AS Daugavpils Lokomotīvju Remonta Rūpnīca

ANNUAL REPORT

for the period ended 31 December 2009

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 - 49% Moisa 4, 13522 Tallinn, Estonia AS SPACECOM - 25,27% Kadaka tee, 1, 10621 Tallinn, Estonia LLC LOKOMOTIIV IVESTEERINGUUD - 11,09% 18-18 Tartu Street, 10115 Tallinn, Estonia VAS Valsts sociālas apdrošināšanas aģentūra 3,2% 70a Lāčplēša Street, LV-1011, Riga, Latvia Other shareholders - 11,44%
Names and positions of the Counsel members	Oleg Ossinovski - Chairman of the Council Juri Krasnošlik - Vice Chairman of the Council Vasily Barashkov - Member of the Council Maarika Piir - Member of the Council Oleg Rumjantsev - Member of the Council

Names and positions of the Board members	Aivar Keskula - Chairman of the Board (until 29.11.2009)
	Natālija Petrova - Chairman of the Board (from 30.11.2009)
	Natālija Petrova - Member of the Board (until 29.11.2009)
	Andrejs Šilovs - Member of the Board
	Kazimirs Steļmačenoks - Member of the Board
Financial year	1 January, 2009 - 31 December, 2009
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 2009 net sales of the Company was in amount 19,2 millions euro (33,7 million euro in 2008). Sales of principal activity comprised 15,95 million euro, that compile 64,2% to 2008. 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 5,7 million euro (in 2008 - 10.1 million euro). Net profit for the year is 9,96 thousand. In 2009 The Company performed revaluation of tangible assets (lands and buildings), that resulted in decrease of its residual value for 409 thousand euro.

Performance of the Group during the financial year

In 2009 the consolidated net sales of the Company amounted to 14,3 million euro (57,6% in respect of annual turnover 2008).

In 2009 the Group has been partly provided by the repair orders during the year, which is the reason why the number of the Group employees was reduced, as well as was set on part-time job mode. For these reasons, the Group completed the year 2009 with the loss in amount of EUR 350 thousand. In 2009, the Group managed to offset partly the lack of diesel locomotive repairs with other services.

In 2009 the Group exported its products to 8 countries, the total export volume amounted to 11,2 million euro (in 2008 - 18,2 million euro), while turnover in Latvia amounted to 3,1 million euro (in 2008 - 4,1 million euro). The main directions of export in 2009 were the EU countries: Lithuania and Estonia, and the third countries: Russia and Uzbekistan.

Financial risk management

The policy of financial risk management of the Company is described in financial report's Notes 32

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	**2009** **EUR**
Profit share to be distributed	**10 461**
Proposed profit distribution:	
Retained earnings	10 461

Future prospects

In 2010 The Group intends to continue the economic activity started in 2009: to increase the turnover of railway rolling stock repairs, as well as diesel - electric locomotive technical maintenance turnover. Key priority - quality provision of services rendered, new type of services and new stock production acquirement, new customer attraction.

Natālija Petrova
Chairman of the Board

21 April 2010

INCOME STATEMENT

	Notes	2009 EUR	2008 EUR
Net sales	(1)	19 230 047	33 757 087
Cost of sales	(2)	(17 826 711)	(30 248 936)
Gross profit or losses		**1 403 336**	**3 508 151**
Distribution expenses	(3)	(170 969)	(302 596)
Administrative expenses	(4)	(1 119 574)	(1 824 345)
Other operating income	(5)	674 485	308 723
Other operating expenses	(6)	(363 946)	(223 234)
Interest and similar income		1 155	568
Interest and similar expenses	(7)	(343 746)	(1 097 507)
Profit or losses before taxes		**80 741**	**369 760**
Corporate income tax	(8)	(6 093)	(9 620)
Other taxes	(9)	(64 187)	(72 961)
Net profit or losses		**10 461**	**287 179**

Notes on pages 11 to 25 are an integral part of these financial statements.

