CONTENTS

MANAGEMENT

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)

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

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. The Net profit for the reporting period is 151,4 thousand Eur.

In 2010 the Company 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 Group is described in financial report's Notes 26.

Future prospects

In 2011 The Group 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

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 on page 6 to page 30 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, 28 April 2011

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2010 Eur	2009 Eur
Net sales	(2)	23 401 475	14 362 585
Cost of sales	(3)	(21 328 102)	(12 426 402)
Gross profit (loss)		**2 073 373**	**1 936 183**
Distribution expenses	(4)	(234 724)	(170 970)
Administrative expenses	(5)	(2 153 007)	(1 867 515)
Other income	(6)	690 054	178 851
Other expenses	(7)	(24 179)	(16 542)
Finance income and costs (net)	(9)	(148 141)	(448 569)
Profit (loss) before tax		**203 376**	**(388 562)**
Corporate income tax	(10)	(51 985)	37 457
Net profit (loss)		**151 391**	**(351 105)**
Attributable to:			
Equity holders of a parent company		151 391	(351 105)
Minority interest		-	-
Earnings per share	(11)		
Basic		1.83	(4.23)
Diluted		1.83	(4.23)
Total comprehensive income (expense)		**151 391**	**(351 105)**
Attributable to:			
Equity holders of a parent company		151 391	(351 105)
Minority interest		-	-

Notes on pages 10 to 30 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 28 April 2011

STATEMENT OF FINANCIAL POSITION

		31.12.2010. Eur	31.12.2009. Eur
ASSETS			
Non-current assets			
Intangible assets		24 971	-
Property, plant and equipment (tangible assets)	(12)	9 124 773	9 381 285
Investments in associated companies		711	-
Total non-current assets:		**9 150 455**	**9 381 285**
Current assets			
Inventories	(13)	2 871 953	4 063 977
Accrued income	(15)	3 706 447	1 127 617
Trade receivables	(14)	2 037 382	3 243 739
Corporate income tax receivables	(10)	36 680	161 626
Other current assets	(16)	421 620	1 083 262
Cash and cash equivalents	(17)	867 454	159 312
Total current assets:		**9 941 536**	**9 839 533**
Total assets		**19 091 991**	**19 220 818**

		31.12.2010. Eur	31.12.2009. Eur
EQUITY AND LIABILITIES			
Equity			
Share capital	(18)	11 801 610	11 801 610
Retained earnings of the previous years		(3 359 147)	(3 008 042)
Retained earnings of the reporting year		151 391	(351 105)
Total equity:		**8 593 854**	**8 442 463**
Liabilities:			
Non-current liabilities:			
Borrowings	(19)	1 942 987	2 328 022
Deferred income tax liabilities	(10)	529 004	477 020
Other non-current liabilities	(21)	129 912	129 912
Total non-current liabilities:		**2 601 903**	**2 934 954**
Current liabilities:			
Borrowings	(19)	413 114	1 575 951
Trade payables		4 090 075	2 915 355
Corporate income tax payables	(10)	-	12 107
Provisions	(20)	162 133	170 989
Other liabilities	(21)	3 230 912	3 168 999
Total current liabilities:		**7 896 234**	**7 843 401**
Total liabilities:		**10 498 137**	**10 778 355**
Total equity and liabilities:		**19 091 991**	**19 220 818**

Notes on pages 10 to 30 are an integral part of these financial statements.

