AS Daugavpils Lokomotīvju Remonta Rūpnīca

ANNUAL REPORT

for the 12 months period ended 31 December 2008

CONTENTS

INFORMATION ON THE COMPANY

Name of the company	AS Daugavpils Lokomotīvju Remonta Rūpnīca

Legal status of the company	Joint-stock company
Number, place and date of registration	Enterprise Register Nr. 40003030219 Riga, 3 October 1991 Commercial Register Riga, 8 June 2004
Address	1 Marijas Street, Daugavpils, LV-5401 Latvia
Type of operations	Railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts.
Names of the major shareholders	AS SKINEST RAIL - 47,97% Kadaka tee 1, 10621, Tallinn, Estonia AS SPACECOM - 25,27% Kadaka tee, 1, 10621 Tallinn, Estonia LLC LOKOMOTIIV IVESTEERINGUUD - 6,09% Tartu iela 18-18, 10115 Tallinn, Eesti AAS "DORMASHINVEST" - 5% 5 Orlikov cross street, office 235, 107996 Moscow, Russia VAS Valsts sociālas apdrošināšanas aģentūra 3,2% 70a Lāčplēša Street, LV-1011, Riga, Latvia Other shareholders - 12,47%
Names and positions of the Counsel members	Oleg Ossinovski - Chairman of the Counsel Juri Krasnošlik Vice Chairman of the Counsel Vasily Barashkov Member of the Counsel Roman Ait - Member of the Counsel (until 9 August 2008) Aleksandr Snatkin - Member of the Counsel (until 9 August 2008) Maarika Piir - Member of the Counsel (from 10 August 2008) Oleg Rumjantsev - Member of the Counsel (from 10 August 2008)

Names and positions of the Board members	Aivar Keskula - Chairman of the Board
	Andrejs Šilovs - Member of the Board
	Kazimirs Steļmačenoks - Member of the Board
Financial year	1 January, 2008 - 31 December, 2008
Auditor's name and address:	Baker Tilly Baltics SIA License No. 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 AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" (further - the Company) is railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts . AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" provides 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 2008 net sales of the Company was in amount 33.7 millions EUR (31.4 million EUR in 2007). Sales of principal activity comprised 23.0 million EUR, that compile 126% to 2007. In addition to principal activity the Company rendered to subsidiaries the following services: sales of materials, rental services, administration and management services and others, which provides the additional net sales of 10.1 million EUR (in 2007 - 9.4 million EUR). Net profit for the year is 287 178 EUR. In 2008 The Company performed revaluation of fixed assets (land, buildings and structures), that reduced its residual value for 1.99 million EUR.

Performance of the Group during the financial year

In 2008 the consolidated net sales of the Company amounted to 24.9 million EUR (111% in respect of annual turnover 2007). In 2008 the Company was provided with orders for the whole year, that enabled to complete 2008 with a profit of 2 035 594 EUR.

In 2008 the Company exported its products to 8 countries, the total export volume amounted to 21.6million EUR (in 2007 - 18.2 million EUR), while turnover in Latvia amounted to 4.13 million EUR (in 2007 - 4.13 million EUR). The main directions of export in 2008 were the EU countries: Lithuania and Estonia, and the third countries: Russia and Uzbekistan.

One of the Group's priorities is the development of the type of repair service, thus continually improving and expanding the range of the proposed solution, which is an important precondition for successful operation of the Company. In 2008 the Group developed and mastered a new project - the driving cab design improvement that will allow the Company to increase the competitiveness of the services provided.

Financial risk management

The policy of financial risk management of the Company is described in financial report's Notes 38

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

	2008
Profit share to be distributed	**287 180**
Proposed profit distribution:	
Retained earnings	287 180

Future prospects

Due to the global economic crisis in 2009 the Company has been only partially guaranteed by the repair orders, therefore the management of the Company starting from the very beginning of 2009 checks carefully on all items of expenditure for minimization purposes. In 2009 the Company brings forward the following objectives: attraction of new clients, improvement of marketing activity (with existing and new clients), rise efficiency of principal activity, quality improvement of production in response of demands of new market, acquirement of new production services and as a result - completion of year 2009 without loss.

Natālija Petrova
board member

28 April 2009

INCOME STATEMENT

	Notes	**2008 EUR**	**2007 EUR**
Net sales	(1)	33 757 087	31 414 288
Cost of sales	(2)	(30 248 936)	(27 364 313)
Gross profit or losses		**3 508 151**	**4 049 975**
Distribution expenses	(3)	(302 596)	(437 515)
Administrative expenses	(4)	(1 824 345)	(1 648 248)
Other operating income	(5)	308 724	211 289
Other operating expenses	(6)	(223 234)	(781 100)
Interest and similar income	(7)	568	417 051
Interest and similar expenses	(8)	(1 097 507)	(477 038)
Profit or losses before taxes		**369 761**	**1 334 414**

Corporate income tax	(9)	(9 620)	(315 361)
Other taxes	(10)	(72 961)	(111 742)
Net profit or losses		**287 180**	**907 311**

Notes on pages 12 to 31 are an integral part of these financial statements.

