3451	-	-	(7211)	59605	55846
As at 31 December 2007 after prior years adjustments	892768	327	869543	7132	823226	26355	251819	2871174
Prior year's profit transfer	-	-	-	-	-	251819	(251819)	-
Fixed asset revaluation reserve write-off	-	-	(57974)	-	-	-	-	(57974)
Write off of deferred tax liabilities on revalued fixed assets	-	-	8695	-	-	-	-	8695
Profit for the year	-	-	-	-	-	-	587160	587160
As at 31 December 2008	1270294	327	820264	7132	823226	278175	587160	3409055

Exchange rate 31.12.2008 EUR 0.702804

Notes on pages from 14 to 24 are integral part of these financial statements.

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Cash flow statement for the year ended 31 December 2008

	Note	2008 Ls	2008 EUR	2007 Ls	2007 EUR
I Cash flow from operating activities					
1. Income from product sale and service delivery		6 161 918	8767619	5 451 894	7757346
2. Payments to suppliers, personnel and other operating expenses		(5 042 589)	(717538)	(4 530 293)	(6446026)
3. Other operating activity income / (expenses)		(108 939)	(155006)	98 559	140236
4. Gross cash flow from operating activities		1 010 390	1437655	1 020 160	1451556
5. Interest expenses		(13 452)	(19140)	(14 277)	(20243)
6. Corporate income tax payments		(84 748)	(120585)	(8 492)	(12083)
9. Net cash flow from operating activities		912 190	1297929	997 391	1419159
II Cash flow from investing activities					
1. Acquisition of shares of subsidiary or associate companies		-		(2 250)	(3201)
3. Acquisition of fixed assets and intangibles		(932 782)	(1327229)	(1 064 898)	(1515213)
4. Proceeds from sales of fixed assets and intangibles		5 918	8420		55773
7. Interest payments received		856	1217	9 727	13840
9. Net cash flow from investing activities		(926 008)	(1317590)	(1 018 223)	(1448800)
III Cash flow from financing activities					
2. Loans received		287 445	408997	-	
4. Repaid loans		(148 487)	(211277)	(147 959)	(210526)
7. Net cash flow from financing activities		138 958	197719	(147 959)	(210526)
V Net cash flow of the reporting year		125 140	178058	(168 791)	(240167)
VI Cash and cash equivalents at the beginning of the reporting year		261 866	372601	430 657	612769
VII Cash and cash equivalents at the end of reporting year		387 006	550659	261 866	372601

Exchange rate 31.12.2008 EUR 0.702804

Notes on pages from 14 to 24 are integral part of these financial statements.

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Notes

Accounting policies

(a) General principles

Annual accounts are prepared in accordance with the laws of the Republic of Latvia "On Accounting" and "Annual Accounts Act". The profit and loss account is prepared in accordance with the turnover module. The cash flow statement has been prepared using direct cash flow method. The accounting policies used by the Company are consistent with those used in the previous accounting period.

(b) Net sales

Net sales represent the total of goods and services sold during the year net of value added tax. Other income is accepted as following:

- income from rent – on accruals basis;
- income from fines and penalties – on cash basis;
- income from services - on accruals basis;
- income from insurance remuneration – on cash basis;

(c) Foreign currency translation into Lats

AS "LIEPĀJAS AUTOBUSUPARKS" maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted to Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place.

Assets and liabilities denominated in foreign currencies are translated into Lats in accordance with the official Bank of Latvia exchange rate for the last day of the reporting period. The resulting profit or loss is charged to the profit and loss account.

	31.12.2008.	31.12.2007.
	Ls	Ls
1 PLN	0.169	0.195
1 EUR	0.702804	0.702804
1 LTL	0.204	0.204
1 RUB	0.0173	0.0197

(d) Intangible and tangible fixed assets

All tangible fixed assets are initially recorded at cost. All fixed assets were revalued in 2002. The Company revalued fixed assets every 10 years.

