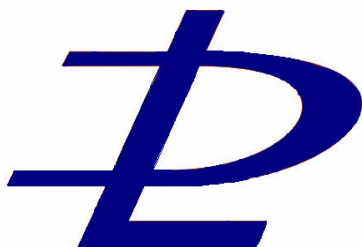


AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA"  
Report for 6 months 2008



**AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA"**

CONSOLIDATE REPORT

For six months 2008

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### **INFORMATION ON THE COMPANY**

|  |  |
|--|--|
| <i>Name of the company</i>   | DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA   |
| <i>Legal status of the company</i>   | Joint-stock company  |
| <i>Number, place and date of registration</i>                                    | Nr.40003030219<br>Riga, 03.10.1991.<br>Commercial register<br>Riga, 08.06.2004.  |
| <i>Address</i>   | Marijas street 1, Daugavpils LV-5401 Latvia  |
| <i>Type of operations</i>  | Repair and modernization of the mobile train   |
| <i>Names, address and % of the share capital owned by company's shareholders</i> | AS SKINEST RAIL, reģ.10293440 (49,0%)<br>Kadaka tee 1, 10621, Tallinna,<br>Igaunija<br>AS SPACECOM, reģ.10940566 (25,27%)<br>Kadaka tee 1, 10621 Tallina<br>Estonia<br>LLC LOKOMOTIIV IVESTEERINGUUD, reģ.11096115 (6,09%)<br>Tartu street 18-18, 10115 Tallina<br>Estonia<br>AAS "DORMAŠINVEST" reģ.001455963, OGRN 10277739059919<br>(5%)<br>Moscow, Russia<br>VAS VSAA, Riga (3,2%)<br>Lacplesha street 70a, LV-1011<br>Latvia<br>Physical persons (11,44%) |
| <i>Names and positions of Board members</i>                                      | Keskula Aivar – chairman of the board (from 29.10.2007)<br>Šilovs Andrejs – member of the board (from 29.10.2007)<br>Petrova Natālija – member of the board (from 29.10.2007)<br>Steļmačenoks Kazimirs - member of the board (from 29.10.2007.)  |
| <i>Names and position of Advice members</i>                                      | Ossinovski Oleg – chairman of the advice (from 22.05.2008)<br>Krasnoslok Juri – vice-chairman of the advice(from 22.05.2008)<br>Barashkov Vasiluy - member of the advice (from 22.05.2008)<br>Rumjantsev Oleg –member of the advice (from 22.05.2008)<br>Pir Maarika – member of the advice (from 22.05.2008)  |

## Report of the management.

### I. The key figures of the enterprise.

In 6 months 2008 year joint-stock company „Daugavpils Lokomotīvu Remonta Rūpnīca” has distributed goods for 7 698.1 thousand lats, which constitutes +54.3% compared to the appropriate period of 2007.

Displayed below is the dynamics of the output of the production of the basic classification.

Table No.1  
**The basic classification of the production.**

thousands,Ls

| Designation                       | 6 months 2008  | 6 months 2007  | ( +, - )        |
|-----------------------------------|----------------|----------------|-----------------|
| Diesel locomotive repair, section | 5 450.8        | 2 360.9        | +3089.9         |
| Electric train repair, carriage   | 465.0          | 806.4          | -341.4          |
| Wheel pair repair, pieces         | 714.5          | 696.0          | +18.5           |
| Electric machines repair, pieces  | 441.6          | 243.7          | +197.9          |
| Diesel repair, peaces             | 146.9          | 100.3          | +46.6           |
| Other production                  | 479.3          | 780.5          | -301.2          |
| <b>Total</b>                      | <b>7 698.1</b> | <b>4 987.8</b> | <b>+2 710.3</b> |

Table No.2  
**The structure of the distributed goods by the clients.**

| The client   | 6 months 2008  |              | 6 months 2007  |              |
|--------------|----------------|--------------|----------------|--------------|
|              | sum            | %            | sum            | %            |
| Latvia       | 1 403.8        | 18.2         | 1 325.4        | 26.6         |
| Lithuania    | 462.4          | 6.0          | 294.4          | 5.9          |
| Estonia      | 758.3          | 9.9          | 1 132.7        | 22.7         |
| Belarus      | 41.0           | 0.5          | 94.6           | 1.9          |
| Uzbekistan   | 225.7          | 2.9          | 110.5          | 2.2          |
| Russia       | 2 100.7        | 27.3         | 584.6          | 11.7         |
| Other        | 2 706.2        | 35.2         | 1 445.6        | 29.0         |
| <b>Total</b> | <b>7 698.1</b> | <b>100.0</b> | <b>4 987.8</b> | <b>100.0</b> |

## II. Financial figures.

The enterprise finished 6 months 2008 year with profit +802.6 thousand Ls.