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Natālija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

BALANCE SHEET

	Notes	31.12.2009. EUR	31.12.2008. EUR
ASSETS			
Non-current assets			
Tangible assets:			
Land and buildings	(10)	1 891 940	2 168 569
Equipment and machinery	(10)	1 613 394	1 766 653
Other tangible assets	(10)	236 365	344 141
Tangible assets under construction	(10)	28 180	47 894
Total tangible assets:		**3 769 879**	**4 327 257**
Investment property:			
Buildings	(10)	3 316 504	3 613 279
Total non-current financial investments:		**3 316 504**	**3 613 279**
Non-current financial investments:			
Investments in subsidiaries	(11)	28 457	31 303
Total non-current financial investments:		**28 457**	**31 303**
Total non-current investments:		**7 114 840**	**7 971 839**
Current assets			
Inventories:			
Raw materials and consumables	(12)	2 523 487	2 789 439
Work in progress		414 928	0
Finished goods and goods for sale	(13)	99 343	82 448
Advances for inventories		871 634	36 645
Total inventories:		**3 909 392**	**2 908 532**
Account receivable:			
Trade receivables	(14)	3 082 924	3 745 534
Receivables from group companies	(15)	2 479 792	2 619 789
Other receivables	(16)	293 557	538 272
Deferred expenses	(17)	8 075	12 821
Accrued income	(18)	1 188 858	3 188 607
Total receivables:		**7 053 206**	**10 105 023**
Cash and bank:	(19)	**154 234**	**40 533**
Total current assets:		**11 116 832**	**13 054 088**
Total assets		**18 231 672**	**21 025 927**

Notes on pages 11 to 25 are an integral part of these financial statements.

BALANCE SHEET

	Notes	31.12.2009. EUR	31.12.2008. EUR
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	(20)	11 801 610	11 801 610
Non-current assets revaluation reserve	(10)	1 819 307	2 223 513
Retained earnings			
a) previous year's retained earnings		(6 318 078)	(6 605 258)
b) current years profit or losses		10 461	287 180
Total equity:		**7 313 300**	**7 707 045**
Provisions:	(21)	**668 448**	**1 161 778**
Liabilities:			
Non-current liabilities:			
Loans from banks	(22)	2 328 022	2 766 027
Deferred income tax liabilities	(8)	320 510	385 749
Total non-current liabilities:		**2 648 532**	**3 151 776**
Current liabilities:			
Loans from banks	(22)	1 575 951	3 458 700
Advances from customers		1 557 813	772 627
Trade payables		2 863 754	2 678 566
Payables to group companies	(23)	758 132	1 131 892
Taxes and social insurance payments	(24)	1 464	44 768
Other liabilities	(25)	45 456	61 245
Accrued liabilities	(26)	798 822	857 534
Total current liabilities:		**7 601 392**	**9 005 332**
Total liabilities:		**10 249 924**	**12 157 108**
Total equity, provisions and liabilities		**18 231 672**	**21 025 931**

Notes on pages 11 to 25 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Non-current assets revaluation reserve	Retained earnings	Total
		EUR	**EUR**	**EUR**	**EUR**
31.12.2007.		**11 801 610**	**3 959 884**	**(6 605 258)**	**9 156 236**
Revaluation of tangible assets	(10)	-	(1 931 073)	-	(1 931 073)
Disposal of revalued tangible assets		-	(111 715)	-	(111 715)
Changes in deferred tax liabilities	(9)	-	306 418	-	306 418
Profit for the year		-	-	287 180	287 180
31.12.2008.		**11 801 610**	**2 223 514**	**(6 318 078)**	**7 707 046**
Revaluation of tangible assets	(10)	-	(410 947)	-	(410 947)
Disposal of revalued tangible assets		-	(64 591)	-	(64 591)
Changes in deferred tax liabilities	(9)	-	71 331	-	71 331
Profit for the year		-	-	10 461	10 461
31.12.2009.		**11 801 610**	**1 819 307**	**(6 307 617)**	**7 313 300**

