

AS Daugavpils Lokomotīvu Remonta Rūpnīca

ANNUAL REPORT

for the 12 months period ended 31 December 2008

ENG

CONTENTS

Management	3
Report of the Management	4 - 5
Statement of the management responsibility	6
Independent Auditor's Report	7 - 8
Financial statements	
Income statement	9
Balance sheet	10
Statement of changes in equity	11
Cash flow statement	12
Notes to the financial statements	13 - 34

MANAGEMENT

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
	Natālija Petrova - Member of the Board

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Kazimirs Steļmačēnoks - Member of the Board

REPORT OF THE MANAGEMENT

Type of operations

Basic activity of AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" (further - the Company) and its subsidiary companies (the Group) is railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts. The Group provides a repair services of all types of railway rolling stock - diesel - electric locomotives and electric trains.

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 net sales 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 21,6 million EUR (in 2007 - 18,2 million EUR), while turnover in Latvia amounted to 4,1million EUR (in 2007 - 4,1 million EUR). The main directions of export in 2008 were the EU countries: Lithuania and Estonia, and the third countries: Russia and Uzbekistan.

Due to the global economic crisis at 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.

Research and development

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

Financial risk management

The policy of financial risk management of the Group is described in financial report's Notes 27.

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 the Company is experiencing material impact of global economic crisis that could have a significant effect on the turnover of the Group in the year 2009.

Distribution of profit proposed by the Board

	2008 EUR
Profit share to be distributed	2 035 594
Proposed profit distribution:	



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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Daugavpils Lokomotīvu Remonta Rūpnīca AS

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Daugavpils Lokomotīvu Remonta Rūpnīca AS (the Company) and its subsidiaries (together as the Group) included in the Annual report as set out on pages 9 to 35. 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 International Financial Reporting Standards as adopted by the European Union. 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 the Note 13 to the financial statements, the Company has carried out an impairment test to determine the recoverable amount of the Group property plant and equipment. The summary of assumptions and methods of the test are disclosed in the above Note. The impairment test carried out by the Management indicated no need for impairment of these assets. Taking into account the current economic environment and its impact on the operations of the Group, there is a significant uncertainty regarding the adequacy of the assumptions and estimates of its future financial results of the Group. Based on this uncertainty we were not able to obtain the sufficient audit evidence in relation of the impairment test and its potential effect 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 Group as at the end of the Financial year, and of its financial performance and cash flow for the Financial year in accordance with International Financial Reporting Standards as adopted by the European Union.

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.

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Retained earnings

2 035 594

Future prospects

In 2009 The Group intends to continue the economic activity started in 2008. Key priority - new customer attraction, production cost controls to reduce the prices of finished product, which will allow the Group to increase competitiveness.

Natālija Petrova
board member

Daugavpils, 28 April 2009

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements of the Group in accordance with International Financial Reporting Standards as adopted the EU. The financial statements give a true and fair view of the financial position of the Group 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 preparation of these financial statements on page 8 to page 34 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

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

Natālija Petrova
board member

Daugavpils, 28 April 2009

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 CONSOLIDATED FINANCIAL STATEMENTS
 for the period ended 31 December 2008

INCOME STATEMENT

	Notes	2008 EUR	2007 EUR
Net sales	(2)	24 932 803	22 375 025
Cost of sales	(3)	(18 183 017)	(20 669 366)
Gross profit or losses		6 749 786	1 705 659
Distribution expenses	(4)	(302 596)	(439 334)
Administrative expenses	(5)	(3 054 358)	(2 746 951)
Other income	(6)	214 689	109 859
Other expenses	(7)	(95 267)	(48 788)
Finance income	(8)	640	417 148
Finance costs	(9)	(1 145 872)	(490 229)
Profit or losses before tax		2 367 022	(1 492 636)
Corporate income tax	(11)	(331 428)	116 173
Net profit or losses		2 035 594	(1 376 463)
Earnings per share (in sanctums)	(12)		
Basic		24,54	-16,60
Diluted		24,54	-16,60

Notes on pages 13 to 34 are an integral part of these financial statements.

 Natalija Petrova
 board member

Daugavpils, 28 April 2009

BALANCE SHEET

		31.12.2008. EUR	31.12.2008. EUR
<u>ASSETS</u>			
Non-current assets			
Property, plant and equipment (PPE)	(13)	9 871 610	10 029 321
Total non-current assets:		9 871 610	10 029 321
Current assets			

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Inventories	(14)	3 819 288	4 634 861
Trade receivables	(15)	3 939 794	4 165 260
Accrued income	(16)	3 168 771	4 628 137
Corporate income tax receivables		316 767	
Other current assets	(17)	303 388	471 605
Cash and cash equivalents	(18)	46 358	171 684
Total current assets:		11 594 366	14 071 547
<u>Total assets</u>		<u>21 465 976</u>	<u>24 100 868</u>
		31.12.2008.	31.12.2008.
		EUR	EUR
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital	(19)	11 801 610	11 801 610
Retained earnings of the previous years		(5 043 636)	(3 667 173)
Retained earnings of the reporting year		2 035 594	(1 376 463)
Total equity:		8 793 568	6 757 974
Liabilities:			
Non-current liabilities:			
Borrowings	(20)	2 766 027	3 246 089
Deferred income tax liabilities	(11)	533 464	295 089
Other non-current liabilities	(22)	150 200	150 200
Total non-current liabilities:		3 449 691	3 691 378
Current liabilities:			
Borrowings	(20)	3 458 700	4 916 688
Trade payables		2 864 712	4 062 362
Corporate income tax payables		91 055	214 839
Provisions	(21)	340 038	1 359 614
Other liabilities	(22)	2 468 212	3 098 013
Total current liabilities:		9 222 717	13 651 516
Total liabilities:		12 672 408	17 342 894
<u>Total equity and liabilities:</u>		<u>21 465 976</u>	<u>24 100 868</u>

Notes on pages 13 to 34 are an integral part of these financial statements.