Natalija Petrova
Chairman of the Board

Daugavpils, 28 April 2011

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	Eur	Eur	Eur
31.12.2008.	**11 801 610**	**(3 008 042)**	**8 793 568**
Loss of the previous 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**
Profit of the reporting year		151 391	151 391
Total profit or loss		151 391	151 391
31.12.2010.	**11 801 610**	**(3 207 756)**	**8 593 854**

Notes on pages 10 to 30 are an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	2010 Eur	2009 Eur
Cash flow from operating activities			
Profit or losses before income tax		**203 375**	**(388 561)**
Adjustments for:			
depreciation and amortization	(12)	599 557	620 193
profit from disposal of tangible assets	(12)	(22 965)	(5 531)
changes in provisions		504 610	(246 514)
foreign currency (gains)/losses		151 533	(15 542)
interest expenses		77 367	203 296
Cash flow prior to changes in current assets		**1 513 477**	**167 341**
Inventory (increase)/decrease		1 177 303	(244 688)
Account receivable (increase)/decrease		(1 209 575)	2 034 799
Account payable increase/(decrease)		1 358 296	923 430
Gross cash flow generated from operating activities		**2 839 501**	**2 880 882**
Interest paid	(19)	(78 917)	(203 232)
Income tax paid		-	(135 082)
Net cash flow generated from operating activities		**2 760 584**	**2 542 568**
Cash flow from investing activities			
Acquisition of tangible assets		(371 492)	(129 868)
Proceeds from sales of tangible assets		26 156	5 531
Equity investments paid		(9 249)	-
Net cash flow generated from investing activities		**(354 585)**	**(124 337)**
Cash flow from financing activities			
Borrowings repaid	(19)	(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		**708 142**	**112 955**
Cash and cash equivalents at the beginning of the financial year		**159 312**	**46 357**
Cash and Cash equivalents at the end of the financial year	(17)	**867 454**	**159 312**

Notes on pages 10 to 30 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

AS "DAUGAVPILS LOKOMOTIVJU REMONTA RUPNICA" (further in text - 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, production, repair and sale of their spare parts.

The Group financial year is from 1 January 2010 till 31December 2010.

These financial statements were authorised for issue by the Board of Directors of the Company on 28 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 2006 the Company established 11 subsidiary companies holding 100% shares in each. Subsidiary companies commenced active operations only in January 2007.

Name of the subsidiary	**Address**	**Type of operations**	**Share capital**	**Participation interest**
			Eur	**%**
SIA "Rel"	Marijas 1, Daugavpils	Repair of diesel and electric locomotives	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 electromotor, 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 fixture, technical control and capital repair of buildings, constructions and producing equipment, public facility service rendering to Group companies	2 846	100
SIA "Instruments"	Marijas 1, Daugavpils	Is not active	2 846	100
SIA "Loģistika"	Marijas 1, Daugavpils	Logistics services Intermediary for supply of materials for The Group purposes	2 846	100
			31 306	

a) Disposals of subsidiaries

During the reporting period the Company disposed of three of its subsidiaries: SIA "DNF Projekti" (former SIA "Metalurgs"), SIA "Apdare un remonts" (former SIA "Remdīz") and SIA "DP Projekti" (former SIA "REL"). Net profit from disposal EUR 388 568.

b) Incorporation of subsidiaries

In 2010 the Company established three subsidiaries: SIA "Metalurgs", SIA "Remdīz" un SIA "REL".

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) to accounting policies.

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 judgments applying the accounting policies adopted by The Group. Critical estimates and judgments are represented in note (21) to accounting policies.

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

IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements - Amendments (effective for financial years beginning on or after 1 July 2009). As The Group has made no business combination activities the revised standards do not have any impact to Company's financial statements.

b) Standards, amendments and interpretations that are effective from 1 January 2010, but not relevant for operations of the Company

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items - Amendments (effective for financial years beginning on or after 1 July 2009).
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item.

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 for annual periods beginning after 31 December 2009).

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 for 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).

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).

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

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 for 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 for annual periods beginning after 30 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 for 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 for annual periods beginning after 31 October 2009).

Improvements to IFRS issued in April 2009
Amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009, amendments to IFRS 5, IFRS 8, IAS 1, IAS 17, IAS 36, and IAS 39 are effective for annual periods beginning on or after 1 January 2010, the amendments as adopted by EU are effective for annual periods beginning on or after 1 January 2010). Improvements consist of a mixture of substantive changes and clarifications in the different areas. The amendments do not have significant impact to the Company's financial statements.

