ENG

AS Daugavpils Lokomotīvju Remonta Rūpnīca

ANNUAL REPORT

for the 12 months period ended 31 December 2010

CONTENTS

INFORMATION ON THE COMPANY

Name of the company	AS Daugavpils Lokomotīvju Remonta Rūpnīca
Legal status of the company	Limited liability company
Number, place and date of registration	Commercial register Nr. 40003030219 Riga, 3 October 1991 Komercreģistrā Riga, 8 June 2004
Address	Marijas Str. 1 Daugavpils, LV-5401 Latvia
Type of operations	Railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts.
Parent company	AS Skinest Rail (Estonia) - 47,97% AS Spacecom (Estonia) - 25,27% LLC Lokomotiiv Investeeringuud (Estonia) - 15,37% Other shareholders - 11,39%
Names and positions of the Counsel members	Oleg Ossinovski - Chairman of the Council Aivar Keskula - Vice Chairman of the Council (from 21.04.2010) Juri Krasnošlik - Vice Chairman of the Council Natalja Kumar - Member of the Council (from21.04.2010) Aleksandr Golubnitši - Member of the Council (from 21.04.2010) Vasily Barashkov - Member of the Council (till 20.04.2010) Maarika Piir - Member of the Council (till 20.04.2010) Oleg Rumjantsev - Member of the Council (till (20.04.2010)
Names and positions of the Board members	Natālija Petrova - Chairman of the Board Eduards Krukovskis - Member of the Board (from 13.12.2010) Mihails Mamonovs - Member of the Board (from 13.12.2010) Andrejs Šilovs - Member of the Board (till 15.06.2010) Kazimirs Steļmačenoks - Member of the Board (till 12.12.2010)
Financial year	1 January, 2010 - 31 December, 2010

Auditor's name and address:	Baker Tilly Baltics SIA License No. 80 Kronvalda boulevard 10 Riga LV-1010 Latvia Certified auditor in charge Eriks Bahirs Certificate No.136

REPORT OF THE MANAGEMENT

Type of operations

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

Performance of the Company during the financial year

In 2010 net sales of the Company was in amount 31,7 millions euro (19,2 million euro in 2009). Sales of principal activity comprised 22,5 million euro, that compile 140,9% of 2009. In addition to principal activity the Company rendered to subsidiaries the following services: sales of materials, rental services, administration and management services and others, which provides the additional net sales of 9.0 million euro (in 2009 - 5,7 million euro). In 2010 the Company was partly provided with orders, thus till May 2010 the work force was employed on short hour bases. The Company received an order on thorough repairs on a passenger trains and a snowplough and manufactured a transporter for dangerous cargo. Net loss for the year is 535 thousand.

Performance of the Group during the financial year

In 2010 the consolidated net sales of the Group amounted to 23,4 million Eur (162.4% in respect of net sales 2009).

In 2010 the Group was partly provided with orders, thus till May 2010 the work force was employed on short hour bases. The Group received an order on thorough repairs on a passenger trains and a snowplough and manufactured a transporter for dangerous cargo. The Net profit for the reporting period is 151,4 thousand Eur.

In 2010 the Group exported its products to 8 countries, the total export volume amounted to 20,8 million Eur (in 2009 - 11,2 million Eur), while turnover in Latvia amounted to 2,7 million Eur (in 2009 - 3,1million Eur). The main directions of export in 2010 were EU countries: Lithuania and Estonia, and the third countries: Russia, Belarus and Uzbekistan.

Financial risk management

The policy of financial risk management of the Company is described in financial report's Notes 33

Post balance sheet events

In the time period between the last day of the financial year and the date of signing the financial statements by the Board there have been no important events that would have a significant effect on the financial results of the year or the financial position of the Company.

Future prospects

In 2011 the Company intends to continue the economic activity established in 2010: increase the volume of repairs performed on railway rolling stock, as well as master new types of repairs. Key priority - quality of the services rendered and compliance with the agreement time tables, mastering new services and goods manufacturing modes and new customer attraction. As well in 2011 The Group intends to invest in modernization of the existing infrastructure, and purchase new machinery, using the funds provided by ERAF.

Natālija Petrova
Chairman of the Board

Daugavpils, 28 April 2011

INCOME STATEMENT

	Notes	2010 Eur	2009 Eur
Net sales	(1)	31 660 178	19 230 047
Cost of sales	(2)	(29 331 814)	(17 826 711)
Gross profit or losses		**2 328 364**	**1 403 336**
Distribution expenses	(3)	(234 724)	(170 969)
Administrative expenses	(4)	(1 287 319)	(1 119 574)
Other operating income	(5)	193 637	674 485
Other operating expenses	(6)	(1 419 242)	(363 946)
Interest and similar income	(7)	44 603	1 155
Interest and similar expenses	(8)	(97 482)	(343 746)
Profit or losses before taxes		**(472 163)**	**80 741**
Corporate income tax	(9)	(1 088)	(6 093)
Other taxes	(10)	(62 124)	(64 187)
Net profit or losses		**(535 375)**	**10 461**

Notes on pages 11 to 28 are an integral part of these financial statements.