Increase in value arising from revaluation is shown in equity under "Long-term investments revaluation reserve". Decreases that offset previous increases of the same asset are charged against that reserve; all other decreases are charged to the current years profit and loss account.

Fixed assets are recorded at historic cost or revalued amount net of depreciation. Depreciation or amortisation is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life as follows:

	% per annum
Buildings	5
Plant and equipment	10 - 20
Other fixtures and fittings, motor vehicles	10 - 20

Interest costs on borrowing to finance the fixed assets under construction and other direct charges related to the particular fixed asset under construction are capitalised, during the period of 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. Leasehold improvements are written down on a straight-line basis over the shorter of the estimated useful life of the leasehold improvement and the term of the lease. Current repairs and maintenance costs are charged to profit and loss account in the period when the respective costs are incurred.

Notes (continued)

Accounting policies (continued)

(e) Stock

The stock is recorded at the lower of cost and net realisable value. The stock value is accounted for using the weighted average method. Where required, slow moving, obsolete or damaged stock has been written down.

(f) Accounts receivable

Accounts receivable are recorded in the balance sheet at their net value less provisions made to cover anticipated loss on bad and doubtful accounts receivable. Specific provisions for doubtful accounts receivable are made when the recoverability of the specific debtor is considered by the Company's management to be uncertain. A general provision for doubtful accounts receivable is made in addition to the specific provisions based on accounts receivable ageing.

(g) Finance leases

Leases of assets under which the Company has substantially all the risks and rewards of ownership are classified as financial leases. Financial leases are capitalised at the inception of the lease at the present value of the minimum lease payments. Interest element of leasing payments is charged to the profit and loss account over the lease period.

(h) Operating leases

The Company as a lessee

Lease in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

The Company as a lessor

Assets that are leased out under operating lease terms are recorded within fixed assets at historic cost less depreciation. Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life using rates set for similar assets of the Company. Rental income from operating lease including advances received is recognised on a straight-line basis over the period of the lease.

(i) Investments in subsidiary undertakings and associated companies

Investments in subsidiary undertakings and associated companies are stated at cost value that is adjusted in case of permanent diminution in value.

In case reliable evidence exists that the value of the investment in subsidiary undertaking or associated company has decreased, loss from diminution in value is calculated as a difference between the carrying value and the recoverable value of the respective investment. The recoverable value is equal to the larger of two amounts – fair value of the investment net of disposal costs and value in use. Loss from permanent diminution of value can be reversed if in subsequent periods the estimates supporting the initial recognition of diminution of value change.

(j) Subsidies and donations

Subsidies relating to the purchase of specific assets are recorded as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

Notes (continued)

Accounting policies (continued)

(k) Taxation

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided for using liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from different fixed asset depreciation rates, as well as tax losses carried forward. Where an overall deferred taxation asset arises, it is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

(l) Provisions for unused annual leave

Amount of provision for unused annual leave is determined by multiplying the average wage of employees in the reporting year per day by the amount of accrued but unused annual leave at the end of the reporting year.

(m) Originated loans

Originated loans are recognised at the moment when cash is paid out to the borrower. Originated loans are stated at amortized cost using the effective interest method. Interest income is recognised in the profit and loss account using the effective interest rate method.

(n) Borrowings

Borrowings are recognised initially at the proceeds received net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds net of any transaction costs and the redemption value is gradually recognised in the profit and loss account or capitalised to fixed assets under construction according to fixed assets accounting policy over the period of borrowings.

(o) Cash and cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, balances of current account with banks and short-term deposits with maturity up to 90 days.

(p) Related parties

Related parties are defined as shareholders of the Holding Company, members of the Board of Directors, their close relatives and companies in which they have a significant influence or control.