The enterprise for the means of the increase of the turnover resources, has invested 126.3 thousand lats of investments, including:

- ❖ Equipment putting into operation - 10.0 thousand Ls
- ❖ Equipment repairs - 111.3 thousand Ls
- ❖ Furniture and equipment - 5.0 thousand Ls

Chairman of the board

Aivar Keskuela

## **Statement of Director's responsibility**

The Board of Directors of the Joint Stock Company "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" (hereinafter – the Company) is responsible for the preparation of the interim financial statements of the Company. Interim financial statements of the Company are not audited.

The financial statements on pages 7 to 22 are prepared in accordance with the underlying accounting records and source documents and present fairly the financial position of the Company as of June 30, 2008 and the result of its operations and cash flows for 6 months of the year 2008.

The financial statements are prepared in accordance with International Financial Reporting Standards on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Board of Directors in the preparation of the financial statements.

The Board of Directors of JSC "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. The Board of Directors is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Aivar Keskuela  
Chairman of the Board

August 27, 2008

AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA"  
Report for 6 months 2008

**01.07.2008. balance Sheet**

0.702804

| <b>ASSETS</b>                              | 01.07.2008.       |                   | 01.07.2007.       |                   | 01.01.2008.       |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|  | <b>LVL</b>        | <b>EUR</b>        | <b>LVL</b>        | <b>EUR</b>        | <b>LVL</b>        | <b>EUR</b>        |
| <b>NON CURRENT ASSETS</b>                  |                   |                   |                   |                   |                   |                   |
| Property, plant and equipment:             |                   |                   |                   |                   |                   |                   |
| Land, buildings and networks               | 5 465 502         | 7 776 709         | 5 533 796         | 7 873 882         | 5 526 646         | 7 863 709         |
| Machinery and equipment                    | 1 198 221         | 1 704 915         | 784 638           | 1 116 439         | 1 169 915         | 1 664 639         |
| Other property, plant and equipment        | 253 639           | 360 896           | 153 642           | 218 613           | 290 095           | 412 768           |
| Construction in progress                   | 54 755            | 77 909            | 470 000           | 668 750           | 61 991            | 88 205            |
| <b>Total property, plant and equipment</b> | <b>6 972 117</b>  | <b>9 920 429</b>  | <b>6 942 076</b>  | <b>9 877 684</b>  | <b>7 048 647</b>  | <b>10 029 321</b> |
| Embedding long-term financial              |                   |                   |                   |                   |                   |                   |
| Other embedding long-term financial        |                   |                   |                   |                   |                   |                   |
| Total embedding long-term financial        |                   |                   |                   |                   |                   |                   |
| <b>Total embedding long-term</b>           | <b>6 972 117</b>  | <b>9 920 429</b>  | <b>6 942 076</b>  | <b>9 877 684</b>  | <b>7 048 647</b>  | <b>10 029 321</b> |
| <b>CURRENT ASSETS</b>                      |                   |                   |                   |                   |                   |                   |
| Inventory                                  | 3 698 353         | 5 262 282         | 2 671 022         | 3 800 522         | 3 257 399         | 4 634 862         |
| Debtors:                                   |                   |                   |                   |                   |                   |                   |
| Debts custom, customer                     | 2 325 475         | 3 308 853         | 2 767 380         | 3 937 627         | 2 927 361         | 4 165 259         |
| Other debtors                              | 146 386           | 208 289           | 491 709           | 699 639           | 320 343           | 455 807           |
| Payment next periods                       | 10 244            | 14 576            | 11 695            | 16 640            | 11 103            | 15 798            |
| Accumulate income                          | 2 960 047         | 4 211 767         | 3 200 920         | 4 554 499         | 2 509 830         | 3 571 167         |
| <b>Total debtors:</b>                      | <b>5 442 152</b>  | <b>7 743 485</b>  | <b>6 471 704</b>  | <b>9 208 405</b>  | <b>5 768 637</b>  | <b>8 208 031</b>  |
| <b>Cash and cash equivalents</b>           | <b>65 126</b>     | <b>92 666</b>     | <b>76 795</b>     | <b>109 269</b>    | <b>120 660</b>    | <b>171 684</b>    |
| <b>Total current assets</b>                | <b>9 205 631</b>  | <b>13 098 433</b> | <b>9 219 521</b>  | <b>13 118 196</b> | <b>9 146 696</b>  | <b>13 014 577</b> |
| <b>TOTAL ASSETS</b>                        | <b>16 177 748</b> | <b>23 018 862</b> | <b>16 161 597</b> | <b>22 995 880</b> | <b>16 195 343</b> | <b>23 043 898</b> |

AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA"  
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**01.07.2008. balance Sheet**

0.702804

| LIABILITIES                                     | 01.07.2008.       |                   | 01.07.2007.       |                   | 01.01.2008.       |                   |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|   | LVL               | EUR               | LVL               | EUR               | LVL               | EUR               |
| SHAREHOLDER' EQUITY                             |                   |                   |                   |                   |                   |                   |
| Share capital                                   | 8 294 219         | 11 801 610        | 8 294 219         | 11 801 610        | 8 294 219         | 11 801 610        |
| Previous year's retained earning                | -3 596 644        | -5 117 563        | -2 093 338        | -2 978 552        | -2 577 304        | -3 667 173        |
| Current year's retained earning                 | 802 555           | 1 141 933         | -230 921          | -328 571          | -967 384          | -1 376 463        |
| Total equity                                    | 5 500 130         | 7 825 980         | 5 969 960         | 8 494 487         | 4 749 531         | 6 757 974         |
| Provisions                                      | 886 944           | 1 262 008         | 814 438           | 1 158 841         | 955 542           | 1 359 614         |
| Other provisions                                | 886 944           | 1 262 008         | 814 438           | 1 158 841         | 955 542           | 1 359 614         |
| Creditors                                       |                   |                   |                   |                   |                   |                   |
| Loans from credit institution                   | 2 183 407         | 3 106 708         | 2 748 019         | 3 910 078         | 2 281 364         | 3 246 089         |
| Other liability                                 | 105 561           | 150 200           | 0                 | 0                 | 105 561           | 150 200           |
| Deffered tax                                    | 207 390           | 295 089           | 43 932            | 62 510            | 207 390           | 295 089           |
| Total non-currents liabilities                  | 2 496 358         | 3 551 997         | 2 791 951         | 3 972 588         | 2 594 315         | 3 691 378         |
| Loans from liabilities credit institution       | 2 832 128         | 4 029 755         | 2 481 469         | 3 530 812         | 3 455 468         | 4 916 688         |
| Advances from customers                         | 576 038           | 819 628           | 539 711           | 767 940           | 383 716           | 545 979           |
| Debts provider and employer                     | 2 671 380         | 3 801 031         | 3 235 195         | 4 603 268         | 2 855 044         | 4 062 362         |
| Taxes and social guaranteeing payment           | 729 003           | 1 037 278         | 115 610           | 164 498           | 587 199           | 835 508           |
| Other creditors                                 | 300 324           | 427 323           | 202 283           | 287 823           | 328 508           | 467 425           |
| Accumulated liabilities                         | 185 443           | 263 862           | 10 980            | 15 623            | 286 020           | 406 970           |
| Total current liabilities                       | 7 294 316         | 10 378 877        | 6 585 248         | 9 369 964         | 7 895 955         | 11 234 932        |
| Total liabilities                               | 9 790 674         | 13 930 874        | 9 377 199         | 13 342 552        | 10 490 270        | 14 926 310        |
| <b>Total equity, provisions and liabilities</b> | <b>16 177 748</b> | <b>23 018 862</b> | <b>16 161 597</b> | <b>22 995 880</b> | <b>16 195 343</b> | <b>23 043 898</b> |



## Profit or loss account

6 months 2008

0.702804

|  | for 6 months 2008 |            | for 6 months 2007 |           |
|--|-------------------|------------|-------------------|-----------|
|  | LVL               | EUR        | LVL               | EUR       |
| <b>NET SALES</b>                                   | 7 958 258         | 11 323 581 | 6 688 480         | 9 516 850 |
| Cost of sales                                      | 6 202 239         | 8 824 991  | 5 896 336         | 8 389 730 |
| GROSS PROFIT (LOSS)                                | 1 756 019         | 2 498 590  | 792 144           | 1 127 120 |
| Sales and distribution expenses                    | 70 424            | 100 204    | 77 840            | 110 756   |
| Administrative expense                             | 1 038 130         | 1 477 126  | 869 994           | 1 237 890 |
| Other operating income                             | 117 406           | 167 054    | 26 371            | 37 522    |
| Other expenses                                     | 13 979            | 19 890     | 15 819            | 22 508    |
| Other credit expenses                              | 202 335           | 287 897    | 136 584           | 194 342   |
| Other credit income                                | 253 998           | 361 406    | 50 801            | 72 283    |
| Profit or loss before extraordinary post and taxes | 802 555           | 1 141 933  | -230 921          | -328 571  |
| Profit or loss before taxes                        | 802 555           | 1 141 933  | -230 921          | -328 571  |
| Corporate income tax of account period             | 0                 | 0          | 0                 | 0         |
| Profit or losses report on period after taxes      | 802 555           | 1 141 933  | -230 921          | -328 571  |
| Profit coefficient on stock                        | 0.0968            | 0.1377     | -0.0278           | -0.0396   |