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Natālija Petrova
Chairman of the Board

Daugavpils, 28 April 2011

BALANCE SHEET

	Notes	31.12.2010. Eur	31.12.2009. Eur
ASSETS			
Non-current assets			
Intangible assets:			
Other intangible assets	(11)	24 971	-
Total intangible assets:		**24 971**	**-**
Fixed assets:			
Land and buildings	(11)	1 868 165	1 891 940
Equipment and machinery	(11)	1 579 603	1 613 394
Other fixed assets	(11)	170 858	236 365
Fixed assets under construction	(11)	49 468	28 180
Total fixed assets:		**3 668 094**	**3 769 879**
Investment property:			
Buildings	(11)	3 221 624	3 316 504
Total non-current financial investments:		**3 221 624**	**3 316 504**
Non-current financial investments:			
Investments in subsidiaries	(12)	31 303	28 457
Other securities and investments	(12)	711	-
Total non-current financial investments:		**32 014**	**28 457**
Total non-current investments:		**6 946 703**	**7 114 840**
Current assets			
Inventories:			
Raw materials and consumables	(13)	1 727 622	2 523 487
Work in progress		-	414 928
Finished goods and goods for sale	(14)	182 149	99 343
Advances for inventories		258 516	871 634
Total inventories:		**2 168 287**	**3 909 392**
Account receivable:			
Trade receivables	(15)	2 030 885	3 082 924
Receivables from group companies	(16)	3 168 844	2 479 792
Other receivables	(17)	154 236	293 557
Deferred expenses	(18)	7 508	8 075
Accrued income	(19)	3 762 102	1 188 858
Total receivables:		**9 123 575**	**7 053 206**
Cash and bank:	(20)	**854 079**	**154 234**
Total current assets:		**12 145 941**	**11 116 832**
Total assets		**19 092 644**	**18 231 672**

Notes on pages 11 to 28 are an integral part of these financial statements.

BALANCE SHEET

	Notes	31.12.2010. Eur	31.12.2009. Eur
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	(21)	11 801 610	11 801 610
Non-current investments revaluation reserve	(11)	1 779 273	1 819 307
Retained earnings			
a) previous year's retained earnings		(6 307 617)	(6 318 078)
b) current years profit or losses		(535 375)	10 461
Total equity:		**6 737 891**	**7 313 300**
Provisions:	(22)	809 978	668 448
Liabilities:			
Non-current liabilities:			
Loans from banks	(23)	1 942 987	2 328 022
Deferred income tax liabilities	(9)	314 534	320 510
Total non-current liabilities:		**2 257 521**	**2 648 532**
Current liabilities:			
Loans from banks	(23)	413 114	1 575 951
Advances from customers		1 515 901	1 557 813
Trade payables		3 987 359	2 863 754
Payables to group companies	(24)	820 549	758 132
Taxes and social insurance payments	(25)	36 400	1 464
Other liabilities	(26)	52 918	45 456
Accrued liabilities	(27)	2 461 013	798 822
Total current liabilities:		**9 287 254**	**7 601 392**
Total liabilities:		**11 544 775**	**10 249 924**
Total equity, provisions and liabilities		**19 092 644**	**18 231 672**

Notes on pages 11 to 28 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 28 April 2011

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Non-current assets revaluation reserve	Retained earnings	Total
		Eur	Eur	Eur	Eur
31.12.2008.		**11 801 610**	**2 223 514**	**(6 318 078)**	**7 707 046**
Revaluation of fixed assets	(11)	-	(410 947)	-	(410 947)
Disposal of revalue fixed assets	(11)	-	(64 591)	-	(64 591)
Changes in deferred tax	(9)	-	71 331	-	71 331
Profit for the year		-	-	10 461	10 461
31.12.2009.		**11 801 610**	**1 819 307**	**(6 307 617)**	**7 313 300**
Disposal of revalue fixed assets	(11)	-	(47 098)	-	(47 098)
Changes in deferred tax	(9)	-	7 064	-	7 064
Loss for the year		-	-	(535 375)	(535 375)
31.12.2010.		**11 801 610**	**1 779 273**	**(6 842 992)**	**6 737 891**

Notes on pages 11 to 28 are an integral part of these financial statements.

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Natālija Petrova
Chairman of the Board

Daugavpils, 28 April 2011

CASH FLOW STATEMENT

		2010 Eur	2009 Eur
Cash flow from operating activities			
Profit or losses before taxes		**(472 163)**	**80 741**
Adjustments for:			
depreciation of investment property, fixed and intangible assets		540 219	573 076
profit from disposal of fixed assets		(70 062)	(70 122)
loss on disposal of investment in subsidiaries		5 687	2 846
changes in provisions		1 357 518	(199 959)
foreign exchange (gains)/losses		151 533	(15 542)
interest expenses		77 369	203 296
Cash flow prior to changes in current assets and liabilities		**1 590 101**	**574 336**
Inventory (increase)/decrease		1 755 828	(1 000 861)
Account receivable (increase)/decrease		(3 341 113)	2 758 450
Account payable increase/(decrease)		2 779 513	414 621
Gross cash flow generated from operating activities		**2 784 329**	**2 746 546**
Interest paid		(78 917)	(203 232)
Net cash flow generated from operating activities		**2 705 412**	**2 543 314**
Cash flow from investing activities			
Acquisition of investment property, fixed and intangible assets		(371 490)	(129 868)
Proceeds from sales of fixed assets		73 029	5 531
Equity investments paid		(9 249)	-
Net cash flow generated from investing activities		**(307 710)**	**(124 337)**
Cash flow from financing activities			
Loans repaid		(1 697 857)	(2 305 276)
Net cash flow generated from financing activities		**(1 697 857)**	**(2 305 276)**
Net increase / (decrease) in cash and cash equivalents		**699 845**	**113 701**
Cash and cash equivalents at the beginning of the financial year		**154 234**	**40 533**
Cash and Cash equivalents at the end of the financial year	(20)	**854 079**	**154 234**

Notes on pages 11 to 28 are an integral part of these financial statements.

