

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

CONSOLIDATED ANNUAL REPORT

prepared in accordance with EU approved
International Financial Reporting Standards

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 31 December 2009

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MANAGEMENT

Names and positions of the Council members

Oleg Ossinovski - Chairman of the Council

Juri Krasnošlik - Vice Chairman of the Council

Vasily Barashkov - Member of the Council

Oleg Rumjantsev - Member of the Council

Maarika Piir - 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

REPORT OF THE MANAGEMENT

Type of operations

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

Performance of the Group during the financial year

In 2009 the consolidated net sales of the Group amounted to 10,1 million lats (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 losses in amount of Ls 246 758. 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 7,9 million lats (in 2008 - 12,8 million lats), while turnover in Latvia amounted to 2,2 million lats (in 2008 - 2,9 million lats). 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 Group is described in financial report's Notes 26.

Future prospects of the Group

In 2010 The Group intends to continue the economic activity launched 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. In 2010 the Group is planning to proceed with the modernization of the various types of railway rolling stock.

Natālija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

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STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements of the Group in accordance with International Financial Reporting Standards as adopted the EU. The financial statements give a true and fair view of the financial position of the Group at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements from page 6 to page 32 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

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

Natālija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	2009 Ls	2008 Ls
Net sales	(2)	10 094 082	17 522 874
Cost of sales	(3)	(8 733 325)	(12 779 097)
Gross profit (loss)		<u>1 360 757</u>	<u>4 743 777</u>
Distribution expenses	(4)	(120 158)	(212 666)
Administrative expenses	(5)	(1 312 497)	(2 146 615)
Other income	(6)	125 697	150 885
Other expenses	(7)	(11 626)	(66 954)
Finance income and costs (net)	(9)	(315 256)	(804 874)
Profit (loss) before tax		<u>(273 083)</u>	<u>1 663 553</u>
Corporate income tax	(10)	26 325	(232 929)
Net profit (loss)		<u><u>(246 758)</u></u>	<u><u>1 430 624</u></u>
Attributable to:			
Equity holders of a parent company		(246 758)	1 430 624
Minority interest		-	-
Earnings per share (in santims)	(11)		
Basic		(2.98)	17.25
Diluted		(2.98)	17.25
Total comprehensive income (expense)		<u><u>(246 758)</u></u>	<u><u>1 430 624</u></u>
Attributable to:			
Equity holders of a parent company		(246 758)	1 430 624
Minority interest		-	-

Notes on pages 10 to 32 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

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STATEMENT OF FINANCIAL POSITION

		31.12.2009.	31.12.2008.
		Ls	Ls
<u>ASSETS</u>			
Non-current assets			
Property, plant and equipment	(12)	6 593 204	6 937 807
Total non-current assets:		6 593 204	6 937 807
Current assets			
Inventories	(13)	2 856 179	2 684 211
Accrued income	(15)	792 494	2 227 025
Trade receivables	(14)	2 279 713	2 768 903
Corporate income tax receivables	(10)	113 592	222 625
Other current assets	(16)	761 321	213 222
Cash and cash equivalents	(17)	111 965	32 581
Total current assets:		6 915 264	8 148 567
<u>Total assets</u>		<u>13 508 468</u>	<u>15 086 374</u>
		31.12.2009.	31.12.2008.
		Ls	Ls
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital	(18)	8 294 219	8 294 219
Retained earnings (loss)		(2 114 064)	(3 544 688)
Current year profit (loss)		(246 758)	1 430 624
Total equity:		5 933 397	6 180 155
Liabilities			
Non-current liabilities			
Borrowings	(19)	1 636 143	1 943 975
Deferred income tax liabilities	(10)	335 251	374 921
Other non-current liabilities	(21)	91 303	105 561
Total non-current liabilities:		2 062 697	2 424 457
Current liabilities:			
Borrowings	(19)	1 107 585	2 430 788
Trade payables		2 048 923	2 013 331
Corporate income tax payables	(10)	8 509	63 994
Provisions	(20)	120 172	238 980
Other liabilities	(21)	2 227 185	1 734 669
Total current liabilities:		5 512 374	6 481 762
Total liabilities:		7 575 071	8 906 219
<u>Total equity and liabilities:</u>		<u>13 508 468</u>	<u>15 086 374</u>

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Natalija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves	Retained earnings	Total
	Ls	Ls	Ls	Ls
31.12.2007.	8 294 219	0	(3 544 688)	4 749 531
Profit of the previous year	-	0	1 430 624	1 430 624
Total profit or loss	-	0	1 430 624	1 430 624
31.12.2008.	8 294 219	0	(2 114 064)	6 180 155
Loss of the reporting year	-	0	(246 758)	(246 758)
Total profit or loss	-	0	(246 758)	(246 758)
31.12.2009.	8 294 219	0	(2 360 822)	5 933 397