Natalija Petrova
board member

Daugavpils, 28 April 2009

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	EUR	EUR	EUR
31.12.2006.	11 801 610	(3 667 173)	8 134 437
Loss for the year		(1 376 463)	(1 376 463)
<i>Total recognised income and ex</i>		(1 376 463)	(1 376 463)

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

31.12.2007.	11 801 610	(5 043 636)	6 757 974
Profit for the year		2 035 594	2 035 594
<i>Total recognised income and ex</i>		2 035 594	2 035 594
31.12.2008.	11 801 610	(3 008 042)	8 793 568

Notes on pages 13 to 34 are an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	2008 EUR	2007 EUR
Cash flow from operating activities			
Profit or losses before tax		2 367 022	(1 492 636)
<u>Adjustments for:</u>			
depreciation and amortization		582 434	477 965
profit from disposal of fixed assets		(15 435)	(24 162)
changes in provisions		(899 948)	1 096 439
foreign currency (gains)/losses		135 823	(436 723)
interest expenses		449 929	471 308
		2 619 825	92 191
Cash flow prior to changes in working capital			
Inventory (increase)/decrease		852 144	(1 176 401)
Account receivable (increase)/decrease		1 696 850	(1 325 624)
Account payable increase/(decrease)		(2 251 857)	1 768 725
		2 916 962	(641 109)
Gross cash flow generated from operating activities			
Interest paid		(448 630)	(487 335)
Income tax paid		(109 195)	105 655
		2 359 137	(1 022 789)
Net cash flow generated from operating activities			
Cash flow from investing activities			
Acquisition of fixed assets		(450 588)	(678 815)
Proceeds from sales of fixed assets		41 300	27 369
		(409 288)	(651 446)
Net cash flow generated from investing activities			
Cash flow from financing activities			
Proceeds from borrowings			2 959 667
Borrowings repaid		(2 075 175)	(1 160 918)
		(2 075 175)	1 798 749
Net cash flow generated from financing activities			
Net increase / (decrease) in cash and cash equivalents		(125 326)	124 514
Cash and cash equivalents at the beginning of the financial year		171 684	47 170
Cash and Cash equivalents at the end of the financial year	(18)	46 358	171 684

Notes on pages 13 to 34 are an integral part of these financial statements.

Natalija Petrova
board member

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Daugavpils, 28 April 2009

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

AS "DAUGAVPILS LOKOMOTIVJU REMONTA RUPNICA" (further in text - the Company) is registered in Company register of Republic of Latvia in Daugavpils on 3 October 1991 and in Commercial register of Republic of Latvia in Daugavpils on 8 June 2004. Legal address of the Company is 1 Marijas Street, Daugavpils, LV-5404, Latvia.

Company is open joint stock company and it's shares are quoted in AS NASDAQ OMX, Latvia.

Basic activity is repair of railway rolling stocks, maintenance and modernizing, producing and repair of their spare parts.

These financial statements are consolidated financial statements of the Company. The Company is the parent company of the Group. At the end of the year 2006 the Company has established 11 subsidiary companies with the participation of 100% in each. Subsidiary companies embarked on an active operations only in January 2007. In 2008 the subsidiary continued its operation launched in 2007. SIA "SPZČ" from 1 January 2008 started to perform manufacture and repair of tools and equipment.

Name of	Address	Type of operations	Share capital EUR	Participation interest %
SIA "Rel"	Marijas 1, Daugavpils	Railway rolling stock carbody repair and upgrade	2 846	100
SIA "Elap"	Marijas 1, Daugavpils	Repair and upgrade of electric equipment of rolling stock	2 846	100
SIA "Remdīz"	Marijas 1, Daugavpils	Repair of engine and it's knots of rolling stock	2 846	100
SIA "Ritrem"	Marijas 1, Daugavpils	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock	2 846	100
SIA "Elektromaš"	Marijas 1, Daugavpils	Repair and producing of electromotors, generators and transformers	2 846	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dyeing of rolling stock	2 846	100
SIA "SPZČ"	Marijas 1, Daugavpils	Repair and producing of spare parts	2 846	100
SIA "Metalurģs"	Marijas 1, Daugavpils	Metal foundry	2 846	100
SIA "Remenergo"	Marijas 1, Daugavpils	Maintenance of fixture, technical control and capital repair of buildings, constructions and producing equipment, service rendering of public facilities to group companies	2 846	100
SIA "Instruments"	Marijas 1, Daugavpils	Repair and producing of tools and utilities (have not performed active operations is 2008)	2 846	100
SIA "Loģistika"	Marijas 1, Daugavpils	Transportation, loading, unloading service	2 846	100
			<u>31 306</u>	

The Group financial year is from 1 January 2008 till 31. December 2008.