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Natālija Petrova
Chairman of the Board

Daugavpils, 28 April 2011

NOTES TO THE FINANCIAL STATEMENTS

I. ACCOUNTING POLICIES

(1) General principles

Financial statements are prepared in accordance with the Laws of the Latvian Republic On Accounting, On the Annual Reports and effective Latvian Accounting Standards.

The financial statements have been prepared according to the historical cost accounting principle, that is modified by revaluation of tangible assets and investment property at fair value, as recognized in Notes (4) to accounting policy. The income statement is prepared in accordance with the turnover cost method. The cash flow statement has been prepared under indirect cash flow method.

(2) Income recognition and net sales

Net sales contains the total value of goods and services sold during the year excluding discounts and value added tax.

Income is recognized according to the following principles:
Sales of goods - after significant ownership risk and rewards have been passed to the buyer;
Rendering of services - under the percentage of completion method;
Income from fines and penalties - at the moment of receiving the payments;
Interest income - on an accrual basis;
Dividends - at the moment of acquiring legal rights to receive them.

Income from repair and modernization services is recognised on the basis of percentage of completion method. Contract costs related to repair and modernization services are recognised when incurred. 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 construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Company apply the 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.

The Company presents as an asset the gross amount due from the customers for contract work for all contracts in progress for which costs incurred plus recognized profit (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within "Trade Receivables".

The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profit (less recognized losses). Advances received from customers are included within "Advances from Customers".

(3) Foreign currencies

The Company performs its accounting in Latvian Lats. All transactions denominated in foreign currencies are converted into Lats at the exchange rate set by the Bank of Latvia on the day of transaction.

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 2009 to 31 December 2010.

Monetary assets and liabilities denominated in foreign currencies are translated into Lats in accordance with the official exchange rate set by Bank of Latvia for the last day of the financial year. The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized in the income statements in the respective period on net amount.

	31.12.2010.	**31.12.2009.**
	Ls	**Ls**
1 USD	0.535	0.484
1 EUR	0.702804	0.702804
1 LTL	0.203	0.204
1 EEK	0.0449	0.0449

(4) Fixed and intangible assets

Intangible and fixed assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of intangible and fixed assets.

Buildings and constructions are recognized at fair value of regularly made independent evaluation, less accrued depreciation. Land is recognized at fair value of regularly made independent evaluation. The difference that appears from revaluation is recognized in equity under “Long-term assets revaluation reserve”.

Depreciation is calculated on a straight-line basis applying the following rates of depreciation set by the management, based on the estimated useful life of the fixed assets:

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

The Company capitalizes its fixed assets valued over Ls 300 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than 300 Ls is recognized in full after its ready for use.

If sufficient evidence is acquired that the future economic benefit associated with subsequent costs will flow to the Company, which exceeds the return set previously, costs are capitalized as additional costs to the fixed asset. Capitalizing the cost of replaced parts, the carrying amount of the part replaced is derecognized and charged to the income statement. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Net gains or losses from disposal of fixed assets is calculated, as the difference between the carrying amount of the fixed asset, write-off of related assets revaluation reserve (if any) and proceeds from sale, and recognized in the income statements during the period when disposal are incurred.

If it is possible to conclude due to any kind of occurrence or circumstances that residual value of fixed or intangible assets could exceed its recoverable value, appropriate value of fixed or intangible asset is to be decreased until recoverable value. Recoverable value is prescribed as the highest from actual value of investigation, discharging purchase costs or usage values.

(5) Investment property

Investment property is property (land, building or part of building) held by the Company (as owner or by lessee under a finance lease) to earn rentals or for capital appreciation rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. For the land with uncertain future use (if the Company has not determined that it will use the land as owner occupied or short term sale in the ordinary course of business, it is assumed that land is held for capital appreciation), it is classified as investment property.

Investment property initially recognized at purchase cost. Further the investment property are recognized at fare value of regularly made independent evaluation, less accrued depreciation. Differences in value arising from revaluation is recognized in equity under “Long-term assets revaluation reserve".

Depreciation of buildings is calculated on a straight-line basis applying the following rates of depreciation, based on their estimated useful life:

	Depreciation % per annum
Buildings	1,67 - 10

(6) 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.

(7) Inventories

Inventories are stated at the lower of purchase or production cost and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventories at their current position and value. The costs of materials and other expenses that are directly connected with the production of the appropriate item as well as a respective part of overhead expenses are included in the production cost of inventories. Selling expenses has not included in cost. Cost is stated on the FIFO method. When the net realizable value of inventories is lower than its costs, the difference is recognized as provisions for the decrease of value.

(8) Account receivable

Receivables are recognized in the balance sheet at their net value, less provisions made for doubtful and bad debts. Provisions for doubtful receivables are established when the management of the Company considers that it is probable that the total amount of receivables will not be collected .

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

Non-current financial investments, including investments in subsidiaries and associates, are stated at cost less impairment losses.

(10) 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.

(11) 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.