## OVERVIEW OF EQUITY CAPITAL SHANGES

for 6 months 2008

0.702804

|   | on 30.06.2008. |            | on 30.06.2007. |            |
|---|----------------|------------|----------------|------------|
|   | LVL            | EUR        | LVL            | EUR        |
| Share capital                                 |                |            |                |            |
| Post-balance residue at the beginning of year | 8 294 219      | 11 801 610 | 8 294 219      | 11 801 610 |
| Post-balance residue at the end of period     | 8 294 219      | 11 801 610 | 8 294 219      | 11 801 610 |
| Retained profit                               |                |            |                |            |
| Post-balance residue at the beginning of year | -3 544 688     | -5 043 637 | -2 032 846     | -2 892 479 |
| Post-balance residue at the end of period     | -2 794 089     | -3 975 630 | -2 324 259     | -3 307 123 |
| Share capital (total)                         |                |            |                |            |
| Post-balance residue at the beginning of year | 4 749 531      | 6 757 974  | 6 261 373      | 8 909 131  |
| Post-balance residue at the end of period     | 5 500 130      | 7 825 980  | 5 969 960      | 8 494 487  |

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1

rate 0.702804

Cash flow statement

**I. Cash flow from operating activities for 6 month 2008**

| Activities   | 30.06.2008 LVL |          | 30.06.2008 EUR |           | 30.06.2007 LVL |           | 30.06.2007 EUR |           |
|--|----------------|----------|----------------|-----------|----------------|-----------|----------------|-----------|
|  | income         | expenses | income         | expenses  | income         | expenses  | income         | expenses  |
| Profit before taxes                                      | 802 555        | 0        | 1 141 933      | 0         | 178 839        | 0         | 254 465        | 0         |
| <b>Adjustments:</b> a) depreciation                      | 197 409        | 0        | 280 889        | 0         | 111 093        | 0         | 158 071        | 0         |
| b) provision   | 68 598         | 68 598   | 97 606         | 5 103     | 5 103          | 0         | 7 261          | 0         |
| c) profit or loss from fluctuations of currency exchange | 201 759        | 201 759  | 287 077        | 89 155    | 89 155         | 0         | 126 856        | 0         |
| Provision decrease                                       | 51 956         | 51 956   | 73 927         | 6 329     | 6 329          | 0         | 9 005          | 0         |
| Income from sale of fixed assets                         |                |          |                |           |                | 0         | 0              | 0         |
| Interest expenses  | 72             |          | 101            |           |                | 0         | 0              | 0         |
| <b>Adjustments:</b> a) Trade                             | 0              | 440 953  | 627 420        | 627 420   | 419 491        | 596 882   | 0              | 0         |
| b) Net cash flow from operating activities               | 326 485        |          | 464 546        |           | 741 358        | 1 054 857 | 1 739 852      | 0         |
| c) Cash flow before extraordinary items                  | 21 701         |          | 30 878         |           | 1 271 942      | 1 502 201 | 1 809 810      | 2 137 439 |
| Gross cash flow operating activities                     | 1 348 222      | 763 266  | 1 918 347      | 1 086 030 | 1 271 942      | 52 082    | 74 106         | 0         |
| Corporate income tax paid                                | 1 348 222      | 763 266  | 1 918 347      | 1 086 030 | 1 271 942      | 1 554 283 | 2 211 545      | 0         |
| Cash flow before extraordinary items                     | 584 956        |          | 832 317        |           | 282 341        | 0         | 401 735        | 0         |
| <b>Net cash flow from operating activities</b>           |                |          |                |           |                |           |                |           |