The Board of the company has corroborate this financial statement on 28 April 2009.

II. ACCOUNTING POLICIES

(1) Basis of preparation

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

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

Financial statements are prepared on the basis of historical cost accounting method, that is modified by the revaluation of the real estate property at their fair value and using this value as its costs on transition to IFRS, as set out in note (13) to accounting policies.

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgements applying the accounting policies adopted by the Group. Critical estimates and judgements are represented in note (21) to accounting policies.

a) Standards, amendments and interpretations to be applied starting on 1 January 2008, but not relevant to the Group's activities

IFRS 7 Financial Instruments: disclosures and complementary amendment to IAS 1, Financial reporting - Financial asset reclassification.

Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group did not have financial instruments related to these amendments.

IFRIC No.11 "IFRS 2 – Group and Treasury Share Transactions";

IFRIC No.12 "Service Concession Arrangements";

IFRIC No.14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The interpretation of all of the above standards does not affect activities of the Group and as a result also does not affect the Group's financial statements.

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

The following standards and IFRS interpretations have been published and are mandatory for the accounting periods beginning on or after 1 March 2008 but are not relevant to, or need not affect accounting policy of the Group or presentation in the financial statements:

IAS 1 Presentation of financial statements (effective from the date of adoption by the European Union but not earlier than in the reporting period that begins on 1 January 2009).

IAS 1 was revised to improve use of the disclosures in the financial statements. Many amendments have been introduced including new definitions, representation of disclosures on equity transactions as well as other amendments. The Group at the moment considers amendments to the disclosures in accordance with these amendments. The Group will adopt the amendments to IAS 1, beginning on 1 January 2009.

IFRS 8, "Operating segments" (mandatory for accounting periods beginning on 1 January 2009).

IFRS 8 replaces IAS 14 and aligns segment reporting with the US FASB 131 Disclosures about Segments of an Enterprise and Related Information. The Company assessed IFRS 8 and concluded that additional notes to financial statements will not be needed.

IAS 23, Borrowing costs, amendments (that are effective from 1 January 2009)

IAS 23 excludes the possibility to recognise borrowing costs that are directly attributable to construction and acquisition of the relevant asset immediately in the income statement. The current accounting policy of the Group complies with

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

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

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

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

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not made such hedged items.

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

IFRIC 13, 'Customer loyalty programmes' (effective for annual periods on or after 1 July 2008; for entities applying IFRS as adopted in the EU effective for annual periods beginning after 31 December 2008).

The interpretation clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation does not have an impact on the Group's financial statements.

IFRIC 14, 'IAS 19 -The limit on a defined benefit asset, minimum funding requirements and their interaction', (effective for annual periods beginning on or after 1 January 2008; for entities applying IFRS as adopted in the EU effective for annual periods beginning after 31 December 2008).

The interpretation provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements.

IFRIC 15, 'Agreements for construction of real estates' (effective for annual periods beginning on or after 1 January 2009).

The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The interpretation is not yet endorsed in EU. IFRIC 15 will not be relevant to the Group's operations because it does not have any agreements for the construction of real estate.

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for annual periods beginning on or after 1 October 2008).

IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The interpretation is not yet endorsed in EU. This interpretation has no impact on the Group's financial statements because the Group does not use hedge accounting.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).

The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).

The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. This interpretation has no impact on the Group's financial statements.

c) Standards, interpretations projects that are not yet mandatory

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards.

The substantive changes relate to the following areas:

- classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary;
- possibility of presentation of financial instruments held for trading as noncurrent under IAS 1;
- accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities;
- clarification of definition of curtailment under IAS 19;
- accounting for below market interest rate government loans in accordance with IAS 20;
- making the definition of borrowing costs in IAS 23 consistent with the effective interest rate method;
- clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5 reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31;
- enhancement of disclosures required by IAS 36;
- clarification of accounting for advertising costs under IAS 38;
- amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39;
- introduction of accounting for investment properties under construction in accordance with IAS 40;
- and reduction in restrictions over manner of determining fair value of biological assets under IAS 41.

Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The management of the Company does not expect the amendments to have any material effect on the financial statements of the Group.

(2) Methods of consolidation

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

(3) Foreign currencies

(a) Functional and presentation currency

Items are shown in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates the functional currency). Financial statements are presented in Latvian lat (LVL), which is the Group's functional and presentation currency.

(b) Transactions and balances

All foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement for the period.

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

	31.12.2008.	31.12.2007.
	EUR	EUR
1 USD	0,7043	0,6887
1 EUR	1	1
1 LTL	0,2888	0,2903
1 EEK	0,0639	0,0639

(4) Segment disclosure

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

A business segment is the identified part of the Group which goods sold and services provided are subjected to risks and returns from different parts of the Company. A geographical segment is the identified part of the Group engaged in selling goods or providing services within a particular economic environment that are subjected to risks and returns that are different from other parts of Group working in other economic environments.

(5) Income recognition

Main operation of the Group is repair and upgrade of railway rolling stock. Net sales represent the total of goods and services sold during the year net of discounts, value added tax and excise tax.

Income from repairing and update services are recognized by percentage completion method (see Note 6 to accounting policies).

Income from sales of goods in Latvia is recognized when the customer has accepted the goods. Income from sales of goods outside Latvia is recognized in accordance with the terms of delivery. Income from penalties is recognized at the moment of receipt. Income from provision of other services is recognized at the period of rendering the services.