(12) Taxation

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

Deferred tax is calculated according to the liability method with respect to all temporary differences between the values of assets and liabilities in the financial statements and their tax basis. The deferred tax liability is calculated based on the tax rates that are expected to be applied when the temporary differences reverse. The temporary differences arise from different fixed asset depreciation rates, impairment of assets as well as from tax losses carried to the next taxation periods. In cases, when the total result of the deferred tax calculation is to be reflected as assets, it is recognized in the financial statements only if a future taxable profit will be available against which the temporary differences can be utilised.

(13) 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.

(14) Group companies

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

(15) Related parties

Related parties are considered Group companies, Board and Council members, their close family members and Companies, in which the previously mentioned persons/Group companies have significant influence or control.

II. OTHER NOTES

(1) Net sales

	2010 Eur	2009 Eur
By operating activities		
Income from railway rolling stock repair and upgrade services	18 667 484	11 062 644
Income from sales of materials (see Note (30))	6 476 365	3 363 827
Income from sales of railway spare parts, locomotives and wagons	3 803 042	2 470 125
Income from rent of premises and equipment (see Note (30))	1 821 777	1 838 497
Management and administrative services (see Note (30))	262 958	178 506
Other income from transactions with subsidiaries (see Note (30))	236 138	127 089
Other income	392 414	189 359
	31 660 178	**19 230 047**
By location		
Income from sales of goods/services in Latvia	11 295 982	8 214 886
Income from sales of goods/services to EU	8 782 436	3 052 629
Income from sales of goods/services to Russia	8 370 896	4 021 747
Income from sales of goods/services to Uzbekistan	1 258 509	3 396 964
Income from sales of goods/services to Belarus	679 737	454 465
Income from sales of goods/services to other countries	1 272 618	89 356
	31 660 178	**19 230 047**

a) Rental income

The Company rents out all of the Group property, plants and equipment and other intangible and tangible assets used in the production to its subsidiary SIA "Remenergo". Rental income for buildings and machinery in 2010 amounted to EUR 1 821 777 (2009 - EUR 1 838 497). Rent agreements are signed till 31 December 2011.

(2) Cost of sales

	2010 Eur	2009 Eur
Service costs from subsidiaries	14 864 245	9 850 788
Raw materials and consumables	9 046 987	4 625 981
Acquisition costs of spare parts, locomotives and wagons sold	3 986 780	2 378 535
Depreciation of fixed assets	416 291	430 746
Utility expenses	186 160	82 719
Costs of goods sold	131 146	97 559
Salary expenses	65 913	62 881
Social insurance costs	15 704	14 971
Changes in provisions for warranty repairs	(19 875)	(39 533)
Other production costs	638 463	322 064
	29 331 814	**17 826 711**

(3) Distribution expenses

Transportation costs	146 241	100 424
Salary expenses	71 391	56 979
Social insurance	17 092	13 566
	234 724	**170 969**

(4) Administrative expenses

	2010 Eur	2009 Eur
Salary expenses	551 633	478 991
Utility expenses	155 103	150 561
Social insurance costs	131 794	113 899
Depreciation of fixed assets	122 339	140 750
Office expenses	49 127	39 105
Professional service costs	53 679	25 551
Rent expenses	12 235	14 465
Representation costs	2 913	3 719
Other administrative expenses	208 496	152 533
	1 287 319	**1 119 574**

(5) Other operating income

Net gain from disposal of fixed assets	70 062	70 121
Changes in provisions for financial support (see Note (22))	-	453 794
Rental income	69 445	82 612
Other income	54 130	67 958
	193 637	**674 485**

(6) Other operating expenses

Provisions for impairment of trade receivables	1 230 709	345 251
Changes in provisions for financial support (see Note (22))	157 863	-
Collective agreement costs	13 025	10 092
Loss from disposal of investments in subsidiaries	5 687	-
Other expenses	11 958	8 603
	1 419 242	**363 946**

(7) Interest and similar income

Net income from exchange rate fluctuations	14 414	-
Interest income	420	1 155
Fines received for delay in payments	29 769	-
	44 603	**1 155**

(8) Interest and similar expenses

Interest charge	77 368	203 296
Penalties paid	20 114	6 783
Net loss from exchange rate fluctuations	-	133 667
	97 482	**343 746**

(9) Corporate income tax

a) Components of corporate income tax	2010 Eur	2009 Eur
Changes in deferred income tax	1 088	6 093
	1 088	**6 093**

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:

	2010 Eur	2009 Eur
Profit before taxes	(472 163)	80 741
Real estate taxes	(62 124)	(64 187)
Profit before corporate income tax	(534 287)	16 554
Theoretically calculated tax at 15% tax rate	**(80 143)**	**2 483**
Tax effects on:		
Permanent differences	81 231	3 610
Total corporate income tax expenses	**1 088**	**6 093**

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	320 510	385 749
Deferred tax charged to the income statement	1 088	6 093
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	(7 064)	(71 332)
Deferred tax liabilities (asset) at the end of the financial year	**314 534**	**320 510**

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):

	31.12.2010. Eur	31.12.2009. Eur
Temporary difference on depreciation of fixed and intangible assets	502 259	514 810
Gross deferred tax liabilities	**502 259**	**514 810**
Provisions for expected losses	(91)	(622)
Provisions for contingent liabilities	(121 496)	(99 999)
Provisions for impairment of inventories	(13 799)	(16 007)
Provisions for impairment of trade receivables	-	(51 788)
Tax losses carried forward	(52 339)	(25 884)
Gross deferred tax assets	**(187 725)**	**(194 300)**
Net deferred tax liability (assets)	**314 534**	**320 510**