Notes on pages 11 to 25 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

CASH FLOW STATEMENT

		2009 EUR	2008 EUR
Cash flow from operating activities			
Profit or losses before taxes		**80 741**	**369 760**
Adjustments for:			
depreciation of tangible and intangible assets		573 076	582 434
profit from disposal of tangible assets		(70 122)	(127 154)
losses from the revaluation of equity investments		2 846	-
changes in provisions		(199 959)	(50 035)
gains from foreign exchange fluctuations		(15 542)	135 823
interest expenses		203 296	449 929
Cash flow prior to changes in current assets and liabilities		**574 336**	**1 360 757**
Inventory (increase)/decrease		(1 000 861)	1 007 386
Account receivable (increase)/decrease		2 758 450	966 116
Account payable increase/(decrease)		478 808	(797 278)
Gross cash flow generated from operating activities		**2 810 733**	**2 536 981**
Interest paid		(203 232)	(448 630)
Corporate income tax paid		(64 187)	(50 627)
Net cash flow generated from operating activities		**2 543 314**	**2 037 724**
Cash flow from investing activities			
Acquisition of tangible and intangible assets		(129 868)	(450 588)
Proceeds from sales of tangible assets		5 531	41 300
Loans issued to subsidiaries (net)		-	337 394
Net cash flow generated from investing activities		**(124 337)**	**(71 894)**
Cash flow from financing activities			
Loans repaid		(2 305 276)	(2 075 175)
Net cash flow generated from financing activities		**(2 305 276)**	**(2 075 175)**
Net increase / (decrease) in cash and cash equivalents		**113 701**	**(109 345)**
Cash and cash equivalents at the beginning of the financial year		**40 533**	**149 877**
Cash and Cash equivalents at the end of the financial year	(19)	**154 234**	**40 532**

Notes on pages 11 to 25 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

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, that is modified by preparing revaluation of tangible assets and investments, as recognized in Notes (4) to accounting policy. 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) 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 stage of completion method (see description below);
Income from fines and penalties - at the moment of receiving the payments;
Interest income - on accrual basis.

Contract costs related to repair and modernization services are recognised on the basis of completion. Expenses connected with repair service agreement are recognized in the moment when occurred. When the outcome of a 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 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 applies the stage of completion method to determine the appropriate amount of revenues 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, which of them are more reliable. 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.

(3) 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.

	31.12.2009.	**31.12.2008.**
	Ls	**Ls**
1 USD	0.489	0.495
1 EUR	0.702804	0.702804
1 LTL	0.204	0.203
1 EEK	0.0449	0.0449
1 RUB	0.0164	0.0171

(4) Tangible assets

Tangible assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of tangible assets.

Buildings and constructions are recognized at fare value of regularly made independent evaluation, less accrued depreciation. Land is recognized at fair value of regularly made independent evaluation. The difference that appears from revaluation is recognized in equity under “Long-term assets revaluation reserve”. Other tangible assets are recognized in purchase cost, less accrued depreciation. Purchase cost includes costs, directly related to the acquisition of tangible assets.

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 tangible assets:

	Depreciation % per annum
Buildings	1,11 - 20
Technological equipment	4 - 20
Other machinery and equipment, transport vehicles	20

The Company capitalizes its tangible assets valued over Ls 300 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than 300 Ls is recognized in 50 -100% amount 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 tangible 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 tangible assets is calculated, as the difference between the carrying amount of the tangible 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 tangible or intangible assets could exceed its recoverable value, appropriate value of tangible 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.

(5) Investment property

Investment property is property (land, building or part of building) held by the Company (as 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 purchase cost. Further the investment property are recognized at fare value of regularly made independent evaluation, less accrued depreciation. Differences in value arising from revaluation is recognized in equity under “Long-term assets revaluation reserve".

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

(6) 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.

(7) 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 .

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

Investments in subsidiaries are stated at cost less impairment losses.

(9) 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.

(10) 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.

(11) Taxation

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 tangible 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.

(12) Cash and cash equivalents

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

(13) 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.

(14) 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

	2009 EUR	2008 EUR
By operating activities		
Income from railway rolling stock repair and upgrade services	11 062 644	22 987 819
Income from sales of railway spare parts, locomotives and wagons	2 470 125	-
Income from sales of materials (see note 30)	3 363 827	6 591 058
Income from rent of premises and equipment (see note 30)	1 838 497	2 575 668
Management and administrative services (see note 30)	178 506	687 769
Other income from transactions with subsidiaries (see note 30)	127 089	315 698
Other income	189 359	599 075
	19 230 047	**33 757 087**
By location		
Income from sales of goods/services in Latvia	8 214 886	13 822 381
Income from sales of goods/services to Russia	4 021 747	13 921 507
Income from sales of goods/services to EU markets	3 052 629	3 272 747
Income from sales of goods/services to Uzbekistan	3 396 964	2 137 438
Income from sales of goods/services to Belarus	454 465	203 044
Income from sales of goods/services to other countries	89 356	399 969
	19 230 047	**33 757 086**

