AS "Daugavpils Lokomotīvju Remonta Rūpnīca"

CONSOLIDATED ANNUAL REPORT

prepared in accordance with EU approved

International Financial Reporting Standards

CONTENTS

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 it's 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 14,4 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 losses in amount of EUR 351 105. 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 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

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

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2009 EUR	2008 EUR
Net sales	(2)	14 362 585	24 932 803
Cost of sales	(3)	(12 426 402)	(18 183 017)
Gross profit (loss)		**1 936 183**	**6 749 786**
Distribution expenses	(4)	(170 970)	(302 596)
Administrative expenses	(5)	(1 867 515)	(3 054 358)
Other income	(6)	178 851	214 690
Other expenses	(7)	(16 542)	(95 266)
Finance income and costs (net)	(9)	(448 569)	(1 145 233)
Profit (loss) before tax		**(388 562)**	**2 367 023**
Corporate income tax	(10)	37 457	(331 428)
Net profit (loss)		**(351 105)**	**2 035 595**
Attributable to:			
Equity holders of a parent company		(351 105)	2 035 595
Minority interest		-	-
Earnings per share (in santims)	(11)		
Basic		(4.00)	25.00
Diluted		(4.00)	25.00
Total comprehensive income (expense)		**(351 105)**	**2 035 595**
Attributable to:			
Equity holders of a parent company		(351 105)	2 035 595
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

STATEMENT OF FINANCIAL POSITION

		31.12.2009. EUR	31.12.2008. EUR
ASSETS			
Non-current assets			
Property, plant and equipment	(12)	9 381 285	9 871 610
Total non-current assets:		**9 381 285**	**9 871 610**
Current assets			
Inventories	(13)	4 063 977	3 819 288
Accrued income	(15)	1 127 617	3 168 771
Trade receivables	(14)	3 243 739	3 939 794
Corporate income tax receivables	(10)	161 626	316 766
Other current assets	(16)	1 083 262	303 388
Cash and cash equivalents	(17)	159 312	46 359
Total current assets:		**9 839 533**	**11 594 366**
Total assets		**19 220 818**	**21 465 976**

		31.12.2009. EUR	31.12.2008. EUR
EQUITY AND LIABILITIES			
Equity			
Share capital	(18)	11 801 610	11 801 610
Retained earnings (loss)		(3 008 042)	(5 043 637)
Curent year profit (loss)		(351 105)	2 035 595
Total equity:		**8 442 463**	**8 793 568**
Liabilities			
Non-current liabilities			
Borrowings	(19)	2 328 022	2 766 027
Deferred income tax liabilities	(10)	477 020	533 464
Other non-current liabilities	(21)	129 912	150 200
Total non-current liabilities:		**2 934 954**	**3 449 691**
Current liabilities:			
Borrowings	(19)	1 575 951	3 458 700
Trade payables		2 915 355	2 864 712
Corporate income tax payables	(10)	12 107	91 055
Provisions	(20)	170 989	340 038
Other liabilities	(21)	3 168 999	2 468 212
Total current liabilities:		**7 843 401**	**9 222 717**
Total liabilities:		**10 778 355**	**12 672 408**
Total equity and liabilities:		**19 220 818**	**21 465 976**

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

Natalija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	EUR	EUR	EUR
31.12.2007.	**11 801 610**	**(5 043 637)**	**6 757 973**
Profit of the previous year	-	2 035 595	1 430 624
Total profit or loss	-	2 035 595	1 430 624
31.12.2008.	**11 801 610**	**(3 008 042)**	**8 793 568**
Loss of the reporting year	-	(351 105)	(351 105)
Total profit or loss	-	(351 105)	(351 105)
31.12.2009.	**11 801 610**	**(3 359 147)**	**8 442 463**