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

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 Company does not expect the amendment to have any material effect on 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 Company is considering the implications of the standard, the impact on the Company's financial statements and the timing of its adoption.

Improvements to IFRS issued in May 2010
Amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. Most of are effective for annual periods beginning on or after 1 January 2011, 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.

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

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

IFRS 7 Limited exemption from comparative disclosures for first-time adopters - Amendments to IFRS 1 (effective for annual periods beginning on or after 1 July 2010, not yet adopted by the EU).

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 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 till their disposal.

(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 (LVL), 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 2009 to 31 December 2010.

(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:

	31.12.2010.	**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
1 RUR	0.0176	0.0164

(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. Main operation of The Group are 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 at recognition.

The Group apply the stage of completion method to determine the correct amount of revenues to be recognized 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

Property, plant and equipment (PPE) are initially accounted at the purchase cost. Purchase cost includes costs, which are directly related to the purchase of PPE. In financial statements PPE 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 shown 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	4- 20
Other machinery and equipment	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 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 shareholders of the Company, who have a significant influence or control over the Company, members of the Board and the Council, their close relatives and companies, in which they have a significant influence or control.

(21) Critical accounting estimates and judgements

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

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities shown in the financial statements, and disclosures in the notes at the date of the balance sheet as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are impairment test of tangible assets, assumptions and estimates of the Management on calculation of stage of the completion of the repair services contract, tangible asset classification between components 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 31.12.2010 of Ls 9 124 773 (31.12.2009 - Ls 9 381 284) that is used in principal activity of The Group - is subjective, as well as the low level of liquidity in the real estate market, The Group carried out the calculation of recoverable value of assets by the value in use method. In estimation of the future cash flow the management of The Group evaluated, among other factors, useful life of asset, trends of economics and competitiveness, potential changes in technology and in activity of The Group, changes in the operational and financial cash flows of the Group. Estimates used for impairment test are disclosed in note (12) of the financial statement.

Components of property, plant and equipment (PPE)

The Company accounts and depreciates PPE by it's material components as per IAS 16. Estimates of the Company about allocation of PPE to it's components and density of each part in total value of PPE are build on calculation which shows costs replacement of each component in total amount of costs replacement of each PPE.

Stage of completion method for long-term contacts

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 3 706 447 (31.12.2009 - EUR 1 127 617).

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 2 011 770 (31.12.2009 - EUR3 243 739). Information on amount and structure of receivables is disclosed in note (24) of the financial statements.

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 2 871 953 (31.12.2009 - EUR 4 063 977).

III. OTHER NOTES

(1) 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. The Group repairs and modernizes 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:

	2010	**2009**
	Eur	**Eur**
Russia	8 370 895	4 021 774
Estonia	7 172 481	2 623 064
Latvia	2 665 439	3 077 761
Lithuania	1 925 715	350 026
Belarus	679 737	454 465
Uzbekistan	447 635	3 396 964
Poland	50 195	349 173
Other countries	2 089 378	89 356
	23 401 475	**14 362 585**

(c) Major customers

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

	2010	**2009**
	Eur	**Eur**
Customer Nr.1	6 490 587	4 716 039
Customer Nr.2	3 751 000	539 963
Customer Nr.3	874 570	2 780 439
Customer Nr.4	851 210	2 605 808
Other clients	11 434 108	3 720 336
	23 401 475	**14 362 585**

(3) Cost of sales

	2010	2009
	Eur	**Eur**
Raw materials and consumables	12 538 083	6 889 010
Salary expense	3 836 021	2 949 872
Utility costs	1 250 845	995 339
Mandatory State social insurance contributions	915 453	697 687
Increase in provisions for inventories and receivables	484 024	-
Depreciation of tangible assets	476 137	477 864
Increase in provisions for warranty and other contingent liabilities	126 416	(201 038)
Increase in provisions for expected losses	98 679	(77 574)
Increase in provisions for post-employment benefits	-	(22 994)
Other production costs	1 602 444	718 236
	21 328 102	**12 426 402**