(2) Cost of sales

Service costs of subsidiaries	9 863 135	18 317 411
Raw materials and consumables	4 625 981	10 648 528
Acquisition costs of spare parts, locomotives and wagons sold	2 378 535	-
Depreciation of tangible assets	430 746	419 696
Costs of goods sold	97 559	208 232
Utility expenses	82 719	35 898
Changes in provisions for warranty repairs (see note 21)	(51 881)	27 918
Changes in provisions for impairment of inventories	-	-41 322
Other production costs	399 917	632 575
	17 826 711	**30 248 936**

(3) Distribution expenses

Transportation costs	100 424	159 828
Salary expenses	56 979	110 648
Mandatory State social insurance costs	13 566	26 655
Other selling costs	-	5 465
	170 969	**302 596**

(4) Administrative expenses

Salary expenses	478 991	964 811
Mandatory State social insurance costs	113 899	224 778
Utility expenses	150 561	204 121
Rent expenses	14 465	20 590
Office expenses	39 105	184 609
Depreciation of tangible assets	140 750	160 619
Professional service costs	9 704	13 517
Representation costs	3 719	4 283
Other administrative expenses	168 380	47 017
	1 119 574	**1 824 345**

(5) Other operating income

	2009 EUR	2008 EUR
Net gain from disposal of tangible assets	70 121	153 015
Changes in provisions for financial support (see note 21)	453 794	-
Trade receivables gained	-	35 999
Rental income	82 612	26 226
Other income	67 958	93 483
	674 485	**308 723**

(6) Other operating expenses

Provisions for decrease of value of trade receivables	345 251	11 797
Changes in other provisions	-	142 343
Collective agreement costs	10 092	24 811
Other expenses	8 603	44 284
	363 946	**223 235**

(7) Interest and similar expenses

Interest charge	203 296	449 929
Net loss from exchange rate fluctuations	133 667	582 736
Penalties paid	6 783	64 842
	343 746	**1 097 507**

(8) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	6 093	9 620
	6 093	**9 620**

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:

	2009 EUR	2008 EUR
Profit or losses before taxes	80 741	369 760
Real estate tax	(64 187)	(72 961)
Profit or losses before corporate income tax	16 554	296 799
Theoretically calculated tax at 15% tax rate	**2 483**	**44 520**
Tax effects on:		
Permanent differences	3 610	(34 900)
Total corporate income tax expenses	**6 093**	**9 620**

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	385 749	682 547
Deferred tax charged to the income statement	6 093	9 620
Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve	(71 332)	(306 418)
Deferred tax liabilities (asset) at the end of the financial year	**320 510**	**385 749**

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):

	31.12.2009.	**31.12.2008.**
	EUR	**EUR**
Temporary difference on depreciation of tangible and intangible assets	514 811	589 211
Gross deferred tax liabilities	**514 811**	**589 211**
Provisions for expected losses	622	8 405
Provisions for contingent liabilities	99 999	174 266
Provisions for impairment of inventories	16 007	16 007
Provisions for impairment of trade receivables	51 788	-
Tax losses carried forward	25 883	4 784
Total temporary differences	**194 299**	**203 462**
Net deferred tax liability (assets)	**320 510**	**385 749**

(9) Other taxes

	2009	**2008**
	EUR	**EUR**
Real estate tax for land	5 460	8 475
Real estate tax for buildings	58 728	64 486
	64 188	**72 961**

(10) Tangible assets and investment property

	Tangible assets					**Investment property**
	Land and buildings	**Equipment and machinery**	**Other tangible assets**	**Tangible assets under construction**	**Total**	**Buildings**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cost/revaluation						
31.12.2008.	2 685 538	7 940 036	994 210	47 894	11 667 678	3 988 176
Additions	2 748	146 835	-	129 868	279 451	-
Disposals		(129 013)	(10 441)	(149 582)	(289 038)	(1 806)
Revaluation	(245 908)	-	-	-	(245 908)	(165 039)
31.12.2009.	2 442 378	7 957 858	983 769	28 180	**11 412 183**	**3 821 331**
Depreciation						
31.12.2008.	(516 969)	(6 173 383)	(650 069)	-	(7 340 421)	(374 897)
Calculated	(33 469)	(300 094)	(107 777)	-	(441 339)	(131 736)
Disposals	-	129 013	10 442	-	139 456	1 806
31.12.2009.	(550 438)	(6 344 464)	(747 404)	-	**(7 642 304)**	**(504 827)**
Net carrying amount 31.12.2008.	**2 168 569**	**1 766 653**	**344 141**	**47 894**	**4 327 257**	**3 613 279**
Net carrying amount 31.12.2009.	**1 891 940**	**1 613 394**	**236 365**	**28 180**	**3 769 879**	**3 316 504**