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

CASH FLOW STATEMENT

	Notes	2009 EUR	2008 EUR
Cash flow from operating activities			
Profit or losses before income tax		**(388 562)**	**2 367 023**
Adjustments for:			
depreciation and amortization	(12)	620 193	582 434
profit from disposal of tangible assets	(12)	(5 531)	(15 435)
changes in provisions		(246 514)	(899 948)
gains or losses from foreign currency rate fluctuation		(15 542)	135 823
interest expenses		203 296	449 929
Cash flow prior to changes in current assets		**167 340**	**2 619 826**
Inventory (increase)/decrease		(244 688)	852 144
Account receivable (increase)/decrease		2 034 799	1 696 850
Account payable increase/(decrease)		923 430	(2 251 857)
Gross cash flow generated from operating activities		**2 880 881**	**2 916 963**
Interest paid	(19)	(203 232)	(448 630)
Income tax paid		(135 082)	(109 195)
Net cash flow generated from operating activities		**2 542 567**	**2 359 138**
Cash flow from investing activities			
Acquisition of tangible assets		(129 868)	(450 588)
Proceeds from sales of tangible assets		5 531	41 300
Net cash flow generated from investing activities		**(124 337)**	**(409 288)**
Cash flow from financing activities			
Borrowings repaid	(19)	(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		**112 954**	**(125 325)**
Cash and cash equivalents at the beginning of the financial year		**46 359**	**171 684**
Cash and Cash equivalents at the end of the financial year	(17)	**159 313**	**46 359**

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

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 31December 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
			EUR	**%**
SIA "Rel"	Marijas 1, Daugavpils	Repair of diesel - electric locomotives and electric trains	2 846	100
SIA "Elap"	Marijas 1, Daugavpils	Repair of electric equipment of rolling stock	2 846	100
SIA "Remdīz"	Marijas 1, Daugavpils	Repair of rolling stock diesel and knots	2 846	100
SIA "Ritrem"	Marijas 1, Daugavpils	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock	2 846	100
SIA "Elektromaš"	Marijas 1, Daugavpils	Repair and producing of electromotors, generators and transformers	2 846	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dyeing of rolling stock	2 846	100
SIA "SPZČ"	Marijas 1, Daugavpils	Repair and producing of spare parts, instruments and equipment	2 846	100
SIA "Metalurgs"	Marijas 1, Daugavpils	Metal foundry	2 846	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	2 846	100
SIA "Instruments"	Marijas 1, Daugavpils	Not active	2 846	100
SIA "Loģistika"	Marijas 1, Daugavpils	Transportation services	2 846	100
			31 306	

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 20 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.

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.

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.

(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.

In accordance with the Riga Stock Exchange requirements all balances are presented in euro (EUR). For the purposes of disclosures translation is performed applying the official exchange rate adopted by the Bank of Latvia EUR / LVL (1 EUR = LVL 0.702804) for the period from 1 January 2008 to 31 December 2009.

(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.

(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.

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.

(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 calcualtion 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 procedures 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 EUR 9 116 740 (31.12.2008 - EUR 9 479 576) 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 it's material components as per IAS 16. Estimates of the Group about allocation of tangible assets to it's components and density of each part in total value of tangible assets are build 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 EUR 1 127 617
(31.12.2008 - EUR 3 168 771).

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 EUR 3 243 739 (31.12.2008 - EUR 3 939 794).

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 EUR 4 063 977 (31.12.2008 - EUR 3 819 288).

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
	EUR	EUR
Russia	4 021 774	13 980 778
Uzbekistan	3 396 965	2 363 390
Latvia	3 077 761	4 179 440
Estonia	2 623 064	1 366 526
Belarus	454 465	203 044
Lithuania	350 026	1 404 944
Poland	349 173	1 034 712
Other countries	89 357	399 969
	14 362 585	**24 932 803**

(c) Major customers

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

	2009	2008
	EUR	EUR
Customer Nr.1	4 716 039	4 297 009
Customer Nr.2	2 780 439	2 186 803
Customer Nr.3	2 605 808	
Customer Nr.4	1 294 273	2 475 605
Other clients	2 966 026	15 973 386
	14 362 585	**24 932 803**

(3) Cost of sales	2009 EUR	2008 EUR
Raw materials and consumables	6 889 009	9 325 624
Salary expense	2 949 872	5 503 852
Utility costs	995 339	1 079 859
Mandatory State social insurance contributions	697 687	1 301 275
Depreciation of tangible assets	477 864	419 696
Increase in provisions for warranty and other contingent liabilities	(201 038)	(870 332)
Increase in provisions for expected losses	(77 574)	31 157
Increase in provisions for post-employment benefits	(22 994)	
Increase in provisions for inventories and receivables		(60 772)
Other production costs	718 237	1 452 658
	12 426 402	**18 183 017**

(4) Distribution expenses

Transportation costs	100 425	159 828
Salary expenses	56 979	110 648
Mandatory State social insurance contributions	13 566	26 655
Other selling costs	-	5 465
	170 970	**302 596**