(4) Distribution expenses

Transportation costs	146 241	100 425
Salary expenses	71 391	56 979
Mandatory State social insurance contributions	17 092	13 566
	234 724	**170 970**

(5) Administrative expenses

Salary expenses	1 240 183	1 066 728
Mandatory State social insurance contributions	296 387	253 062
Depreciation of tangible assets	122 339	140 750
Utility expenses	155 103	150 561
Professional service costs	53 110	25 551
Office costs	52 517	43 309
Representation costs	2 913	3 719
Other administrative expenses	230 455	183 835
	2 153 007	**1 867 515**

(6) Other income

Net income from sale of subsidiaries	388 567	-
Net income from sale of tangible assets	22 965	5 529
Rental income	69 445	82 612
Other income	209 077	90 710
	690 054	**178 851**

(7) Other expenses

Cost of collective agreement with employees	12 161	10 374
Other expenses	12 018	6 168
	24 179	**16 542**

(8) Expenses by Nature

	2010 Eur	2009 Eur
Row materials, consumables and cost of goods sold	12 538 083	6 889 009
Salary expenses	5 147 596	4 073 579
Mandatory State social insurance contributions	1 228 932	964 315
Utility costs	1 405 948	1 145 900
Increase in provisions for inventories and receivables	484 024	-
Increase in provisions for post-employment benefits	-	(22 994)
Increase in provisions for warranty and other contingent liabilities	126 416	(201 038)
Increase in other provisions	98 679	(77 574)
Increase in provisions for expected losses	598 476	618 615
Transportation expenses	146 241	100 425
Office expenses	52 517	43 309
Advertisement expenses	2 913	3 719
Other expenses	1 910 188	944 164
	23 740 013	**14 481 429**

(9) Finance income and expenses (net)

Interest income	30 190	1 215
Net expenses from exchange rate fluctuations	14 415	(133 667)
Interest charge	(77 367)	(203 296)
Penalties paid	(115 379)	(112 821)
	(148 141)	**(448 569)**

(10) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	51 985	(56 445)
Corporate income tax according to the tax return	-	18 988
	51 985	**(37 457)**

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:

	2010 Eur	2009 Eur
Profit before taxes	203 375	(388 562)
Theoretically calculated tax at 15% tax rate	**30 506**	**(58 284)**
Tax effects on:		
Permanent differences	21 478	20 827
Total tax charge	**51 984**	**(37 457)**

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	477 019	533 465
Deferred tax charged to the income statement	51 985	(56 445)
Deferred tax liabilities (asset) at the end of the financial year	**529 004**	**477 020**

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 tangible and intangible assets	837 518	859 316
Gross deferred tax liabilities	**837 518**	**859 316**
Temporary difference on accruals for expected losses	(8 439)	(7 962)
Temporary difference on provisions for potential liabilities	(24 320)	(25 649)
Temporary difference on provisions for impairment of inventories	(16 182)	(18 689)
Tax losses carried forward	(259 573)	(329 997)
Gross deferred tax assets	**(308 514)**	**(382 297)**
Net deferred tax liability (assets)	**529 004**	**477 019**

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	(48 941)	(105 337)
deferred tax asset to be recovered within more than a year	(259 573)	(276 961)
	(308 514)	(382 297)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	38 937	34 059
deferred tax liabilities to be recovered after more than a year	798 581	825 257
	837 518	859 316
Net deferred tax liabilities (assets)	**529 004**	**477 019**

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 PPE Eur	Accruals for expected losses Eur	Impair-ments of inventories Eur	Provisions for expected losses Eur	Tax losses carried forward Eur	Total Eur
31.12.2008	878 872	(19 580)	(18 706)	(51 006)	(256 116)	533 464
Charged / (credited) to income statement	(19 556)	11 618	17	25 357	(73 881)	(56 445)
31.12.2009	859 316	(7 962)	(18 689)	(25 649)	(329 997)	477 020
Charged / (credited) to income statement	(21 798)	(477)	2 507	1 329	70 424	51 985
31.12.2010	**837 518**	**(8 439)**	**(16 182)**	**(24 320)**	**(259 573)**	**529 005**

(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.