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CASH FLOW STATEMENT

	Notes	2009 Ls	2008 Ls
Cash flow from operating activities			
Profit or losses before income tax		(273 083)	1 663 553
<u>Adjustments for:</u>			
depreciation and amortization	(12)	435 874	409 337
profit from disposal of tangible assets	(12)	(3 887)	(10 848)
changes in provisions		(173 251)	(632 487)
gains or losses from foreign currency rate fluctuation		(10 923)	95 457
interest expenses		142 877	316 212
		117 607	1 841 224
Cash flow prior to changes in current assets			
Inventory (increase)/decrease		(171 968)	598 890
Account receivable (increase)/decrease		1 430 065	1 192 553
Account payable increase/(decrease)		648 990	(1 582 614)
		2 024 694	2 050 053
Gross cash flow generated from operating activities			
Interest paid	(19)	(142 832)	(315 299)
Income tax paid		(94 936)	(76 743)
		1 786 926	1 658 011
Net cash flow generated from operating activities			
Cash flow from investing activities			
Acquisition of tangible assets		(91 272)	(316 675)
Proceeds from sales of tangible assets		3 887	29 026
		(87 385)	(287 649)
Net cash flow generated from investing activities			
Cash flow from financing activities			
Borrowings repaid	(19)	(1 620 157)	(1 458 441)
		(1 620 157)	(1 458 441)
Net cash flow generated from financing activities			
		79 384	(88 079)
Net increase / (decrease) in cash and cash equivalents			
		32 581	120 660
Cash and cash equivalents at the beginning of the financial year			
		111 965	32 581
Cash and Cash equivalents at the end of the financial year			
	(17)	111 965	32 581

Notes on pages 10 to 32 are an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

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

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

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

The Group financial year is from 1 January 2009 till 31 December 2009.

These financial statements were authorised for issue by the Board of Directors of the Company on 21 April 2010, and Chairman of the Board Natalija Petrova signed these for and on behalf of the Board of Directors.

These financial statements are consolidated financial statements of the Company. The Company is the parent company of the Group. At the end of the year 2006 the Company has established 11 subsidiary companies with the participation of 100% in each. Subsidiary companies embarked on an active operations only in January 2007. In 2009 the subsidiary continued its operation launched in 2007.

Name of the subsidiary	Address	Type of operations	Share capital	Participation interest
			Ls	%
SIA "Rel"	Marijas 1, Daugavpils	Repair of diesel - electric locomotives and electric trains	2 000	100
SIA "Elap"	Marijas 1, Daugavpils	Repair of electric equipment of rolling stock	2 000	100
SIA "Remdīz"	Marijas 1, Daugavpils	Repair of rolling stock diesel and knots	2 000	100
SIA "Ritrem"	Marijas 1, Daugavpils	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock	2 000	100
SIA "Elektromaš"	Marijas 1, Daugavpils	Repair and producing of electromotors, generators and transformers	2 000	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dyeing of rolling stock	2 000	100
SIA "SPZČ"	Marijas 1, Daugavpils	Repair and producing of spare parts, instruments and equipment	2 000	100
SIA "Metalurgs"	Marijas 1, Daugavpils	Metal foundry	2 000	100
SIA "Remenergo"	Marijas 1, Daugavpils	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	2 000	100
SIA "Instruments"	Marijas 1, Daugavpils	Not active	2 000	100
SIA "Loģistika"	Marijas 1, Daugavpils	Transportation services	2 000	100
			22 000	

In the year 2010 the Company has sold SIA "REL" shares.

II. ACCOUNTING POLICIES

(1) Basis of preparation

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

Financial statements are prepared on the basis of historical cost accounting method, that is modified by the revaluation of the real estate property at their fair value and using this value as its costs on transition to IFRS, as set out in Note 12.

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

a) Standards, amendments and interpretations effective in the current year

IAS 1, Presentation of Financial Statements

The main changes in IAS 1 is the replacement of income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of property, plant and equipment and available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has decided to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (previously - balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but no impact on the recognition or measurement of specific transactions or balances.

IAS 23, Borrowing Costs

The amendment to IAS 23 removes the option of immediately recognising as an expense the borrowing costs and requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. As the Group has not previously used that option the amendments do not impact the measurement of assets.

IFRS 8, Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting. The Group concluded that the operation segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are disclosed in Note 2 *Segment Information*, including the related revised comparative information.

IFRS 7, Financial Instruments: Disclosure

The amendment to IFRS 7 requires additional disclosure on the fair value measurements and liquidity risks. The Group is required to disclose analysis of financial instruments by using three-level hierarchy for fair value measurements. The enhanced disclosures are included in these financial statements.

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b) Standards, amendments and interpretations that are effective from 1 January 2009, but not relevant for operations of the Group

IFRS 1, First-time Adoption of IFRS - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)

IFRS 2, Share-based Payment - Vesting Conditions and Cancellations (Amendments)

IAS 27, Consolidated and Separate Financial Statements - Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)

IAS 32, Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendment)

Annual Improvements to IFRS, issued in May 2008.

IFRIC 13, Customer Loyalty Programmes

IFRIC 14 IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

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

Improvements to IFRS issued in April 2009

Amendments to IFRS 2, IAS 38, IFRIC 16 are effective for annual periods beginning on or after 1 July 2009, amendments to IFRS 5, IFRS 8, IAS1, IAS 36, and IAS 39 are effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU). Improvements consist of a mixture of substantive changes and clarifications in the different areas. The Company does not expect the amendments to have any material effect on its financial statements.

IFRS 3, Business Combinations and IAS 27, Consolidated and Separate Financial Statements - Amendments (effective for financial years beginning on or after 1 July 2009).

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

IAS 24, Related Party Disclosures - Amendments (effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU).

The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group is currently assessing the impact of the amendments on disclosure in its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurements, issued in November 2009 (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

The IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption.

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

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

IFRIC 9 and IAS 39 Embedded Derivatives - Amendment issued in March 2009 (effective for annual periods beginning on or after 30 June 2009, amendments to IFRIC 9 and IAS 39 as adopted by the EU is effective fro annual periods beginning after 31 December 2009).