**II. Cash flows from investing activities**

| Activities   | 30.06.2008 LVL |          | 30.06.2008 EUR |          | 30.06.2007 LVL |          | 30.06.2007 EUR |          |
|--|----------------|----------|----------------|----------|----------------|----------|----------------|----------|
|  | income         | expenses | income         | expenses | income         | expenses | income         | expenses |
| Acquisition of fixed assets and intangible assets      | 0              | 120 952  | 172 099        | 172 099  | 0              | 213 062  | 0              | 303 160  |
| Income from sale of fixed assets and intangible assets | 0              | 0        | 0              | 0        | 0              | 0        | 0              | 0        |
| Participation in other companies                       | 0              | 0        | 0              | 0        | 0              | 0        | 0              | 0        |
| Net cash flow from investing activities                | 0              | 120 952  | 172 099        | 172 099  | 0              | 213 062  | 0              | 303 160  |

**III. Cash flows from financing activities**

| Activities                               | 30.06.2008 LVL |          | 30.06.2008 EUR |          | 30.06.2007 LVL |          | 30.06.2007 EUR |          |
|--|----------------|----------|----------------|----------|----------------|----------|----------------|----------|
|  | income         | expenses | income         | expenses | income         | expenses | income         | expenses |
| Loans from credit institution            | 168 051        | 0        | 239 115        | 0        | 728 462        | 0        | 1 036 508      | 0        |
| Borrowing repaid                         | 0              | 687 589  | 978 351        | 978 351  | 0              | 189 415  | 0              | 269 513  |
| Net cash flows from financing activities | 0              | 519 538  | 739 236        | 739 236  | 539 047        | 0        | 766 995        | 0        |

**IV. Total cash flow**

| Activities  | 30.06.2008 LVL |          | 30.06.2008 EUR |          | 30.06.2007 LVL |          | 30.06.2007 EUR |          |
|---|----------------|----------|----------------|----------|----------------|----------|----------------|----------|
|   | income         | expenses | income         | expenses | income         | expenses | income         | expenses |
| Cash flow from operating activities                                 | 584 956        |          | 832 317        |          | 0              | 282 341  | 0              | 401 735  |
| Cash flows from investing activities                                | 0              | 120 952  | 172 099        | 172 099  | 0              | 213 062  | 0              | 303 160  |
| Cash flows from financing activities                                | 0              | 519 538  | 739 236        | 739 236  | 539 047        | 0        | 766 995        | 0        |
| Net cash flow of the current period                                 | 0              | 55 534   | 79 018         | 79 018   | 43 644         | 0        | 62 100         | 0        |
| Cash and cash equivalents at the beginning of the reporting period  | 120 660        |          | 171 884        |          | 33 151         | 0        | 47 169         | 0        |
| <b>Cash and cash equivalents at the end of the reporting period</b> | 65 126         |          | 92 666         |          | 76 795         | 0        | 109 269        | 0        |

## NOTES

### Standard passing

a) Interpretations, which are effective from 1 January 2007 and are related to Company's activity

IFRS 7 Financial instruments: disclosures and complementary amendments to IAS 1, Presentation of financial statements – Capital disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures of information relating to financial assets. The standard requirements include both qualitative and quantitative data about risks arising from the financial instruments, incorporating specific requirements to disclosures about credit risk, liquidity risk and market risk. The standard replaces IAS 32, Financial instruments: Disclosures. The standard must be adopted by all companies which prepare financial statements in compliance with IFRS. Amendments to IAS 1 introduce disclosures requirements about sufficiency of the capital and management of the capital by the Company.

b) Standards, amendments and interpretations that are effective from 1 January 2007, and relevant for operations of the Company

There is published or transcribed IFRS interpretations, which are obligatory for periods of accounting which begin from 1 January 2007, but do not relevant for operations of the Company:

IFRS 7 "Repeated adoption of IAS 39 „Financial reporting in hyperinflation cautionary economies”

IFRS 8 "Scope of IFRS No. 2”

IFRS 9 "Reassessment of embedded derivatives”

IFRS 10 "Interim financial reporting and impairment”

c) Standards, amendments and interpretations, which are not yet obligatory adaptive and their adaptation previously Company has not done

IAS 1 Presentation of financial statements

IAS 27 – Consolidated and separate financial statements

Processed standard requires that changes in participation in subsidiaries is considered as transactions of equity. Calculation of losses of subsidiaries was changed. The Company now is appraising influence of processed standards to further financial statements and planning to make allegations of IAS 27 starting from accounting period on 1 January 2009.

d) Standards, amendments and interpretations that are not yet effective and not relevant for operations of the Company

IFRS 3- Business combinations and – revised (effective for periods beginning on or after 1 January 2009).

IFRIC 11, "IFRS 2 – “Group and treasury share transactions” (effective for periods beginning on or after 1 March 2007).

IFRIC 12, "Service concession arrangements (effective for periods beginning on or after 1 January 2008).