(q) Prior year adjustments

In 2008 the Company discovered prior year adjustments required for several balance sheet and profit and loss positions. In 2002 the Company had inappropriately accounted for fixed assets revaluation effects and the related increase in deferred tax liabilities. After recording the adjustments needed, the following balance sheet and profit and loss items were affected:

Revaluation reserves and deferred tax liability accounting adjustments:

1. As of 31 December 2007 the revaluation reserve increased by Ls 2 426;
2. Prior years retained earnings decreased by Ls 5 068;
3. As of 31 December 2007 deferred tax liabilities decreased by Ls 39 249;
4. Deferred tax expense for 2007 decreased by Ls 76 167;
5. Income from revaluation reserve write – off (on fixed assets disposal) decreased by Ls 34 276.

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Notes (continued)

Accounting policies (continued)

(q) Prior year adjustments (continued)

In the result of adjustments processed, the Company's profit for 2007 increased by Ls 41 891, while the equity increased by Ls 39 249, amounting to Ls 176 980 and 2 017 873 respectively.

In result of adjustments several balance sheet and profit or loss account items were reclassified. Any reclassification is duly explained in the Notes to the financial statements.

Adjusted Profit or loss account for the year ended 31 December 2007

	2007 After adjustments Ls	2007 Prior to adjustments Ls
Net sales	4 261 976	4 261 976
Cost of sales	(4 102 225)	(4 107 482)
Gross profit	159 751	154 494
Selling expenses	(5 257)	-
Administrative expenses	(102 375)	(102 375)
Other operating income	178 043	211 438
Other operating expenses	(4 414)	(4 414)
Interest expenses and similar expenses (net)	(4 550)	(3 669)
Profit before taxes	221 198	255 474
Deferred tax	9 886	(66 281)
Corporate income tax for the reporting year	(43 550)	(43 550)
Other taxes	(10 554)	(10 554)
Current year's profit	176 980	135 089

Balance sheet as at 31 December 2007 adjustments

	31.12. 2007 After adjustments Ls	31.12.2007 Before adjustments Ls
Long – term investments	2 219 494	2 219 494
Current assets	542 115	542 115
Total assets	2 761 609	2 761 609
Share capital	627 441	627 441
Revaluation reserve	611 119	608 693
Total other reserves	583 810	583 810
Prior years' retained earnings	18 523	23 591
Profit for the year	176 980	135 089
Total share capital	2 017 873	1 978 624
Long – term liabilities	64 050	64 050
Deferred tax	157 842	197 091
Short – term liabilities	521 844	521 844
Total liabilities and share capital	2 761 609	2 761 609

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Notes (continued)

(1) Net sales

Net sale distribution by income types

	2008	2007
	Ls	Ls
Income from passenger transportation	3 691 182	3 164 280
Grants	2 072 192	1 097 696
	<u>5 763 374</u>	<u>4 261 976</u>

Net sale distribution by geographical markets and operating activity types

Passenger transportation - Latvia	5 707 298	4 159 800
Passenger transportation - Lithuania	4 667	21 205
Passenger transportation - Poland	-	6 696
Passenger transportation - Russia	40 691	27 901
Irregular passenger transportation	10 718	46 374
	<u>5 763 374</u>	<u>4 261 976</u>

(2) Cost of sales

Fuel and oil materials expenses	1 664 460	1 378 464
Spare parts and tires	516 342	432 572
Salary expenses	1 464 517	1 001 422
Social insurance	350 122	241 243
Other payroll costs	11 082	18 418
Increase/(decrease) of provisions for unused annual leaves	(66 085)	71 554
Deprecation of fixed assets	579 590	392 227
Current bus repair and materials	181 242	148 814
Public facilities	91 602	57 653
Business trip expenses	30 196	35 202
Outsourced services	118 783	65 120
Vehicle insurance	23 854	20 639
Sales of bus tickets and monthly tickets	32 084	24 096
IT expenses	35 484	24 373
Other cost of sales	270 011	190 428*
	<u>5 303 284</u>	<u>4 102 225</u>

*see explanation in Note 3 on selling expenses reclassification.

(3) Selling expenses

Advertising	<u>5 854</u>	<u>5 257*</u>
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* In 2007 advertising costs were included in cost of sales. Preparing 2008 financial statements advertising costs were reclassified to selling expenses. Comparatives have been reclassified accordingly.