(5) Administrative expenses

Salary expenses	1 066 727	1 920 826
Mandatory State social insurance contributions	253 062	455 083
Depreciation of tangible assets	140 750	160 619
Utility expenses	150 561	122 993
Professional service costs	9 704	34 149
Office costs	43 309	70 404
Representation costs	3 719	4 509
Other administrative expenses	199 683	285 775
	1 867 515	**3 054 358**

(6) Other income

Net income from sale of tangible assets	5 529	41 300
Rental income	82 612	26 226
Other income	90 710	147 163
	178 851	**214 690**

(7) Other expenses

Cost of collective agreement with employees	10 374	24 811
Other expenses	6 168	70 456
	16 542	**95 266**

(8) Expenses by Nature

	2009 EUR	2008 EUR
Row materials, consumables and cost of goods sold	6 889 009	9 325 624
Salary expenses	4 073 578	7 535 326
Mandatory State social insurance contributions	964 314	1 783 012
Utility costs	1 145 900	1 202 852
Increase in provisions for inventories and receivables		(60 772)
Increase in provisions for post-employment benefits	(22 994)	
Increase in provisions for warranty and other contingent liabilities	(201 038)	(870 332)
Increase in provisions for expected losses	(77 574)	31 157
Depreciation of tangible and intangible assets	618 615	580 315
Transportation expenses	100 425	159 828
Office expenses	43 309	70 404
Advertisement expenses	3 719	4 509
Other expenses	944 164	1 873 316
	14 481 427	**21 635 239**

(9) Finance income and expenses (net)

Interest income	1 215	640
Net expenses from exchange rate fluctuations	(133 667)	(582 734)
Interest charge	(203 296)	(449 929)
Penalties paid	(112 821)	(113 209)
	(448 569)	**(1 145 233)**

(10) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	(56 445)	238 375
Corporate income tax according to the tax return	18 988	93 053
	(37 457)	**331 428**

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 EUR	2008 EUR
Profit before taxes	(388 562)	2 367 023
Theoretically calculated tax at 15% tax rate	**(58 284)**	**355 053**
Tax effects on:		
Non-deductible expenses for tax purposes	20 827	(23 625)
Total tax charge	**(37 457)**	**331 428**

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	533 465	295 089
Deferred tax charged to the income statement	(56 445)	238 375
Deferred tax liabilities (asset) at the end of the financial year	**477 020**	**533 464**

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	859 316	878 872
Gross deferred tax liabilities	**859 316**	**878 872**
Accruals for expected losses	(7 962)	(19 580)
Provisions for contingent liabilities	(25 649)	(51 006)
Provisions for impairment of inventories and receivables	(18 689)	(18 706)
Tax losses carried forward	(329 997)	(256 116)
Gross deferred tax assets	**(382 297)**	**(345 408)**
Net deferred tax liability (assets)	**477 019**	**533 464**

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	(105 337)	89 292
deferred tax asset to be recovered within more than a year	(276 961)	256 116
	(382 298)	345 408
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	34 059	27 000
deferred tax liabilities to be recovered after more than a year	825 257	851 872
	859 316	878 872
Net deferred tax liabilities (assets)	**477 019**	**533 464**

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**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
31.12.2007	880 913	(18 265)	(23 877)	(203 942)	(339 739)	295 090
Charged / (credited) to income statement	(2 040)	(1 315)	5 171	152 936	83 624	238 376
31.12.2008	878 873	(19 580)	(18 706)	(51 006)	(256 115)	533 466
Charged / (credited) to income statement	(19 556)	11 618	17	25 357	(73 881)	(56 445)
31.12.2009	**859 317**	**(7 962)**	**(18 689)**	**(25 649)**	**(329 996)**	**477 021**

(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.