(10) Other taxes	2010 Eur	2009 Eur
Real estate tax for land	5 950	5 460
Real estate tax for buildings	56 174	58 727
	62 124	**64 187**

(11) Intangible, fixed assets and investment property

	Intangible assets	Investment property	Property, plant and equipment				
	Other intangible assets	Buildings	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Total
	Eur	Eur	Eur	Eur	Eur	Eur	Eur
Cost/revaluation							
31.12.2009.	-	3 821 332	2 442 378	7 957 858	983 768	28 180	11 412 184
Additions	30 058	30 855	4 919	249 842	34 530	371 490	660 781
Disposals	-	(1 131)	(8 016)	(84 039)	(29 011)	(350 202)	(471 268)
31.12.2010.	30 058	3 851 056	2 439 281	8 123 661	989 287	49 468	**11 601 697**
Depreciation							
31.12.2009.	-	(504 828)	(550 438)	(6 344 464)	(747 403)	-	(7 642 305)
Calculated	(5 087)	(125 153)	(27 889)	(282 054)	(100 037)	-	(409 980)
Disposals	-	549	7 211	82 460	29 011	-	118 682
31.12.2010.	(5 087)	(629 432)	(571 116)	(6 544 058)	(818 429)	-	**(7 933 603)**
Net carrying amount 31.12.2009.	**-**	**3 316 504**	**1 891 940**	**1 613 394**	**236 365**	**28 180**	**3 769 879**
Net carrying amount 31.12.2010.	**24 971**	**3 221 624**	**1 868 165**	**1 579 603**	**170 858**	**49 468**	**3 668 094**

In accordance with the accounting policy of the Company, all land and buildings owned by Company, except those which are leased out to subsidiaries of the Company, are classified as tangible assets (see note 30), other land and building s classified as investment property.

Company's land plots cadastral value on 31 December 2010 is EUR 437 964 (31.12.2009 - EUR 678 313), the cadastral value of buildings is EUR 4 763 092 (31.12.2009 - EUR 7 239 190).

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

With the assistance of licensed independent experts in 2007, 2008 and 2009 the Company has revaluated its own land and buildings. The decrease of value occurred as a result of revaluations was in the amount of EUR 3 606 792 in 2007 and EUR 1 931 073 in 2008 and EUR 410 947 in 2009 (less the amount of deferred tax liabilities related to the revaluation of tangible assets) are deducted from revaluation reserves. As per management's estimates no significant factors were identified during the reporting period, that would have a material effect on the changes of the assets value, as a result no impairment test on assets was performed.

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

	31.12.2010.	31.12.2009.
	Eur	Eur
Cost	6 682 113	6 672 755
Accumulated depreciation	(2 395 070)	(2 334 938)
Net carrying amount	**4 287 043**	**4 337 817**

During the reporting period borrowing costs were not capitalized as the Company had not used the funding for the purchase of tangible assets or investment property.

Information on pledged fixed assets is disclosed in the Note (23) to the financial statements.

(12) Equity investments

a) movement of investments

	Non-current		
	Investments in subsidiaries	**Other securities and investments**	**Total**
	Eur	**Eur**	**Eur**
Cost			
31.12.2009.	31 303	-	31 303
Purchase	8 537	711	9 248
Disposals	(8 537)	-	(8 537)
31.12.2010.	31 303	711	32 014
Changes of value of investments			
31.12.2009.	(2 846)	-	(2 846)
Revaluation	2 846	-	2 846
31.12.2010.	0	-	0
Net carrying amount 31.12.2009.	**28 457 -**		**28 457**
Net carrying amount 31.12.2010.	**31 303**	**711**	**32 014**

b) investments in subsidiaries

		Participating interest		Equity		Profit/(loss)	
Name	**Address**	**31.12.2009.**	**31.12.2010.**	**31.12.2009.**	**31.12.2010.**	**2009**	**2010**
		%	**%**	**Eur**	**Eur**	**Eur**	**Eur**
SIA Rel	Marijas 1, Daugavpils	-	100%	-	(113 091)	-	(115 937)
SIA Elap	Marijas 1, Daugavpils	100%	100%	52 225	21 537	(44 593)	(30 688)
SIA Remdīz	Marijas 1, Daugavpils	-	100%	-	(219 346)	-	(222 191)
SIA Ritrem	Marijas 1, Daugavpils	100%	100%	89 873	75 809	(5 485)	(14 064)
SIA Elektromaš	Marijas 1, Daugavpils	100%	100%	495 454	464 347	2 215	(31 107)
SIA Krāsotājs	Marijas 1, Daugavpils	100%	100%	(218 613)	(244 367)	(43 123)	(25 754)
SIA SPZČ	Marijas 1, Daugavpils	100%	100%	(66 011)	(290 698)	(280 724)	(224 687)
SIA Metalurgs	Marijas 1, Daugavpils	-	100%	-	(37 037)	-	(39 883)
SIA Remenergo	Marijas 1, Daugavpils	100%	100%	(257 410)	(308 082)	(188 767)	(50 671)
SIA Instruments	Marijas 1, Daugavpils	100%	100%	(152 479)	(152 711)	(184)	(232)
SIA Loģistika	Marijas 1, Daugavpils	100%	100%	1 729	8 937	32 878	7 208
SIA DP Projekti *	Vienības gt. 78-1,Riga	100%	-	(1 242 844)	-	(215 603)	-
SIA Apdare un Remonts *	Bruņinieku 28-101,Riga	100%	-	(543 967)	-	(79 399)	-
SIA DNF Projekti *	Baltā 3/9, Riga	100%	-	(569 189)	-	11 399	-
				(2 411 232)	**(794 702)**	**(811 386)**	**(748 006)**