(4) Administrative expenses

Salary expenses	84 404	65 504
Social insurance	18 320	20 617
Transportation costs and business trip expenses	6 656	4 506
Communication expenses	6 405	6 850
Training	159	874
Audit expense*	5 000	1 500
Other administrative costs	2 854	2 524
	<u>123 798</u>	<u>102 375</u>

* During the year the Company has not received other services from the Auditor.

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Notes (continued)

(5) Other operating income

	2008	2007
	Ls	Ls
Revenues from fixed assets rent	66 594	52 585
Insurance remuneration	6 200	58 695
Bus station revenues from ticket sales and parking facilities	45 809	34 844
Net gains from exchange rate fluctuation	-	705
Income from long term investment revaluation reserve write-off	40 744	13 400*
Penalties received	3 589	881**
Other income	80 956	16 933
	<u>243 892</u>	<u>178 043</u>

*see Note (q) in accounting policies

** In 2007 financial statements penalties received were included in the Profit or loss item „Interest and similar income”. In 2008 financial statements penalties received were included in „Other operating income”. Comparatives have been reclassified accordingly.

(6) Other operating expenses

Net loss on fixed assets disposal	51 885	-
Penalties paid	6 270	1 419
Net loss on exchange rate fluctuations	4 528	-
Other expenses	1 462	2 995
	<u>64 145</u>	<u>4 414</u>

(7) Interest income and similar income

Bank interest*	<u>826</u>	<u>9 727*</u>
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* See Note 5 on penalties income reclassification.

(8) Interest expenses and similar expenses

Interest on loan	<u>13 452</u>	<u>14 277</u>
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(9) Corporate income tax for the reporting year

Deferred tax charge (see Note 26)	(8 464)	(9 886)
Corporate income tax charge for the current year	84 620	43 550
Corporate income tax decrease for 2007	(96)	-
	<u>76 060</u>	<u>33 664</u>

Corporate income tax differs from the theoretically calculated tax amount:

Profit before taxation	<u>497 559</u>	<u>221 198</u>
Theoretically calculated tax	74 634	33 180
Expenses not deductible for tax purposes	1 522	484
Corporate income tax decrease for 2007	(96)	-
Tax charge	<u>76 060</u>	<u>33 664</u>

See Note (q) in accounting policies.

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Notes (continued)

(10) Intangible assets

	Concessions, patents, trade marks and similar rights
	Ls
Cost	
31.12.2007.	4 952
Disposals	(300)
31.12.2008.	4 652
Depreciation	
31.12.2007.	3 200
Charge for 2008	736
Disposals	(300)
31.12.2008.	3 636
Net book value 31.12.2008.	1 016
Net book value 31.12.2007.	1 752

(11) Fixed assets

	Land and buildings	Equipment and machinery	Other fixed assets and inventory	Fixed assets under construction	Advances for fixed assets	Total
	Ls	Ls	Ls	Ls	Ls	Ls
Cost or revalued value						
31.12.2007.	1 250 897	2 218 980	40 460	4 605	5 035	3 519 977
Additions	-	487 751	16 733	-	423 675	928 159
Disposals	-	(297 348)	(11 098)	-	-	(308 446)
Reclassification	-	4 605	-	(4 605)	-	-
31.12.2008.	1 250 897	2 413 988	46 095	-	428 710	4 139 690
Depreciation						
31.12.2007.	213 524	1 067 026	27 685	-	-	1 308 235
Charge for 2008	43 415	524 195	11 244	-	-	578 854
Disposals	-	(239 582)	(11 061)	-	-	(250 643)
31.12.2008.	256 939	1 351 639	27 868	-	-	1 636 446
Net book value						
31.12.2008.	993 958	1 062 349	18 227	-	428 710	2 503 244
Net book value						
31.12.2007.	1 037 373	1 151 954	12 775	4 605	5 035	2 211 742

In 2002 fixed assets of the Company were revalued by independent valuers using market price method. The difference arising on revaluation was recorded in "Long-term investments revaluation reserve" with the respective recognition of deferred tax liability in the amount of 15% of the revaluation reserve.