IAS 32 Classification of Rights Issues - Amendment issued in October 2009 (effective for annual periods beginning on or after 1 February 2010).

IFRS 1 First-time Adoption of IFRS - Revised in December 2008 (effective for annual periods beginning on or after 1 July 2009, restructured IFRS 1 as adopted by the EU is effective fro annual periods beginning after 31 December 2009).

IFRS 1 First-time Adoption of IFRS - Additional Exemptions for First-time Adopters - Amendments (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU).

IFRS 2 Group settled Share-based Payment Transactions - Amendments (effective for annual periods beginning on or after 1 January 2010, not yet adopted by EU).

IFRS 7 Limited exemption from comparative disclosures for first-time adopters - Amendments (effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU)

IFRIC 12 Service Concession Arrangements (IFRIC as adopted by the EU is effective for annual periods beginning on or after 30 March 2009)

IFRIC 14, Prepayments of a Minimum Funding Requirements - Amendment (effective for annual periods beginning on or after 1 January 2011, not yet adopted by EU).

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2008, IFRIC 15 as adopted by the EU is effective fro annual periods beginning after 31 December 2009).

IFRIC 16, Hedges of a net investment in a foreign operation (effective for annual periods beginning on or after 1 October 2008, IFRIC 16 as adopted by the EU is effective fro annual periods beginning after 31 June 2009).

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009, IFRIC 17 as adopted by the EU is effective fro annual periods beginning after 31 October 2009).

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009, IFRIC 18 as adopted by the EU is effective fro annual periods beginning after 31 October 2009).

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010, not yet adopted by EU).

(2) Methods of consolidation

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

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(3) Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

	31.12.2009.	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 RUR	0.0164	0.0171

(4) Segment disclosure

An operation segment is a component of the Group which qualifies for the following criteria: (i) engages in business activities from which it may earn revenues and incur expenses; (ii) whose operation results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (iii) for which discrete financial information is available.

Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

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(5) Income recognition

Net sales represent the total of goods and services sold during the year net of discounts, value added tax and excise tax. Main operation of the Group is repair and modernization of railway rolling stock. Taking into account the type of repair and modernization work and complicity of the order the period of provisioning the services could exceed 3-6 months.

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 Group apply 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.

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 provision of other services is recognized by reference to the stage of completion of 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.

(7) Property, plant and equipment (tangible assets)

Property, plant and equipment (tangible assets) are initially accounted at the purchase cost. Purchase cost includes costs, which are directly related to the purchase of tangible assets. In financial statements tangible assets are recognised at purchase cost less depreciation and any impairment losses. See Note 12 for modification of these policies in the first adoption of IFRS.

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

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

	Years
Buildings	1,11 - 20
Technological equipment	20 - 50
Other machinery and equipment, transport vehicles	20

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

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. The decrease in the value of assets is recognised as the expenses.

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

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within the income statement for the relevant period.

(8) Impairment of tangible and intangible assets

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

(9) Lease without redemption rights (operating lease)

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

(10) Inventories

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

(11) Loans and trade receivables

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

(12) Cash and cash equivalents

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

(13) Share capital and dividends

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

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(14) Borrowings

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

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

(15) 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.

(16) Pension obligations

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

(17) Accrued liabilities for unused annual leave

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

(18) Income tax

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

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

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

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

(19) Earnings per share

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

(20) Related parties

Related parties are defined as major shareholders of the Company, Board and Council members, their close family members and Companies, in which the previously mentioned persons have significant influence or control. Related parties are considered also the companies, that are being under the ultimate control or significant influence of related parties.

(21) Critical accounting estimates and judgements

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

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities shown in the financial statements, and disclosures in the notes at the date of the balance sheet as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are impairment test of tangible assets, assumptions and estimates of the Management on calculation of stage of the completion of the repair services contract as well as recoverable receivables and inventories as well as disclosed in the relevant notes.

Impairment test

The Group uses *IAS 36 Impairment of Assets* guidance in verification of potential impairment losses. This procedure requires a considerable management decision. Taking into consideration that the estimation of potential sales value of the largest long-term assets of the Group - the real estate and equipment with the carrying value as at 31.12.2009 of Ls 6 407 281 (31.12.2008 - Ls 6 662 284) that is used in principal activity of the Group - is subjective, as well as the low level of liquidity in the real estate market, the Group carried out the calculation of recoverable value of assets by the value in use method. In estimation of the future cash flow the management of the Group evaluated, among other factors, useful life of asset, trends of economics and competitiveness, potential changes in technology and in activity of the Group, changes in the operational and financial cash flows of the Group.

Components of property, plant and equipment

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

Stage of completion method of revenue recognition

The Group carries out an estimation of completion of the repair services at the balance sheet date, as stated in accounting policy in Note 5. The accrued revenues for supplied repair and upgrading services at the year end are Ls 792 494 (31.12.2008 - Ls 2 227 025).

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Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. The total carrying amount of receivables at the end of the reporting year is Ls 2 279 713 (31.12.2008 - Ls 2 768 903).

Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realisation probability and net selling value of the inventories shall be considered. The total carrying amount of receivables at the end of the reporting year is Ls 2 856 179 (31.12.2008 - Ls 2 684 211).