Natālija Petrova
board member

Daugavpils, 28 April 2009

BALANCE SHEET

	Notes	31.12.2008. EUR	31.12.2007. EUR
ASSETS			
Non-current assets			
Fixed assets:			
Land and buildings	(11)	2 168 569	2 927 213
Equipment and machinery	(11)	1 766 653	1 664 638
Other fixed assets	(11)	344 142	412 768
Fixed assets under construction	(11)	47 893	88 205
Total fixed assets:		**4 327 257**	**5 092 824**
Total non-current financial investments:	(12)	**3 613 279**	**4 936 497**
Non-current financial investments:			
Investments in subsidiaries	(14)	31 303	31 303
Total non-current financial investments:		**31 303**	**31 303**
Total non-current investments:		**7 971 839**	**10 060 624**
Current assets			
Inventories:			
Raw materials and consumables	(15)	2 789 439	3 456 592
Finished goods and goods for sale	(16)	82 448	319 271
Advances for inventories		36 645	87 592
Total inventories:		**2 908 532**	**3 863 455**
Account receivable:			
Trade receivables	(17)	3 745 534	4 103 508
Receivables from group companies	(18)	2 619 789	2 927 688
Other receivables	(19)	538 273	345 934
Deferred expenses	(20)	12 821	15 798
Accrued income	(21)	3 188 608	4 710 981
Total receivables:		**10 105 025**	**12 103 909**
Cash and bank:	(22)	**40 534**	**149 877**
Total current assets:		**13 054 091**	**16 117 241**
Total assets		**21 025 930**	**26 177 865**

Notes on pages 12 to 31 are an integral part of these financial statements.

BALANCE SHEET

	Notes	31.12.2008. EUR	31.12.2007. EUR
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	(23)	11 801 610	11 801 610
Non-current investments revaluation reserve	(13)	2 223 513	3 959 884
Retained earnings			
a) previous year's retained earnings		(6 605 259)	(7 512 570)
b) current years profit or losses		287 180	907 311
Total equity:		**7 707 044**	**9 156 235**
Provisions:	(24)	**1 161 778**	**1 135 149**
Liabilities:			
Non-current liabilities:			
Loans from banks	(25)	2 766 027	3 246 089
Deferred income tax liabilities	(9)	385 749	682 547
Total non-current liabilities:		**3 151 776**	**3 928 636**
Current liabilities:			
Loans from banks	(25)	3 458 700	4 916 688
Advances from customers	(26)	772 627	1 746 756
Trade payables		2 678 566	3 890 140
Payables to group companies	(27)	1 131 892	117 720
Taxes and social insurance payments	(28)	44 768	255 909
Other liabilities	(29)	61 245	62 144
Accrued liabilities	(30)	857 534	968 488
Total current liabilities:		**9 005 332**	**11 957 845**
Total liabilities:		**12 157 108**	**15 886 481**
Total equity, provisions and liabilities		**21 025 930**	**26 177 865**

Notes on pages 12 to 31 are an integral part of these financial statements.

Natālija Petrova
board member

Daugavpils, 28 April 2009

STATEMENT OF CHANGES IN EQUITY

	Share capital	Long-term investments revaluation reserve	Reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR
31.12.2006.	**11 801 610**	**1 013 298**	**0**	**(7 512 570)**	**5 302 338**

Revaluation of fixed assets (see note 13)		3 606 792			3 606 792
Disposal of revalue fixed assets		(119 188)			(119 188)
Changes in deferred tax liabilities due to reclassification of reserves (see note 9)		(541 018)			(541 018)
Profit for the year				907 311	637 662
31.12.2007.	**11 801 610**	**3 959 884**	**0**	**(6 605 259)**	**8 886 586**
Revaluation of fixed assets (see note 13)		(1 931 074)			(1 931 074)
Disposal of revalue fixed assets		(111 715)			(111 715)
Changes in deferred tax liabilities due to reclassification of reserves (see note 9)		306 418			306 418
Profit for the year				201 831	201 831
31.12.2008.	**11 801 610**	**2 223 513**	**0**	**(6 403 428)**	**7 352 046**

Notes on pages 12 to 31 are an integral part of these financial statements.

Natālija Petrova
board member

Daugavpils, 28 April 2009

CASH FLOW STATEMENT

	2008	**2007**
	EUR	**EUR**
Cash flow from operating activities		
Profit or losses before taxes	**369 761**	**1 334 414**
Adjustments for:		
depreciation of fixed and intangible assets	582 435	477 965
profit from disposal of fixed assets	(127 154)	(143 350)
changes in provisions	(50 035)	750 203
foreign exchange gains	135 823	(436 723)
interest expenses	449 929	471 308
Cash flow prior to changes in current assets and liabilities	**1 360 759**	**2 453 817**
Inventory (increase)/decrease	1 007 386	(177 339)
Account receivable (increase)/decrease	966 116	(3 847 217)
Account payable increase/(decrease)	(797 278)	1 362 326
Gross cash flow generated from operating activities	**2 536 983**	**(208 413)**
Interest paid	(448 630)	(487 335)
Corporate income tax paid	(50 627)	105 655
Net cash flow generated from operating activities	**2 037 726**	**(590 093)**
Cash flow from investing activities		
Acquisition of fixed and intangible assets	(450 588)	(678 815)

Proceeds from sales of fixed assets		41 300	27 369
Loans issued to subsidiaries (net)		337 394	(423 199)
Net cash flow generated from investing activities		**(71 894)**	**(1 074 645)**
Cash flow from financing activities			
Loans received		0	2 959 667
Loans repaid		(2 075 175)	(1 160 918)
Net cash flow generated from financing activities		**(2 075 175)**	**1 798 749**
Net increase / (decrease) in cash and cash equivalents		**(109 343)**	**134 011**
Cash and cash equivalents at the beginning of the financial year		**149 877**	**15 866**
Cash and Cash equivalents at the end of the financial year	(22)	**40 534**	**149 877**

Notes on pages 12 to 31 are an integral part of these financial statements.

Natālija Petrova
board member

Daugavpils, 28 April 2009

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 (LAS) 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 cost method. The cash flow statement has been prepared under indirect cash flow method.