* In accordance with the accounting policy of the Company, all land and buildings owned by Company, except those which are transferred under operating lease to subsidiaries of the Company, are classified as tangible assets (see note 30).

Company's land plots cadastral value on 31 December 2009 is EUR 678 313, the cadastral value of buildings is EUR 7 239 190.

Information on pledged tangible assets is disclosed in the Note 22 to the financial statements.

In years 1996, 1999 and 2001 the Company has performed revaluation of land, buildings and equipment. Respectively in 1996 value of tangible assets was increased for EUR 938 438, in 1999 for EUR 1 875 134 and in 2001 for EUR 1 266 290. The difference accrued in the result of revaluation is recognized in the equity item "The long-term assets revaluation reserve".

With the assistance of licensed independent experts in 2007 and 2008 the Company has performed revaluations of its own land and buildings. The decrease of value occurred in the result of revaluation was in the amount of EUR 3 606 792 in 2007 and EUR 1931 073 in 2008 (less the amount of deferred tax liabilities related to the revaluation of tangible assets) are deducted from revaluation reserves.

During the preparation of the financial statements of 2009 the Company has identified the impairment of its owned land and buildings in amount EUR 410 946. Evaluation of real estate was prepared by an independent expert using the comparable transaction method (market pricing) and future cash flow method.

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

	31.12.2009.	31.12.2008.
	EUR	EUR
Cost	6 672 755	6 671 812
Accumulated depreciation	(2 334 938)	(2 263 277)
Net carrying amount	**4 337 817**	**4 408 535**

During the year 2009 borrowing costs were not capitalized as the Company had not used the funding for the purchase of tangible assets.

(11) Equity investments

		Participating interest		Equity		Profit/(loss)	
Name	**Address**	**31.12.2008.**	**31.12.2009.**	**31.12.2008.**	**31.12.2009.**	**2008**	**2009**
		%	**%**	**EUR**	**EUR**	**EUR**	**EUR**
SIA Rel	Marijas 1,	100%	100%	(1 027 241)	(1 242 844)	(256 833)	(215 603)
SIA Elap	Marijas 1,	100%	100%	96 818	52 225	100 177	(44 593)
SIA Remdīz	Marijas 1,	100%	100%	(464 568)	(543 967)	(8 793)	(79 399)
SIA Ritrem	Marijas 1,	100%	100%	95 358	89 873	496 760	(5 485)
SIA Elektromaš	Marijas 1,	100%	100%	493 239	495 454	375 233	2 215
SIA Krāsotājs	Marijas 1,	100%	100%	(175 490)	(218 613)	(15 743)	(43 123)
SIA SPZČ	Marijas 1,	100%	100%	214 713	(66 011)	320 395	(280 724)
SIA Metalurgs	Marijas 1,	100%	100%	(580 587)	(569 189)	(126 271)	11 399
SIA Remenergo	Marijas 1,	100%	100%	(68 644)	(257 410)	80 826	(188 767)
SIA Instruments	Marijas 1,	100%	100%	(152 296)	(152 479)	(4 084)	(184)
SIA Loģistika	Marijas 1,	100%	100%	(31 150)	1 729	36 583	32 878
				(1 599 848)	**(2 411 232)**	**998 250**	**(811 386)**

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 movable property and real estate, technical control and overhaul of buildings, constructions and producing equipment, rendering services of public facilities to Group companies
SIA Instruments	Not active
SIA Loģistika	Transportation, loading, unloading services

In year 2010 the Company sold SIA "REL" shares, resulting impairment of participation interest in the reporting year for EUR 2 846 and impairment of trade receivables for EUR 345 251.