Interest income or expenses are recognized in the income statement for all loans and borrowings assessed at amortized cost applying the effective interest rate method.

(6) Long term agreements

Contract costs related to long - term agreements 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 Group 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 Group 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 Group 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".

(7) Property, plant and equipment (PPE)

Property, plant and equipment (PPE) are initially accounted at the purchase cost. Purchase cost includes costs, which are directly related to the purchase of PPE. In financial statements fixed assets are recognised at purchase cost less depreciation and any impairment losses. See Note 13 for modification of these policies in the first adoption of IFRS.

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

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful live, as follows:

	Years
Buildings	1,11-20
Technological equipment	20-50
Oth	20

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

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. The decrease is reflected as the expenses or recognised in reserves in case the asset was previously re-valued.

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

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within the income statement for the relevant period. As soon as the re-valued assets are sold, values in the "Revaluation reserve" are charged to the retained earnings.

(8) Impairment of tangible and intangible assets

All tangible and intangible assets of the Group have their estimated useful lives and they are amortised or depreciated. Assets that are subject to amortisation and depreciation are revaluated every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Loss from value decrease is recognised at difference between book value of the asset and its recoverable value. Recoverable value is the higher of an asset's fair value less costs to sell and its value in use. In order to determine decrease of the value, assets are classified based on the lower level of identifiable cash flows (cash-bearing units). Assets, which value has been decreased, are assessed at the end of every reporting year to identify the probable value decrease reservation.

(9) Lease without redemption rights (operating lease)

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

(10) Inventories

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

(11) Loans and trade receivables

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Loans and trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective rate. Changes in inventories are shown in the income statement.

(12) Cash and cash equivalents

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

(13) Share capital and dividends

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

(14) Borrowings

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

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

(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 of resources will be required, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

(16) Pension obligations

The Group pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian laws. State funded pension scheme is a defined contribution plan under which the Group pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are shown in the staff costs.

(17) Accrued liabilities for unused annual leave

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

(18) Income tax

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

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

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the deferred income tax is settled.

The principal temporary differences, in general, arise from different fixed assets depreciation rates as well as provisions for slow-circulating goods, accruals for unused annual leave and accruals for bonuses. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business dilution, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognised.

(19) Earnings per share

Earnings per share are determined dividing the net gains or losses attributable to shareholders of the Company by the average weighted quantity of the shares in the reporting year.

(20) Related parties

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

(21) Critical accounting estimates and judgements

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management must make estimates and judgements applying the accounting policies adopted by the Group.

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities shown in the financial statements, and disclosures in the notes at the date of the balance sheet as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are revaluation of the fixed assets, determination of revaluation regularity, assumptions and estimates of the Management made estimating their useful lives as well as recoverable receivables and inventories as well as disclosed in the relevant notes.

I(impairment test

The Group uses *IAS 36 Impairment of Assets* guidance in verification of potential impairment losses. This procedure requires a considerable management decision. Taking into consideration that the estimation of potential sales value of the largest long-term assets of the Group - the real estate and equipment that is used in principal activity of the Group - is subjective, as well as the low level of liquidity in the real estate market, the Group carried out the calculation of recoverable value of assets by the value in use method. In estimation of the future cash flow the management of the Group evaluated, among other factors, useful life of asset, trends of economics and competitiveness, potential changes in technology and in activity of the Group, changes in the operational and financial cash flows of the Group.

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Components of fixed assets

The Company accounts and depreciates the fixed assets by its material components as per IAS 16. Estimates of the Company about allocation of fixed assets to its components and density of each part in total value of fixed assets are build on calculation which shows costs replacement of each component in total amount of costs replacement of fixed assets.

Percentage of completion method for long-term contracts

The Group estimates of completeness of project on the balance sheet date as described in Note 9 of accounting policy.

Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment.

Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realisation probability and net selling value of the inventories shall be considered.

III. OTHER NOTES

(1) Segment Information

(a) Primary Reporting Segment – Business Segment

Basic activity of the Group is repair and updates of railway rolling stock, as well as producing and repair of its spare parts. Group does repair and updates of any kind railways rolling stocks (diesel-electric locomotives and electric trains), as well as producing and repairing large amount of spare parts and knots of rolling stocks. Since the Group's main activity is repair of railway rolling stocks, the Group has only one reporting business segment. These financial statements represent the information related to the primary business segment.

(b) Secondary Reporting Segment – Geographical Segment

The Group operates in Latvia by selling repair services and spare parts in domestic market, as well as exporting these services and spare parts.