(2) Changes in accounting policies

During the current financial year LAS No. 9 "Investment property" were issued. Due to this standard the Company has changed real estate property classification principles, that are rented to subsidiaries. Until 2007 the Company classified the mentioned real estate property as fixed assets, but starting from the beginning of the reporting year the Company classifies them as investment property. In the financial statement comparative figures for previous periods are classified by the reporting year principles and are comparable. The policy of real estate recognition, the initial and subsequent measurement is not changed (see (8) Note to accounting policies).

(3) Reclassification of comparatives

Certain items have been classified differently than in previous year financial statements. Reclassification does not have the impact on the financial results. The previous year comparatives have been reclassified accordingly and are comparable.

	2007 Adjusted Name of item	2007 Prior adjustments Name of item	Amount EUR
Advances for long term projects	Advances from customers	Accrued income (net)	1 215 437
Accrued expenses for long term agreements	Accrued income for non-current agreements	Accrued liabilities	158 467

(4) Income recognition and net sales

Net sales contains the total value of goods and services sold during the year excluding discounts and value added tax.

Income is recognized according to the following principles:
Sales of goods - after significant ownership risk and rewards have been passed to the buyer;
Rendering of services - under the percentage of completion method (see note (5) to the accounting policy);
Income from fines and penalties - at the moment of receiving the payments;
Interest income - on an accrual basis.

(5) Long term contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

The Company presents as an asset the gross amount due from the customers for contract work for all contracts in progress for which costs incurred plus recognized profit (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within "trade receivables".

The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profit (less recognized losses). Advances received from customers are included within "advances from customers".

(6) Foreign currencies conversion to lats

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 denominated 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 income statements in the respective period on net amount.

	31.12.2008. EUR	31.12.2007. EUR
1 USD	0,704	0,689
1 EUR	1	1
1 LTL	0,289	0,29
1 EEK	0,064	0,064
1 RUB	0,024	0,028

(7) Fixed and intangible assets

Intangible and fixed assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of intangible and fixed assets. In financial statements the intangible and fixed assets are recognized at purchase cost or revalued amount less 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 estimated useful life of the fixed assets:

	Depreciation % per annum
Buildings	1,11-20
Technological equipment	20-50
Other machinery and equipment, transport vehicles	20

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 with the value less than 142.3 EUR is recognized in full after its ready for use.

If sufficient evidence is acquired that the future economic benefit associated with subsequent costs will flow to the Company, which exceeds the return set previously, costs are capitalized as additional costs to the fixed asset. Capitalizing the cost of replaced parts, the carrying amount of the part replaced is derecognized and charged to the income statement. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Net gains or losses from disposal of fixed assets is calculated, as the difference between the carrying amount of the fixed asset, write-off of related assets revaluation reserve (if any) and proceeds from sale, and recognized in the income statements during the period when disposal are incurred.

If it is possible to conclude due to any kind of occurrence or circumstances that residual value of fixed or intangible assets could exceed its recoverable value, appropriate value of fixed or intangible asset is to be decreased until recoverable value. Recoverable value is prescribed as the highest from actual value of investigation, discharging purchase costs or usage values.

(30) Investment property

Investment property is property (land, building or part of building) held by the owner or by lessee under a finance lease to earn rentals or for capital appreciation rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. For the land with uncertain future use (if the Company has not determined that it will use the land as owner occupied or short term sale in the ordinary course of business, it is assumed that land is held for capital appreciation), it is classified as investment property.

Investment property initially recognized at cost or revalued amount less depreciation. Increase in value arising from revaluation is shown in equity under “Long-term investments revaluation reserve". Subsequently investment properties are stated at cost less depreciation and impairment losses. Depreciation of buildings is calculated on a straight-line basis applying the following rates of depreciation, based on their estimated useful life:

	Depreciation % per annum
Buildings (depending on building component)	1,67-10

(9) Inventories

Inventories are stated at the lower of purchase or production cost and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventories at their current position and value. The costs of materials and other expenses that are directly connected with the production of the appropriate item as well as a respective part of overhead expenses are included in the production cost of inventories. Selling expenses has not included in cost. Cost is stated on the FIFO method. When the net realizable value of inventories is lower than its costs, the difference is recognized as provisions for the decrease of value.

(10) Account receivable

Receivables are recognized in the balance sheet at their net value, less provisions made for doubtful and bad debts. Provisions for doubtful receivables are established when the management of the Company considers that it is probable that the total amount of receivables will not be collected .

(11) Investments in group and associates, other financial investments

Investments in subsidiaries and associates, are stated at cost less impairment losses.

(12) Provisions

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

(40) 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.

(42) 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 tax basis. The deferred tax liability is calculated based on the tax rates that are expected to be applied when the temporary differences reverse. The temporary differences arise from different fixed asset depreciation rates, impairment 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 recognized in the financial statements only if a future taxable profit will be available against which the temporary differences can be utilised.

(15) Cash and cash equivalents

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

(46) 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.