	2009	2008
Profit attributed to shareholders of the Group (Ls)	(351 105)	2 035 595
Average annual number of shares	11 801 610	11 801 610
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
	EUR	EUR	EUR	EUR	EUR	EUR
01.01.2007						
Initial cost	8 547 633	7 782 183	963 074	88 205		17 381 095
Accumulated depreciation	(683 925)	(6 117 543)	(550 306)			(7 351 774)
Net book value	**7 863 709**	**1 664 639**	**412 768**	**88 205**	**0**	**10 029 321**
2008						
Initial cost	7 863 709	1 664 639	412 768	88 205		10 029 321
Acquired	83 527	364 612	42 759	(40 311)		450 587
Disposed	(19 860)	(2 797)	(3 206)			(25 864)
Amortized	(214 455)	(259 799)	(108 180)			(582 434)
Closing book value	**7 712 921**	**1 766 655**	**344 141**	**47 894**	**0**	**9 871 611**
31.12.2008						
Initial cost	8 604 786	7 940 037	994 210	47 894		17 586 927
Accumulated depreciation	(891 866)	(6 173 383)	(650 069)			(7 715 318)
Net book value	**7 712 920**	**1 766 655**	**344 141**	**47 894**	**0**	**9 871 610**
2009						
Initial cost	7 712 920	1 766 655	344 141	47 894		9 871 610
Acquired	2 748	146 835		(19 714)		91 272
Amortized	(212 322)	(300 095)	(107 777)			(620 194)
Closing book value	**7 503 346**	**1 613 395**	**236 364**	**28 180**	**0**	**9 381 285**
31.12.2009						
Initial cost	8 605 728	7 957 859	983 768	28 180		12 352 156
Accumulated depreciation	(1 102 383)	(6 344 464)	(747 403)			(5 758 952)
Net book value	**7 503 345**	**1 613 395**	**236 365**	**28 180**	**0**	**9 381 285**

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.

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 cass 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.**	**31.12.2008.**
	EUR	**EUR**
Raw materials	2 712 270	3 074 934
Work in progress	701 662	162 855
Finished goods	772 652	704 107
(Provisions for impairment of inventories)	(122 607)	(122 607)
	4 063 977	**3 819 288**

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	122 607	159 178
Changes in provisions during the financial year	-	(36 571)
Provisions at the end of the year	**122 607**	**122 607**

	31.12.2009.	**31.12.2008.**
(14) Trade receivables	**EUR**	**EUR**
Book value of trade receivables	4 292 423	5 050 264
Provisions for impairment of trade receivables	(1 048 684)	(1 110 470)
	3 243 739	**3 939 794**

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).

(15) Accrued income	**31.12.2009 EUR**	**31.12.2008 EUR**
Accrual income for repair and modernization services	1 180 688	3 299 307
Accruals for expected losses	(53 070)	(130 536)
Gross amount for accrued income	**1 127 617**	**3 168 771**
where:		
Accrued income in assets	1 127 617	3 168 771
	1 127 617	**3 168 771**

(16) Other current assets

VAT overpaid	144 363	222 364
Payables for raw materials	872 065	36 699
Payables for warranties	22 037	19 001
Deferred expenses	8 075	12 821
Other taxes overpaid	24 535	
Other receivables	12 187	12 503
	1 083 262	**303 388**

(17) Cash and cash equivalents

Cash at bank on current accounts	157 966	45 125
Cash on hand	1 346	1 234
	159 312	**46 359**

(18) Share capital

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.

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.

(19) Borrowings		**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 plots in EUR	c)	856 688	998 529
Non - current loan in EUR (previously in USD)	e)	100 000	
Other loans in EUR	d)	9 801	18 200
		2 328 022	**2 766 027**
Current			
Current part of non-current loan in USD	a)	240 270	243 219
Current part of loan for gas equipment in EUR	b)	127 839	128 040
Current part of loan for privatization of land plots in EUR	c)	141 840	141 840
Short term loan in EUR	f)		937 200
Other loans in EUR	d)	8 401	8 401
Credit line facilities in EUR	e)	1 057 601	2 000 000
		1 575 951	**3 458 700**
Total non - current and current part		**3 903 973**	**6 224 727**

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
	EUR	**EUR**
At beginning of the year	6 224 727	8 162 777
Repaid borrowings during the year	(2 305 276)	(2 075 175)
Currency exchange rate fluctuation results	(15 478)	137 125
At the end of the year	**3 903 973**	**6 224 727**

Maturity of the total borrowings is as follows:

	2009	2008
Payable in 1 year	1 575 951	3 458 700
Payable in 2 – 5 years	1 638 245	1 686 277
Payable in more than 5 years	689 777	1 079 751
	3 903 973	**6 224 728**

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 EUR 19 220 818 (31.12.2008 - EUR 21 025 929).

(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 EUR 169 048 and at the end of the year estimated in amount of EUR 170 989.