IFRIC 13, „Customer loyalty programs” (effective for periods beginning on or after 1 July 2008).

IFRIC 14, „IAS No. 19 – The limit on a defined benefit asset, minimum funding and their interaction” (effective for periods beginning on or after 1 January 2008).

## Accounting policies

### Principles of consolidation and purchase of companies

Consolidated financial statement includes financial statements of the Company and its subsidiaries. Accounting policy and financial year of the Company and subsidiaries do not differ. Financial statements of the subsidiaries included in consolidated financial statements of the Company under the full consolidation method. Since the Company has established all of the subsidiaries no goodwill arise. Subsidiaries are consolidated from their incorporation date.

### Segment reporting

A business segment is the identified business segment engaged in selling goods and providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is the identified business segment engaged in selling goods or providing services within a particular economic environment that are subject to risks and returns that are different from those of business segments operating in other economic environments.

### Foreign currency translation to LVL

#### (a) Functional and presentation currency

Items are shown in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). Financial statements are presented in Latvian lat (LVL), which is the Company'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 recognized in the income statement for the period.

|       | 30.06.2008. | 30.06.2007. |
|-------|-------------|-------------|
| 1 USD | 0.447       | 0.522       |
| 1 EUR | 0.702804    | 0.702804    |
| 1 LTL | 0.204       | 0.204       |
| 1 EEK | 0.0449      | 0.0449      |
| 1 RUB | 0.0190      | 0.0202      |

### **Income recognition**

Main operation of the Company is repair and modernization 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 modernizing services are recognized by percentage completion method.

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.

### **Long term contracts**

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

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

### **Property, plant and equipment (fixed assets)**

Fixed assets are initially accounted at the purchase cost. Purchase cost includes costs, which are directly related to the purchase of fixed assets. In financial statements the intangible and fixed assets are shown at purchase cost less depreciation.

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:

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|   | Depreciation % per year |
|---|-------------------------|
| Buildings                                   | 1-5                     |
| Plant and equipment                         | 5-20                    |
| Other fixtures and fittings, motor vehicles | 5-35                    |

The Company capitalizes its fixed assets valued over Ls 100 with useful life exceeding 1 year. Depreciation for improvements and other low costs items valued less than 50 Ls is recalculated as 100% of purchase amount after putting into operation.

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

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

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

### **Inventory**

Inventory is recorded at the lower of purchase or production costs and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventory at their current position and value. The costs of used materials and other expenses that are directly connected with the production of the appropriate item. Cost is stated on the FIFO method. When the net realizable value of inventories is lower than their cost, provisions are created to reduce the value of inventories.

### **Impairment of tangible assets**

All material assets of the Company have their estimated useful lives and they are amortized or depreciated. Assets that are subject to amortization and depreciation are revaluated every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Loss from value decrease is recognized 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,

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which value has been decreased, are assessed at the end of every reporting year to identify the probable value decrease reservation.

**Account receivable**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that the Company 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 reorganization, 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.

**Cash and cash equivalents**

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

**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, within which shareholders of the Company approve the dividends.

**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.

**Loans**

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

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

**Accruals for unused annual leave**

Accruals for unused annual leave are based on actual number of outstanding days of paid leave as at the end of the reporting period multiplied by the average daily salary over the last six months of each employee.



**Corporate income tax**

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

**Disability pension**

Company has obligation to make long term payments to existing and previous employees if some of them now are disabled person because of injury of work.

Amount of this pension depends from the form of disability, total income of employee and overall indexation of pensions. Liability about further disability pensions is appreciated as amortized costs of future payments of pensions at balance sheet's date. In calculation is supposed that that effective interest rate is equal with indexation percentage of pensions.

**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.

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### 1. Net sales

|  | 6 months 2008    | 6 months 2007    |
|--|------------------|------------------|
| <b>According to operating activities</b> |                  |                  |
| Products production                      | 7 698 055        | 4 987 855        |
| Spare parts sale                         | 0                | 1 531 966        |
| Other                                    | 260 203          | 168 659          |
| <b>Total</b>                             | <b>7 958 258</b> | <b>6 688 480</b> |
| <b><u>According to the location</u></b>  |                  |                  |
| Income from export to Latvia             | 1 403 800        | 1 325 420        |
| Income from export to Russia             | 2 100 700        | 584 608          |
| Income from export to Lithuania          | 462 400          | 294 397          |
| Income from export to Estonia            | 758 300          | 1 132 716        |
| Income from export to Belarus            | 41 000           | 94 561           |
| Income from export to Uzbekistan         | 225 700          | 110 466          |
| Other                                    | 2 706 155        | 1 445 687        |
| <b>Total</b>                             | <b>7 698 055</b> | <b>4 987 855</b> |