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III. OTHER NOTES

(2) Segment Information

(a) Operation and reportable segment

Basic activity of the Group is repair and modernization of railway rolling stock, as well as producing, repair and sale of spare parts. Group repair and modernize any kind railways rolling stocks (diesel-electric locomotives and electric trains), as well as producing and repairing large amount of spare parts and knots of rolling stocks. Since the Group's main activity is repair of railway rolling stocks and sale of related goods, the Group has only one reporting business segment. Operation segment is reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(b) Geographical markets

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

The operations of the Group can be divided into several geographical segments, which are sales in Latvia, export of services segregated by registration place of railway rolling stock and sales of goods divided by the country of the residence of the client. Distribution of sales among these segments is as follows:

	2009	2008
	Ls	Ls
Russia	2 826 519	9 825 747
Uzbekistan	2 387 400	1 661 000
Latvia	2 163 063	2 937 327
Estonia	1 843 500	960 400
Belarus	319 400	142 700
Lithuania	246 000	987 400
Poland	245 400	727 200
Other countries	62 800	281 100
	<u>10 094 082</u>	<u>17 522 874</u>

(c) Major customers

Split of the net sales among the customers amount to 10 per cent or more of total revenues are:

	2009	2008
	Ls	Ls
Customer Nr.1	3 314 451	3 019 955
Customer Nr.2	1 954 104	1 536 894
Customer Nr.3	1 831 372	-
Customer Nr.4	909 620	1 739 865
Other clients	2 084 535	11 226 160
	<u>10 094 082</u>	<u>17 522 874</u>

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	2009	2008
(3) Cost of sales	Ls	Ls
Raw materials and consumables	4 841 623	6 554 086
Salary expense	2 073 182	3 868 129
Utility costs	699 528	758 929
Mandatory State social insurance contributions	490 337	914 541
Depreciation of tangible assets	335 845	294 964
Increase in provisions for warranty and other contingent liabilities	(141 290)	(611 673)
Increase in provisions for expected losses	(54 519)	21 897
Increase in provisions for post-employment benefits	(16 160)	-
Increase in provisions for inventories and receivables	-	(42 711)
Other production costs	504 779	1 020 935
	<u>8 733 325</u>	<u>12 779 097</u>
(4) Distribution expenses		
Transportation costs	70 579	112 328
Salary expenses	40 045	77 764
Mandatory State social insurance contributions	9 534	18 733
Other selling costs	-	3 841
	<u>120 158</u>	<u>212 666</u>
(5) Administrative expenses		
Salary expenses	749 700	1 349 964
Mandatory State social insurance contributions	177 853	319 834
Depreciation of tangible assets	98 920	112 884
Utility expenses	105 815	86 440
Professional service costs	6 820	24 000
Office costs	30 438	49 480
Representation costs	2 614	3 169
Other administrative expenses	140 337	200 844
	<u>1 312 497</u>	<u>2 146 615</u>
(6) Other income		
Net income from sale of tangible assets	3 886	29 026
Rental income	58 060	18 432
Other income	63 751	103 427
	<u>125 697</u>	<u>150 885</u>
(7) Other expenses		
Cost of collective agreement with employees	7 291	17 437
Other expenses	4 335	49 517
	<u>11 626</u>	<u>66 954</u>

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(8) Expenses by Nature	2009 Ls	2008 Ls
Raw materials, consumables and cost of goods sold	4 841 623	6 554 086
Salary expenses	2 862 927	5 295 857
Mandatory State social insurance contributions	677 724	1 253 108
Utility costs	805 343	845 369
Increase in provisions for inventories and receivables	-	(42 711)
Increase in provisions for post-employment benefits	(16 160)	-
Increase in provisions for warranty and other contingent liabilities	(141 290)	(611 673)
Increase in provisions for expected losses	(54 519)	21 897
Depreciation of tangible and intangible assets	434 765	407 848
Transportation expenses	70 579	112 328
Office expenses	30 438	49 480
Advertisement expenses	2 614	3 169
Other expenses	663 562	1 316 574
	<u>10 177 606</u>	<u>15 205 332</u>

(9) Finance income and expenses (net)		
Interest income	854	450
Net expenses from exchange rate fluctuations	(93 942)	(409 548)
Interest charge	(142 877)	(316 212)
Penalties paid	(79 291)	(79 564)
	<u>(315 256)</u>	<u>(804 874)</u>

(10) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	(39 670)	167 531
Corporate income tax according to the tax return	13 345	65 398
	<u>(26 325)</u>	<u>232 929</u>

b) Reconciliation of accounting profit to income tax charges

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

	2009 Ls	2008 Ls
Profit before taxes	(273 083)	1 663 553
Theoretically calculated tax at 15% tax rate	<u>(40 962)</u>	<u>249 533</u>
Tax effects on:		
Non-deductible expenses for tax purposes	14 637	(16 604)
Total tax charge	<u>(26 325)</u>	<u>232 929</u>

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	374 921	207 390
Deferred tax charged to the income statement	(39 670)	167 531
Deferred tax liabilities (asset) at the end of the financial year	<u>335 251</u>	<u>374 921</u>

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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.
	Ls	Ls
Temporary difference on depreciation of tangible and intangible assets	603 931	617 675
Gross deferred tax liabilities	<u>603 931</u>	<u>617 675</u>
Accruals for expected losses	(5 596)	(13 761)
Provisions for contingent liabilities	(18 026)	(35 847)
Provisions for impairment of inventories and receivables	(13 135)	(13 147)
Tax losses carried forward	(231 923)	(179 999)
Gross deferred tax assets	<u>(268 680)</u>	<u>(242 754)</u>
Net deferred tax liability (assets)	<u><u>335 251</u></u>	<u><u>374 921</u></u>