(48) Related parties

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

II. OTHER NOTES

(1) Net sales

	2008 EUR	2007 EUR
By operating activities		
Income from railway rolling stock repair and upgrade services	22 987 819	18 224 802
Income from sales of railway rolling stock spare parts		3 253 929
Income from sales of materials (see note 35)	6 591 058	4 901 357
Income from rent of premises and equipment (see note 35)	2 575 668	3 099 999
Management and administrative services (see note 35)	687 769	633 926
Other income from transactions with subsidiaries (see note 35)	315 698	822 968
Other income	599 075	477 307
	33 757 087	**31 414 288**
By location		
Income from sales of goods/services in Latvia	14 066 788	13 273 830
Income from sales of goods/services to Russia	8 016 103	3 204 734
Income from sales of goods/services to EU markets	3 938 624	3 023 887
Income from sales of goods/services to Uzbekistan	2 363 390	1 662 341
Income from sales of goods/services to Mongolia	330 106	3 043 807
Income from sales of goods/services to Belarus	203 044	986 335
Income from sales of goods/services to other countries	4 839 032	6 219 354
	33 757 087	**31 414 288**

(2) Cost of sales

Service costs of subsidiaries	18 317 411	8 881 047

Raw materials and consumables	10 648 528	9 686 277
Acquisition costs of spare parts sold		3 154 780
Depreciation of fixed assets	419 696	340 988
Costs of goods sold	208 232	314 160
Utility expenses	35 898	525 163
Changes in provisions for expected losses	27 918	19 756
Changes in provisions for impairment of inventories	(41 322)	45 348
Other production costs	632 575	632 895
	30 248 936	**23 600 414**

(3) Distribution expenses

Transportation costs	159 828	273 948
Salary expenses	110 648	86 486
Mandatory State social insurance costs	26 655	20 835
Other selling costs	5 465	56 246
	302 596	**437 515**

(4) Administrative expenses	**2008 EUR**	**2007 EUR**
Salary expenses	964 810	805 812
Mandatory State social insurance costs	224 778	184 350
Office expenses	184 609	153 559
Depreciation of fixed assets	160 619	136 977
Professional service costs	13 517	61 183
Representation costs	4 283	15 704
Other administrative expenses	271 729	290 663
	1 824 345	**1 648 248**

(5) Other operating income

Net gain from disposal of fixed assets	153 016	143 350
Receivables gained from bed debtors	35 999	0
Rental income	26 226	23 557
Other income	93 483	44 382
	308 724	**211 289**

(6) Other operating expenses

Provisions for decrease of value of trade receivables	11 796	735 808
Changes in other provisions	142 343	0
Collective agreement costs	24 811	23 166
Other expenses	44 284	22 126
	223 234	**781 100**

(7) Interest and similar income

Net income from exchange rate fluctuations		416 651
Interest income	568	400
	568	**417 051**

(8) Interest and similar expenses

Interest charge	449 929	493 326
(Interest expenses capitalized)		(22 018)
Net loss from exchange rate fluctuations	582 736	
Penalties paid	64 842	5 730
	1 097 507	**477 038**

(9) Corporate income tax

	2008 EUR	2007 EUR
a) Components of corporate income tax		
Changes in deferred income tax	9 620	79 019
Corporate income tax according to the tax return		236 342
	9 620	**315 361**

The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

	2008 EUR	2007 EUR
Profit before taxes	369 760	1 334 414
Real estate tax	(72 961)	(111 742)
Profit or losses before corporate income tax	296 799	1 222 672
Theoretically calculated tax at 15% tax rate	**44 520**	**183 401**
Tax effects on:		
Permanent differences	(30 116)	154 686
Tax losses forwarded from other group companies		(22 726)
Total corporate income tax expenses	**14 404**	**315 361**

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	682 547	62 510
Deferred tax charged to the income statement	14 404	79 019
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	(306 418)	541 019
Deferred tax liabilities (asset) at the end of the financial year	**390 533**	**682 548**

The deferred company income tax has been calculated from the following temporary differences between value of assets and liabilities in the financial statements and their tax base (tax effect 15% from temporary differences):

	31.12.2008. EUR	31.12.2007. EUR
Temporary difference on depreciation of fixed and intangible assets	589 211	880 913
Gross deferred tax liabilities	**589 211**	**880 913**
Provisions for expected losses	8 405	4 216
Provisions for contingent liabilities	174 266	170 272
Provisions for impairment of inventories	16 007	23 877

Tax losses carried forward	0	
Total temporary differences	**198 678**	**198 365**
Net deferred tax liability (assets)	**390 533**	**682 548**

(10) Other taxes

	2008 EUR	2007 EUR
Real estate tax for land	8 475	8 955
Real estate tax for buildings	64 486	102 787
	72 961	**111 742**

(11) Fixed assets

	Land and buildings	Equipment and machinery	Other fixed assets	Fixed assets under construction	Advances for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Cost/revaluation						
31.12.2007.	3 402 711	7 782 181	963 074	88 205		12 236 171
Additions	2 356	364 612	42 759	451 127	48 288	909 142
Disposals	(13 847)	(206 758)	(11 623)	(491 439)	(48 288)	(771 955)
Revaluation	(705 682)					(705 682)
31.12.2008.	2 685 538	7 940 035	994 210	47 893		**11 667 676**
Depreciation						
31.12.2007.	(475 498)	(6 117 543)	(550 306)			(7 143 347)
Calculated	(42 579)	(259 799)	(108 180)			(410 558)
Disposals	1 108	203 960	8 418			213 486
31.12.2008.	(516 969)	(6 173 382)	(650 068)	0	0	**(7 340 419)**
Net carrying amount 31.12.2006.	**2 927 213**	**1 664 638**	**412 768**	**88 205**	**0**	**5 092 824**
Net carrying amount 31.12.2007.	**2 168 569**	**1 766 653**	**344 142**	**47 893**	**0**	**4 327 257**

* In accordance with the accounting policy of the Company, all buildings and structures owned by Company, except those which are transferred to an operating lease to subsidiaries of the Company, are classified as fixed assets (see note 35).

Company-owned land cadastral value on 31 December 2008 is EUR 922 657, the cadastral value of building is EUR 6 721 301.

Information on pledged fixed assets is disclosed in the note 25 to the financial statements.