* During the reporting period the Company disposed of three of its subsidiaries: SIA "DNF Projekti" (former SIA "Metalurgs"), SIA "Apdara un remonts" (former SIA "Remdīz") and SIA "DP Projekti" (former SIA "REL"). Net loss from disposal of subsidiaries in 2010 amounted to EUR 5 687, as well as write-off for doubtful receivables of EUR 734 546 has been recognized (2009 - EUR 345 251).

The activity of subsidiary companies is the overhaul repair of different parts of railway rolling stock, maintenance and upgrade, as well as additional function performance, including:

SIA Rel	Railway rolling stock carboy repair and upgrade
SIA Elap	Repair and upgrade of electric equipment of rolling stock
SIA Remdīz	Repair of engine and it's knots of rolling stock
SIA Ritrem	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock
SIA Elektromaš	Repair and producing of electromotor, generators and transformers
SIA Krāsotājs	Dyeing of rolling stock
SIA SPZČ	Repair and production of spare parts
SIA Metalurgs	Metal foundry
SIA Remenergo	Maintenance of movable property and real estate, technical control and overhaul of buildings, constructions and producing equipment, rendering services of public facilities to Group companies
SIA Instruments	Not active
SIA Loģistika	Logistics, loading, unloading services

(13) Raw materials and consumables

	31.12.2010. Eur	31.12.2009. Eur
Raw materials, material and auxiliary material cost	1 786 890	2 597 476
(Accruals for damaged and slow moving stock)	(59 268)	(73 989)
	1 727 622	**2 523 487**

(14) Finished goods and goods for resale

Finished goods	214 747	131 887
Other goods for sale	128	182
(Accruals for damaged and slow moving stock)	(32 726)	(32 726)
	182 149	**99 343**

(15) Trade receivables

Book value of trade receivables	3 573 733	4 129 609
(Provisions for bad and doubtful debts)	(1 542 848)	(1 046 686)
	2 030 885	**3 082 924**

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

(16) Receivables from group companies

Settlements with subsidiaries	3 082 669	2 739 096
Loans to subsidiaries	86 175	85 947
(Provisions for impairment)	-	(345 251)
	3 168 844	**2 479 792**

(17) Other receivables

VAT overpaid (see Note (25) for details)	60 338	143 488
Corporate income tax overpaid (see Note (25) for details)	-	95 287
Payments for guarantees	64 484	22 038
VAT for advances received	19 048	431
Payments for other services	3 058	3 058
Other receivables	5 310	4 271
Payments to personnel	1 998	465
Other taxes overpaid	-	24 519
	154 236	**293 557**

(18) Deferred expenses

Prepayments of insurance payments	2 950	3 694
Other expenses	4 558	4 381
	7 508	**8 075**

(19) Work-in-progress on repair and modernisation services

	31.12.2010. **Eur**	**31.12.2009.** **Eur**
Costs incurred and profit recognised as income	3 762 708	1 193 006
Accruals for recognised losses	(606)	(4 148)
Gross amount of work-in-progress	**3 762 102**	**1 188 858**
where:		
Work-in-progress as assets (under "Accrued income")	3 762 102	1 188 858
	3 762 102	**1 188 858**
Corresponding amounts:		
Contract revenue recognised in income statement (under "Net sales")	18 667 484	11 062 644
Advances received from customers (under "Advances from customers")	1 515 901	1 557 813
Retentions on contracts (under "Trade receivables")	64 485	19 601

(20) Cash and bank

Cash at bank on current accounts	852 881	152 888
Cash on hand	1 198	1 346
	854 079	**154 234**

(33) Share capital

Registered and fully paid share capital of the Company is Ls 8 294 219 (11 801 610 EUR), 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.

The Company's shares are quoted in AS NASDAQ OMX stock exchange in second list. At the end of financial period 944 192 shares are quoted.

(22) Provisions

	Provisions for warranty costs	Provisions for financial support	Total
	Eur	Eur	Eur
31.12.2008.	**71 144**	**1 090 634**	**1 161 778**
Decrease	(39 534)	(453 796)	(493 330)
31.12.2009.	**31 610**	**636 838**	**668 448**
Increase	-	157 863	157 863
Decrease	(16 333)	-	(16 333)
31.12.2010.	**15 277**	**794 701**	**809 978**

a) Provision for warranty costs

In accordance with sales contracts the Company provides free of charge warranty repairs under general repair terms. Taking into account that the rolling stock repairs actually are carried out by the subsidiaries of the Company, which estimates the provisions for warranty repairs in its individual financial statements, the provision in financial statements of the Company are valued as difference between the Group's estimated warranty costs and provisions for warranty created by subsidiaries.

a) Provisions for financial support

In accordance with Group's operation model described in Note (32) the Company provides to subsidiary's the financial resources for supporting their operations. Subsidiaries results of operations and financial positions are disclosed in Note (12) to the financial statements. Taking into account that part of the subsidiaries have negative financial results of operations, it is expected that the Company or the Group's other subsidiary companies may not recover the investment or the debt of those companies. The Company issued a support letter to all subsidiaries companies for the further financial support.