The Group offsets the deferred tax assets and the deferred tax liabilities only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax is related to the same taxation authority. The offset amounts are as follows:

Deferred tax assets:		
deferred tax asset to be recovered within a year	(74 031)	62 755
deferred tax asset to be recovered within more than a year	(194 649)	179 999
	<u>(268 680)</u>	<u>242 754</u>
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	23 937	18 976
deferred tax liabilities to be recovered after more than a year	579 994	598 699
	<u>603 931</u>	<u>617 675</u>
Net deferred tax liabilities (assets)	<u><u>335 251</u></u>	<u><u>374 921</u></u>

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

	Accelerated depreciation of tangible assets	Accruals for expected losses	Impairments of inventories and receivables	Provisions for potential liabilities	Tax losses carried forward	Total
	Ls	Ls	Ls	Ls	Ls	Ls
31.12.2007	619 109	(12 837)	(16 781)	(143 331)	(238 770)	207 390
Charged / (credited) to income statement	(1 434)	(924)	3 634	107 484	58 771	167 531
31.12.2008	617 675	(13 761)	(13 147)	(35 847)	(179 999)	374 921
Charged / (credited) to income statement	(13 744)	8 165	12	17 821	(51 924)	(39 670)
31.12.2009	<u><u>603 931</u></u>	<u><u>(5 596)</u></u>	<u><u>(13 135)</u></u>	<u><u>(18 026)</u></u>	<u><u>(231 923)</u></u>	<u><u>335 251</u></u>

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

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

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

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	2009	2008
Profit attributed to shareholders of the Group (Ls)	(246 758)	1 430 624
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in santims)	(2.98)	17.25

(12) **Property, plant and equipment (tangible assets)**

	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Advances for assets	Total
	Ls	Ls	Ls	Ls	Ls	Ls
01.01.2007						
Initial cost	6 007 311	5 469 349	676 852	61 991	-	12 215 503
Accumulated depreciation	(480 665)	(4 299 434)	(386 757)	-	-	(5 166 856)
Net book value	5 526 646	1 169 915	290 095	61 991	0	7 048 647
2008	-	-	-	-	-	-
Initial cost	5 526 646	1 169 915	290 095	61 991	-	7 048 647
Acquired	58 703	256 251	30 051	(28 331)	-	316 674
Disposed	(13 958)	(1 966)	(2 253)	-	-	(18 177)
Amortized	(150 720)	(182 588)	(76 029)	-	-	(409 337)
Closing book value	5 420 671	1 241 612	241 864	33 660	0	6 937 807
31.12.2008						
Initial cost	6 047 478	5 580 290	698 735	33 660	-	12 360 163
Accumulated depreciation	(626 807)	(4 338 678)	(456 871)	-	-	(5 422 356)
Net book value	5 420 671	1 241 612	241 864	33 660	0	6 937 807
2009	0	0	0	0	0	0
Initial cost	5 420 671	1 241 612	241 864	33 660	-	6 937 807
Acquired	1 931	103 196	-	(13 855)	-	91 272
Amortized	(149 221)	(210 908)	(75 746)	-	-	(435 875)
Closing book value	5 273 381	1 133 900	166 118	19 805	0	6 593 204
31.12.2009						
Initial cost	6 048 140	5 592 815	691 396	19 805	-	12 352 156
Accumulated depreciation	(774 759)	(4 458 915)	(525 278)	-	-	(5 758 952)
Net book value	5 273 381	1 133 900	166 118	19 805	0	6 593 204

Preparing the first financial statement under IFRS, the Group appreciated a part of tangible assets - own real estate - at their fair value and by using it as their deemed costs at this date. Valuation was prepared by the independent expert AS BDO Invest Riga. Taking into consideration that it was prepared in 2007, which is later than transition date to IFRS as well as correction of market value of real estate at the end of 2007, the appraised value of real estate is decreased by 30%. Total effect of adjustment of tangible assets initial value was Ls 2 534 868.

In Group's individual financial statements, taking into account the selected revaluation policies for tangible assets, the increase of tangible asset value in the amount of Ls 2 534 868 has been recognized in financial statements of 2007. In 2008 and 2009 the revaluation of tangible assets was performed under its possible market (sales) price, and in the result the net book value of land and buildings has been reduced in 2008 for Ls 1 357 166 and in 2009 for Ls 288 815.

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During the preparation of financial statements of the reporting year the management of the Group has made the impairment test of recoverable value of land and buildings and other tangible assets estimating the value in use (by discounting the future cash flows). The value in use of assets is calculated considering that the current use the real estate will be retained.

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

- the activity of the Group is considered to be only one cash generating unit;
- during the years 2010 to 2011 a gradual improvement of financial result is expected, respectively for year 2012 and further profit before interest, taxes, depreciation in amount Ls 1 500 000 are expected;
- investments in maintenance of the tangible assets or replacement of assets will not exceed 50% of depreciation of assets;
- effect of changes in current assets is not significant for calculations of value in use;
- the weighted average cost of capital is 13.74% per annum.

The current value of estimated future cash flows is higher than the residual value of tangible assets as a result no impairment of assets has been recognised.

All tangible assets of the Group are pledged in accordance in terms of Mortgage and Commercial pledge agreement as security for loans from banks (see Note 19).

During 2008 and 2009 interest have not been capitalised, because the Group did not use the target financing for acquisition of tangible assets.