(12) Raw materials and consumables	**31.12.2009. EUR**	**31.12.2008. EUR**
Raw materials, material and auxiliary material cost	2 597 477	2 863 428
(Provisions for damaged and obsolete stock)	(73 990)	(73 989)
	2 523 487	**2 789 439**

(13) Finished goods and goods for resale

Finished goods	131 887	114 891
Other goods for sale	182	283
(Provisions for damaged and obsolete stock)	(32 726)	(32 726)
	99 343	**82 448**

(14) Trade receivables

Book value of trade receivables	4 474 861	4 854 006
(Provisions for bad and doubtful debts)	(1 391 937)	(1 108 473)
	3 082 924	**3 745 533**

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

(15) Receivables from group companies	**31.12.2009. EUR**	**31.12.2008. EUR**
Settlements with subsidiary companies	2 739 096	2 533 984
Loans to subsidiary companies	85 947	85 805
(Provisions for impairment)	(345 251)	-
	2 479 792	**2 619 789**

(16) Other receivables	**31.12.2009 EUR**	**31.12.2008 EUR**
VAT overpaid (see Notes 24 for details)	143 488	222 364
Corporate income tax overpaid (see Notes 24 for details)	95 287	285 855
Payments for guarantees	22 038	19 000
VAT for advances received	431	4 828
Payments for other services	3 058	3 137
Other receivables	4 271	3 007
Payments to personnel	465	-
Other taxes overpaid	24 519	81
	293 557	**538 272**

(17) Deferred expenses

Insurance costs	3 694	5 711
Other expenses	4 381	7 110
	8 075	**12 821**

(18) Contracts in progress

Accrued income for repair and modernization contracts	1 193 006	3 244 637
Provisions for potential losses	(4 148)	(56 028)
Gross amount for accrued income	**1 188 858**	**3 188 609**
hereof:		
accrued income in assets	**1 188 858**	**3 188 607**

(19) Cash and bank

Cash at bank on current accounts	152 888	39 300
Cash on hand	1 346	1 234
	154 234	**40 534**

(20) Share capital

Registered and fully paid share capital of the Company is Ls 8 294 219 (EUR 11 801 610), which consist of 8 294 219 fully paid registered shares. Nominal value of each share is 1 Ls. 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.

In 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.

(21) Provisions

	31.12.2009.	**31.12.2008.**
Provisions for warranty repair	31 609	71 144
Provisions for financial support	636 839	1 090 634
	668 448	**1 161 778**

In accordance with signed agreements, the Company provides free of charge warranty repairs to customers under the general terms 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 separate financial statements, the provision in financial statements of the Company estimated as the difference between the potential expenses of the Group and provisions made by subsidiary company.

In accordance with accepted and in 2007 introduced operation model described in Note 30 the Company provides to subsidiary the financial resources for supporting its operations. Subsidiary companies results of operations and financial standings are disclosed in Note 11 to the financial statements. Taking into account that a part of the subsidiary companies have negative financial results of operations, it is expected that the Company or the Group's other subsidiary companies may not recover the investment or the debt of those companies. The Company was issued the support letter to all subsidiaries companies for the further financial support.

The Company makes provisions for its contingent liabilities for guarantees issued to subsidiaries to support the operations. Provisions are estimated on base of subsidiaries' current equity value and financial performance forecasts for the next periods. At the end of reporting year provisions estimated at EUR 636 839.

(22) Loans from banks	**Notes**	**31.12.2009. EUR**	**31.12.2008. EUR**
Non-current			
Non-current loan in USD	a)	1 361 533	1 621 459
Loan for installation of gas equipment in EUR	b)	-	127 839
Loan for privatization of land in EUR	c)	856 688	998 529
Other loans in EUR	d)	9 802	18 200
Credit line facilities in EUR	e)	99 999	-
		2 328 022	**2 766 027**
Current			
Current part of non-current loan in USD	a)	240 270	243 219
Current part of non-current loan for gas equipment in EUR	b)	127 839	128 040
Current part of loan for privatization of land in EUR	c)	141 840	141 840
Other loans in EUR	d)	8 401	8 401
Credit line facilities in EUR	e)	1 057 601	2 000 000
Short-term loan in EUR	f)	-	937 200
		1 575 951	**3 458 700**

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 EURIBOR.

c) In 2006 the Company has received a loan in amount of Ls 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 EURIBOR.