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Notes (continued)

(11) Fixed assets (continued)

If fixed assets subject to revaluation were recorded at cost net of accumulated depreciation, then net book value of the revalued assets would be as follows:

	31.12.2008.	31.12.2007.
	Ls	Ls
Cost	920 968	1 225 667
Accumulated depreciation	<u>(823 102)</u>	<u>(1 089 589)</u>
Net book value	<u>97 866</u>	<u>136 078</u>

Cadastral value of land as at 31 December 2008 is Ls 461 745. Cadastral value for the buildings as at 31 December 2008 is Ls 839 148.

(12) Other securities and investments

Cost	6 000	6 000
Provision for permanent diminution in value	<u>(6 000)</u>	<u>-</u>
	<u>-</u>	<u>6 000</u>

The balance position "Other securities and investments" contains the investment in AS "Starpilsētu līnijas" share capital (15%). On 17 September 2008 the liquidation process of AS "Starpilsētu līnijas" was commenced.

In 2007 financial statements the investment in AS "Starpilsētu līnijas" was shown in the balance position "Investments in associated companies". In 2008 reclassification was performed to company with the associates definition provided in Latvian accounting and tax legislation. Comparatives have been reclassified accordingly.

(13) Stock

Fuel, grease	19 386	50 348
Spare parts	85 606	79 448
Materials	<u>12 898</u>	<u>7 601</u>
	<u>117 890</u>	<u>137 397</u>

(14) Trade debtors

Trade debtors	85 869	116 308*
Provisions for bad and doubtful trade debtors	<u>(4 402)</u>	<u>(4 402)</u>
	<u>81 467</u>	<u>111 906</u>

*See Note 17 for classification of money-in-transit.

(15) Other debtors

VAT overpaid (see Note 22)	18 065	21 670
Budgetary loss compensations receivable	158 624	-
Advances to employees	<u>394</u>	<u>944</u>
	<u>177 083</u>	<u>22 614</u>

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Notes (continued)

(16) Deferred expenses

	31.12.2008.	31.12.2007.
	Ls	Ls
Press subscription	257	193
Insurance	14 141	3 449
Licences for passenger transportation in January	-	424
Subscription of communication services in January	-	3
Tickets, monthly tickets for following year	-	640
Annual leave pay for January of the following year	4 408	3 623
Riga Stock Exchange 2nd list annual fee	2 500	-
	21 306	8 332

(17) Cash and bank

Cash in transit	14 840	18 346*
Cash at bank	371 402	242 648
Cash in hand	764	872
	387 006	261 866

*In 2008 financial statements cash-in-transit is included in the balance sheet position "Cash and bank". In 2007 the respective amounts were included in trade debtors. Comparatives have been reclassified accordingly.

(18) Share capital

As at 31 December 2008 the subscribed and fully paid share capital consists of 627 441 ordinary shares with a nominal value of Ls 1,00 each.

(19) Loans from credit institutions

Loan from AS Swedbank – long term part	223 538	64 050
Loan from AS Swedbank – short term part	131 959	147 959
	355 497	212 009

Commercial pledge:

1. All fixed assets of commercial pledge issuer, unless pledge of such assets is otherwise restricted, as a whole and any additions to the noted assets in future;
2. All intangible assets of commercial pledge issuer, rights of claim, securities, bonds and other participating interests, stock, unless pledge of such assets is otherwise restricted, as a whole and any additions to the noted assets in future.

In 2008 the Company received additional loan in the total amount of EUR 409 000, thereby increasing its liabilities to AS SwedBank. The maturity of the loan is 19 February 2015. The loan is repayable according to the repayment schedule in quarterly payments of EUR 46 940, starting from 19 August 2008. In 19 May 2015 the Company has to repay any remaining principal of the loan. Interest payment is set at 3 months EURIBOR + 4,965% p.a. payable once a month.