(13) Inventories	31.12.2009. Ls	31.12.2008. Ls
Raw materials	1 906 194	2 161 076
Work in progress	493 131	114 455
Finished goods	543 023	494 849
(Provisions for impairment of inventories)	(86 169)	(86 169)
	<u>2 856 179</u>	<u>2 684 211</u>

All inventories of the Group are pledged in accordance with terms of Commercial pledge agreement as security for loans from the banks (see Note 18).

Provisions at the beginning of the year	86 169	111 871
Changes in provisions during the financial year	-	(25 702)
Provisions at the end of the year	<u>86 169</u>	<u>86 169</u>

(14) Trade receivables	31.12.2009. Ls	31.12.2008. Ls
Book value of trade receivables	3 016 732	3 549 346
Provisions for impairment of trade receivables	(737 019)	(780 443)
	<u>2 279 713</u>	<u>2 768 903</u>

For information on the Group's credit risk management and disclosure of information about structure of customers see Note 25.

All trade receivables of the Group are pledged in accordance with terms of Commercial pledge agreement as security for loans from the banks (see Note 19).

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	31.12.2009	31.12.2008
	Ls	Ls
(15) Accrued income		
Accrual income for repair and modernization services	829 792	2 318 766
Accruals for expected losses	<u>(37 298)</u>	<u>(91 741)</u>
Gross amount for accrued income	<u>792 494</u>	<u>2 227 025</u>
where:		
Accrued income in assets	<u>792 494</u>	<u>2 227 025</u>
	<u>792 494</u>	<u>2 227 025</u>
(16) Other current assets		
VAT overpaid	101 459	156 278
Payables for raw materials	612 891	25 792
Payables for warranties	15 488	13 354
Deferred expenses	5 675	9 011
Other taxes overpaid	17 243	-
Other receivables	<u>8 565</u>	<u>8 787</u>
	<u>761 321</u>	<u>213 222</u>
(17) Cash and cash equivalents		
Cash at bank on current accounts	111 019	31 714
Cash on hand	<u>946</u>	<u>867</u>
	<u>111 965</u>	<u>32 581</u>
(18) Share capital		
<p>Registered and fully paid share capital of the Company is Ls 8 294 219, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is Ls 1. All shares guarantees equal rights to dividends, reception of liquidation quotas and suffrage in shareholder's meeting. One share gives rights to 1 vote. All shares are dematerialized. The Company do not hold own shares or someone else in it's interest. Shares are not convertible, exchangeable or guaranteed.</p> <p>Starting from the year 2001 1 299 367 shares of the Company has been quoted in AS NASDAQ OMX Riga stock exchange second list. At the end of reporting year 1 299 367 shares are quoted.</p>		
(19) Borrowings	31.12.2009.	31.12.2008.
	Ls	Ls
Non-current		
Non-current loan in USD	a) 956 891	1 139 568
Loan for installation of gas equipment in EUR	b) -	89 846
Loan for privatization of land plots in EUR	c) 602 084	701 770
Non - current loan in EUR (previously in USD)	e) 70 280	-
Other loans in EUR	d) 6 888	12 791
	<u>1 636 143</u>	<u>1 943 975</u>
Current		
Current part of non-current loan in USD	a) 168 863	170 935
Current part of loan for gas equipment in EUR	b) 89 846	89 987
Current part of loan for privatization of land plots in EUR	c) 99 686	99 686
Short term loan in EUR	f) -	658 668
Other loans in EUR	d) 5 904	5 904
Credit line facilities in EUR	e) 743 286	1 405 608
	<u>1 107 585</u>	<u>2 430 788</u>
Total non - current and current part	<u>2 743 728</u>	<u>4 374 763</u>

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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 for car vehicle purchase. The loan 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 facility granting with maximum financing amount USD 3 000 000 for supplement of current assets, with the repayment till September 2007. In 2008 the Company refinanced the loan in amount of EUR 2 000 000 which has to be repaid until 15 September 2009. The Company has prolonged the loan 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 the increase of working capital. During the reporting year the loan was repaid.

The carrying value of borrowings does not materially differs from their fair value.

	2009	2008
	Ls	Ls
At beginning of the year	4 374 763	5 736 832
Repaid borrowings during the year	(1 620 157)	(1 458 441)
Currency exchange rate fluctuation results	(10 878)	96 372
At the end of the year	<u>2 743 728</u>	<u>4 374 763</u>

Maturity of the total borrowings is as follows:

Payable in 1 year	1 107 585	2 430 788
Payable in 2 – 5 years	1 151 365	1 185 122
Payable in more than 5 years	484 778	758 853
	<u>2 743 728</u>	<u>4 374 763</u>

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

- (i) mortgage of all real estate belonged to the Group;
- (ii) commercial pledge of all property of the Group as a whole at the moment of pledge, as well as whole future components. The book value of the Group's assets on 31 December, 2009 is Ls 13 508 468 (31.12.2008 - Ls 14 777 107).

(20) Provisions

In accordance with signed agreements, the Group provides free of charge warranty repairs to customers under the general provisions of the repair. Taking into account that the rolling stock repairs actually are carried out by the subsidiaries of the Company, which estimates the provisions for warranty repairs in its individual financial statements, the provision in financial statements of the Group valued as the total amount of provisions of parent Company and subsidiaries. During the reporting year the provisions has been decreased for Ls 118 808 and at the end of the year estimated in amount of Ls 120 172.