(21) Other liabilities

	31.12.2009. EUR	31.12.2008. EUR
Non-current		
Accrued liabilities for post-employment benefits (non-current part)	129 912	150 200
	129 912	**150 200**
Current		
Advances received	1 557 975	775 481
Mandatory State social contributions	647 384	422 606
Payroll liabilities	223 664	330 358
VAT liabilities	98 070	282 932
Personnel income tax liabilities	310 341	249 718
Accrued liabilities for unused annual leave	177 822	247 564
Accrued liabilities for post-employment benefits (current part)	7 977	10 683
Other taxes payable	1 734	2 712
Other liabilities	144 032	146 158
	3 168 999	**2 468 212**

(22) Average number of employees of the Group

	2009	2008
Average number of people employed during the financial year	1 337	1 813

(23) Remuneration to personnel

	2009 EUR	2008 EUR
Salaries and mandatory State social insurance contributions for production personnel	3 647 559	6 805 126
Salaries and mandatory State social insurance contributions for distribution personnel	70 545	137 303
Salaries and social insurance contributions for administration personnel	1 319 789	2 375 909
	5 037 893	**9 318 338**
Including remuneration to key management		
salary expenses	209 811	175 467
mandatory State social insurance contributions	50 543	37 661

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

Renumuration of personnel includes mandatory State social insurance contributions in amount of EUR 964 314 (2008 - EUR 1 783 012).

(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

		31.12.2009.		31.12.2008.	
	Notes	Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
Related parties with significant influence		867 524	954 946	187 990	193 269
		867 524	**954 946**	**187 990**	**193 269**

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.

b) transactions

	2009	2008
Related parties with significant influence	**EUR**	**EUR**
Related parties with material influence in the Company:		
Repair services of railway rolling stock	4 805 962	4 297 318
Purchase of raw materials	2 512 407	3 323 062
Services received	23 802	57 515
Other transactions	58 248	8 035
	7 400 419	**7 685 930**

(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**

(ii) Interest rate risks

The Group is exposed to foreign exchange risk as the most liabilities ae interest-bearingt with the floating interest rate (Note 19), while the main part of the Group’s financial assets 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 effect 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**
	EUR	**EUR**
Trade receivables	3 243 739	3 939 794
Accrued income	1 127 617	3 168 771
Other receivables	1 075 187	290 567
Cash	159 312	46 359
	5 605 855	**7 445 491**

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 Groups 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	spitted as: in due term	Past due* < 90 days	90-180 days	> 180 days
31.12.2009	5 050 264	(1 110 470)	3 939 794	3 715 501	224 293	-	-
31.12.2008	4 292 423	(1 048 684)	3 243 739	2 150 829	174 475	-	918 435

* 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** **EUR**	**31.12.2008** **EUR**
Accruals at the beginning of the year	1 110 470	2 802 137
Trade receivables received		(35 999)
Decrease of accruals for written off bad debts	(61 787)	(1 667 465)
Accruals during the reporting year		11 797
Accruals at the end of the year	**1 048 683**	**1 110 470**

(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 EUR 1 299 999 (31.12.2008: 3 000 000 EUR). On 31 December 2009 the unused part of the credit line was EUR 142 400 (31.12.2008: EUR 62 798). 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 EUR 1 575 951 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**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
Long-term loans	2 766 027		538 008	1 156 133	1 071 886
Short -term loans	3 458 700	3 458 700			
Trade payables	2 864 712	2 864 712			
Accruals	340 038	340 038			
Other liabilities	2 618 411	2 468 212			150 200
	12 047 888	**9 131 662**	**538 008**	**1 156 133**	**1 222 086**

On 31 December, 2009	**Total**	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
Long-term loans	2 328 022		490 511	1 147 734	689 777
Short -term loans	1 575 951	1 575 951			
Trade payables	2 915 355	2 915 355			
Accruals	170 989	170 989			
Other liabilities	3 298 911	3 168 999			129 912
	10 289 228	**7 831 294**	**490 511**	**1 147 734**	**819 689**

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%).

	31.12.2009. EUR	31.12.2008 EUR
Total borrowings	3 903 973	6 224 727
Cash and its equivalents	(159 312)	(46 359)
Net loans	3 744 661	6 178 368
Equity	8 442 463	8 793 568
Total capital (equity and net loans)	12 187 124	14 971 936
Total assets	19 220 818	21 465 976
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.