### 2. Production costs

|                                |                  |                  |
|--------------------------------|------------------|------------------|
| Goods delivery expenses        | 81 961           | 105 964          |
| Raw and material expenses      | 2 991 022        | 2 402 277        |
| Purchase of diesel locomotives | 0                | 1 531 966        |
| Utility expenses               | 369 850          | 181 861          |
| Salary expenses                | 1 922 103        | 1 156 444        |
| Social insurance               | 455 466          | 273 007          |
| Depreciation of fixed assets   | 141 677          | 60 492           |
| Other production costs         | 240 160          | 184 325          |
| <b>Total</b>                   | <b>6 202 239</b> | <b>5 896 336</b> |

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**3. Selling expenses**

|                        |               |               |
|------------------------|---------------|---------------|
| Transportation costs   | 27 167        | 77 840        |
| Other selling expenses | 43 257        | 0             |
| <b>Total</b>           | <b>70 424</b> | <b>77 840</b> |

**4. Administrative expenses**

|                              |                  |                |
|------------------------------|------------------|----------------|
| Salary expenses              | 658 983          | 574 281        |
| Social insurance             | 157 586          | 137 404        |
| Office expenses              | 56 307           | 46 647         |
| Representation costs         | 1 074            | 1 848          |
| Depreciation of fixed assets | 54 989           | 36 089         |
| Other administrative costs   | 109 191          | 73 725         |
| <b>Total</b>                 | <b>1 038 130</b> | <b>869 994</b> |

**5. Other operating income**

|                                       |                |               |
|---------------------------------------|----------------|---------------|
| Income from fixed assets sale         | 2 460          | 1 170         |
| Write of a reserve of the basic means | 57 956         | 6 329         |
| Incomes of the basic means            | 8 808          | 6 619         |
| Other income                          | 48 182         | 12 253        |
| <b>Total</b>                          | <b>117 406</b> | <b>26 371</b> |

**6. Other operating expenses**

|                                  |               |               |
|----------------------------------|---------------|---------------|
| Expenses of collective agreement | 10 821        | 12 188        |
| Other expenses                   | 3 158         | 3 631         |
| <b>Total</b>                     | <b>13 979</b> | <b>15 819</b> |

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**7. Fixed assets**

|                                       | Land and buildings | Equipment and machinery | Other fixed assets and inventory | Fixed assets under construction | Total             |
|---------------------------------------|--------------------|-------------------------|----------------------------------|---------------------------------|-------------------|
| <b>Cost / Valuation</b>               |                    |                         |                                  |                                 |                   |
| <b>01.01.2008.</b>                    | <b>6 007 311</b>   | <b>5 469 349</b>        | <b>676 852</b>                   | <b>61 991</b>                   | <b>12 215 503</b> |
| Additions                             | 12 866             | 114 564                 | 757                              | 0                               | 128 187           |
| Disposals                             | 0                  | 108 504                 | 982                              | 7 236                           | 116 722           |
| Reclassification                      | 0                  | 0                       | 0                                | 0                               | 0                 |
| Revaluation                           | 0                  | 0                       | 0                                | 0                               | 0                 |
| 30.06.2008.                           | 6 020 177          | 5 475 409               | 676 627                          | 54 755                          | 12 226 968        |
| <b>Depreciation</b>                   |                    |                         |                                  |                                 |                   |
| <b>01.01.2008.</b>                    | <b>480 665</b>     | <b>4 299 434</b>        | <b>386 757</b>                   | <b>0</b>                        | <b>5 166 856</b>  |
| Charge                                | 74 010             | 86 186                  | 37 213                           | 0                               | 197 409           |
| Disposals                             | 0                  | 108 432                 | 982                              | 0                               | 109 414           |
| Reclassification                      | 0                  | 0                       | 0                                |                                 | 0                 |
| Corrections for previous year's error | 0                  | 0                       | 0                                | 0                               | 0                 |
| 30.06.2008.                           | 554 675            | 4 277 188               | 422 988                          | 0                               | 5 254 851         |
| <b>Net book value</b>                 |                    |                         |                                  |                                 |                   |
| <b>01.01.2008.</b>                    | <b>5 526 646</b>   | <b>1 169 915</b>        | <b>290 095</b>                   | <b>61 991</b>                   | <b>7 048 647</b>  |
| <b>Net book value</b>                 |                    |                         |                                  |                                 |                   |
| <b>30.06.2008.</b>                    | <b>5 465 502</b>   | <b>1 198 221</b>        | <b>253 639</b>                   | <b>54 755</b>                   | <b>6 972 117</b>  |

