

A/S "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA"

ANNUAL REPORT

from January 1 till December 31, 2007

ENG

EUR

A/S "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA"
ANNUAL REPORT
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INFORMATION ON THE COMPANY

| | |
|--|---|
| Name of the company | A/S Daugavpils Lokomotīvu Remonta Rūpnīca |
| Legal status of the company | Joint-stock company |
| Number, place and date of registration | Nr. 40003030219 Rīga, 03.October 1991 |
| Address | Commercial register Riga, 08.06.2004. Marias street, 1 DaugavpiEUR, LV-5401 Latvia |
| Type of operations | Repair of railway rolling stock, maintenance and modernizing as well as producing and repairing of their spare parts. |
| Names of the major shareholders | AS SKINEST RAIL, reg.10293440 (49,0%)Kadaka tee 1, 10621, Tallinn, Estonia AS SPACECOM, reg.10940566 (25,27%)Kadaka tee 1, 10621 Tallinn, Estonia LLC LOKOMOTIIV IVESTEERINGUUD, reg.11096115 (6,09%) Tartu street 18-18, 10115 Tallinn, AAS "DORMAŠINVEST" (5%) Orfikov side street, 5, of. 235 Moscow, Russia VAS VSAA, Rīga (3,2%) Lacplesha street 70a, LV-1011 Latvia Other shareholder - 11.44% Keskula Aivar - chairman of the board Šilovs Andrejs - member of the board Kārklīņa Jeļena - member of the board (till October 28, 2007) Petrova Natālija - member of the board (from October 29, 2007 Steļmačenoks Kazimirs - member of the board (from October 2 |

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Names and positions of the Board members

Oleg Ossinovski - chairman of the counsel
Juri Krasnošlok - vice chairman of the counsel
Roman Ait - member of the counsel (till May 6, 2007)
Vasiluy Barashkov - member of the counsel
Jelena Grjadunova - member of the counsel (till May 6, 2007)
Aleksandr Snatkin - member of the counsel (from May 7, 2007)

Financial year

1 January, 2007 - 31 December, 2007

Auditor's name and address:

MRI Revision SIA
Business license Nr. 80
Kronvalda boulevard 10
Riga LV-1010
Latvia

Certified auditor in charge
Eriks Bahirs
Certificate No.136

REPORT OF THE MANAGEMENT**Type of operations**

Basic activity of the Holding company "DAUGAVPILS LOKOMOTĪVJU REMONTA RUPNICA" is repair of railway rolling stock, maintenance and modernizing as well as producing and repairing of their spare parts. Holding company "DAUGAVPILS LOKOMOTĪVJU REMONTA RUPNICA" provide a repair services of all types of railway rolling stock - diesel-electric locomotives and electric trains.

Performance of the Company during the financial year

In 2007 the realization of enterprise main activity accounts 16.5 millions EUR that is 72% against 2006. Review year profit is 907 311 EUR. In comparison with 2006, the specific gravity of the export realization in the sum of general turn increased for 7% and made 79.6%. The main export directions this year were: EU countries: Lithuania and Estonia; the third states: Russia, Byelorussia, Uzbekistan and other. Moreover, the specific gravity of the local market fell down from 27.3% in 2006 till 20.4% in 2007 and formed 3.4 millions EUR.

In connection with work in a new financial structure the additional net turn, i.e. realization to subsidiary companies, amounted 9.39 millions EUR, what is 30% of annual net turn. In review year the indexes of turn and profit were influenced by Enterprise non-function in the first half-year in 2007 (because of the changes in the order of agreements concluding RŽD – Russian railways), the main production factors, labor force costs and inflation increase in Latvia.

In 2007 Enterprise executed the overestimation of fixed assets (land plots, buildings and constructions), which increased the value of the balance for 3.6 millions EUR.

Research and development

2007 is the first year, when Enterprise started to work actively in the new financial structure: a/s "DLRR" and 11 subsidiary companies, which were created on the base of the former workshops. The work in the new structure let provide a "transparency" of financial and economical activity in each subsidiary company, as also the a/s "DLRR" ", thus increasing production efficiency and profit.

Financial risk management

The policy of financial risk management of the Company is described in financial report's Notes 35

Post balance sheet events

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

Distribution of profit proposed by the Board

| | 2007 |
|--------------------------------|----------------|
| | EUR |
| Profit share to be distributed | 907 311 |
| Proposed profit distribution: | |
| Retained earnings | 907 311 |

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Future prospects

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

Natālija Petrova
board member

Daugavpils, 21 May 2008

REPORT OF THE MANAGEMENT

Type of operations

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

The Management certifies that proper accounting methods were applied to the preparation of these financial statements on pages 8 to 30 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent in comparison with the previous year. The Management confirms that the financial statements have been prepared on a going concern basis.

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

Natālija Petrova
board member

Daugavpils, 21 May, 2008

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INCOME STATEMENT

| | Note | 2007 EUR | 2006 EUR |
|---------------------------------------|------|------------------------------|------------------------------|
| Net sales | (1) | 31 414 288 | 26 053 964 |
| Cost of sales | (2) | (28 100 122) | (24 146 118) |
| Gross profit or losses | | <u>3 314 166</u> | <u>1 907 846</u> |
| Selling costs | (3) | (437 515) | (196 967) |
| Administrative expenses | (4) | (1 648 248) | (1 787 278) |
| Other operating income | (5) | 211 289 | 556 830 |
| Other operating expenses | (6) | (45 291) | (105 617) |
| Interest income and similar income | (7) | 417 051 | 320 273 |
| Interest charges and similar expenses | (8) | (477 038) | (320 397) |
| Profit or losses before taxes | | <u>1 334 414</u> | <u>374 690</u> |
| Corporate income tax | (9) | (315 361) | (62 510) |
| Other taxes | (10) | (111 742) | (52 238) |
| Net profit or losses | | <u><u>907 311</u></u> | <u><u>259 942</u></u> |

Notes on pages 13 to 30 are an integral part of these financial statements.