	2010	2009
Profit attributed to shareholders of The Group (EUR)	151 391	(351 105)
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in cents)	**1.83**	**(4.23)**

(12) Intangible assets and property, plant and equipment

	Intangible assets	Property, plant and equipment				
		Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Total property, plant and equipment
		Eur	Eur	Eur	Eur	Eur
01.01.2009						
Initial cost/ overrated	-	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	**0**	**7 712 920**	**1 766 655**	**344 141**	**47 894**	**9 871 610**
2009						
Acquisition cost	-	7 712 920	1 766 655	344 141	47 894	9 871 610
Acquired	-	2 748	146 835	-	(19 714)	129 869
Disposed	-		0			0
Amortized	-	(212 322)	(300 095)	(107 777)		(620 194)
Closing book value	**0**	**7 503 346**	**1 613 395**	**236 364**	**28 180**	**9 381 285**
31.12.2009						
Initial cost/ overrated	-	8 605 728	7 957 859	983 768	28 180	17 575 535
Accumulated depreciation	-	(1 102 382)	(6 344 464)	(747 404)		(8 194 250)
Net book value	**0**	**7 503 346**	**1 613 395**	**236 364**	**28 180**	**9 381 285**
2010						
Acquisition cost	-	7 503 345	1 613 394	236 365	28 180	9 381 284
Acquired	30 058	35 774	249 841	34 529	21 288	341 432
Disposed	-	(1 895)	(1 579)	-	-	(3 474)
Amortized	(5 087)	(212 379)	(282 054)	(100 036)	-	(594 469)
Closing book value	**24 971**	**7 324 845**	**1 579 602**	**170 858**	**49 468**	**9 124 773**
31.12.2010						
Initial cost/ overrated	30 058	8 631 828	8 123 661	989 287	49 468	17 794 244
Accumulated depreciation	(5 087)	(1 306 983)	(6 544 059)	(818 429)	-	(8 669 471)
Net book value	**24 971**	**7 324 845**	**1 579 602**	**170 858**	**49 468**	**9 124 773**

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 was decreased by 30%. Total effect of adjustment of tangible assets initial value was EUR 3 606 792.

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 EUR 3 606 792 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 EUR 1 931 073 and in 2009 for EUR 410 947.

During the preparation of financial statements of the reporting year the management of the Group has prepared estimation of recoverable value of land and buildings by the value in use basis, with application of the future cash flow and discounting method. 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 Group is considered to be an intact cash flow generating unit;
- during the years 2011 to 2012 a gradual improvement of financial result is expected, respectively for year 2012 and further earnings before interest, taxes, depreciation in amount EUR 1 849 733 is expected;
- investments in maintenance of the assets or replacement of assets will not exceed 20% of depreciation;
- effect of changes in current assets is not significant for calculations of value in use;
- the weighted average cost of capital is 14.24% per annum.

The current value of estimated future cash flows is higher than the residual value of assets as a result the impairment of assets value has not been recognised.

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

During 2009 and 2010 interest has not been capitalised, since the Group did not use the target financing for acquisition of tangible assets.

(13) Inventories

	31.12.2010. Eur	31.12.2009. Eur
Raw materials	1 991 659	2 712 270
Goods in production	312 911	701 662
Finished goods	675 269	772 652
(Provisions for impairment of inventories)	(107 886)	(122 607)
	2 871 953	**4 063 977**

All inventories of the Group are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from banks (see note (19)).