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 EURIBOR.

e) In 2006 Company signed agreement with A/S Norvik banka for credit line facilities, with maximum financing amount of USD 3 000 000 with the repayment till September 2007. In 2008 the Company refinanced the loan in different currency - EUR 2 000 000 which has to be repaid until 15 September 2009. During the reporting year the Company has prolonged the repayment date until 15 January, 2011. Interest rate 2.3 % + 3 month EURIBOR.

f) In 2007 Company signed short term loan agreement with A/S Norvik in amount of EUR 1 000 000 for increase of working capital. During the reporting year the Company has repaid the loan.

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 current and future property.
The book value of Company’s mortgaged assets as at 31 December 2009 was EUR 18 231 672 (as at 31 December 2008 - EUR 21 025 929).

(23) Payables to group companies	**31.12.2009 EUR**	**31.12.2008 EUR**
Settlements with subsidiaries (see note 30)	758 132	1 131 892
	758 132	**1 131 892**

(24) Taxes and social insurance payments

	31.12.2008.	**Calculated**	**Calculated penalty and delay fees**	**(Paid)/ repaid**	**Transferred to other taxes**	**31.12.2009.**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
VAT	(222 364)	(876 409)	112	785 215	170 070	(143 376)
Personal income tax	15 780	91 862	-	-	(109 311)	(1 669)
Social insurance payments	26 665	202 169	117	(673)	(250 995)	(22 717)
Corporate income tax	(285 855)	-	333	-	190 235	(95 287)
Real estate tax (land)	-	5 460	343	(6 047)	-	(244)
Real estate tax (buildings)	-	58 728	4 478	(63 205)	-	-
Natural resource tax	2 265	4 353	-	(5 193)	-	1 425
State enterprise risk duty	58	551	-	(569)	-	40
Total	**(463 451)**	**(513 286)**	**5 383**	**709 528**	**(1)**	**(261 828)**
Hereof						
(Overpaid) - see Note 16	**(508 219)**					**(263 294)**
Payables	**44 768**					**1 464**

(25) Other liabilities	**31.12.2009. EUR**	**31.12.2008. EUR**
Salaries	39 248	49 422
Other payments to personnel	295	949
Other liabilities	5 913	10 874
	45 456	**61 245**

(26) Accrued liabilities

Accrued liabilities to subsidiary companies	698 514	783 583
Accrued unused annual leave expenses	50 385	49 194
Other accrued liabilities	49 923	24 757
	798 822	**857 534**

(27) Average number of employees

Average number of people employed during the financial year	176	238

(28) Remuneration to personnel

Employee pay	535 969	1 085 315
Social insurance payments	127 401	253 443
Other expenses	128 612	191 213
	791 982	**1 529 971**

	2009	2008
(29) Remuneration to the management	**EUR**	**EUR**
Board members		
· salary expenses	103 061	175 467
· other social insurance expenses	24 828	37 661
	127 889	**213 128**

(30) Transactions with related parties

As mentioned in Note 11, 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 and SIA Logistika. Claims and liabilities against subsidiary companies are classified as receivables and payables to Group companies accordingly.

The biggest shareholders of the Company AS Skinest Rail (Estonia) and AS Spacecom (Estonia) has a material influence in Company's policy formation and decision making. Below the information about transactions with these companies are recognized, as well as with other companies, which are connected with AS Skinest Rail (Estonia) and AS Spacecom (Estonia).

a) claims and liabilities

	Notes	31.12.2009.		31.12.2008.	
		Receivables	**Payables**	**Receivables**	**Payables**
		EUR	**EUR**	**EUR**	**EUR**
Group companies		2 479 792	758 132	2 619 789	1 131 892
Other related companies		848 383	954 946	127 394	193 269
		3 328 175	**1 713 078**	**2 747 183**	**1 325 161**

b) transactions by operating activities

	Notes	Sales to related parties		Purchases from related parties	
		2009	**2008**	**2009**	**2008**
		EUR	**EUR**	**EUR**	**EUR**
Group companies					
Repair services of railway rolling stock	(i)			7 761 609	17 811 420
Sales/production of materials		3 363 827	6 591 058	2 003 441	660 565
Rent of premises and equipment	(31)	1 838 497	2 575 668	14 465	20 590
Administrative and management services	(ii)	194 353	708 401	-	-
Other transactions		168 962	357 273	373 791	947 857
Total subsidiaries:		**5 565 639**	**10 232 400**	**10 153 306**	**19 440 432**
Other related parties					
Repair services of railway rolling stock		3 152 010	3 723 580	23 802	57 515
Sales/purchases of materials		51 445	21 145	2 512 102	3 323 062
Total other related parties:		**3 203 455**	**3 744 725**	**2 535 904**	**3 380 577**
		8 769 094	**13 977 125**	**12 689 210**	**22 821 009**

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.