(12) Investment property

	Land and buildings*	Investment property under construction	Total
	EUR	EUR	EUR
Cost/revaluation			
31.12.2007.	5 144 922		5 144 922

Additions	81 172	83 527	164 699
Disposals/write-offs	(12 527)	(83 527)	(96 054)
Revaluation	(1 225 391)		(1 225 391)
31.12.2008.	3 988 176		**3 988 176**
Depreciation			
31.12.2007.	(208 425)		(208 425)
Calculated	(171 877)		(171 877)
Disposals/write-offs	5 405		5 405
31.12.2008.	(374 897)		**(374 897)**
Net carrying amount 31.12.2007.	**4 936 497**	**0**	**4 936 497**
Net carrying amount 31.12.2008.	**3 613 279**	**0**	**3 613 279**

* In accordance with the accounting policy of the Company, investment property consist of the Company owned buildings and structures, which have been transferred on operating lease basis to the subsidiaries of the Company (see note 35).

Information on pledged fixed assets is disclosed in the note 25 to the financial statements.

(13) Revaluation of fixed assets and investment property

In years 1996, 1999 and 2001 the Company has performed revaluation of equipment and machinery. Respectively in 1996 by EUR 938 438, in 1999 by EUR 1 875 134 and in 2001 by EUR 1 266 290. The difference accrued in the result of revaluation is shown in the equity item "The long-term investment revaluation reserve".

With the help of licensed independent experts AS BDO Invest Riga in 2007 the Company has performed revaluations of its own land and buildings. Revaluation of fixed assets was performed using the amortized cost method and taking into account the real estate market situation at particular moment, using the precautionary principle, the revalued land and buildings are valued on 70% of the assessor's estimated market value. The difference accrued in the result of revaluation in the amount of EUR 3 606 792 (less the amount of deferred tax liabilities related to the revaluation of fixed assets) are recognised in equity under "Long-term investment revaluation reserve".

During the preparation of annual financial statements 2008 the Company has identified a potential decrease in the market value of it's real estate. Using an independent licensed expert indicative value of owned land and buildings, that is estimated as 50% of

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

	31.12.2008. EUR	31.12.2007. EUR
Initial value	8 604 787	6 588 285
Accumulated depreciation	(891 866)	(2 190 508)
Net carrying amount	**7 712 921**	**4 397 777**

(14) Equity investments

Name	Address	Participating interest 31.12.2007. %	Participating interest 31.12.2008. %	Equity 31.12.2007. EUR	Equity 31.12.2008. EUR	Profit/(loss) 2007 EUR	Profit/(loss) 2008 EUR

SIA Rel	Marijas 1, Daugavpils	100%	100%	(770 408)	(1 027 241)	(773 254)	(256 833)
SIA Elap	Marijas 1, Daugavpils	100%	100%	(3 359)	96 818	(6 205)	100 177
SIA Remdīz	Marijas 1, Daugavpils	100%	100%	(455 774)	(464 568)	(458 620)	(8 793)
SIA Ritrem	Marijas 1, Daugavpils	100%	100%	(401 405)	95 355	(404 251)	496 760
SIA Elektromaš	Marijas 1, Daugavpils	100%	100%	118 006	493 239	115 160	375 233
SIA Krāsotājs	Marijas 1, Daugavpils	100%	100%	(159 747)	(175 490)	(162 593)	(15 743)
SIA SPZČ	Marijas 1, Daugavpils	100%	100%	(105 682)	214 713	(108 528)	320 395
SIA Metalurgs	Marijas 1, Daugavpils	100%	100%	(454 316)	(580 587)	(457 162)	(126 271)
SIA Remenergo	Marijas 1, Daugavpils	100%	100%	(149 470)	(68 644)	(152 316)	80 826
SIA Instruments	Marijas 1, Daugavpils	100%	100%	(148 212)	(152 296)	(151 058)	(4 084)
SIA Loģistika	Marijas 1, Daugavpils	100%	100%	(67 733)	(31 150)	(70 579)	36 583
				(2 598 100)	(1 599 851)	(2 629 406)	998 250

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

SIA Rel	Railway rolling stock carbody repair and upgrade
SIA Elap	Repair and upgrade of electric equipment of rolling stock
SIA Remdīz	Repair of engine and it's knots of rolling stock
SIA Ritrem	Repair and upgrade of wheel couples and lorry, it's knots 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 Metalurgs	Metal foundry
SIA Remenergo	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 (have not performed active operations is 2008)
SIA Loģistika	Transportation, loading, unloading service

During the reporting year no changed has been done in share capital of subsidiaries of the Company.

(15) Raw materials and consumables	**31.12.2008.**	**31.12.2007.**
	EUR	**EUR**
Raw materials, material and auxiliary material cost	2 863 428	3 559 406
(Accruals for damaged and obsolete stock)	(73 989)	(102 814)
	2 789 439	**3 456 592**

(16) Finished goods and goods for resale

Finished goods	114 891	375 173
Other goods for sale	283	462
(Accruals for damaged and obsolete stock)	(32 726)	(56 364)
	82 448	**319 271**

(17) Trade receivables

Book value of trade receivables	4 854 007	6 903 647
(Provisions for bad and doubtful debts)	(1 108 473)	(2 800 139)
	3 745 534	**4 103 508**

Provisions for bad and doubtful debts have been made 100 % of their book value.