Natālija Petrova
board member

Daugavpils, 21 May 2008

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BALANCE SHEET

| | Note | 31.12.2007. EUR | 31.12.2006. EUR |
|---|------|-----------------------|-----------------------|
| <u>Assets</u> | | | |
| Non-current assets | | | |
| II. Fixed assets: | | | |
| Land and buildings | (11) | 7 863 710 | 4 373 780 |
| Equipment and machinery | (11) | 1 664 638 | 1 146 725 |
| Other fixed assets | (11) | 412 768 | 209 999 |
| Fixed assets under construction | (11) | 88 205 | 472 365 |
| Total fixed assets: | | 10 029 321 | 6 202 869 |
| | | | |
| IV. Non-current financial investments: | | | |
| Investments in subsidiaries | (12) | 31 303 | 31 303 |
| Total non-current financial investments: | | 31 303 | 31 303 |
| Total non-current investments: | | 10 060 624 | 6 234 172 |
| | | | |
| Current assets | | | |
| I. Inventories: | | | |
| Raw materials and consumables | (13) | 3 456 592 | 2 353 357 |
| Work in progress | | 0 | 303 112 |
| Finished goods and goods for sale | (14) | 319 271 | 911 369 |
| Advances for goods receivable | | 87 592 | 163 625 |
| Total inventories: | | 3 863 455 | 3 731 463 |
| II. Account receivable: | | | |
| Trade receivables | (15) | 4 103 508 | 4 711 100 |
| Receivables from group companies | (16) | 2 927 688 | 0 |
| Other receivables | (17) | 345 934 | 401 270 |
| Deferred expenses | (18) | 15 798 | 18 423 |
| Accrued income | (19) | 3 654 010 | 2 381 539 |
| Total receivables: | | 11 046 938 | 7 512 332 |
| IV. Cash and bank: | (20) | 149 877 | 15 866 |
| Total current assets: | | 15 060 270 | 11 259 661 |
| <u>Total assets</u> | | 25 120 894 | 17 493 833 |

Notes on pages 13 to 30 are an integral part of these financial statements.

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BALANCE SHEET

| | Notes | 31.12.2007. EUR | 31.12.2006. EUR |
|--|-------|--------------------------|--------------------------|
| <u>EQUITY AND LIABILITIES</u> | | | |
| Equity | | | |
| Share capital | (21) | 11 801 610 | 11 801 610 |
| Non-current investments revaluation reserve | (11) | 3 959 884 | 1 013 298 |
| Retained earnings | | | |
| a) previous year's retained earnings | | (7 512 570) | (7 772 513) |
| b) current years profit/loss | | 907 311 | 259 943 |
| Total equity: | | 9 156 235 | 5 302 338 |
| Provisions: | (22) | 1 135 149 | 1 166 102 |
| Liabilities: | | | |
| Non-current liabilities: | | | |
| Loans from banks | (23) | 3 246 089 | 3 969 696 |
| Deferred income tax liabilities | (9) | 682 547 | 62 510 |
| Total non-current liabilities: | | 3 928 636 | 4 032 206 |
| Current liabilities: | | | |
| Loans from banks | (23) | 4 916 688 | 2 831 055 |
| Advances from customers | (24) | 531 319 | 351 966 |
| Trade payables | | 3 890 140 | 3 087 646 |
| Payables to group companies | (25) | 117 720 | 0 |
| Taxes and social insurance payments | (26) | 255 909 | 368 316 |
| Other liabilities | (27) | 62 144 | 305 789 |
| Accrued liabilities | (28) | 1 126 954 | 48 415 |
| Total current liabilities: | | 10 900 874 | 6 993 187 |
| Total liabilities: | | 14 829 510 | 11 025 393 |
| <u>Total equity, provisions and liabilities</u> | | <u>25 120 894</u> | <u>17 493 833</u> |

Notes on pages 13 to 30 are an integral part of these financial statements.

Natālija Petrova
board member

Daugavpils, 21 May 2008

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STATEMENT OF CHANGES IN EQUITY

| | Share capital | Long-term investments revaluation reserve | Legal reserve | Retained earnings | Total |
|-----------------------------------|-------------------|--|---------------|--------------------|------------------|
| | EUR | EUR | EUR | EUR | EUR |
| 31.12.2005. | 11 801 610 | 1 202 564 | 0 | (7 772 513) | 5 231 662 |
| Disposal of revalued fixed assets | 0 | (189 266) | 0 | 0 | (189 266) |
| Profit for the year | 0 | 0 | 0 | 259 943 | 259 943 |
| 31.12.2006. | 11 801 610 | 1 013 298 | 0 | (7 512 570) | 5 302 339 |
| Increase of share capital | 0 | 0 | 0 | 0 | 0 |
| Revaluation of fixed assets | 0 | 3 606 792 | 0 | 0 | 3 606 792 |
| Disposal of revalued fixed assets | 0 | (541 019) | 0 | 0 | (541 019) |
| Reclassification of reserves | 0 | (119 187) | 0 | 0 | (119 187) |
| Dividends | 0 | 0 | 0 | 0 | 0 |
| Profit for the year | 0 | 0 | 0 | 907 311 | 907 311 |
| 31.12.2007. | 11 801 610 | 3 959 884 | 0 | (6 605 259) | 9 156 235 |

Notes on pages 13 to 30 are an integral part of these financial statements.

Natālija Petrova
board member

Daugavpils, 21 May 2008

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CASH FLOW STATEMENT

| | 2007 | 2006 |
|---|--------------------|--------------------|
| | EUR | EUR |
| Cash flow from operating activities | | |
| Profit or losses before taxes | 1 334 414 | 374 690 |
| <u>Adjustments for:</u> | | |
| depreciation of fixed and intangible assets | 477 966 | 279 250 |
| profit from disposal of fixed assets | (24 162) | (243 630) |
| profit on disposal of fixed assets | (119 187) | (189 266) |
| changes in provisions | 750 203 | (82 773) |
| foreign exchange (gains)/losses | (436 723) | (286 050) |
| interest expenses | 471 308 | 294 672 |
| | 2 453 819 | 146 893 |
| Cash flow prior to changes in current assets and liabilities | | |
| Inventory (increase)/decrease | (177 340) | 1 471 234 |
| Account receivable (increase)/decrease | (3 847 218) | (708 711) |
| Account payable increase/(decrease) | 1 362 326 | (9 812 932) |
| Gross cash flow generated from operating activities | (208 413) | (8 903 516) |
| Cash flow from extraordinary items | (487 335) | (294 672) |
| Corporate income tax paid | 105 655 | (270 259) |
| Net cash flow generated from operating activities | (590 093) | (9 468 447) |
| Cash flow from investing activities | | |
| Acquisition of fixed and intangible assets | (678 815) | (2 597 618) |
| Proceeds from sales of fixed assets | 27 369 | 448 461 |
| Loans issued | (423 199) | 0 |
| Equity investments paid | 0 | (31 303) |
| Net cash flow generated from investing activities | (1 074 645) | (2 180 460) |
| Cash flow from financing activities | | |
| Loans received | 2 959 667 | 3 857 394 |
| Loans repaid | (1 160 918) | (413 488) |
| Net cash flow generated from financing activities | 1 798 749 | 3 443 906 |
| Net increase / (decrease) in cash and cash equivalents | 134 011 | (8 205 001) |
| Cash and cash equivalents at the beginning of the financial year | 15 866 | 8 220 867 |
| Cash and Cash equivalents at the end of the financial year | 149 877 | 15 866 |

Notes on pages 13 to 30 is an integral part of these financial statements.