The Company makes provisions for its contingent liabilities for guarantees issued to subsidiaries to support the operations. At the year end the provisions are estimated on base of subsidiaries' total current negative equity value .

(23) Loans from banks

	Note	31.12.2010. Eur	31.12.2009. Eur
Non-current			
Non-current loan in USD	a)	1 226 739	1 361 533
Loan for privatization of land in EUR	c)	714 848	856 688
Other loans in EUR	d)	1 400	9 802
Credit line facilities in EUR	e)	-	99 999
		1 942 987	**2 328 022**
Current			
Current part of non-current loan in USD	a)	262 873	240 270
Current part of non-current loan for gas equipment in EUR	b)	-	127 839
Current part of loan for privatization of land in EUR	c)	141 840	141 840
Other loans in EUR	d)	8 401	8 401
Credit line facilities in EUR	e)	-	1 057 601
		413 114	**1 575 951**

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 is repaid during the reporting period.

c) In 2006 the Company has received a loan in amount of LVL 1 000 000 from A/S NORVIK banka for privatization of land plots. The Group has refinanced the loan in euro with repayment till December 2016. The interest rate is 1.6% plus 6 months EURIBOR.

d) In 2007 the Company received a loan in amount of EUR 42 000 from A/S NORVIK banka. It must be repaid until February 2012. The interest rate is 1.6% plus 6 months EURIBOR.

e) In 2006 the Company signed credit line agreement with A/S Norvik banka with maximum financing amount of USD 3 000 000 with the repayment till September 2007. In 2008 the Company refinanced the loan in amount of EUR 2 000 000 which is to be repaid until 15 January 2011. Interest rate 2.3 % + 3 month EURIBOR. At the end of the reporting period the Company has not used the credit line facilities.

The implementation of obligations of the Company are provided and strengthened by:
(i) mortgage on all real estate belonged to the Company;
(ii) commercial pledge of all property of the Company as a totality of belongings at the mortgage moment, as well as totality of belongings for the next components.
The value of Company's mortgaged balance assets on 31 December 2010 is Eur 19 092 644 (31.12.2009 - Eur 18 231 672).

(24) Payables to group companies

	31.12.2010. Eur	31.12.2009. Eur
Settlements with subsidiaries (see Note (30))	820 549	758 132
	820 549	**758 132**

(25) Taxes and social insurance payments

	31.12.2009.	Calculated	Calculated penalty and delay fees	(Paid)/ repaid	Transferred to other taxes	31.12.2010.
	Eur	**Eur**	**Eur**	**Eur**	**Eur**	**Eur**
VAT	(143 489)	(363 860)	-	252 859	194 151	(60 339)
Personal income tax	(1 557)	141 670	-	(10 401)	(116 751)	12 961
Social insurance payments	(22 718)	234 159	-	(17 402)	(172 687)	21 352
Corporate income tax	(95 287)	-	-	-	95 287	-
Real estate tax (land)	(245)	5 949	285	(5 989)	-	-
Real estate tax (buildings)	-	56 174	435	(56 609)	-	-
Natural resource tax	1 427	6 743	-	(6 121)	-	2 047
Enterprise risk duty	40	498	-	(497)	-	41
Total	**(261 829)**	**81 332**	**720**	**155 840**	**0**	**(23 938)**
Hereof						
(Overpaid) - see Note 17 for details	**(263 293)**					**(60 338)**
Payables	**1 464**					**36 400**

In 2010 the Company has used the 100% exemption from natural resource tax as it is involved in voluntary program of packaging waste management.

(26) Other liabilities

	31.12.2010.	31.12.2009.
	Eur	**Eur**
Payroll liabilities	48 641	39 248
Other liabilities	4 277	6 208
	52 918	**45 456**

(27) Accrued liabilities

Accrued liabilities to subsidiaries	2 061 723	698 514
Accrued trade payables	368 835	49 923
Accrued unused annual leave expenses	30 455	50 385
	2 461 013	**798 822**

(28) Fees paid to auditors

	2010	2009
	Eur	**Eur**
For the audit of financial statements	26 400	25 551
For tax consulting	797	847
	27 197	**26 398**

(29) Average number of employees

	2010	2009
Average number of people employed during the financial year	112	124

(30) Remuneration to personnel

	2010 Eur	2009 Eur
Employee pay	688 937	535 969
Social insurance payments	164 590	127 401
Other expenses	92 670	128 612
	946 197	**791 982**

(31) Remuneration to the management

Board members	**76 600**	**127 889**
· salary expenses	61 730	103 061
· other social insurance expenses	14 870	24 828

(32) Transactions with related parties

As mentioned in Note (12), the Company holds 100% shares of subsidiary companies SIA Rel, SIA Elap, SIA Remdiz, SIA Ritrem, SIA Elektromaš, SIA Krāsotājs, SIA SPZČ, SIA Metalurgs, SIA Remenergo, SIA Instruments and SIA Logistika. Claims and liabilities against subsidiary companies are classified as receivables and payables to Group companies accordingly.