(18) Receivables from group companies	31.12.2008. EUR	31.12.2007. EUR
Settlements with subsidiary companies	2 533 984	2 504 489
Loans to subsidiary companies	85 805	423 199
	2 619 789	**2 927 688**

(19) Other receivables

VAT overpaid (see Notes 28 for details)	222 364	215 263
Corporate income tax overpaid (see Notes 28 for details)	285 855	
Payments for guarantees	19 001	98 147
VAT for advances received	4 828	24 556
Payments for other services	3 137	3 384
Other receivables	3 007	4 363
Corporate income tax paid abroad		77 248
Provisions for taxes paid abroad		(77 248)
Payments to personnel	81	221
	538 273	**345 934**

(20) Deferred expenses

Insurance costs	5 711	5 747
Other expenses	7 110	10 051
	12 821	**15 798**

(21) Construction contracts in progress	31.12.2008. EUR	31.12.2007. EUR
Accrued income for long term contracts	3 244 636	4 739 091
Accruals for potential losses	(56 028)	(28 110)
Gross amount for accrued income	**3 188 608**	**4 710 981**
hereof:		
accrued income in assets	3 188 608	4 710 981
	3 188 608	**4 710 981**

(22) Cash and bank

Cash at bank on current accounts	39 300	149 454
Cash on hand	1 234	423
	40 534	**149 877**

(23) Share capital

Registered and 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 quotes and suffrage in shareholder's meeting. One share gives rights to 1 vote. all shares are dematerialized. Company has not shares which holds by the Company or someone else in it's interest. Shares are not convertible, exchangeable or guaranteed.

From year 2001 1 299 367 shares of the Company has been quoted in AS NASDAQ OMX stock exchange in second list. At the end of financial year 1 299 367 shares were quoted.

(24) Provisions

In accordance with signed agreements, the Company provides free of charge warranty repairs to customers under the general provisions of the repair. Taking into account that the rolling stock repairs actually are carried out by the subsidiaries of the Company, which estimates the provisions for warranty repairs in its individual financial statements, the provision in financial statements of the Company valued as the difference between the potential expenses of the Group and provisions made by subsidiary company. At the end of the year net provisions for warranty repairs estimated in amount of EUR 71 143.

In accordance with accepted and in 2007 introduced operation model described in note 17 the Company provides the subsidiary with financial resources for supporting its operations. Subsidiary companies results of operations and financial situation is disclosed in note 14 to the financial statements. Taking into account that a part of the subsidiary companies have negative financial results of operations, it is expected that the Company or the Group's other subsidiary companies may not recover the investment or the debt of those companies. The Company was issued the support letter to all subsidiaries companies for the further financial support.

The Company makes provisions for its contingent liabilities for guarantees issued to subsidiaries to support the operations. Provisions are estimated on base of subsidiaries' current equity value and financial performance forecasts for the next periods. At the end of reporting year provisions estimated at EUR 1 090 634 .

(25) Loans from banks	**Notes**	**31.12.2008. EUR**	**31..12..2007. EUR**
Non-current			
Non-current loan in USD	a)	1 621 459	1 823 241
Loan for installation of gas equipment in EUR	b)	127 839	255 879
Loan for privatization of land in EUR	c)	998 529	1 140 368
Other loans in EUR	d)	18 200	26 601
		2 766 027	**3 246 089**
Current			
Current part of non-current loan in USD	a)	243 219	237 815
Current part of non-current loan for gas equipment in EUR	b)	128 040	128 040
Current part of loan for privatization of land in EUR	c)	141 840	141 840
Other loans in EUR	d)	8 401	8 401
Short-term loan in EUR (previously in USD)	e)	2 000 000	1 839 093
Short-term loan in EUR	f)	937 200	961 500
Short-term loan in EUR	g)		1 599 999
		3 458 700	**4 916 688**

a) In 2004 the Company has received a loan in amount of USD 4 000 000 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 6 months LIBOR.

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

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

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

e) In 2006 Company signed credit line agreement with A/S Norvik banka with maximum financing amount of USD 3,000,000 with the repayment till September 2007. In 2008 the Company refinanced the loan in amount of EUR 2 000 000 which has to be repaid until 15 September 2009. Interest rate 2.3 % + 3 month LIBOR.

f) In 2007 Company signed short term loan agreement with A/S Norvik in amount of EUR 1 000 000 for supplement of current assets. In 2008 the prolongation was signed and the interest rate stated 4% + 3 month LIBOR. In April 2009 the Company has prolonged the agreement until April 2010.

g) In 2007 the Company received a short term loan from A/S Norvik banka in amount of EUR 1 600 000 for supplement of current assets. During the reporting year the loan was repaid. The interest rate was 2.25% plus 3 months LIBOR.

The implementation of the Company's obligations are provided and strengthened by:
(i) mortgage of all belonged to Company real estate;
(ii) commercial pledge of all Company's property as totality of belongings at the mortgage moment, as well as totality of belongings for the next components.
The value of Company's mortgaged balance assets on 31 December 2008 was LVL 14 777 107 (on the 31st December 2007 it was LVL 18 397 908).

(26) Advances from customers	**31.12.2008.**	**31.12.2007.**
	EUR	**EUR**
Advances from customers received for principal activity	772 627	1 746 756
	772 627	**1 746 756**

(27) Payables to group companies		
Settlements with subsidiary companies (see note 35)	1 131 892	117 720
	1 131 892	**117 720**

(28) Taxes and social insurance payments

	31.12.2007.	**Calculated**	**Calculated penalty and delay fees**	**(Paid)/ repaid**	**Transferred to other taxes**	**31.12.2008.**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
VAT	(215 263)	(1 437 001)	0	1 065 540	971 479	384 755
Personal income tax	29 217	130 170		(10 245)	(188 408)	(39 266)
Social insurance payments	39 206	244 669	0	(1 384)	(359 392)	(76 901)
Corporate income tax	186 123		2 328	(50 627)	(423 679)	(285 855)
Real estate tax (land)		5 956	0	(8 617)		
Real estate tax (buildings)		45 321	0	(65 577)		
Natural resource tax	1 299	4 169		(4 966)		502
State enterprise risk duty	64	747		(753)		58
Total	**40 646**	**(1 005 969)**	**2 328**	**923 371**	**0**	**(39 624)**
Hereof						
(Overpaid) - see Notes 19 for	**215 263**					**(508 219)**
Payables	**255 909**					**468 595**