 Natālija Petrova
 board member

Daugavpils, 21 May 2008

NOTES TO THE FINANCIAL STATEMENTS

I. ACCOUNTING POLICIES

(1) General principles

Financial statements are prepared in accordance with the Laws of the Latvian Republic On Accounting, On the Annual Reports and the Latvian accounting standards issued by the Accounting council of the Ministry of Finance of the Latvian Republic, applicable in the financial year.

The financial statements have been prepared according to the historical cost accounting principle. The income statement is prepared in accordance with the turnover (period cost) method. The cash flow statement has been prepared under direct/indirect cash flow method.

(2) Changes in accounting policies

Due to accepted Latvian Accounting standards, the Company has changed the income recognition principle in the reporting period. Until the end of the reporting year ended 2006 the Company recognized income upon the full completion of the services. From 2007 the Company recognized income for the services rendered under the stage of completion method.

Except the above mentioned, the accounting policies used by the Company are consistent with those used in the previous period.

(3) Income recognition and net sales

Net sales represent the total of goods and services sold during the year excluding discounts, VAT and other taxes directly adjusted to sales.

Income is recognized according to the following principles:

Sale of goods - after significant ownership risk and rewards have been passed to the buyer;

Rendering of services - under the stage of completion method;

Income from fines and penalties - at the moment of receiving;

Interest income - on an accrual basis

Dividends - at the moment of acquiring legal rights to receive them

(4) Investments in group and associated companies, other non-current investments

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

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

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(4) Foreign currencies

The Company performs its accounting in Latvian Lats. All transactions denominated in foreign currencies are converted into Lats at the exchange rate set by the Bank of Latvia on the day of transaction.

Monetary assets and liabilities in foreign currencies are translated into Lats in accordance with the official exchange rate set by Bank of Latvia for the last day of the financial year. The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized in the net value in the income statements in the respective period.

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

(6) Fixed and intangible assets

Intangible and fixed assets are initially accounted at the purchase cost. Purchase cost includes costs, which are directly related to the purchase of intangible and fixed assets. In financial statements the intangible and fixed assets are shown at purchase cost or revalued amount excluding depreciation. Increase in value arising from revaluation is shown in equity under "Long-term investments revaluation reserve".

Depreciation is calculated on a straight-line basis applying the following rates of depreciation set by the management, based on the estimate utilization period:

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

The Company capitalizes its fixed assets valued over EUR 142.3 with useful life exceeding 1 year. Depreciation for improvements and other low costs items valued less than 71.1 EUR is recorded at 100% after putting into operation.

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

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

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

(7) Capitalization of borrowing and other costs

The value of assets under development is initially increased by interest on loans used to finance the development of assets or similar direct costs attributable to the respective assets until substantially all activities necessary to prepare the respective asset for its intended use are complete. The values of respective asset is not increased by borrowing costs for periods when there are neither construction nor development works being performed in relation to respective assets.

(8) Inventory

Inventory is recorded at the lower of purchase or production costs and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventory at their current position and value. The costs of used materials and other expenses that are directly connected with the production of the appropriate item are included in the production cost of inventory. Selling expenses has not included in cost. Cost is stated on the FIFO (weighted average) method. When the net realizable value of inventories is lower than its costs, the difference is accounted as provisions for the decrease of value.

(9) Account receivable

Receivables are recognized in the balance sheet at their net value, less provisions made for doubtful and bad debts. Special provisions for doubtful accounts are established when the management of the Company considers the return of the debt unlikely. The bad and doubtful accounts receivables are recorded as losses in the current financial year.

(10) Investments in group and associated companies, other non-current investments

Non-current investments, including investments in the group and associated companies of the concern, are stated at costs, which is adjusted in case of long-term increase or decrease.

(10) Provisions

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

(11) Provisions

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

(13) Accrued liabilities for unused annual leave

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

(14) Taxation

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

Deferred tax is calculated according to the liability method with respect to all temporary differences between the values of assets and liabilities in the financial statements and their values for tax calculation purposes. The deferred tax liability is calculated based on the tax rates that are expected to be applied when the temporary differences even out. The temporary differences arise from different fixed asset depreciation rates, revaluation of assets, as well as from tax losses carried to the next taxation periods. In cases, when the total result of the deferred tax calculation is to be reflected as assets, it is included in the financial statements only if a taxable profit will be available against which the temporary differences composing the deferred tax assets could be applied.

(15) Cash and cash equivalents

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

(16) Group companies

Group companies are considered parent, subsidiaries of the parent and subsidiaries of subsidiaries, providing that the parent company has a control over its subsidiaries.

(17) Related parties

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

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II. OTHER NOTES

(1) Net sales

| | 2007 | 2006 |
|--|--------------------------|--------------------------|
| | EU | EUR |
| | R | |
| By operating activities | | |
| Income from sales of products | 18 224 802 | 22 663 020 |
| Income from sales of spare parts | 3 253 929 | 2 378 818 |
| Income from sales of material (note 32b) | 4 901 357 | 0 |
| Income from fixed assets leasing (note 32b) | 3 099 999 | 0 |
| Direction and administrative service (note 32b) | 633 926 | 0 |
| Other income from sales to subsidiary companies (note 32b) | 822 968 | 0 |
| Other income | 477 307 | 1 012 126 |
| | <u>31 414 288</u> | <u>26 053 964</u> |