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(21) Other liabilities	31.12.2009.	31.12.2008.
	Ls	Ls
Non-current		
Accrued liabilities for post-employment benefits (non-current part)	91 303	105 561
	<u>91 303</u>	<u>105 561</u>
Current		
Advances received	1 094 951	545 011
Mandatory State social contributions	454 984	297 009
Payroll liabilities	157 192	232 177
VAT liabilities	68 924	198 846
Personnel income tax liabilities	218 109	175 503
Accrued liabilities for unused annual leave	124 974	173 989
Accrued liabilities for post-employment benefits (current part)	5 606	7 508
Other taxes payable	1 219	1 906
Other liabilities	101 226	102 720
	<u>2 227 185</u>	<u>1 734 669</u>

(22) Average number of employees of the Group	2009	2008
Average number of people employed during the financial year	<u>940</u>	<u>1 274</u>

(23) Remuneration to personnel	2009	2008
	Ls	Ls
Salaries and mandatory State social insurance contributions for production personnel	2 563 519	4 782 670
Salaries and mandatory State social insurance contributions for distribution personnel	49 579	96 497
Salaries and social insurance contributions for administration personnel	927 553	1 669 798
	<u>3 540 651</u>	<u>6 548 965</u>
Including remuneration to key management salary expenses	147 456	123 319
mandatory State social insurance contributions	35 522	26 468

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

Remuneration of personnel includes mandatory State social insurance contributions in amount of Ls 677 724 (2008 - Ls 1 253 108).

(24) Transactions with related parties

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

a) claims and liabilities

Notes	31.12.2009.		31.12.2008.	
	Receivables Ls	Payables Ls	Receivables Ls	Payables Ls
Related parties with significant influence	609 699	671 140	132 120	135 830
	<u>609 699</u>	<u>671 140</u>	<u>132 120</u>	<u>135 830</u>

The repayment of the debts will be prepared in cash and it is not secured with guarantee or otherwise. In 2008 and in 2009 there are no significant bed debts from related parties.

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b) transactions

	2009	2008
	Ls	Ls
<i>Related parties with significant influence</i>		
Related parties with material influence in the Company:		
Repair services of railway rolling stock	3 377 649	3 020 172
Purchase of raw materials	1 765 730	2 335 461
Services received	16 728	40 422
Other transactions	40 937	5 647
	5 201 044	5 401 702

(25) Tax Contingent Liabilities

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

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

(26) Financial and capital risk management

The Company's activity is exposed to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Group's financial standing. The Group do not use derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risks

The Group acts internationally and is exposed to foreign currency exchange rate fluctuation risk arising from the currency fluctuations of US dollar and Russian ruble against other currencies fixed to euro. The risk of foreign currency comes from future commercial transactions, recognized assets and liabilities. The majority of raw materials are purchased by the Group in euro, rubles and US dollars, but the significant part of the production is sold in the domestic market and exported to the markets where euro and ruble dominate. In 2009 the Group has decreased the amount of transactions in US dollars.

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

The Group significant open currency positions:

	31.12.2009.	31.12.2008.
Financial assets, EUR	40 349	250 895
Financial liabilities, EUR	(2 888 974)	(4 588 953)
Open position in EUR, net	(2 848 625)	(4 338 058)
Open position in EUR, calculated in lats, net	(2 002 025)	(3 048 741)
Financial assets, USD	4 227 074	2 378 980
Financial liabilities, USD	(6 042 637)	(5 373 564)
Open position in USD, net	(1 815 563)	(2 994 584)
Open position in 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 in RUB, net	10 115 778	67 656 818
Open position in RUB, calculated in lats, net	165 899	1 156 932

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(ii) Interest rate risks

The Group is exposed to foreign exchange risk as the most liabilities are interest-bearing with the floating interest rate (Note 19), while the main part of the Group's financial assets are interest-free receivables, therefore the Group is exposed to floating interest rate risk. In 2009 the interest rate in all loan liabilities has decreased materially.

If during the reporting year interest rate would be for 1% higher/lower under the similar other conditions net profit would be for Ls 41 602 (2008 - Ls 57 035) bigger/smaller, mainly it would affect interest payments for loans with floating interest rate.

(b) Credit risk

Financial assets, which potentially subject the Group to a certain degree of credit risk concentration are primarily cash and trade receivables. Group's policy provides that the goods are sold and services provided to customers with appropriate credit history. Trade receivables are recognized in recoverable amount. The partners of the Group for the bank transactions are only the local and foreign financial institutions with appropriate ranking.

Maximum exposure to credit risk	31.12.2009	31.12.2008
	Ls	Ls
Trade receivables	2 279 713	2 768 903
Accrued income	792 494	2 227 025
Other receivables	755 646	204 211
Cash	111 965	32 581
	<u>3 939 818</u>	<u>5 232 720</u>

The largest concentration of credit risk arises from trade receivables. The Group controls its credit risk by constant monitoring the payment history of clients and by setting the crediting conditions individually. Furthermore the Group constantly monitors the book value of trade receivables to reduce the risk of bad debts. To reduce credit risks the Group requires the advances or prepayment from the customers.

Maturity analysis of trade receivables

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	Trade receivables split as: in due term	Past due*		
					< 90 days	90-180 days	> 180 days
31.12.2009	3 549 346	(780 443)	2 768 903	2 611 269	157 634	-	-
31.12.2008	3 016 732	(737 019)	2 279 713	1 511 611	122 622	-	645 480

* The Group has estimated the provisions for impairment losses of assets by estimating the balance of overdue accounts receivable individually. Taking into account repayment of debt in 2010 and customers credit history, the Company's management concluded that it is not necessary to make provisions for impairment of assets.