The operations of the Group can be divided into several geographical segments, which are sales in Latvia, sales to overseas markets, which could be divided by the country of the residence of the client/locomotives. Distribution of sales among these segments is as follows:

	2008	2007
	EUR	EUR
Income from sales/rendering services in Russia	8 016 102	3 204 734
Income from sales/rendering services in Latvia	4 718 576	4 133 300
Income from sales/rendering services in EU markets	4 462 553	3 120 216
Income from sales/rendering services in Uzbekistan	2 363 390	1 662 341

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Income from sales/rendering services in Mongolia	330 106	3 043 807
Income from sales/rendering services in Belarus	203 044	986 335
Others	4 839 032	6 224 292
	<u>24 932 803</u>	<u>22 375 025</u>

(2) Net sales

Income from repair service of railway rolling stocks	24 281 061	18 617 274
Income from sales of spare parts and materials		3 253 929
Other income	651 742	503 822
	<u>24 932 803</u>	<u>22 375 025</u>

(3) Cost of sales

Ra	9 117 391	8 699 864
Salary expense	5 503 852	4 520 403
Mandatory State social insurance contributions	1 301 275	1 062 019
Utility costs	1 079 859	826 509
Depreciation of PPE assets	419 696	340 988
Purchase costs of goods sold	208 232	314 160
Purchase costs of spare parts sold		3 154 780
Changes in provisions for inventories, accounts receivable, other accrued liabilities	(899 948)	1 005 622
Other production costs	1 452 660	745 021
	<u>18 183 017</u>	<u>20 669 366</u>

(4) Distribution expenses

	2008	2007
	EUR	EUR
Transportation costs	159 828	273 947
Salary expenses	110 648	87 953
Mandatory State social insurance contributions	26 655	21 188
Other selling costs	5 465	56 246
	<u>302 596</u>	<u>439 334</u>

(5) Administrative expenses

Salary expenses	1 920 826	1 737 675
Mandatory State social insurance contributions	455 083	408 834
Depreciation of PPE assets	160 619	136 977
Utility expenses	122 993	97 785
Professional service costs	34 149	61 183
Office costs	70 404	59 883
Representation costs	4 509	16 235
Other administrative expenses	285 775	228 379
	<u>3 054 358</u>	<u>2 746 951</u>

(6) Other income

Net income from sale of PPE assets	41 300	24 162
Rental income	26 226	23 557
Other income	147 163	62 140
	<u>214 689</u>	<u>109 859</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

(7) Other expenses

Cost of collective agreement with employees	24 811	23 166
Other expenses	70 456	25 622
	<u>95 267</u>	<u>48 788</u>

(8) Expenses by Nature

Row materials, consumables and cost of goods sold	9 117 393	11 854 644
Salary expenses	7 535 326	6 346 030
Mandatory State social insurance contributions	1 783 012	1 492 040
Increase in provisions for inventories, receivables and other potential losses	(899 948)	1 005 622
Rent and utility expenses	1 202 852	924 295
Depreciation of PPE assets	580 315	477 965
Cost of delivery of goods	208 232	314 160
Transportation costs	159 828	273 947
Office costs	70 404	59 883
Advertisement and representation costs	4 509	16 235
Other costs	1 778 049	1 090 830
	<u>21 539 972</u>	<u>23 855 651</u>

(9) Finance income

	2008 EUR	2007 EUR
Net income from exchange rate fluctuations		416 651
Interest income	640	497
	<u>640</u>	<u>417 148</u>

(10) Finance expenses

Net expenses from exchange rate fluctuations	582 734	
Inte	449 929	493 326
		(22 018)
	113 209	18 921
	<u>1 145 872</u>	<u>490 229</u>

(11) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	238 375	(381 233)
Corporate income tax according to the tax return	93 053	265 060
	<u>331 428</u>	<u>(116 173)</u>

b) Reconciliation of accounting profit to income tax charges

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	2 367 022	(1 492 635)
Theoretically calculated tax at 15% tax rate	<u>355 053</u>	<u>(223 895)</u>

Tax effects on:

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Non-deductible expenses for tax purposes	(23 625)	107 723
Total tax charge	331 428	(116 172)

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	295 089	676 322
Deferred tax charged to the income statement	238 375	(381 233)
Deferred tax liabilities (asset) at the end of the financial year	533 464	295 089

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	878 872	880 913
Gross deferred tax liabilities	<u>878 872</u>	<u>880 913</u>
Temporary difference on accruals for expected losses	(19 580)	(18 266)
Temporary difference on provisions for potential liabilities	(51 006)	(203 942)
Temporary difference on provisions for impairment of inventories	(18 706)	(23 877)
Tax losses carried forward	(256 116)	(339 739)
Gross deferred tax assets	<u>(345 408)</u>	<u>(585 824)</u>
Net deferred tax liability (assets)	<u>533 464</u>	<u>295 089</u>

The movement of deferred tax assets and liabilities during the reporting year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated deprecia- tion of PPE	Accruals for expected losses	Impair- ments of inventories	Provisions for expected losses	Tax losses carried forward	Total
	EUR	EUR	EUR	EUR	EUR	EUR
2006.12.31	868 312	(9 605)	(7 470)	(174 915)		676 322
Charged / (credited) to income statement	12 601	(8 661)	(16 407)	(29 027)	(339 739)	(381 233)
2007.12.31	<u>880 913</u>	<u>(18 266)</u>	<u>(23 877)</u>	<u>(203 942)</u>	<u>(339 739)</u>	<u>295 089</u>
Charged / (credited) to income statement	(2 041)	(1 314)	5 171	152 936	83 623	238 375
2008.12.31	<u>878 872</u>	<u>(19 580)</u>	<u>(18 706)</u>	<u>(51 006)</u>	<u>(256 116)</u>	<u>533 464</u>

(12) Earnings per Share (expressed in santims per share)

Since the Company has not executed any transactions that could cause changes in the share capital, which would change the amount of earning per share, the adjusted earnings per share is equivalent to the basic earnings per share.