By location

| | | |
|--|--------------------------|--------------------------|
| Income from sales of goods/services in Latvia | 13 273 830 | 7 231 318 |
| Income from sales of goods/services to Russia | 3 204 734 | 11 973 687 |
| Income from sales of goods/services to Mongolia | 3 043 807 | 0 |
| Income from sales of goods/services in the market ES | 3 023 887 | 3 160 531 |
| Income from sales of goods/services to Uzbekistan | 1 662 341 | 462 433 |
| Income from sales of goods/services to Belorussia | 986 335 | 3 051 978 |
| Other | 6 219 354 | 174 017 |
| | <u>31 414 288</u> | <u>26 053 964</u> |

(2) Cost of sales

| | | |
|---|--------------------------|--------------------------|
| Subsidiary companies services costs (note 32) | 12 636 591 | 0 |
| Raw materials and consumables | 9 686 277 | 13 524 398 |
| Cost of spare parts sold | 3 154 780 | 2 333 118 |
| Accumulation debtor costs decrease | 735 808 | 30 283 |
| Utility expenses | 525 163 | 940 221 |
| Depreciation of fixed assets | 340 988 | 191 410 |
| Cost of delivery of goods | 314 160 | 584 403 |
| Accumulation accretion costs decrease | 45 348 | 113 830 |
| Accumulation possible material losses | 28 110 | 0 |
| Salary expenses * | 0 | 4 541 884 |
| Social insurance* | 0 | 1 072 548 |
| Other costs | 632 897 | 814 023 |
| | <u>28 100 122</u> | <u>24 146 118</u> |

* Since a review year Enterprise has been providing repair of the rolling stock, buying repair services from its subsidiary companies, as a result, the structure of production costs has changed in comparison with last year. Substantial changes are new kind of costs: purchase repair services from daughter enterprises, as well as purchase costs of sold materials to daughter enterprises. In turn, in connection with production function delivery to daughter enterprises there are no production personnel costs at Enterprise. The mentioned positions of costs in review year and last year are comparable.

(3) Selling costs

| | | |
|----------------------|-----------------------|-----------------------|
| Transportation costs | 273 947 | 100 816 |
| Salary expenses | 86 486 | 46 746 |
| Social insurance | 20 835 | 11 261 |
| Other selling costs | 56 247 | 38 144 |
| | <u>437 515</u> | <u>196 967</u> |

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(4) Administrative expenses

| | | |
|-------------------------------|-------------------------|-------------------------|
| Salary expenses | 805 811 | 1 093 597 |
| Social insurance costs | 184 350 | 261 612 |
| Other social security costs | 0 | 0 |
| Rent expenses | 0 | 0 |
| Office expenses | 153 559 | 117 290 |
| Depreciation of fixed assets | 136 977 | 87 840 |
| Professional service costs | 61 183 | 12 094 |
| Representation costs | 15 704 | 9 567 |
| Other administrative expenses | 290 664 | 205 278 |
| | <u>1 648 248</u> | <u>1 787 278</u> |

(5) Other operating income

| | | |
|--------------------------------------|-----------------------|-----------------------|
| Write of assets revaluation reserve | 119 188 | 189 265 |
| Net income from sale of fixed assets | 24 162 | 243 630 |
| Rental income | 23 557 | 18 618 |
| Other income | 44 382 | 105 317 |
| | <u>211 289</u> | <u>556 830</u> |

(6) Other operating expenses

| | | |
|--------------------------------------|----------------------|-----------------------|
| Net losses from sale of fixed assets | 23 166 | 49 803 |
| Other expenses | 22 125 | 55 814 |
| | <u>45 291</u> | <u>105 617</u> |

(7) Other interest income and similar income

| | | |
|---|-----------------------|-----------------------|
| Net income on foreign exchange | 0 | 0 |
| Net income from exchange rate fluctuations | 416 651 | 320 273 |
| Interest income from positive balance on bank account | 400 | 0 |
| | <u>417 051</u> | <u>320 273</u> |

(8) Interest charges and similar expenses

| | | |
|------------------------|-----------------------|-----------------------|
| Interest charge | 493 325 | 330 603 |
| (Interest capitalized) | (22 018) | (32 861) |
| Penalties paid | 5 731 | 22 655 |
| | <u>477 038</u> | <u>320 397</u> |

(9) Corporate income tax**a) Components of corporate income tax**

| | | |
|--|-----------------------|----------------------|
| Deferred income tax | 79 019 | 62 510 |
| Corporate income tax according to the tax return | 236 342 | 0 |
| | <u>315 361</u> | <u>62 510</u> |

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

| | 2007 | 2006 |
|---|-----------------------|----------------------|
| | EUR | EUR |
| Profit before taxes | 1 334 414 | 374 690 |
| Other taxes (real estate taxes) | (111 742) | (52 238) |
| Profit before corporate income tax | 1 222 672 | 322 453 |
| Theoretically calculated tax at 15% tax rate | 183 401 | 48 368 |
| Tax effects on: | | |
| Non-deductible expenses for tax purposes | 172 564 | 38 262 |
| Non-taxable income | (17 878) | (24 121) |
| Tax losses forwarded to other group companies | (22 726) | 0 |
| Total corporate income tax expenses | <u>338 087</u> | <u>62 509</u> |

b) Movement and components of deferred tax

| | | |
|--|-----------------------|----------------------|
| Deferred tax losses at the beginning of the financial year | 62 510 | 0 |
| Deferred tax charged to the income statement | 79 019 | 62 510 |
| Changes in deferred tax forwarded to non-current investment (fixed assets) revaluation reserve | 541 018 | 0 |
| Deferred tax losses at the end of the financial year | <u>682 547</u> | <u>62 510</u> |

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

| | 31.12.2007. | 31.12.2006. |
|---|-----------------------|-----------------------|
| | EUR | EUR |
| Temporary difference on depreciation of fixed and intangible assets | 880 913 | 254 499 |
| Gross deferred tax liabilities | <u>880 913</u> | <u>254 499</u> |
| Temporary difference on annual leave accrued expenses | 4 217 | 0 |
| Temporary difference on bad debt provisions | 170 272 | 174 915 |
| Temporary difference on provisions for slow moving and obsolete stock | 23 877 | 17 074 |
| Gross deferred tax assets | <u>198 366</u> | <u>191 989</u> |
| Net deferred tax liability (assets) | <u>682 547</u> | <u>62 510</u> |

(10) Other taxes

| | | |
|-------------------------------|-----------------------|----------------------|
| Real estate tax for land | 8 956 | 10 848 |
| Real estate tax for buildings | 102 786 | 41 390 |
| | <u>111 742</u> | <u>52 238</u> |