Movement of accruals for decrease of trade receivables	31.12.2009	31.12.2008
	Ls	Ls
Accruals at the beginning of the year	780 443	1 969 353
Trade receivables received	-	(25 300)
Decrease of accruals for written off bad debts	(43 424)	(1 171 901)
Accruals during the reporting year	-	8 291
Accruals at the end of the year	<u>737 019</u>	<u>780 443</u>

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(c) Liquidity risk

The Group pursues a prudent liquidity risk management and maintain a sufficient quantity of cash and ensure the availability of financial funds through credit line facilities provided by banks. At the end of the reporting year total available credit facilities amount is Ls 913 645 (31.12.2008: 2 108 412 Ls). On 31 December 2009 the unused part of the credit line was Ls 100 079 (31.12.2008: Ls 44 135). Group's management monitors the operational forecasting of liquidity reserves, based on estimated cash flows. Most of the Group's liabilities are short-term. Management believes that the Group will have sufficient financial resources that will be generated from operating activities and through a credit line facilities from Latvian banks.

The part of the Group's loans from the banks in amount Ls 1 107 585 is repayable in 2010. The planned cash flow in 2010 is sufficient for the repayment of the loans and further activities.

The following table shows the maturity structure of financial liabilities of the Company, that is based on non-discounted cash flows:

On 31 December, 2008	Total	<1 year	1-2 years	2-5 years	>5 years
	Ls	Ls	Ls	Ls	Ls
Long-term loans	1 943 975	-	378 114	812 535	753 326
Short -term loans	2 430 788	2 430 788	-	-	-
Trade payables	2 013 331	2 013 331	-	-	-
Accruals	238 980	238 980	-	-	-
Other liabilities	1 840 230	1 734 669	-	-	105 561
	8 467 304	6 417 768	378 114	812 535	858 887
On 31 December, 2009	Total	<1 year	1-2 years	2-5 years	>5 years
	Ls	Ls	Ls	Ls	Ls
Long-term loans	1 636 143	-	344 733	806 632	484 778
Short -term loans	1 107 585	1 107 585	-	-	-
Trade payables	2 048 923	2 048 923	-	-	-
Accruals	120 172	120 172	-	-	-
Other liabilities	2 318 488	2 227 185	-	-	91 303
	7 231 311	5 503 865	344 733	806 632	576 081

All trade receivables, accrued income and other receivables are short - term, with a maturity 1 year or less.

(d) Capital Management

According to the Latvian Commercial Law requirements if the equity of the Company falls below 50% of the share capital, the Board is required to address shareholders to make decisions on Company's going concern. Equity of the Company meets the Latvian legal requirements. Company's management manages the capital structure on going concern basis. During the reporting period there were no changes in capital management objectives, policies or processes.

Company's management controls the external debt (borrowings) to total capital (gearing ratio). During the reporting year this figure has decreased significantly for 26%, that confirms the stability of the Group. The positive trend in 2009 is also the increased proportion of equity to total assets up to 44% (2008: 41%).

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	31.12.2009.	31.12.2008
	Ls	Ls
Total borrowings	2 743 728	4 374 763
Cash and its equivalents	<u>(111 965)</u>	<u>(32 581)</u>
Net loans	2 631 763	4 342 182
Equity	5 933 397	6 180 155
Total capital (equity and net loans)	<u><u>8 565 160</u></u>	<u><u>10 522 337</u></u>
Total assets	13 508 468	15 086 374
Gearing ratio	44%	70%
Equity ratio on total assets	44%	41%

(27) 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 Group as at 31 December 2009.



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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of "Daugavpils Lokomotīvu Remonta Rūpnīca" AS

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of "Daugavpils Lokomotīvu Remonta Rūpnīca" AS (the Company) and its subsidiaries (together as the Group) included in the Annual report as set out on pages 6 to 32. The period of financial statements is from 1 January 2009 till 31 December 2009 (the Financial year). These financial statements include the statement of financial position as at 31 December 2009, the statement of total comprehensive income, cash flow statement, the statement of changes in equity for the financial year, and summary of significant accounting policy and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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



Basis for qualified opinion

The statement of financial position as of 31 December 2009 includes overdue trade receivable of LVL 645 thousands, where the Group net position, less payables to third parties, who underwrite the proportional risk of non-collection of trade receivable, is LVL 308 thousands. The Group 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 Group 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.

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 Group as at the end of the Financial year, and of its financial performance and cash flow for the Financial year in accordance with International Financial Reporting Standards as adopted by the European Union.

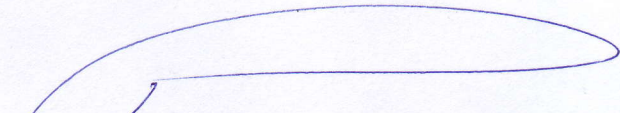
Emphasis of matter paragraph

Without qualifying the opinion, we draw attention to Note 12 to the financial statements indicating that the management of the Company has assessed the recoverable amount of Group property, plant and equipment. Main principles and assumption used in this assessment are disclosed in this note. Considering the current economic crisis and its impact on the Group operations, uncertainty exists whether the assumptions and estimates of the Group future financial performance will come true and that in turn may influence the assessment of recoverable value.

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.