Earnings per share are calculated by dividing the profit of the reporting year by the average number of shares in the reporting year.

2008

2007

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Profit attributed to shareholders of the Company (Ls)	2 035 594	(1 376 463)
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in santims)	<u>24,54</u>	<u>(16,60)</u>

(13) Property, plant and equipment (PPE)

	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Advances for assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
2007.01.01						
Initial cost/ overrated	10 100 411	7 249 879	729 901	472 365		18 552 556
Accumulated depreciation	(2 119 837)	(6 103 154)	(519 902)			(8 742 893)
Net book value	<u>7 980 574</u>	<u>1 146 725</u>	<u>209 999</u>	<u>472 365</u>	<u>0</u>	<u>9 809 663</u>
2007						
Acquisition cost	7 980 572	1 146 725	209 999	472 365		9 809 661
Acquired	94 668	725 370	264 953	(384 160)		700 831
Disposed	0	(3 206)				(3 206)
Amortized	(211 531)	(204 250)	(62 184)			(477 965)
Closing book value	<u>7 863 709</u>	<u>1 664 639</u>	<u>412 768</u>	<u>88 205</u>	<u>0</u>	<u>10 029 321</u>
2007.12.31						
Initial cost/ overrated	8 547 633	7 782 183	963 074	88 205		17 381 095
Accumulated depreciation	(683 924)	(6 117 544)	(550 306)			(7 351 774)
Net book value	<u>7 863 709</u>	<u>1 664 639</u>	<u>412 768</u>	<u>88 205</u>	<u>0</u>	<u>10 029 321</u>
2008						
Acquisition cost	7 863 709	1 664 639	412 768	88 205		10 029 321
Acquired	83 527	364 612	42 759	(40 311)		450 587
Disposed	(19 860)	(2 797)	(3 206)			(25 863)
Amortized	(214 456)	(259 799)	(108 180)			(582 435)
Closing book value	<u>7 712 920</u>	<u>1 766 655</u>	<u>344 141</u>	<u>47 894</u>	<u>0</u>	<u>9 871 610</u>
2008.12.31						
Initial cost/ overrated	8 604 786	7 940 037	994 210	47 894		17 586 927
Accumulated depreciation	(891 866)	(6 173 382)	(650 069)			(7 715 317)
Net book value	<u>7 712 920</u>	<u>1 766 655</u>	<u>344 141</u>	<u>47 894</u>	<u>0</u>	<u>9 871 610</u>

Preparing the first financial statement under IFRS, the Group appreciated a part of PPE - real estate - at their fair value and by using it as their deemed costs at this date. Valuation was done by the independent expert AS BDO Invest Riga. Taking into consideration that it was done in 2007, which is later than transition date to IFRS as well as correction of market value of real estate at the end of 2007, the appraised value of real estate is decreased by 30%. Total adjustment of PPE initial value was 3 606 792 EUR

In Company's individual financial statements revaluation of PPE in the same amount of 3 606 792 has been recognised in 2007.

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

During the preparation of financial statements of the reporting year the management of the Group has prepared estimation of recoverable value of land and buildings by the value in use basis, with application of the future cash flow and discounting method. The value in use of assets is calculated considering that the current use the real estate will be retained.

In calculations of the future cash flow the management of the Group uses the following estimates:

- the Group is considered to be only one cash flow generating unit;
- due to the economic trends the Group will complete year 2009 without a significant profit or loss;
- during the years 2010 to 2011 a gradual improvement of financial result is expected, respectively for year 2012 and further earnings before interest, taxes, depreciation in amount EUR 2 134 308 is expected;
- investments in maintenance of the assets or replacement of assets will not exceed depreciation of assets;
- effect of changes in current assets is not significant for calculations of value in use;
- the weighted average cost of capital is 13.64% per annum.

The current value of estimated future cash flows is higher than the residual value of assets as a result the impairment of assets value

All PPE of the Group are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from banks (see Note 20).

During 2008 interest have not been capitalised, because the Group did not use the target financing for acquisition of non-current assets.

(14) Inventories	31.12.2008.	31.12.2007.
	EUR	EUR
Raw materials	3 074 933	3 789 485
Work in progress	162 855	174 625
Finished goods	704 107	829 930
(Provisions for impairment of inventories)	<u>(122 607)</u>	<u>(159 179)</u>
	<u>3 819 288</u>	<u>4 634 861</u>

All inventories of the Group are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the banks (see Note 10).

Provisions opening balances	159 178	49 801
Changes in provisions in the financial year	<u>(36 571)</u>	<u>109 378</u>
Provisions closing balances	<u>122 607</u>	<u>159 179</u>

(15) Trade receivables		
Book value of trade receivables	5 048 266	6 965 399
Provisions for impairment of trade receivables	<u>(1 108 472)</u>	<u>(2 800 139)</u>
	<u>3 939 794</u>	<u>4 165 260</u>
Provisions opening balances	2 800 139	2 064 329
Regained trade receivables	(35 999)	
Write-off of provisions for bad debts	(1 667 465)	
Provisions made during the financial year	<u>11 797</u>	<u>735 810</u>
Provisions closing balances	<u>1 108 472</u>	<u>2 800 139</u>
	31.12.2008.	31.12.2007.
	EUR	EUR

(16) Long -term contracts in progress		
Accrual income for long term contracts	3 244 636	4 749 908