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(11) Fixed assets

| | Land and buildings | Leasehold improvements | Equipment and machinery | Other fixed assets | Fixed assets under construction | Advances for fixed assets | Total |
|--|-----------------------|---------------------------|-------------------------------|--------------------|---------------------------------------|------------------------------|-------------|
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| Cost/valuation | | | | | | | |
| 31.12.2006. | 6 493 617 | 0 | 7 249 879 | 729 901 | 472 365 | 0 | 14 945 762 |
| Additions | 0 | 0 | 0 | 0 | 700 831 | 0 | 700 831 |
| Reclassification between fixed assets | 94 668 | 0 | 725 370 | 264 953 | (1 084 991) | 0 | 0 |
| Disposals | 0 | 0 | (193 066) | (31 780) | 0 | 0 | (224 846) |
| Revaluation | 3 606 792 | 0 | 0 | 0 | 0 | 0 | 3 606 792 |
| Disposals on account of revaluation | (1 647 444) | 0 | 0 | 0 | 0 | 0 | (1 647 444) |
| 31.12.2007. | 8 547 633 | 0 | 7 782 183 | 963 074 | 88 205 | 0 | 17 381 095 |
| Depreciation | | | | | | | |
| 31.12.2006. | (2 119 837) | 0 | (6 103 154) | (519 902) | 0 | 0 | (8 742 893) |
| Calculated | (211 530) | 0 | (204 252) | (62 184) | 0 | 0 | (477 966) |
| Disposals | 0 | 0 | 189 861 | 31 780 | 0 | 0 | 221 641 |
| Disposals on account of revaluation | 1 647 444 | 0 | 0 | 0 | 0 | 0 | 1 647 444 |
| 31.12.2007. | (683 923) | 0 | (6 117 545) | (550 306) | 0 | 0 | (7 351 774) |
| Net carrying amount 31.12.2006. | 4 373 780 | 0 | 1 146 725 | 209 999 | 472 365 | 0 | 6 202 869 |
| Net carrying amount 31.12.2007. | 7 863 710 | 0 | 1 664 638 | 412 768 | 88 205 | 0 | 10 029 321 |

Cadastral value of freehold land as at December 31, 2007 is EUR 922 657. Cadastral value for the buildings is EUR 6 409 628 .

The interest of the loan has been capitalized to EUR 22 018 (2006.y. - EUR 32 861).value under construction.

In 1996, 1999 and 2001 Enterprise made the overestimation of belonged to it buildings and technological devices. Accordingly in 1996 for EUR 938438, in 1999 for EUR 1 875 134 and in 2001 for EUR 1 266 290. In the result of overestimation appeared difference is presented as a part of the equity capital in item "Reserve of the long-term investment overestimation".

Inviting independent licensed experts, in 2007 Enterprise made the overestimation of belonged to it land and buildings. The method of amortized costs replacement is used in the fixed assets overestimation, and taking into account the situation on the real estate market, using the caution principle, the value determined by independent estimator was multiplied by coefficient 0.7. The estimation was executed by independent estimator AS BDO Invest Riga. In the result of overestimation the difference appeared in volume of EUR 3 606 792 (minus the sum of deferred tax obligation, that refers to fixed assets overestimation), which is presented as a part of the equity capital in item "Reserve of the long-term investment overestimation".

Inviting independent licensed experts, in 2007 Enterprise made the overestimation of belonged to it land and buildings. The method of amortized costs replacement is used in the fixed assets overestimation, and taking into account the situation on the real estate market, using the caution principle, the value determined by independent

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estimator was multiplied

Had not the revaluation been performed the value of land and building would be the following

| | 31.12.2007. | 31.12.2006. |
|----------------------------|-------------------------|-------------------------|
| | EUR | EUR |
| Cost | 6 588 285 | 6 493 617 |
| Accumulated depreciation | <u>(2 190 508)</u> | <u>(2 119 837)</u> |
| Net carrying amount | <u>4 397 777</u> | <u>4 373 780</u> |

All fixed assets are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from Norvik banka (see Note 23).

(12) Investments in shares

a) movement of investments

| | Non-current | | Current | | Total |
|--|--|--------------------------------------|---|---------------------------------|---------------|
| | Investments in subsidiaries | Investments in associates | Other securities and investments | Own stock and shares | |
| | EUR | EUR | EUR | EUR | |
| Cost | | | | | |
| 31.12.2006. | 31 303 | 0 | 0 | 0 | 31 303 |
| 31.12.2007. | <u>31 303</u> | <u>0</u> | <u>0</u> | <u>0</u> | 31 303 |
| Net carrying amount 31.12.2006. | 31 303 | 0 | 0 | | 31 303 |
| Net carrying amount 31.12.2007. | <u>31 303</u> | <u>0</u> | <u>0</u> | | <u>31 303</u> |

b) investments in subsidiaries

| Name | Address | Participating interest | | Equity | | Profit/(loss) | |
|-----------------|-------------------|-------------------------------|--------------------|--------------------|--------------------|----------------------|-------------|
| | | 31.12.2006. | 31.12.2007. | 31.12.2006. | 31.12.2007. | 2006 | 2007 |
| | | % | % | EUR | EUR | EUR | EUR |
| SIA Rel | Marijas 1, Daugav | 100 | 100 | (771 254) | 2 000 | (773 254) | 0 |
| SIA Elap | Marijas 1, Daugav | 100 | 100 | (4 205) | 2 000 | (6 205) | 0 |
| SIA Remdīz | Marijas 1, Daugav | 100 | 100 | (456 620) | 2 000 | (458 620) | 0 |
| SIA Ritrem | Marijas 1, Daugav | 100 | 100 | (402 251) | 2 000 | (404 251) | 0 |
| SIA Elektromaš | Marijas 1, Daugav | 100 | 100 | 117 160 | 2 000 | 115 160 | 0 |
| SIA Krāsotājs | Marijas 1, Daugav | 100 | 100 | (160 593) | 2 000 | (162 593) | 0 |
| SIA SPZČ | Marijas 1, Daugav | 100 | 100 | (106 528) | 2 000 | (108 528) | 0 |
| SIA Metalurgs | Marijas 1, Daugav | 100 | 100 | (455 162) | 2 000 | (457 162) | 0 |
| SIA Remenergo | Marijas 1, Daugav | 100 | 100 | (150 316) | 2 000 | (152 316) | 0 |
| SIA Instruments | Marijas 1, Daugav | 100 | 100 | (149 058) | 2 000 | (151 058) | 0 |
| SIA Loģistika | Marijas 1, Daugav | 100 | 100 | (68 579) | 2 000 | (70 579) | 0 |
| | | | | (2 607 406) | 0 | (2 629 406) | |

2007 is the first year, when Enterprise started to work actively in the new financial structure: a/s "DLRR" and 11 subsidiary companies, which were created on the base of the former workshops.