(29) Other liabilities	**31.12.2008.**	**31.12.2007.**
	EUR	**EUR**
Salaries	49 422	52 248
Payments to personnel	949	272
Other liabilities	10 874	9 509
	61 245	**62 029**

(30) Accrued liabilities

Accrued liabilities to subsidiary companies	783 583	891 422
Accrued unused annual leave expenses	49 194	39 559
Other accrued liabilities	24 757	37 507
	857 534	**968 488**

(31) Fees paid to auditors

	2008 EUR	2007 EUR
For the audit of financial statements	13 517	34 149
Other professional service fees	1 067	199
	14 584	**34 348**

(32) Average number of employees

	2008	2007
Average number of people employed during the financial year	167	174

(33) Remuneration to personnel

	2008 EUR	2007 EUR
Employee pay	1 085 315	909 992
Social insurance payments	253 443	208 229
Other expenses	191 213	556 590
	1 529 971	**1 674 811**

(34) Remuneration to the management

Board members		
· salary expenses	175 467	132 582
· other social insurance expenses	37 661	25 356
	213 128	**157 938**

(35) Transactions with related parties

As mentioned in Note 14 the Company holds 100% shares of subsidiary companies SIA Rel, SIA Elap, SIA Remdiz, SIA Ritren SIA Elektromaš, SIA Krāsotājs, SIA SPZČ, SIA Metalurgs, SIA Remenergo, SIA Instruments un SIA Logistika. Claims an liabilities are classified as receivables/payables from/to Group companies accordingly.

The Chairman of the Council of the Company Oleg Osinovski has a material influence in the main shareholder of the Compan AS Skinest Rail (Estonia) which holds 49.0% shares of the Company. The Company is engaged in transactions as well with oth companies, which are related to AS Skinest Rail: SIA Skinest Latvia, UAB Skinest Baltija (Lithuania) and OOO Skinest SP (Russia). In 2007 the company had transactions with other main shareholder AS Spacecom (Estonia).

a) claims and liabilities

	Notes	31.12.2008. Receivables EUR	31.12.2008. Payables EUR	31.12.2007. Receivables EUR	31.12.2007. Payables EUR
Group companies					

SIA "Rel"	369 369	67 586	224 670	
SIA "Elap"		175 989	99 972	
SIA "Krāsotājs"	46 859	12 903	61 731	
SIA "SPZČ"	172 934	54 069	349 417	
SIA "Metalurgs"	669 391	7 114	559 662	
SIA "Remenergo"	691 328	8 680	1 301 310	
SIA "Instruments"	100 184		142 546	
SIA "Logistika"	427	11 823	188 378	
SIA "Elektromaš"	72 848	397 788		117 720
SIA "Remdīz"	496 449	89 925		
SIA "Ritrem"		306 013		
total group companies:	**2 619 789**	**1 131 890**	**2 927 686**	**117 720**
Other related parties				
AS "Skinest Rail"	127 394	40 945		5 193
SIA "Skinest Latvija"		91 277	155 556	
AS "Spacecom"			45 066	
UAB "Skinest Baltija"				2 526
OOO "Skinest SPB"		5 134		54 660
total other related parties:	**127 394**	**137 356**	**200 622**	**62 379**
	2 747 183	**1 269 246**	**3 128 308**	**180 099**

b) total transactions

	Notes	Sales to related parties		Purchases from related parties	
		2008	**2007**	**2008**	**2007**
		EUR	**EUR**	**EUR**	**EUR**
Group companies					
SIA "Rel"		539 876	212 413	1 668 348	1 173 749
SIA "Elap"		1 131 389	309 837	1 585 813	992 031
SIA "Krāsotājs"		209 073	69 780	431 328	249 137
SIA "SPZČ"		789 341	630 717	545 707	629 274
SIA "Metalurgs"		966 211	408 671	35 129	21 142
SIA "Remenergo"		2 828 792	2 511 078	557 227	450 408
SIA "Instruments"		142	25 593	0	14 359
SIA "Logistika"		31 487	1 139 963	144 596	531 667
SIA "Elektromaš"		1 922 683	488 067	2 613 950	2 013 908
SIA "Remdīz"		887 303	395 772	3 012 839	1 727 004
SIA "Ritrem"		926 105	455 405	3 070 877	2 034 091
total subsidiary companies:		**10 232 402**	**9 458 249**	**19 444 702**	**13 996 462**
Other related parties					
AS "Skinest Rail"		1 676 267	1 369 225	953 008	588 473
SIA "Skinest Latvija"		791 498	917 070	1 378 931	862 077
AS "Spacecom"		2 877	75 287	27 783	1 685
UAB "Skinest Baltija"		45 044	30 732	12 047	14 696
OOO "Skinest SPB"		116 122	149 131	4 114	
total other related parties:		**2 631 808**	**2 541 445**	**2 375 883**	**1 466 931**
		12 864 210	**11 999 694**	**21 820 585**	**15 463 393**

c) transaction analyse by operating activities

	Notes	Sales to related parties		Purchases from related parties	
		2008	**2007**	**2008**	**2007**
		EUR	**EUR**	**EUR**	**EUR**
Group companies					
Repair services of railway rolling stock	**a)**			17 811 420	12 266 285
Sales of materials		6 591 058	4 901 357	660 565	571 324