The biggest shareholders of the Company AS Skinest Rail (Estonia) and AS Spacecom (Estonia) has a material influence in Company's policy formation and decision making. Disclosed below is information on 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

		31.12.2010.		31.12.2009.	
	Notes	Receivables Eur	Payables Eur	Receivables Eur	Payables Eur
Group companies		3 168 844	820 549	2 479 792	758 132
Other related companies		224 010	2 401 847	848 383	954 946
		3 392 854	**3 222 396**	**3 328 175**	**1 713 078**

b) transactions

	Notes	Sales to related parties		Purchases from related parties	
		2010	**2009**	**2010**	**2009**
		Eur	**Eur**	**Eur**	**Eur**
Group companies					
Repair services of railway rolling stock	(i)	-	-	11 884 097	7 761 609
Sales/production of materials		6 476 365	3 363 827	1 498 775	2 003 441
Rent of premises and equipment		1 821 777	1 838 497	12 235	14 465
Administrative and management services	(ii)	277 858	194 353	-	-
Other transactions		456 398	168 962	316 518	373 791
Total Group companies:		**9 032 398**	**5 565 639**	**13 711 625**	**10 153 306**
Other related parties					
Repair services of railway rolling stock		5 928 687	3 152 010	119 864	23 802
Sales/purchases of materials		68 332	51 445	8 204 243	2 512 102
Total other related parties:		**5 997 019**	**3 203 455**	**8 324 107**	**2 535 904**
		15 029 417	**8 769 094**	**22 035 732**	**12 689 210**

(i) Starting from 2007 the Company has been providing repair of the railway rolling stock by purchasing repair services from its subsidiaries. The largest subsidiaries, providing the Company with railway rolling stock repair services, are SIA Rel, SIA Elap, SIA Remdīz, SIA Elektromaš, SIA Ritrem un SIA Krāsotājs. Each of these mentioned companies carry out the separate part of mentioned services according to every subsidiary's activity (see Note (12)). Respectively, SIA Remenergo, SIA SPZČ, SIA Instruments, SIA Metalurgs and SIA Loģistika mainly provide assistance functions in railway rolling stock repair works. These services are provided to other subsidiaries, as well as to the Company.

(ii) The Company provides administrative management services for subsidiaries, which include accounting, economic, control and metrology, technical services and supplement technological process with services of engineers - constructors.

(33) Financial risk management

Financial risks, related to the financial instruments of the Company, mainly, are currency risk, interest rate risk, liquidity risk and credit risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial position. The Company does not use derivative financial instruments to hedge certain risk exposures.

Foreign currency risks

The Company acts internationally and is exposed to foreign currency exchange rate fluctuation risk arising from the currency fluctuations of US dollar and Russian ruble to lats and 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 Company 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 2010 the Company 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 companies foreign exchange open position is:

	31.12.2010.	**31.12.2009.**
Financial assets, EUR	1 058 324	21 209
Financial liabilities, EUR	(2 931 330)	(2 888 974)
Open position EUR, net	(1 873 006)	(2 867 765)
Open position EUR, calculated in lats, net	**(1 316 356)**	**(2 015 477)**
Financial assets, USD	1 241 016	4 227 074
Financial liabilities, USD	(4 148 998)	(6 042 637)
Open position USD, net	(2 907 982)	(1 815 563)
Open position USD, calculated in lats, net	**(1 555 771)**	**887 810**
Financial assets, RUB	31 528 709	27 039 385
Financial liabilities, RUB	(6 019 731)	(16 923 607)
Open position RUB, net	25 508 978	10 115 778
Open position RUB, calculated in lats, net	**448 958**	**165 899**

Interest rate risks

The Company is exposed to interest rate risk as the most liabilities are interest-bearing with the floating interest rate (note (23)), while the main part of the Company's financial assets are interest-free receivables, therefore the Company is exposed to floating interest rate risk. In 2010 the interest rate in all loan liabilities has decreased significantly.

Credit risk

The Company is subject to the credit risk with respect to the debts of its buyers and customers, related parties receivables, other receivables and money and its equivalents. The Company manages its credit risk constantly reviewing the repayment history of the client debts and stating the credit conditions for each client separately. The Company also monitoring the balances of trade receivables to decrease the risk of non-recoverability of debts. See also Note (22) on provisions created for financial support to subsidiaries.

Liquidity risk

The Company manages its liquidity risk, maintaining the appropriate amount of cash and cash equivalents and also using the bank credit line facilities.

(34) Subsequent events

There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2010.

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Natālija Petrova
Chairman of the Board

Daugavpils, 28 April 2011

The annual report has been approved by the general meeting of members ____ ______________ 2011

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Daugavpils Lokomotīvju Remonta Rūpnīca AS

Report on the Financial Statements

We have audited the accompanying financial statements of Daugavpils Lokomotīvju Remonta Rūpnīca AS (the Company) included in the Annual report as set out on pages 6 to 28. The period of financial statements is from 1 January 2010 till 31 December 2010 (the Financial year). These financial statements include the balance sheet as at 31 December 2010, and the income statement, cash flow statement, statement of changes in equity for the Financial year, and summary of significant accounting policy and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Law on Annual reports of the Republic of Latvia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

Opinion

In our opinion, the above mentioned financial statements give a true and fair view of the financial position of the Company as at the end of the Financial year, and of its financial performance and cash flow for the Financial year in accordance with Law on Annual reports of the Republic of Latvia.

Report on Other Legal and Regulatory Requirements

We have read the Management Report for the Financial year as set on page 5 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

Ēriks Bahirs
Certified Auditor
Certificate No.136
Chairman of the Board

Riga, 28 April 2011

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