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
	Natālija Petrova - 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 23.7 millions lats (22.1 million lats in 2007). Sales of principal activity comprised 16.2 million lats, 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 7.1 million lats (in 2007 - 6.6 million lats). Net profit for the year is 201,831 lats. In 2008 The Company performed revaluation of fixed assets (land, buildings and structures), that reduced its residual value for 1.4 million lats.

Performance of the Group during the financial year

In 2008 the consolidated net sales of the Company amounted to 17.5 million lats (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 1,430,624 lats.

In 2008 the Company exported its products to 8 countries, the total export volume amounted to 15.2 million lats (in 2007 - 12.8 million lats), while turnover in Latvia amounted to 2.9 million lats (in 2007 - 2.9 million lats). 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	**201 831**
Proposed profit distribution:	
Retained earnings	201 831

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 Ls	2007 Ls
Net sales	(1)	23 724 616	22 078 087
Cost of sales	(2)	(21 259 073)	(19 231 749)
Gross profit or losses		**2 465 543**	**2 846 338**
Distribution expenses	(3)	(212 666)	(307 487)
Administrative expenses	(4)	(1 282 157)	(1 158 395)
Other operating income	(5)	216 972	148 495
Other operating expenses	(6)	(156 890)	(548 960)
Interest and similar income	(7)	399	293 105
Interest and similar expenses	(8)	(771 332)	(335 264)
Profit or losses before taxes		**259 869**	**937 832**
Corporate income tax	(9)	(6 761)	(221 637)
Other taxes	(10)	(51 277)	(78 533)
Net profit or losses		**201 831**	**637 662**

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. Ls	31.12.2007. Ls
ASSETS			
Non-current assets			
Fixed assets:			
Land and buildings	(11)	1 524 079	2 057 257
Equipment and machinery	(11)	1 241 611	1 169 914
Other fixed assets	(11)	241 864	290 095
Fixed assets under construction	(11)	33 660	61 991
Total fixed assets:		**3 041 214**	**3 579 257**
Total non-current financial investments:	(12)	**2 539 427**	**3 469 390**
Non-current financial investments:			
Investments in subsidiaries	(14)	22 000	22 000
Total non-current financial investments:		**22 000**	**22 000**
Total non-current investments:		**5 602 641**	**7 070 647**
Current assets			
Inventories:			
Raw materials and consumables	(15)	1 960 429	2 429 307
Finished goods and goods for sale	(16)	57 945	224 385
Advances for inventories		25 754	61 560
Total inventories:		**2 044 128**	**2 715 252**
Account receivable:			
Trade receivables	(17)	2 632 376	2 883 962
Receivables from group companies	(18)	1 841 198	2 057 591
Other receivables	(19)	378 300	243 123
Deferred expenses	(20)	9 011	11 103
Accrued income	(21)	2 240 966	3 310 896
Total receivables:		**7 101 851**	**8 506 675**
Cash and bank:	(22)	**28 487**	**105 334**
Total current assets:		**9 174 466**	**11 327 261**
Total assets		**14 777 107**	**18 397 908**

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

BALANCE SHEET

	Notes	31.12.2008. Ls	31.12.2007. Ls
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	(23)	8 294 219	8 294 219
Non-current investments revaluation reserve	(13)	1 562 694	2 783 022
Retained earnings			
a) previous year's retained earnings		(4 642 202)	(5 279 864)
b) current years profit or losses		201 831	637 662
Total equity:		**5 416 542**	**6 435 039**
Provisions:	(24)	**816 502**	**797 787**
Liabilities:			
Non-current liabilities:			
Loans from banks	(25)	1 943 975	2 281 364
Deferred income tax liabilities	(9)	271 106	479 697
Total non-current liabilities:		**2 215 081**	**2 761 061**
Current liabilities:			
Loans from banks	(25)	2 430 788	3 455 468
Advances from customers	(26)	543 005	1 227 627
Trade payables		1 882 507	2 734 006
Payables to group companies	(27)	795 498	82 734
Taxes and social insurance payments	(28)	31 463	179 854
Other liabilities	(29)	43 043	43 675
Accrued liabilities	(30)	602 678	680 657
Total current liabilities:		**6 328 982**	**8 404 021**
Total liabilities:		**8 544 063**	**11 165 082**
Total equity, provisions and liabilities		**14 777 107**	**18 397 908**