Provisions opening balances	122 607	122 607
Changes in provisions in the financial year	(14 721)	-
Provisions closing balances	**107 886**	**122 607**

(14) Trade receivables

	31.12.2010. Eur	31.12.2009. Eur
Book value of trade receivables	3 582 814	4 290 426
Provisions for impairment of trade receivables	(1 545 432)	(1 046 687)
	2 037 382	**3 243 739**

For information on the Group's credit risk management and disclosure of information about structure of customers see note (24).

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

(15) Accrued income

	31.12.2010. Eur	31.12.2009. Eur
Accrual income for repair and modernization contracts	3 762 707	1 180 687
Accruals for expected losses	(56 260)	(53 070)
Gross amount for accrued income	**3 706 447**	**1 127 617**
where:		
Accrued income in assets	3 706 447	1 127 617
	3 706 447	**1 127 617**
Corresponding amounts:		
Contract revenue recognised in income statement (under "Net sales")	18 667 485	11 062 643
Advances received from customers (under "Other liabilities")	1 515 901	1 557 813
Retentions on construction contracts (under "Trade receivables")	64 485	19 601

(16) Other current assets

	31.12.2010. Eur	31.12.2009. Eur
VAT overpaid	60 347	144 363
Payables for raw materials	258 516	872 065
Payables for warranties	64 485	22 037
Deferred expenses	7 508	8 075
Other taxes overpaid	-	24 535
Other receivables	30 764	12 187
	421 620	**1 083 262**

(17) Cash and cash equivalents

Cash at bank on current accounts	866 256	157 966
Cash on hand	1 198	1 346
	867 454	**159 312**

(18) Share capital

Registered and fully paid share capital of the Company is Ls 8 294 219 (11 801 610 euro), which consist of 8 294 219 fully paid registered shares. Nominal value of each share is 1,42 Eur. 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 Group's shares are quoted in AS NASDAQ OMX stock exchange in second list. At the end of financial period 944 192 shares are quoted.

(19) Borrowings

	Note	31.12.2010. Ls	31.12.2009. Ls
Non-current			
Non-current loan in USD	a)	1 226 739	1 361 533
Loan for privatization of land plots in EUR	c)	714 848	856 688
Other loans in EUR	d)	1 400	9 801
Non - current loan in EUR	e)	-	100 000
		1 942 987	**2 328 022**
Current			
Current part of non-current loan in USD	a)	262 873	240 270
Current part of loan for gas equipment in EUR	b)	0	127 839
Current part of loan for privatization of land plots 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**
Total non - current and current part		**2 356 101**	**3 903 973**

a) In 2004 the Group 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 Group received a loan in amount of EUR 640 000 from A/S NORVIK banka for installation of gas equipment. The loan was repaid during the reporting period.

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

d) In 2007 the Group 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 Group 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 Group 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 Group has not used the credit line possible.

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

	2010 Eur	2009 Eur
At beginning of the year	3 903 973	6 224 727
Repaid borrowings in the year	(1 697 857)	(2 305 276)
Currency exchange rate fluctuation results	149 985	(15 478)
At the end of the year	**2 356 101**	**3 903 973**

Maturity of the total borrowings is as follows:

Payable in 1 year	413 114	1 575 951
Payable in 2 – 5 years	1 620 253	1 638 245
Payable in more than 5 years	322 734	689 777
	2 356 101	**3 903 973**

The implementation of obligations of The Group are provided and strengthened by:
(i) mortgage on all real estate belonged to The Group;
(ii) commercial pledge of all property of The Group as a totality of belongings at the mortgage moment, as well as totality of belongings for the next components.
The value of Group's mortgaged balance assets on 31 December 2010 is EUR 19 091 991 (31.12.2009 - EUR 19 220 818).