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The activity of subsidiary companies is the capital repair of different parts of railway rolling stock, maintenance and modernization, as well as additional function performance, including:

| | |
|-----------------|---|
| SIA Rel | Repair of diesel-electric locomotives and electric trains. |
| SIA Elap | Repair of electric equipment of rolling stock |
| SIA Remdīz | Repair of engine and it's knots of rolling stock |
| SIA Ritrem | Repair of couple wheels and lorry of rolling stock |
| SIA Elektromaš | Repair and producing of electromotors, generators and transformers |
| SIA Krāsotājs | Dyeing of rolling stock |
| SIA SPZČ | Repair and producing of spare parts |
| SIA Metalurģs | Metal foundry |
| SIA Remenerģo | Maintenance of fixture, technical control and capital repair of buildings, constructions and producing equipment, service rendering of public facilities to group companies |
| SIA Instruments | Repair and producing of instruments and utilities |
| SIA Loģistika | Transportation service Material purchasing for Concern's need till 30.09.2007. |

(13) Raw materials and consumables

| | | |
|--|-------------------------|-------------------------|
| Raw material, material and auxiliary material cost | 3 559 406 | 2 403 158 |
| (Accruals for damaged and slow moving stock) | (102 814) | (49 801) |
| | <u>3 456 592</u> | <u>2 353 357</u> |

(14) Finished goods and goods for resale

| | | |
|--|-----------------------|-----------------------|
| Complete production | 375 173 | 910 899 |
| Other product sale | 462 | 470 |
| (Accruals for damaged and slow moving stock) | (56 364) | 0 |
| | <u>319 271</u> | <u>911 369</u> |

(15) Trade receivables

| | | |
|---|-------------------------|-------------------------|
| Book value of trade receivables | 6 903 647 | 6 775 429 |
| (Provisions for bad and doubtful receivables) | (2 800 139) | (2 064 329) |
| | <u>4 103 508</u> | <u>4 711 100</u> |

(16) Receivables from group companies

| | | |
|---------------------------------------|-------------------------|-----------------|
| Calculation with subsidiary companies | 2 504 489 | 0 |
| Credit to subsidiary companies | 423 199 | 0 |
| | <u>2 927 688</u> | <u>0</u> |

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(17) Other receivables

| | | |
|--|-----------------------|-----------------------|
| VAT overpaid (see Notes 26 for details) | 215 263 | 0 |
| Corporate income tax overpaid in foreign countries | 77 248 | 77 248 |
| Accumulation for corporation income tax in foreign countries | (77 248) | 0 |
| VAT for advances | 24 556 | 57 108 |
| Corporate income tax overpaid | 0 | 155 693 |
| Payments for quarantine | 98 147 | 103 764 |
| Payments to other services | 3 384 | 3 715 |
| Other receivables | 4 363 | 1 988 |
| Payments to personnel | 221 | 1 754 |
| | <u>345 934</u> | <u>401 270</u> |

(18) Deferred expenses

| | | |
|--------------------|----------------------|----------------------|
| Insurance payments | 5 747 | 4 932 |
| Other expenses | 10 051 | 13 491 |
| | <u>15 798</u> | <u>18 423</u> |

(19) Finished goods and goods for resale

| | | |
|---|-------------------------|-------------------------|
| Accrued income from long-term contracts | 4 739 091 | 3 067 730 |
| Provisions for potential losses | (28 110) | (64 029) |
| Advances received | (1 215 437) | (639 329) |
| Gross value for accrued income | <u>3 495 544</u> | <u>2 364 372</u> |
| from them: | | |
| Accumulated income as assets | 3 654 010 | 2 381 539 |
| Accumulated income as liabilities (in balance row "Accrued liabilities") | <u>3 495 543</u> | <u>2 364 372</u> |

(20) Cash and bank

| | | |
|--------------|-----------------------|----------------------|
| Cash on hand | 423 | 95 |
| Cash at bank | 149 454 | 15 771 |
| | <u>149 877</u> | <u>15 866</u> |

(21) Share capital

Registered fully paid share capital of the Company is 11 801 610 EUR, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is 1.42 EUR. All shares guarantees equal rights to dividends, reception of liquidation quotas and suffrage in shareholder's meeting. One share gives rights to 1 vote. All shares are dematerialized. The Company do not hold own shares or someone else in it's interest. Shares are not convertible, exchangeable or guaranteed.

From 2007 1 299 367 shares has been quoted in AS Riga Exchange stock in second list. At the end of financial year there are 1 299 367 listed shares.

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| (22) Provisions | 31.12.2007. | 31.12.2006. |
|--------------------------------|------------------|------------------|
| | EUR | EUR |
| Provisions for warranty repair | 1 135 149 | 1 166 102 |
| | <u>1 135 149</u> | <u>1 166 102</u> |

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

| (23) Loans from banks | 31.12.2007. | 31.12.2006. |
|--|------------------|------------------|
| | EUR | EUR |
| Non-current | | |
| Non-current loan in USD | 1 823 241 | 2 282 490 |
| Loan for installation of gas equipment in euro | 255 879 | 383 921 |
| Loan for privatization of land in euro | 1 140 368 | 1 280 590 |
| Other loan in LVL | d) 26 601 | 22 695 |
| Current part of non-current loan in USD | 26 601 | 0 |
| | <u>3 246 089</u> | <u>3 969 696</u> |
| Current | | |
| Current part of non-current loan in USD | 237 815 | 263 365 |
| Current part of non-current loan for gas equipment in euro | 128 040 | 128 040 |
| Current part of loan for privatization of land in euro | 141 840 | 142 281 |
| Current part of other loan in lats | | 9 391 |
| Current part of other loan in USD | 8 401 | 0 |
| Overdraft in USD | 1 839 093 | 2 287 978 |
| Short-term loan in euro | 961 500 | 0 |
| Current part of non-current loan for gas equipment in euro | 1 599 999 | 0 |
| | <u>4 916 688</u> | <u>2 831 055</u> |