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
	Ls	Ls	Ls	Ls	Ls
31.12.2006.	**8 294 219**	**712 150**	**0**	**(5 279 864)**	**3 726 505**
Revaluation of fixed assets (see note 13)		2 534 868			2 534 868
Disposal of revalue fixed assets		(83 766)			(83 766)
Changes in deferred tax liabilities due to reclassification of reserves (see note 9)		(380 230)			(380 230)
Profit for the year				637 662	637 662
31.12.2007.	**8 294 219**	**2 783 022**	**0**	**(4 642 202)**	**6 435 039**
Revaluation of fixed assets (see note 13)		(1 357 166)			(1 357 166)
Disposal of revalue fixed assets		(78 514)			(78 514)
Changes in deferred tax liabilities due to reclassification of reserves (see note 9)		215 352			215 352
Profit for the year				201 831	201 831
31.12.2008.	**8 294 219**	**1 562 694**	**0**	**(4 440 371)**	**5 416 542**

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 Ls	2007 Ls
Cash flow from operating activities			
Profit or losses before taxes		**259 869**	**937 832**
Adjustments for:			
depreciation of fixed and intangible assets		409 337	335 916
profit from disposal of fixed assets		(89 364)	(100 747)
changes in provisions		(35 165)	527 246
foreign exchange gains		95 457	(306 931)
interest expenses		316 212	331 237
Cash flow prior to changes in current assets and liabilities		**956 346**	**1 724 553**
Inventory (increase)/decrease		707 995	(124 635)
Account receivable (increase)/decrease		678 990	(2 703 840)
Account payable increase/(decrease)		(560 330)	957 448
Gross cash flow generated from operating activities		**1 783 001**	**(146 474)**
Interest paid		(315 299)	(342 501)
Corporate income tax paid		(35 581)	74 255
Net cash flow generated from operating activities		**1 432 121**	**(414 720)**
Cash flow from investing activities			
Acquisition of fixed and intangible assets		(316 675)	(477 074)
Proceeds from sales of fixed assets		29 026	19 235
Loans issued to subsidiaries (net)		237 122	(297 426)
Net cash flow generated from investing activities		**(50 527)**	**(755 265)**
Cash flow from financing activities			
Loans received		0	2 080 066
Loans repaid		(1 458 441)	(815 898)
Net cash flow generated from financing activities		**(1 458 441)**	**1 264 168**
Net increase / (decrease) in cash and cash equivalents		**(76 847)**	**94 183**
Cash and cash equivalents at the beginning of the financial year		**105 334**	**11 151**
Cash and Cash equivalents at the end of the financial year	(22)	**28 487**	**105 334**

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 Ls
Advances for long term projects	Advances from customers	Accrued income (net)	854 214
Accrued expenses for long term agreements	Accrued income for non-current agreements	Accrued liabilities	111 371

(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.	**31.12.2007.**
	Ls	**Ls**
1 USD	0,495	0,484
1 EUR	0,702804	0,702804
1 LTL	0,203	0,204
1 EEK	0,0449	0,0449
1 RUB	0,0171	0,0197

(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 Ls 100 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than 100 Ls 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.

(8) 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.

(13) Accrued liabilities for unused annual leave

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

(14) Taxation

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

Deferred tax is calculated according to the liability method with respect to all temporary differences between the values of assets and liabilities in the financial statements and their 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.

(16) Group companies

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

(17) Related parties

Related parties are considered 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 Ls	2007 Ls
By operating activities		
Income from railway rolling stock repair and upgrade services	16 155 931	12 808 464
Income from sales of railway rolling stock spare parts		2 286 874
Income from sales of materials (see note 35)	4 632 222	3 444 693
Income from rent of premises and equipment (see note 35)	1 810 190	2 178 692
Management and administrative services (see note 35)	483 367	445 526
Other income from transactions with subsidiaries (see note 35)	221 874	578 385
Other income	421 032	335 453
	23 724 616	**22 078 087**

By location

	2008 Ls	2007 Ls
Income from sales of goods/services in Latvia	9 886 195	9 328 900
Income from sales of goods/services to Russia	5 633 749	2 252 300
Income from sales of goods/services to EU markets	2 768 081	2 125 200
Income from sales of goods/services to Uzbekistan	1 661 000	1 168 300
Income from sales of goods/services to Mongolia	232 000	2 139 200
Income from sales of goods/services to Belarus	142 700	693 200
Income from sales of goods/services to other countries	3 400 891	4 370 987
	23 724 616	**22 078 087**