(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 the Company and subsidiaries. During the reporting year the provisions has been decreased by EUR 8 856 and at the end of the year estimated in amount of EUR 162 133

(21) Other liabilities

	31.12.2010. Eur	31.12.2009. Eur
Non-current		
Accrued liabilities to disability pensions (non-current part)	129 912	129 912
	129 912	**129 912**
Current		
Advances received	1 517 811	1 557 975
Payroll liabilities	360 189	223 664
Mandatory State social contributions	356 989	647 384
Personnel income tax liabilities	253 593	310 341
Accrued liabilities for unused annual leave	214 467	177 822
Accrued liabilities for post-employment benefits (current part)	7 977	7 977
Other taxes payable	2 412	1 734
VAT liabilities	-	98 070
Other liabilities	517 474	144 032
	3 230 912	**3 168 999**

(22) Average number of employees

	2010	2009
Average number of people employed during the financial year	922	940

(23) Remuneration to personnel

	2010 Eur	2009 Eur
Salaries and mandatory State social insurance contributions for production staff	4 751 474	3 647 559
Salaries and mandatory State social insurance contributions for distribution staff	88 483	70 545
Salaries and social insurance contributions for administration staff	1 536 571	1 319 789
	6 376 528	**5 037 893**
Including remuneration to key management		
salary expenses	214 238	209 811
mandatory State social insurance contributions	51 610	50 116

The Council members do not receive additional remuneration for the performance of their duties.

(24) Transactions with related parties

The biggest shareholders of the Company AS Skinest Rail (Estonia) and AS Spacecom (Estonia) have a significant influence in Group's policy 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.	
	Receivables	Payables	Receivables	Payables
	Eur	Eur	Eur	Eur
Related parties with significant influence	231 580	2 952 984	867 524	954 946
	231 580	**2 952 984**	**867 524**	**954 946**

The repayment of the debts will be prepared in cash and it is not secured with guarantee or otherwise. In 2010 and 2009 there are no significant bed debts from related parties.

b) transactions

	2010	2009
	Eur	Eur
Related parties with significant influence		
Repair services of railway rolling stock	6 272 816	4 805 962
Purchase of raw materials	8 204 243	2 512 407
Services received	119 864	23 802
Other transactions	48 756	58 248
	14 645 679	**7 400 419**

(25) Tax Contingent Liabilities

The tax authorities have conducted complex tax audit of the Group 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 Group is not aware of any circumstances that could cause potential significant liabilities in the future.

(26) Financial and capital risk management

The Group'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 Group seeks to minimize potential adverse effects of the financial risks on the Group’s financial standing. The Group uses 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 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 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 2010 the Group has decreased the amount of transactions in US dollars. In order to decrease foreign exchange risks, agreements with major customers are signed in lats or euro.

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:

	31.12.2010.	**31.12.2009.**
Financial assets, EUR	1 061 500	40 349
Financial liabilities, EUR	(2 931 852)	(2 888 974)
Open position of balance sheet, EUR, net	(1 870 352)	(2 848 625)
Open position of balance sheet, EUR, calculated in lats, net	**(1 314 490)**	**(2 002 025)**
Financial assets, USD	1 241 016	4 227 074
Financial liabilities, USD	(4 148 998)	(6 042 637)
Open position of balance sheet, USD, net	(2 907 982)	(1 815 563)
Open position of balance sheet, USD, calculated in lats, net	**(1 555 770)**	**(887 810)**
Financial assets, RUB	31 528 709	27 039 385
Financial liabilities, RUB	(6 019 731)	(16 923 607)
Open position of balance sheet, RUB, net	25 508 978	10 115 778
Open position of balance sheet, RUB, calculated in lats, net	**448 958**	**165 899**

(ii) Interest rate risks

The Group is exposed to interest rate risk as the most liabilities are interest-bearing with the floating interest rate (note (19)), while the main part of the Group’s financial assets are interest-free receivables, therefore the Group is exposed to floating interest rate risk. In 2010 the interest rate in all loan liabilities has decreased significantly.