**8. Incomplete products**

|                       |         |         |
|-----------------------|---------|---------|
| Unfinished production | 121 664 | 209 642 |
|-----------------------|---------|---------|

**9. Finished good and goods for sale**

|                            |                |                |
|----------------------------|----------------|----------------|
| Finished products on stock | 692 116        | 478 824        |
| Canteen                    | 325            | 330            |
| <b>Total</b>               | <b>692 441</b> | <b>479 154</b> |

**10. Trade receivables**

|                   |                  |                  |
|-------------------|------------------|------------------|
| Trade receivables | 2 325 475        | 2 767 380        |
| <b>Total</b>      | <b>2 325 475</b> | <b>2 767 380</b> |

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**11. Other receivables**

|                               |                |                |
|-------------------------------|----------------|----------------|
| VAT overpaid                  | 9 678          | 186 428        |
| Corporate income tax overpaid | 0              | 38 831         |
| VAT accepted                  | 34 568         | 122 466        |
| Housing and Communal Service  | 2 205          | 2 411          |
| Other debtors                 | 4 503          | 57 240         |
| Advance payment               | 95 432         | 84 333         |
| <b>Total</b>                  | <b>146 386</b> | <b>491 709</b> |

**12. Deferred expenses**

|                       |               |               |
|-----------------------|---------------|---------------|
| Payment for insurance | 1 950         | 1 903         |
| Other expenses        | 8 294         | 9 792         |
| <b>Total</b>          | <b>10 244</b> | <b>11 695</b> |

**13. Cash and bank**

|              |               |               |
|--------------|---------------|---------------|
| Cash in hand | 294           | 1 076         |
| Cash at bank | 64 832        | 75 719        |
| <b>Total</b> | <b>65 126</b> | <b>76 795</b> |

**14. Share capital**

As at 30 June 2008 the subscribed and fully paid share capital consists of 8294219 ordinary shares with a nominal value of Ls 1 each.

**15. Loans from credit institutions**

|                 |                  |                  |
|-----------------|------------------|------------------|
| Long-term part  | 2 183 407        | 2 748 019        |
| Short-term part | 2 832 128        | 2 481 469        |
| <b>Total</b>    | <b>5 015 535</b> | <b>5 229 488</b> |

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**16. Advances received from consumers**

|              |                |                |
|--------------|----------------|----------------|
| Latvia       | 150 425        | 877            |
| Russia       | 186 010        | 30 300         |
| Estonia      | 16 807         | 2 495          |
| Other        | 222 796        | 506 039        |
| <b>Total</b> | <b>576 038</b> | <b>539 711</b> |

**17. Trade payables**

|                 |           |           |
|-----------------|-----------|-----------|
| Short-term part | 2 671 380 | 3 235 195 |
|-----------------|-----------|-----------|

**18. Taxes and social insurance**

|                                      | 01.01. 2008.   | Calculated       | Budget restore  | (Paid)/ repaid   | Transferred | 30.06.2008.    |
|--------------------------------------|----------------|------------------|-----------------|------------------|-------------|----------------|
| VAT                                  | -117 733       | -99 941          | +428 895        | 392 158          | +171 259    | -9 678         |
| Personnel income tax                 | 147 792        | 432 979          | 0               | 314 624          | -62 300     | 203 847        |
| Social insurance                     | 238 813        | 861 214          | 0               | 585 961          | -108 959    | 405 107        |
| Corporate income tax                 | 150 990        | 0                | 0               | 31 838           | 0           | 119 152        |
| Real estate tax (land)               | 0              | 2 127            | 0               | 2 127            | 0           | 0              |
| Real estate tax (buildings)          | 0              | 11 175           | 0               | 11 175           | 0           | 0              |
| Natural resource tax                 | 913            | 1 236            | 0               | 1 585            | 0           | 564            |
| The state tax for company's business | 329            | 2 171            | 0               | 2 167            | 0           | 333            |
| <b>Total</b>                         | <b>421 104</b> | <b>1 210 961</b> | <b>+428 895</b> | <b>1 341 635</b> | <b>0</b>    | <b>719 325</b> |

Hereof:

Liabilities/ 587 199

729 003

(Overpaid) 166 095

9 678

**19. Average number of employees**

|                             |       |       |
|-----------------------------|-------|-------|
| Average number of employees | 1 288 | 1 409 |
|-----------------------------|-------|-------|

Aivar Keskuela  
Chairman of the board