(2) Cost of sales

	2008 Ls	2007 Ls
Service costs of subsidiaries	12 873 550	8 881 047
Raw materials and consumables	7 483 828	6 807 554
Acquisition costs of spare parts sold		2 217 192
Depreciation of fixed assets	294 964	239 648
Costs of goods sold	146 346	220 793
Utility expenses	25 229	369 087
Changes in provisions for expected losses	19 621	19 756
Changes in provisions for impairment of inventories	(29 041)	31 871
Other production costs	444 576	444 801
	21 259 073	**19 231 749**

(3) Distribution expenses

	2008 Ls	2007 Ls
Transportation costs	112 328	192 531
Salary expenses	77 764	60 783
Mandatory State social insurance costs	18 733	14 643
Other selling costs	3 841	39 530
	212 666	**307 487**

(4) Administrative expenses	2008 Ls	2007 Ls
Salary expenses	678 072	566 327
Mandatory State social insurance costs	157 975	129 562
Office expenses	129 744	107 922
Depreciation of fixed assets	112 884	96 268
Professional service costs	9 500	43 000
Representation costs	3 010	11 037
Other administrative expenses	190 972	204 279
	1 282 157	**1 158 395**

(5) Other operating income

Net gain from disposal of fixed assets	107 540	100 747
Receivables gained from bed debtors	25 300	0
Rental income	18 432	16 556
Other income	65 700	31 192
	216 972	**148 495**

(6) Other operating expenses

Provisions for decrease of value of trade receivables	8 291	517 129
Changes in other provisions	100 039	0
Collective agreement costs	17 437	16 281
Other expenses	31 123	15 550
	156 890	**548 960**

(7) Interest and similar income

Net income from exchange rate fluctuations		292 824
Interest income	399	281
	399	**293 105**

(8) Interest and similar expenses

Interest charge	316 212	346 711
(Interest expenses capitalized)		(15 474)
Net loss from exchange rate fluctuations	409 549	
Penalties paid	45 571	4 027
	771 332	**335 264**

(9) Corporate income tax

a) Components of corporate income tax

	2008 Ls	2007 Ls
Changes in deferred income tax	6 761	55 535
Corporate income tax according to the tax return		166 102
	6 761	**221 637**

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 Ls	2007 Ls
Profit before taxes	259 869	937 832
Real estate tax	(51 277)	(78 533)
Profit or losses before corporate income tax	208 592	859 299
Theoretically calculated tax at 15% tax rate	**31 289**	**128 895**
Tax effects on:		
Permanent differences	(24 528)	108 714
Tax losses forwarded from other group companies		(15 972)
Total corporate income tax expenses	**6 761**	**221 637**

b) Movement and components of deferred tax

	2008	2007
Deferred tax liabilities (asset) at the beginning of the financial year	479 697	43 932
Deferred tax charged to the income statement	6 761	55 535
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	(215 352)	380 230
Deferred tax liabilities (asset) at the end of the financial year	**271 106**	**479 697**

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. Ls	31.12.2007. Ls
Temporary difference on depreciation of fixed and intangible assets	414 100	619 109
Gross deferred tax liabilities	**414 100**	**619 109**
Provisions for expected losses	5 907	2 963
Provisions for contingent liabilities	122 475	119 668
Provisions for impairment of inventories	11 250	16 781
Tax losses carried forward	3 362	
Total temporary differences	**142 994**	**139 412**
Net deferred tax liability (assets)	**271 106**	**479 697**

(10) Other taxes	2008 Ls	2007 Ls
Real estate tax for land	5 956	6 294
Real estate tax for buildings	45 321	72 239
	51 277	**78 533**

(11) Fixed assets

	Land and buildings	Equipment and machinery	Other fixed assets	Fixed assets under construction	Advances for fixed assets	Total
	Ls	Ls	Ls	Ls	Ls	Ls
Cost/revaluation						
31.12.2007.	2 391 439	5 469 348	676 852	61 991		8 599 630
Additions	1 656	256 251	30 051	317 054	33 937	638 949
Disposals	(9 732)	(145 310)	(8 169)	(345 385)	(33 937)	(542 533)
Revaluation	(495 956)					(495 956)
31.12.2008.	1 887 407	5 580 289	698 734	33 660		**8 200 090**
Depreciation						
31.12.2007.	(334 182)	(4 299 434)	(386 757)			(5 020 373)
Calculated	(29 925)	(182 588)	(76 029)			(288 542)
Disposals	779	143 344	5 916			150 039
31.12.2008.	(363 328)	(4 338 678)	(456 870)	0	0	**(5 158 876)**
Net carrying amount 31.12.2006.	**2 057 257**	**1 169 914**	**290 095**	**61 991**	**0**	**3 579 257**
Net carrying amount 31.12.2007.	**1 524 079**	**1 241 611**	**241 864**	**33 660**	**0**	**3 041 214**

* 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 LVL 648 447, the cadastral value of building is LVL 4 723 757.