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

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

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

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

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

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

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

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

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Movement of loans in financial year

Non-current

| | | |
|-----------------------------|------------------|------------------|
| Payment in 1 year | 4 916 688 | 2 831 055 |
| Payment from 2 till 5 years | 516 094 | 543 077 |
| Payment from above 5 year | 2 729 995 | 3 426 619 |
| | <u>8 162 777</u> | <u>6 800 751</u> |

The implementation of enterprise's obligations are provided and strengthened by mortgage of all belonged to Enterprise's real estate and commercial pledge of all Enterprise's property as totality of belongings at the mortgage moment, as well as totality of belongings for the next components. The value of enterprise's mortgaged balance assets was EUR 25 120 894 on the 31st December 2007 (EUR 17 493 833 on the 31st December 2006 was)

(24) Advances from customers

| | | |
|--|----------------|----------------|
| Advances receivable | 1 746 756 | 991 295 |
| The included advances of the unfinished projects (see the note 19) | (1 215 437) | (639 329) |
| | <u>531 319</u> | <u>351 966</u> |

(25) Payables to group companies

| | | |
|---|----------------|----------|
| Accrued liabilities from subsidiary company (see the note 32) | 117 720 | 0 |
| | <u>117 720</u> | <u>0</u> |

(26) Taxes and social insurance payments

| | 31.12.2006. | Calculated | Calculated | (Paid)/ repaid | Transferred | 31.12.2007. |
|--|----------------|------------------|--------------|----------------|-------------|------------------|
| | EUR | EUR | penalty and | EUR | to other | EUR |
| | | | delay fees | EUR | taxes | EUR |
| VAT | 124 091 | (1 032 117) | 1 379 | 540 982 | 150 402 | (215 263) |
| Personal income tax | 86 482 | 165 934 | 0 | (115 536) | (107 662) | 29 218 |
| Social insurance payments | 155 639 | 287 077 | 0 | (204 894) | (198 617) | 39 205 |
| Corporate income tax | (155 693) | 236 342 | (182) | (50 220) | 155 877 | 186 124 |
| Real estate tax (land) | 0 | 8 956 | 47 | (9 003) | 0 | 0 |
| Real estate tax (buildings) | 492 | 102 786 | 546 | (103 824) | 0 | 0 |
| Natural resource tax | 1 061 | 3 874 | 0 | (3 637) | 0 | 1 298 |
| Excise tax | 549 | 763 | 0 | (1 248) | 0 | 64 |
| Total | 212 621 | (226 385) | 1 790 | 52 620 | 0 | 40 646 |
| Hereof | | | | | | |
| (Overpaid) - see Notes 17 for details | (155 693) | | | | | (215 263) |
| Payables | 368 316 | | | | | 255 909 |

In 2007 Enterprise got 25% reduction of real estate tax on buildings from the calculated sum of the real estate tax EUR 136 177, what made EUR 33 413.

(27) Other liabilities

| | | |
|-----------------------|--------------------|--------------------|
| | 31.12.2007. | 31.12.2006. |
| | EUR | EUR |
| Salaries | 52 248 | 262 298 |
| Payments to personnel | 387 | 21 916 |
| Other liabilities | 9 509 | 21 575 |
| | <u>62 144</u> | <u>305 789</u> |

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(28) Accrued liabilities

| | | |
|---|------------------|---------------|
| Accrued liabilities from subsidiary companies | 891 422 | 0 |
| Accrued liabilities from long-term contracts | 158 467 | 17 167 |
| Accrued unused annual leave expenses | 39 559 | 31 248 |
| Accrued trade payables | 37 506 | 0 |
| | <u>1 126 954</u> | <u>48 415</u> |

(29) Average number of employees

| | | |
|---|-------------|--------------|
| | 2007 | 2006 |
| Average number of people employed during the financial year | <u>174</u> | <u>1 648</u> |

(30) Personnel expenses

| | | |
|---------------------------|------------------|------------------|
| Employee pay | 909 992 | 5 907 556 |
| Social insurance payments | 208 229 | 1 918 363 |
| Other expenses | 556 590 | 384 389 |
| | <u>1 674 811</u> | <u>8 210 308</u> |

(31) Remuneration to the management

| | | |
|-----------------------------------|----------------|---------------|
| | 2007 | 2006 |
| | EUR | EUR |
| Board members | | |
| · salary expenses | 132 582 | 68 379 |
| · other social insurance expenses | 25 356 | 16 473 |
| | <u>157 938</u> | <u>84 852</u> |

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

(32) Transactions with related parties

As mentioned in note no.12 Enterprise hold 100% shares of subsidiary companies SIA Rel, SIA Elap, SIA Remdiz, SIA Ritrem, SIA Elektromaš, SIA Krāsotājs, SIA SPZČ, SIA Metalurgs, SIA Remenergo, SIA Instruments un SIA Logistika. Claims and liabilities are classified as debts of related enterprises and debts to related enterprises accordingly.

The member of the enterprise's board Oleg Ossinovski has a profound influence among enterprise large shareholders, who hold 49.0% of shares, AS Skinest Rail (Estonia). Enterprise is engaged in transactions as well with other enterprises, which are connected with AS Skinest Rail: SIA Skinest Latvia, UAB Skinest Baltija (Lithuania) and OOO Skinest SPB (Russia).

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a) claims and liabilities

| | 31.12.2007. | | 31.12.2006. | |
|--|--------------------|-----------------|--------------------|------------------|
| | Receivables EUR | Payables EUR | Receivables EUR | Payables EUR |
| <i>Claims and liabilities to subsidiary companies</i> | | | | |
| SIA "Rel" | 224 670 | 0 | 0 | 0 |
| SIA "Elap" | 99 972 | 0 | 0 | 0 |
| SIA "Krāsotājs" | 61 731 | 0 | 0 | 0 |
| SIA "SPZČ" | 349 417 | 0 | 0 | 0 |
| SIA "Metalurģs" | 559 662 | 0 | 0 | 0 |
| SIA "Remenergo" | 1 301 310 | 0 | 0 | 0 |
| SIA "Instruments" | 142 546 | 0 | 0 | 0 |
| SIA "Loģistika" | 188 380 | 0 | 0 | 0 |
| SIA "Elektromaš" | | 117 720 | 0 | 0 |
| In total | 2 927 688 | 117 720 | 0 | 0 |
| <i>Claims and liabilities to other related parties</i> | | | | |
| AS "Skinest Rail" | 0 | 7 389 | 0 | 686 651 |
| SIA "Skinest Latvija" | 221 336 | 0 | 0 | 793 540 |
| AS "Spacecom" | 64 123 | 0 | 0 | 713 |
| UAB "Skinest Baltija" | 0 | 3 594 | 0 | 0 |
| OOO "Skinest SPB" | 0 | 54 660 | 0 | 0 |
| In total | 285 459 | 65 643 | 0 | 1 480 904 |
| | 3 213 147 | 183 363 | 0 | 1 480 904 |