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Accruals for expected losses	(75 865)	(121 771)
Gross amount for accrued income	<u>3 168 771</u>	<u>4 628 137</u>
where:		
Accrued income in assets	<u>3 168 771</u>	<u>4 628 137</u>
	<u>3 168 771</u>	<u>4 628 137</u>

(17) Other current assets

VAT overpaid	222 364	236 329
Payables for raw materials	36 699	87 720
Guaranties	19 001	98 147
Deferred expenses	12 821	15 798
Income tax paid overseas		77 248
Provisions for overseas paid taxes		(77 248)
VAT for advances received		24 556
Other receivables	12 503	9 055
	<u>303 388</u>	<u>471 605</u>
	<u>303 388</u>	<u>471 605</u>

(18) Cash and cash equivalents

Cash at bank on current accounts	45 124	171 260
Cash on hand	1 234	424
	<u>46 358</u>	<u>171 684</u>
	<u>46 358</u>	<u>171 684</u>

(19) 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 1,423 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 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 are quoted.

(20) Borrowings

	31.12.2008.	31.12.2007.
	EUR	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) 0	0
	<u>2 766 027</u>	<u>3 246 089</u>
Current		
Current part of non-current loan in USD	a) 243 219	237 815
Loan for installation of gas equipment in EUR	b) 128 040	128 040
Loan for privatization of land in EUR	c) 141 840	141 840
Other loans in EUR	d) 2 000 000	1 839 093
Short term loan in EUR (previously in USD)	e) 937 200	961 500
Short term loan in EUR	f) 0	1 599 999
Short term loan in EUR	g) 0	0
	<u>3 458 700</u>	<u>4 916 688</u>
	<u>3 458 700</u>	<u>4 916 688</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

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 carrying value of borrowings does not materially differ from their fair value.

	2008	2007
	EUR	EUR
At beginning of the year	8 162 777	6 800 751
Borrowings in the year		2 959 667
Repaid borrowings in the year	(2 075 175)	(1 160 918)
Currency exchange rate fluctuation results	137 125	(436 723)
At the end of the year	<u>6 224 727</u>	<u>8 162 777</u>

Maturity of the total borrowings is as follows:

Payable in 1 year	3 458 700	4 916 688
Payable in 2 – 5 years	1 686 276	1 801 097
Payable in more than 5 years	1 079 751	1 444 992
	<u>6 224 727</u>	<u>8 162 777</u>

The implementation of obligations of the Company are provided and strengthened by:

(i) mortgage of all real estate belonged to the Group;

(ii) commercial pledge of all property of the Company as a 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 EUR 21 465 976(on the 31 December 2007 - EUR 24 100 868).

(21) Provisions

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

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 Group valued as the total amount of provisions of parent Company and subsidiaries. At the end of the year provisions for warranty repairs estimated in amount of EUR 340 038.

(22) Other liabilities	31.12.2008.	31.12.2007.
	EUR	EUR
Non-current		
Accrued liabilities to disability pensions (non-current part)	150 200	150 200
	<u>150 200</u>	<u>150 200</u>
Current		
Advances received	775 481	1 761 416
Mandatory State social contributions	422 606	339 800
Payroll liabilities	330 358	343 968
VAT liabilities	282 932	68 810
Personnel income tax liabilities	249 718	210 289
Accrual liabilities for unused annual leave	247 564	237 820
Accrued liabilities to disability pensions (current part)	10 683	10 683
Other taxes payable	2 712	1 770
Other liabilities	146 158	123 457
	<u>2 468 212</u>	<u>3 098 013</u>

(23) Average number of employees	2008	2007
Average number of people employed during the financial year	1 274	1 346
	<u>1 274</u>	<u>1 346</u>

(32) Remuneration to personnel	2008	2007
	EUR	EUR
Salaries and mandatory State social insurance contributions for production staff	6 805 127	5 582 422
Salaries and mandatory State social insurance contributions for distribution staff	137 303	1 888 528
Salaries and social insurance contributions for administration staff	2 375 909	1 167 497
	<u>9 318 339</u>	<u>8 638 447</u>
Including remuneration to key management		
salary expenses	175 467	132 582
mandatory State social insurance contributions	37 661	25 356

In accordance with the shareholders' decision, members of the Board and the Council do not receive additional remuneration for the performance of their duties.

* - Includes mandatory State social insurance contributions of EUR 1 783 012 (in 2007 – EUR 1 492 040).

In accordance with the regulations of the Cabinet of Ministers of the Republic Latvia 75% (2006: 75%) of the mandatory State social insurance contributions are used to finance the State defined contribution pension system. During the reporting year, no loans were issued to members of the Council, the Board or the Management staff.