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
	Ls	Ls	Ls
Cost/revaluation			
31.12.2007.	3 615 872		3 615 872
Additions	57 048	58 703	115 751
Disposals/write-offs	(8 804)	(58 703)	(67 507)
Revaluation	(861 210)		(861 210)
31.12.2008.	2 802 906		**2 802 906**
Depreciation			
31.12.2007.	(146 482)		(146 482)
Calculated	(120 796)		(120 796)
Disposals/write-offs	3 799		3 799
31.12.2008.	(263 479)		**(263 479)**
Net carrying amount 31.12.2007.	**3 469 390**	**0**	**3 469 390**
Net carrying amount 31.12.2008.	**2 539 427**	**0**	**2 539 427**

* 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 LVL 659 538, in 1999 by LVL 1 317 852 and in 2001 by LVL 889 954. 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 LVL 2 534 868 (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. Ls	31.12.2007. Ls
Initial value	4 688 976	4 630 273
Accumulated depreciation	(1 590 640)	(1 539 498)
Net carrying amount	**3 098 336**	**3 090 775**

(14) Equity investments

Name	Address	Participating interest 31.12.2007. %	Participating interest 31.12.2008. %	Equity 31.12.2007. Ls	Equity 31.12.2008. Ls	Profit/(loss) 2007 Ls	Profit/(loss) 2008 Ls
SIA Rel	Marijas 1, Daugavpils	100%	100%	(541 446)	(721 949)	(543 446)	(180 503) #
SIA Elap	Marijas 1, Daugavpils	100%	100%	(2 361)	68 044	(4 361)	70 405 #
SIA Remdīz	Marijas 1, Daugavpils	100%	100%	(320 320)	(326 500)	(322 320)	(6 180) #
SIA Ritrem	Marijas 1, Daugavpils	100%	100%	(282 109)	67 016	(284 109)	349 125 #
SIA Elektromaš	Marijas 1, Daugavpils	100%	100%	82 935	346 650	80 935	263 715 #
SIA Krāsotājs	Marijas 1, Daugavpils	100%	100%	(112 271)	(123 335)	(114 271)	(11 064) #
SIA SPZČ	Marijas 1, Daugavpils	100%	100%	(74 274)	150 901	(76 274)	225 175 #
SIA Metalurgs	Marijas 1, Daugavpils	100%	100%	(319 295)	(408 039)	(321 295)	(88 744) #
SIA Remenergo	Marijas 1, Daugavpils	100%	100%	(105 048)	(48 243)	(107 048)	56 805 #
SIA Instruments	Marijas 1, Daugavpils	100%	100%	(104 164)	(107 034)	(106 164)	(2 870) #
SIA Loģistika	Marijas 1, Daugavpils	100%	100%	(47 603)	(21 892)	(49 603)	25 711 #
				(1 825 956)	(1 124 381)	(1 847 956)	701 575 #

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. Ls**	**31.12.2007. Ls**
Raw materials, material and auxiliary material cost	2 012 429	2 501 565
(Accruals for damaged and obsolete stock)	(52 000)	(72 258)
	1 960 429	**2 429 307**

(16) Finished goods and goods for resale		
Finished goods	80 746	263 673
Other goods for sale	199	325
(Accruals for damaged and obsolete stock)	(23 000)	(39 613)
	57 945	**224 385**

(17) Trade receivables		
Book value of trade receivables	3 411 415	4 851 811
(Provisions for bad and doubtful debts)	(779 039)	(1 967 949)
	2 632 376	**2 883 862**

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

(18) Receivables from group companies	**31.12.2008. Ls**	**31.12.2007. Ls**
Settlements with subsidiary companies	1 780 894	1 760 165
Loans to subsidiary companies	60 304	297 426
	1 841 198	**2 057 591**

(19) Other receivables		
VAT overpaid (see Notes 28 for details)	156 278	151 288
Corporate income tax overpaid (see Notes 28 for details)	200 900	
Payments for guarantees	13 354	68 978
VAT for advances received	3 393	17 258
Payments for other services	2 205	2 378
Other receivables	2 113	3 066
Corporate income tax paid abroad		54 290
Provisions for taxes paid abroad		(54 290)
Payments to personnel	57	155
	378 300	**243 123**