Rent of premises and equipment	**Note 37**	2 575 668	3 099 999	20 590	3 465
Administrative and management services	**b)**	708 401	633 926		
Other transactions		357 273	822 968	947 857	1 155 389
total subsidiary companies:		**10 232 400**	**9 458 250**	**19 440 432**	**13 996 463**
Other related parties					
Repair services of railway rolling stock		3 723 580	3 537 493	57 515	18 309
Sales of materials		21 145	78 658	3 323 062	2 065 946
Other transactions					2 999
total other related parties:		**3 744 725**	**3 616 151**	**3 380 577**	**2 087 254**
total other related parties:		**13 977 125**	**13 074 401**	**22 821 009**	**16 083 717**

a) Since 2007 the Company has been providing repair of the railway rolling stock by purchasing repair services from its subsidiary companies. The largest subsidiary companies, which provide the Company with railway rolling stock repair services, are SIA Rel, SIA Elap, SIA Remdīz, SIA Elektromaš, SIA Ritrem un SIA Krāsotājs. Each of these mentioned companies carry out the separate part of mentioned services according to every subsidiary company's activity (see note 11). Respectively, SIA Remenergo, SIA SPZČ, SIA Instruments, SIA Metalurgs and SIA Loģistika provide mainly assistant functions in railway rolling stock repair works. These services are provided to other subsidiary companies, as well as to the Company.

b) The Company provides administrative management services for subsidiary companies, which includes accounting, economic, control and metrology, technical services and supplement technological process with services of engineers - constructors.

(36) Guaranties issued

The Company has issued guarantees for subsidiary companies for further financial support, see Note 34 for the provisions for the contingent liabilites of the Company for issued guarantees.

(37) Rental agreements

In accordance with concluded agreement in January 2007 the Company leases all production buildings, technological devices and other fixed assets and equipment used in principal activity of the Group, to subsidiary company SIA "Remenergo". Rental payments for building and equipment lease in 2008 were EUR 2 575 668 (in 2007 EUR 3 099 999). Lease agreement is concluded for indefinite term.

(38) 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. The Company does not use derivative financial instruments to manage financial risk.

Foreign currency risks

The company is subject to foreign currency exchange rate 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.

To reduce currency risk concerning USD currency, in reporting year the Company refinanced the loans from AS Norvik banka in amount of USD 3 000 000 to EUR 2 000 000.

The companies foreign exchange open position is:

	31.12.2008.	31.12.2007.
Financial assets, EUR	190 389	361 033
Financial liabilities, EUR	(4 588 953)	(4 333 128)
Open position EUR, net	(4 398 564)	(3 972 095)
Open position EUR calculated in lats, net	**(3 091 328)**	**(2 791 605)**
Financial assets, USD	2 378 980	3 472 391
Financial liabilities, USD	(5 373 564)	(10 692 165)
Open position USD, net	(2 994 584)	(7 219 774)
Open position USD calculated in lats, net	**(1 482 319)**	**(3 494 371)**
Financial assets, RUB	70 635 040	37 471 962
Financial liabilities, RUB	(242 200)	(35 678 114)
Open position RUB, net	70 392 840	1 793 848
Open position RUB calculated in lats, net	**1 646 166**	**50 283**

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 Notes note 25.

Credit risk

The Company is subject to the credit risk with respect to the debts of its buyers and customers, subsidiary companies and other debtors and cash 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. In addition, the Company continuously monitors the amount receivable balances to reduce the occurrence of bad debts. See notes 24 with regard to established accruals for financial support for subsidiary companies.

Liquidity risk

The company controls its liquidity risk by maintaining appropriate amount of cash and cash equivalents and using credit lines granted by banks.
Part of the Company's borrowings from credit institutions in amount of EUR 3 458 700 is repayable in 2009. year. The company is confident that the short-term borrowings will be refinanced at least for one year, while taking into account the reduction of net sales in 2009 the planned cash flow is sufficient for the repayment of other loans and continuation of operation activities.

(39) 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 2008.

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Natālija Petrova
board member

Daugavpils, 28 April 2009

The annual report has been approved by the general meeting of members ___ 28 April 2009

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of A/S „Daugavpils Lokomotīvju Remonta Rūpnīca"

Report on the Financial Statements

We have audited the accompanying financial statements of A/S „Daugavpils Lokomotīvju Remonta Rūpnīca" (the Company) included in the Annual report as set out on pages 7 to 31. The period of financial statements is from 1 January 2008 till 31 December 2008 (the Financial year). These financial statements include the balance sheet as at 31 December 2008, and the income statement, cash flow statement, statement of changes in equity for the Financial year, and summary of significant accounting policy and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's responsibility

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

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

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

Basis for qualified opinion

As disclosed in Note 24 to the financial statements, the Company has made the provisions for the guarantees issued to the subsidiaries to support their operations. Provisions are estimated based on the current equity of subsidiaries and financial performance forecasts for the next periods. Taking into account the current economic environment and its impact on the operations of the subsidiaries there is a significant uncertainty regarding the adequacy of the assumptions and estimates on the future financial results of subsidiaries. Based on this uncertainty we were not able to obtain the sufficient evidence on the amount of provisions and their potential impact on the financial statements.

Opinion

In our opinion, except of the possible effect of matters described in the paragraph *Basis of qualified opinion*, the above mentioned financial statements give a true and fair view of the financial position of the Company as at the end of the Financial year, and of its financial performance and cash flow for the Financial year in accordance with the Law on Annual reports of the Republic of Latvia.

Report on Other Legal and Regulatory Requirements

We have read the Management Report for the Financial year as set on pages 5-6 and did not identify material inconsistencies of the financial information presented in the Management Report and that contained in the financial statements.

Baker Tilly Baltics SIA
Certified auditors' company
License No. 80

Eriks Bahirs
Certified Auditor
Certificate No.136
Chairman of the Board

Riga, 28 April 2009

This report is English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.