b) transactions

| | Notes | 2007 | 2006 |
|--|-------|-------------------|------------------|
| | | EUR | EUR |
| <i>Transaction with subsidiary companies</i> | | | |
| <i>i) Income</i> | | | |
| Income from sales of products | | 198 960 | 0 |
| Income from fixed assets leasing | (33) | 3 099 999 | 0 |
| Income from utility services | | 268 255 | 0 |
| Direction and administrative service | a) | 633 926 | 0 |
| Income from sales of material | c) | 4 901 357 | 0 |
| Other income | | 355 752 | 0 |
| | | 9 458 249 | 0 |
| <i>ii) Expences</i> | | | |
| Received services expences | b) | 12 266 285 | 0 |
| Raw material cost | | 571 324 | 0 |
| Utility expences | | 140 577 | 0 |
| Cost of delivery of goods | | 196 947 | 0 |
| Other expences | | 821 330 | 0 |
| | | 13 996 463 | 0 |
| <i>Transaction with related parties</i> | | | |
| <i>i) Income</i> | | | |
| Sale of goods | | 78 658 | 185 461 |
| Services rendered | | 3 537 493 | 1 900 149 |
| <i>ii) Cost</i> | | | |
| Services received | | 21 309 | 27 897 |
| Purchase of goods | | 2 065 946 | 4 945 357 |
| | | 2 087 255 | 4 973 254 |
| | | 28 083 412 | 6 439 029 |

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a) A/s "DLRR" provide administrative management services for subsidiary companies, these services include services of t

b) Since a review year Enterprise has been providing repair of the rolling stock, buying from its subsidiary companies repair favours. The largest subsidiary companies, which provide Enterprise rolling stock repair services, are SIA Rel, SIA Elap, SIA Remdiz, SIA Elektromaš, SIA Ritrem un SIA Krāsotājs. Each of these mentioned enterprises carry out the separate part of mentioned services according to every subsidiary company's activity (see note No. 11). SIA Remenergo, SIA SPZČ, SIA Instruments, SIA Metalurgs and SIA Loģistika provide mainly assistant functions in rolling stock repair works. These services are provided to other subsidiary companies, as also to Enterprise.

(33) Lease agreements

In accordance with concluded agreement in 2007 January Enterprise leases all production buildings, technological devices and other fixed assets and equipment used in the main activity of Concern to the subsidiary company SIA "Remenergo". Rent payments for building lease in 2007 were EUR 2 841 115 per year, and EUR 258 884 for equipment lease. Lease agreement is concluded for indefinite term.

(34) Adjustments for changes in accounting policies

The Company has changed the income recognition principle in the reporting period. Until the end of the reporting year ended 2006 the Company recognized income upon the full completion of the services. From 2007 the Company recognized income for the services rendered under the stage of completion method. Effect from changes of accounting policy are these:

| | For year 2006 | For previous years |
|--|--------------------------|-------------------------------|
| | EUR | EUR |
| <u>Effect of changed accounting policy</u> | | |
| Increase in accrued income and net turnover | (473 068) | 3 540 798 |
| Increase in cost of sales | (473 068) | 3 540 798 |
| Net result of retained earnings and net assets | <u><u>0</u></u> | <u><u>0</u></u> |

| | 2006 corrected Name of item | 2007 Name of item | Amount EUR |
|---|--|-------------------------------|-------------------------|
| Work in progress | Accrued income | Inventories-work in progress | 3 067 730 |
| Provision for increase of value of work in progress | Accrued income | Inventories-work in progress | (64 029) |
| Advances received | Accrued income | Liabilities-advances received | (639 329) |
| | | | <u><u>2 364 372</u></u> |

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(35) Managing financial risks

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

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

Foreign currency risks

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

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

| | 31.12.2007. | 31.12.2006. |
|--|---------------------------|---------------------------|
| Financial assets, USD | 3 472 391 | 2 389 336 |
| Financial liabilities, USD | (10 692 165) | (7 571 288) |
| Position of balance sheet, USD, net | <u>(7 219 774)</u> | <u>(5 181 952)</u> |
| Position of balance sheet, EUR, net | <u>(4 972 042)</u> | <u>(3 952 061)</u> |
| Financial assets, EUR | 361 033 | 137 848 |
| Financial liabilities, EUR | (4 333 128) | (1 010 977) |
| Position of balance sheet, EUR, net | (3 972 095) | (873 129) |
| Position of balance sheet, LVL, net | (2 791 605) | (613 638) |
| Financial assets, RUB | 37 471 962 | 51 408 317 |
| Financial liabilities, RUB | ##### | (12 042 682) |
| Position of balance sheet, RUB, net | 1 793 848 | 39 365 635 |
| Position of balance sheet, EUR, net | 50 283 | 1 137 048 |

Interest rate risks

The Company is subject to the interest rate risk, mainly with respect to its borrowings. The average interest rate of the Company loans is reflected in note 18.

Credit risk

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

The Company has no significant concentration of credit risk on any separate business partner or group of partners corresponding to the similar description.

In the result of policy change, the assets and obligations were classified in a new way:

In connection with a necessity to enlarge circulating assets of subsidiary companies, Enterprise provides a significant financing of activity of daughter enterprises. The largest part of financing till the 31st December 2007 is not paid back. The general uncovered losses of subsidiary companies at the end of review year were EUR 2 626 559. The bad financial results of enterprise in 2007 are explained mainly by insufficient production volume. According to the prognoses of managers, the planned activity of all subsidiary companies is cost-effective, they are planning to finish 2008 year with profit, therefore it is not possible to foresee if sul

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Liquidity risk

The Company manages its liquidity risk, maintaining the appropriate amount of money and money equivalents.

(36) Subsequent events

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

Natālija Petrova
board member

Daugavpils, 21 May 2008

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