(20) Deferred expenses		
Insurance costs	4 014	4 039
Other expenses	4 997	7 064
	9 011	**11 103**

(21) Construction contracts in progress	31.12.2008. Ls	31.12.2007. Ls
Accrued income for long term contracts	2 280 343	3 330 652
Accruals for potential losses	(39 377)	(19 756)
Gross amount for accrued income	**2 240 966**	**3 310 896**
hereof:		
accrued income in assets	2 240 966	3 310 896
	2 240 966	**3 310 896**

(22) Cash and bank		
Cash at bank on current accounts	27 620	105 037
Cash on hand	867	297
	28 487	**105 334**

(23) Share capital

Registered and fully paid share capital of the Company is 8 294 219 LVL, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is 1 LVL. 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 LVL 50 000.

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 LVL 766 502 .

(25) Loans from banks	Notes	31.12.2008. Ls	31.12.2007. Ls
Non-current			
Non-current loan in USD	a)	1 139 568	1 281 381
Loan for installation of gas equipment in EUR	b)	89 846	179 833
Loan for privatization of land in EUR	c)	701 770	801 455
Other loans in EUR	d)	12 791	18 695
		1 943 975	**2 281 364**
Current			
Current part of non-current loan in USD	a)	170 935	167 137
Current part of non-current loan for gas equipment in EUR	b)	89 987	89 987
Current part of loan for privatization of land in EUR	c)	99 686	99 686
Other loans in EUR	d)	5 904	5 904
Short-term loan in EUR (previously in USD)	e)	1 405 608	1 292 522
Short-term loan in EUR	f)	658 668	675 746
Short-term loan in EUR	g)		1 124 486
		2 430 788	**3 455 468**

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. Ls	31.12.2007. Ls
Advances from customers received for principal activity	543 005	1 227 627
	543 005	**1 227 627**

(27) Payables to group companies

Settlements with subsidiary companies (see note 35)	795 498	82 734
	795 498	**82 734**

(28) Taxes and social insurance payments

	31.12.2007.	Calculated	Calculated penalty and delay fees	(Paid)/ repaid	Transferred to other taxes	31.12.2008.
	Ls	Ls	Ls	Ls	Ls	Ls
VAT	(151 288)	(1 437 001)	386	748 866	682 759	(156 278)
Personal income tax	20 534	130 170		(7 200)	(132 414)	11 090
Social insurance payments	27 554	244 669	72	(973)	(252 582)	18 740
Corporate income tax	130 808		1 636	(35 581)	(297 763)	(200 900)
Real estate tax (land)		5 956	100	(6 056)		
Real estate tax (buildings)		45 321	767	(46 088)		
Natural resource tax	913	4 169		(3 490)		1 592
State enterprise risk duty	45	525		(529)		41
Total	**28 566**	**(1 006 191)**	**2 961**	**648 949**	**0**	**(325 715)**
Hereof						
(Overpaid) - see Notes 19 for	**151 288**					**(357 178)**
Payables	**179 854**					**31 463**

(29) Other liabilities

	31.12.2008. Ls	31.12.2007. Ls
Salaries	34 734	36 720
Payments to personnel	667	272
Other liabilities	7 642	6 683
	43 043	**43 675**

(30) Accrued liabilities

Accrued liabilities to subsidiary companies	550 705	626 495
Accrued unused annual leave expenses	34 574	27 802
Other accrued liabilities	17 399	26 360
	602 678	**680 657**

(31) Fees paid to auditors	**2008**	**2007**
	Ls	**Ls**
For the audit of financial statements	9 500	24 000
Other professional service fees	750	140
	10 250	**24 140**

(32) Average number of employees	**2008**	**2007**
Average number of people employed during the financial year	167	174

(33) Remuneration to personnel	**2008**	**2007**
	Ls	**Ls**
Employee pay	762 764	639 546
Social insurance payments	178 121	146 344
Other expenses	134 385	391 174
	1 075 270	**1 177 064**

(34) Remuneration to the management		
Board members		
· salary expenses	123 319	93 179
· other social insurance expenses	26 468	17 820
	149 787	**110 999**