(34) Transactions with related parties

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

Chairman of the Council of the Company Oleg Osinovski has a profound influence in the main shareholder of the Company AS Skinest Rail (Estonia) who holds 47,97% shares of the Company. The Group is engaged in transactions as well with other companies, which are connected with AS Skinest Rail: SIA Skinest Latvia, UAB Skinest Baltija (Lithuania) and OOO Skinest SPB (Russia), AS Skinest Metsaveod (Estonia), Skinest Rail Poslka Sp.z.o.o. (Poland) . As well in 2007 the company had transactions with other main shareholder AS Spacecom (Estonia).

a) claims and liabilities

Notes	31.12.2008.		31.12.2007.	
	Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
AS Skinest Rail	187 990	58 259	221 336	
AS Skinest Metsaveod				
SIA Skinest Latvija		129 875		3 594
OOO "Skinest SPB"		5 134		54 660
AS Spacecom				7 389
UAB Skinest Baltija			64 123	
	<u>187 990</u>	<u>193 268</u>	<u>285 459</u>	<u>65 643</u>

b) transactions

Notes	Sales to related parties		Purchases from related parties	
	2008 EUR	2007 EUR	2008 EUR	2007 EUR
AS Skinest Rail	2 715 535	1 978 047	1 356 008	884 174
SIA Skinest Latvija	1 174 212	1 328 615	1 962 042	1 781 243
AS Skinest Metsaveod	78 000			
OOO Skinest SPB	165 227	212 194	5 854	
UAB Skinest Baltija	161 504	67 197	17 141	20 911
AS Spacecom	10 874	144 803	39 532	2 398
Skinest Polska Sp.z.o.o.	2 530			
	<u>4 307 882</u>	<u>3 730 856</u>	<u>3 380 577</u>	<u>2 688 726</u>

(34) Tax Contingent Liabilities

The tax authorities have conducted complex tax audit of the Company for the period from 2005 to 2006. The outcome of this audit was not material to these financial statements.

The tax authorities may at any time conduct the accounting audit for the last three years after the taxation period and apply additional tax liabilities and penalties. The Management of the Company is not aware of any circumstances that could cause potential significant liabilities in the future.

(36) Risk and capital management

The Company's activity is exposed to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial standing.

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 derivatives for financial risk management.

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

(a) Foreign currency

The Company is exposed to foreign currency exchange rate fluctuation risk arising from various currencies mainly because the majority of raw materials and materials are purchased by the Company in euro and US dollars, but the significant part of the production is sold in the domestic market and exported to the markets where euro and US dollar dominate. In order to decrease influence of US dollar, part of the financing received from credit institutions is denominated in US dollars.

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 the currency risk in relation to the USD currency, during the reporting year the Group refinanced loan from AS Norvik Bank from USD 3,000,000 to EUR 2,000,000.

The open currency position at the end of reporting year is:

	31.12.2008.	31.12.2007.
Financial assets, EUR	250 895	361 033
Financial liabilities, EUR	<u>(4 588 953)</u>	<u>(4 333 128)</u>
Open position of balance sheet, EUR, net	<u>(4 338 058)</u>	<u>(3 972 095)</u>
Open position of balance sheet, EUR, calculated in lats, net	<u>(3 048 741)</u>	<u>(2 791 605)</u>
Financial assets, USD □	2 378 980	3 472 391
Financial liabilities, USD □	<u>(4 695 554)</u>	<u>(10 692 165)</u>
Open position of balance sheet, USD, net □	<u>(2 316 574)</u>	<u>(7 219 774)</u>
Open position of balance sheet, USD, calculated in lats, net	<u>(2 109 150)</u>	<u>(3 494 371)</u>
Financial assets, RUB □	70 635 040	37 471 962
Financial liabilities, RUB □	<u>(242 200)</u>	<u>(35 678 114)</u>
Open position of balance sheet, RUB, net	<u>70 392 840</u>	<u>1 793 848</u>
Open position of balance sheet, RUB, calculated in lats, net	<u>1 646 166</u>	<u>35 339</u>

(b) Credit risk

Financial assets which potentially expose the Group to the certain credit risk concentration level, are mainly cash, trade accounts receivable and loans granted. The Group's policy ensures that goods are sold and services are rendered to customers having respective credit history. Besides the Group constantly monitors account of trade receivables, to reduce the risk of bad debts.

(c) Interest rate risks

The Group is exposed to foreign exchange risk because interest has to be paid for the majority of liabilities that is being calculated by the floating interest rate (Note 10).

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2008

(d) Liquidity risk

The Group controls its liquidity risk by maintaining appropriate amount of cash and cash equivalents and using credit lines granted by banks.

The Group follows prudent liquidity risk management, ensuring that the appropriate credit liabilities set deadlines. On 31 December 2008 current assets of the Group exceeded its short - term liabilities by EUR 2,4 million (31.12.2007: EUR 0,42 million). Total amount of the credit line is EUR 3 million. At 31 December 2008 unused part of the credit line was EUR 62,8 thousand.

Part of the Group's borrowings from credit institutions in amount of EUR 3 458 700 million is repayable in 2009. year. The management of the Company is confident that the short-term borrowings will be refinanced at least for one year, while taking into account the reduction of transactions in 2009 the planned cash flow is sufficient for repayment of other loans and continuation of operation activities.

(e) Fair Value

There are no material difference between the carrying amount of financial assets and liabilities of the Company and fair value thereof.

g) Price risk

In 2009 due to global economic crisis and growing competition, the Group is subject to the repair service price reductions in risk. To reduce the impact of these factors, the Company is constantly dealing with material and service suppliers and production efficiency increasing for production cost reduction purposes. Though The Group is not subjected to the risk of price increase of the permanent production factors (materials, services, wages and salaries), therefore at the moment the Group now is able to offer their services at lower prices than in 2008.

(f) Capital Management

Equity of the Company meets the requirements of the Commercial Law of the Republic of Latvia. The Management of the Company ensures capital adequacy management in accordance with the good practice.

(37) 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.