If during the reporting year interest rate would be for 1% higher/lower under the similar other conditions net profit would be EUR 25 967 (2009 - EUR 59 194) 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 Eur**	**31.12.2008 Eur**
Trade receivables	2 037 382	3 243 739
Accrued income	3 706 447	1 127 617
Other receivables	414 111	1 075 187
Cash	867 454	159 312
	7 025 394	**5 605 855**

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

Maturity analysis of trade receivables

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	spitted as: in due term	Past due* < 90 days	Past due* 90-180 days	Past due* > 180 days
31.12.2009. Eur	4 290 427	(1 046 687)	3 243 739	2 150 829	174 475	-	918 435
31.12.2010. Eur	3 582 814	(1 545 432)	2 037 382	1 294 729	135 671	20 829	586 152

* At the end of the reporting period trade receivables with material delay in payment amount to EUR 586 thousand (31.12.2009 - EUR 918 thousand), the net book value of these receivables, excluding receivables from third parties, that enrol proportional risk on recovery of these receivables amount to EUR 137 thousand (31.12.2009 - EUR 438 thousand). Taking into account repayment of debt in 2010 and customers credit history, the Group's management concluded that it is not necessary to make provisions for impairment of assets.

Movement of accruals for decrease of trade receivables	**31.12.2010. Eur**	**31.12.2009. Eur**
Accruals at the beginning of the year	1 046 687	1 108 474
Decrease of accruals for written off bad debts	-	(61 787)
Provisions created in the reporting period	498 745	-
Provisions closing balances	**1 545 432**	**1 046 687**

(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 The Group's current assets exceeded current liabilities by EUR 2 045 301 (31.12.2009 - EUR1 996 133). Liquidity ratio at the end of the reporting period is 1,26 (31.12.2009 - 1,25). At the end of the reporting year total available credit facilities amount is EUR 100 000 (31.12.2009: EUR 142 400). On 31 December 2010 the unused part of the credit line was EUR 100 000 (2009: EUR 142 400). 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, for it not to be exposed to liquidity risk.

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

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	3 298 912	3 168 999	-	-	191 826
	10 289 229	**7 831 294**	**490 511**	**1 147 734**	**881 603**

On 31 December, 2010	**Total**	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**
	Eur	**Eur**	**Eur**	**Eur**	**Eur**
Long-term loans	1 942 987	-	406 113	1 214 139	322 734
Short -term loans	413 114	413 114	-	-	-
Trade payables	4 090 075	4 090 075	-	-	-
Accruals	162 133	162 133	-	-	-
Other liabilities	3 360 825	3 230 912	-	-	129 913
	9 969 134	**7 896 234**	**406 113**	**1 214 139**	**452 647**

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

(f) 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. Part of The Group subsidiaries have negative equity and the Company has provided representation of future financial support. During the reporting period there were no changes in capital management objectives, policies or processes.

Group's management controls the external debt (borrowings) to total capital (gearing ratio). During the reporting year this figure has decreased significantly by 27%, that confirms the stability of the Group. The positive trend in 2010 has also increased proportion of equity to total assets to 45% (2009: 44%).

	31.12.2009.	**31.12.2008**
	Eur	**Eur**
Total borrowings	2 356 101	3 903 973
Cash and its equivalents	(867 454)	(159 312)
Net loans	1 488 647	3 744 661
Equity	8 593 854	8 442 463
Total assets	19 091 991	19 220 817
Gearing ratio	17%	44%
Equity ratio on total assets	45%	44%

(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 Company as at 31 December 2010.

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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 consolidated financial statements of Daugavpils Lokomotīvju Remonta Rūpnīca AS (the Company) and its subsidiaries (together as the Group) included in the Annual report as set out on pages 6 to 30. 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 International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 consolidated financial statements give a true and fair view of the financial position of the Group as at the end of the Financial year, and of its financial performance and cash flow for the Financial year in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Eriks 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.