(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 Ritrem, SIA Elektromaš, SIA Krāsotājs, SIA SPZČ, SIA Metalurgs, SIA Remenergo, SIA Instruments un SIA Logistika. Claims and 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 Company AS Skinest Rail (Estonia) which holds 49.0% shares of the Company. The Company is engaged in transactions as well with other companies, which are related to AS Skinest Rail: SIA Skinest Latvia, UAB Skinest Baltija (Lithuania) and OOO Skinest SPB (Russia). In 2007 the company had transactions with other main shareholder AS Spacecom (Estonia).

a) claims and liabilities

	Notes	31.12.2008. Receivables	31.12.2008. Payables	31.12.2007. Receivables	31.12.2007. Payables
		Ls	Ls	Ls	Ls
Group companies					
SIA "Rel"		259 594	47 500	157 899	
SIA "Elap"			123 686	70 261	
SIA "Krāsotājs"		32 933	9 068	43 385	
SIA "SPZČ"		121 539	38 000	245 572	
SIA "Metalurgs"		470 451	5 000	393 333	
SIA "Remenergo"		485 868	6 100	914 566	
SIA "Instruments"		70 410		100 182	
SIA "Logistika"		300	8 309	132 393	
SIA "Elektromaš"		51 198	279 567		82 734
SIA "Remdīz"		348 905	63 200		
SIA "Ritrem"			215 068		
total group companies:		**1 841 198**	**795 498**	**2 057 591**	**82 734**
Other related parties					
AS "Skinest Rail"		89 533	40 945		5 193
SIA "Skinest Latvija"			91 277	155 556	
AS "Spacecom"				45 066	
UAB "Skinest Baltija"					2 526
OOO "Skinest SPB"			3 608		38 415
total other related parties:		**89 533**	**135 830**	**200 622**	**46 134**
		1 930 731	**931 328**	**2 258 213**	**128 868**

b) total transactions

	Notes	Sales to related parties 2008	Sales to related parties 2007	Purchases from related parties 2008	Purchases from related parties 2007
		Ls	Ls	Ls	Ls
Group companies					
SIA "Rel"		379 427	212 413	1 668 348	1 173 749
SIA "Elap"		795 145	309 837	1 585 813	992 031
SIA "Krāsotājs"		146 937	69 780	431 328	249 137
SIA "SPZČ"		554 752	630 717	545 707	629 274
SIA "Metalurgs"		679 057	408 671	35 129	21 142
SIA "Remenergo"		1 988 086	2 511 078	557 227	450 408
SIA "Instruments"		100	25 593	0	14 359
SIA "Logistika"		22 129	1 139 963	144 596	531 667
SIA "Elektromaš"		1 351 269	488 067	2 613 950	2 013 908
SIA "Remdīz"		623 600	395 772	3 012 839	1 727 004
SIA "Ritrem"		650 870	455 405	3 070 877	2 034 091
total subsidiary companies:		**7 191 372**	**6 647 296**	**13 665 814**	**9 836 770**
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**
		9 823 180	**9 188 741**	**16 041 697**	**11 303 701**

c) transaction analyse by operating activities

	Notes	Sales to related parties		Purchases from related parties	
		2008	**2007**	**2008**	**2007**
		Ls	**Ls**	**Ls**	**Ls**
Group companies					
Repair services of railway rolling stock	**a)**			12 517 937	8 620 794
Sales of materials		4 632 222	3 444 693	464 248	401 529
Rent of premises and equipment	**Note 37**	1 810 190	2 178 692	14 471	2 435
Administrative and management services	**b)**	497 867	445 526		
Other transactions		251 093	578 385	666 158	812 012
total subsidiary companies:		**7 191 372**	**6 647 296**	**13 662 814**	**9 836 770**
Other related parties					
Repair services of railway rolling stock		2 616 947	2 486 164	40 422	12 868
Sales of materials		14 861	55 281	2 335 461	1 451 955
Other transactions					2 108
total other related parties:		**2 631 808**	**2 541 445**	**2 375 883**	**1 466 931**
total other related parties:		**9 823 180**	**9 188 741**	**16 038 697**	**11 303 701**

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 LVL 1 810 190 (in 2007 LVL 2 178 692). 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	(2 978 222)	(35 678 114)
Open position RUB, net	67 656 818	1 793 848
Open position RUB calculated in lats, net	**1 156 932**	**35 339**

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 LVL 2 430 788 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.

____
Natālija Petrova
board member

Daugavpils, 28 April 2009

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

BAKER TILLY
BALTICS

Baker Tilly Baltics SIA
Kronvalda bulv. 10-32
Riga, LV-1010
Latvia
Tel.: +371 6732 1000
Fax: +371 6732 4444
www.bakertillybaltics.lv

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.