(20) Advances from customers

Advances for loss compensation	26 422	-
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AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Notes (continued)

(21) Trade creditors

	31.12.2008.	31.12.2007.
	Ls	Ls
Short term creditors for received spare parts, materials	74 387	23 883
Short term creditors for services received	19 011	1 363
Other creditors (transportation services)	1 637	2 017
	95 035	27 263
	95 035	27 263

(22) Taxes and social insurance

	VAT	Corpora- te income tax	Real estate tax	Natural resource tax	Social insurance	Personal income tax	Entrepre- neurship risk duty	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Liabilities								
31.12.2007.	-	35 058	64	238	31 416	19 114	67	85 957
(Overpaid)								
31.12.2007.	(21 670)	-	-	-	-	-	-	(21 670)
Charge for 2008	(333 696)	84 620	8 905	239	506 115	293 268	848	560 299
Penalties	-	-	-	7	429	2 678	-	3 114
Transferred to other taxes	337 301	(6 893)	-	(4)	(330 403)	-	(1)	-
Prior years` adjustments	-	(96)	(64)	-	886	-	-	726
Paid in 2008	-	(77 856)	(8 905)	(420)	(165 448)	(289 316)	(847)	(542 792)
Liabilities								
31.12.2008.	-	34 833	-	60	42 995	25 744	67	103 699
(Overpaid)								
31.12.2008.	(18 065)	-	-	-	-	-	-	(18 065)

(23) Other creditors

	31.12.2008.	31.12.2007.
	Ls	Ls
Salaries	71 291	78 328
Deductions from salaries	758	1 072
	72 049	79 400
	72 049	79 400

(24) Deferred income

Monthly ticket sales for January of the following year	52 688	74 145
	52 688	74 145

(25) Accrued liabilities

Provisions for annual leave	30 360	83 616
Provisions for annual leave- social insurance	7 314	20 143
Accrued liabilities for audit expenses	5 000	1 500
Other accrued liabilities	1 783	1 861
	44 457	107 120
	44 457	107 120

AS "LIEPĀJAS AUTOBUSU PARKS"
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

Notes (continued)

(26) Deferred tax liability

	2008	2007
	Ls	Ls
Deferred tax liability at the beginning of the reporting year	157 842	169 737
Deferred tax liability change from long term investment revaluation reserve	(6 111)	(2 009)
Decrease of deferred tax liability during the reporting year (see Note 9)	(8 464)	(9 886)
Deferred tax liability at the end of the reporting year	<u>143 267</u>	<u>157 842</u>

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	31.12.2008	31.12.2007
	Ls	Ls
Temporary difference on fixed assets depreciation	149 818	173 406
Temporary difference on provisions for unused annual leave, bonuses and other provisions	(6 551)	(15 564)
Deferred tax liability	<u>143 267</u>	<u>157 842</u>

(27) Average number of employees

	2008	2007
Average number of employees during the reporting year:	<u>283</u>	<u>265</u>

(28) Management remuneration

	Ls	Ls
Board members' remuneration		
- salary	7 940	8 400
- social insurance	1 913	2 024
Total	<u>9 853</u>	<u>10 424</u>
Council members' remuneration		
- transferred sum to Liepāja's city council for council member's remuneration (inclusive of employer's social security charges)	6 719	5 146
-salary	4 872	4 871
- social insurance	1 108	1 103
Total	<u>12 699</u>	<u>11 120</u>

(29) Capital commitments

On 25 August 2008 AS "Liepājas Autobusu Parks" signed new bus purchase agreement for the total amount of EUR 1 532 000 (Ls 1 076 695,73). As at 31 December 2008 the Company had performed advance payment in the amount of EUR 610 000 (Ls 428 710,44). The remainder in the amount of EUR 922 000 (Ls 647 985,29) was paid in January 2009 when the Company acquired the rights to the vehicles acquired.

(30) Subsequent events

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2008.