(31) Rental agreements

In accordance with concluded agreement in January 2007 the Company leases all production buildings, technological devices and other tangible assets and equipment used in principal activity of the Group, to subsidiary company SIA "Remenergo". Rental payments for building and equipment lease in 2009 were EUR 1 838 497 (in 2008 EUR 2 575 668). Lease agreement is concluded for indefinite time.

(32) Managing financial risks

Activity of the Company is subjected to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The management of the Company seeks to minimize potential financial risk for the adverse effect on the Company's financial position. The Company do not use derivative financial instruments for financial risk management.

Foreign currency risks

The Company operates internationally and is exposed to foreign currency risk arising mainly from the U.S. dollar (USD) and the Russian ruble (RUR) fluctuations against the lats and other currencies that are fixed to the euro. Foreign currency risks arises from future commercial transactions, recognized assets and liabilities. Most of the raw materials the Company purchases in euro, RUR and USD, but a significant part of production is sold in the domestic market and exported to the markets, dominated by the euro and RUR. In 2009 the Company has reduced the volume of transactions in U.S. dollars.

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

The open position of Company at the end of the reporting year:

	31.12.2009.	**31.12.2008.**
Financial assets, EUR	21 209	190 389
Financial liabilities, EUR	(2 888 974)	(4 588 953)
Open position EUR, net	(2 867 765)	(4 398 564)
Open position EUR calculated in lats, net	**(2 015 477)**	**(3 091 328)**
Financial assets, USD	4 227 074	2 378 980
Financial liabilities, USD	(6 042 637)	(5 373 564)
Open position USD, net	(1 815 563)	(2 994 584)
Open position USD calculated in lats, net	**887 810**	**(1 482 319)**
Financial assets, RUB	27 039 385	70 635 040
Financial liabilities, RUB	(16 923 607)	(2 978 222)
Open position RUB, net	10 115 778	67 656 818
Open position RUB calculated in lats, net	**165 899**	**1 156 932**

Interest rate risks

The Company is exposed to interest rate risk, because for most of the liabilties is interest-bearing with floating interest rates (see Note 22), while the majority of the Company's financial assets are claims without interest calculations, thereby the Group is subjected to floating interest rate fluctuation risk. In 2009 interest rate on all loan facilities has been decreased substantially.

Credit risk

The Company is subject to the credit risk with respect to the debts of its customers, subsidiary companies, other receivables 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 individually. In addition, the Company continuously monitors the amount receivable balances to reduce the occurrence of bad debts. See Notes 21 with regard to recognised provision for financial support to subsidiary companies.

Liquidity risk

The Company controls its liquidity risk by maintaining appropriate amount of cash and cash equivalents and using credit line facilities granted by banks.

Part of the Company's borrowings from credit institutions in amount of EUR 1 575 951 is repayable in 2010. year. The planned cash flow in 2010 is sufficient for the repayment of short term loans and continuation of operation activities.

(33) 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 2009.

____
Natālija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

The annual report has been approved by the shareholders meeting on ____ April 2010

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of A/S „Daugavpils Lokomotīvju Remonta Rūpnīca" (the Company) included in the Annual report as set out on pages 6 to 25. The period of financial statements is from 1 January 2009 till 31 December 2009 (the Financial year). These financial statements include the balance sheet as at 31 December 2009, 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

Balance sheet as of 31 December 2009 includes overdue trade receivable of LVL 645 thousands, where the Company net position, less payables to third parties, who underwrite the proportional risk of non-collection of trade receivable, is LVL 308 thousands. The Company is currently negotiating the terms of payments of other trade receivable in the amount of LVL 325 thousands. The Company's management assessed these receivables as collectable. In our opinion, these trade receivables are impaired, however the Company has not provided us with the sufficient evidence of the assessed future cash flows from these receivables and we have not been able to estimate the amount of impairment losses.

As disclosed in Note 21 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.

Qualified 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 page 4 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, 21 April 2010

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