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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 22,3 millions lats (13,5 million lats in 2009). Sales of principal activity comprised 15,8 million lats, 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 6,3 million lats (in 2009 - 4,0 million lats). 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 376 thousand.

Performance of the Group during the financial year

In 2010 the consolidated net sales of the Company amounted to 16,4 million lats (162,4% in respect of annual turnover 2009).

In 2010 the Group has been fully provided by the repair orders during the year, that allowed to close the reporting period with a profit of 0,106 million lats. At the beginning of 2010 the Group was partially provided with orders, therefore part-time working regime was set until 01/05/2010. During the current year the Group has accomplished the overhaul of passenger coaches and snow machine, and construction of hazardous waste transporter. In 2010 the Group exported its products to 8 countries, the total export volume amounted to 14,6 million lats (in 2009 - 7,9 million lats), while turnover in Latvia amounted to 1,9 million lats (in 2009 - 2,2 million lats). 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 Ls	2009 Ls
Net sales	(1)	22 250 900	13 514 954
Cost of sales	(2)	(20 614 516)	(12 528 684)
Gross profit or losses		**1 636 384**	**986 270**
Distribution expenses	(3)	(164 965)	(120 158)
Administrative expenses	(4)	(904 733)	(786 841)
Other operating income	(5)	136 089	474 031
Other operating expenses	(6)	(997 449)	(255 783)
Interest and similar income	(7)	31 347	812
Interest and similar expenses	(8)	(68 511)	(241 586)
Profit or losses before taxes		**(331 838)**	**56 745**
Corporate income tax	(9)	(765)	(4 282)
Other taxes	(10)	(43 661)	(45 111)
Net profit or losses		**(376 264)**	**7 352**

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. Ls	31.12.2009. Ls
ASSETS			
Non-current assets			
Intangible assets:			
Other intangible assets	(11)	17 550	-
Total intangible assets:		**17 550**	**-**
Fixed assets:			
Land and buildings	(11)	1 312 954	1 329 663
Equipment and machinery	(11)	1 110 151	1 133 900
Other fixed assets	(11)	120 080	166 118
Fixed assets under construction	(11)	34 766	19 805
Total fixed assets:		**2 577 951**	**2 649 486**
Investment property:			
Buildings	(11)	2 264 170	2 330 852
Total non-current financial investments:		**2 264 170**	**2 330 852**
Non-current financial investments:			
Investments in subsidiaries	(12)	22 000	20 000
Other securities and investments	(12)	500	-
Total non-current financial investments:		**22 500**	**20 000**
Total non-current investments:		**4 882 171**	**5 000 338**
Current assets			
Inventories:			
Raw materials and consumables	(13)	1 214 180	1 773 517
Work in progress		-	291 613
Finished goods and goods for sale	(14)	128 015	69 819
Advances for inventories		181 686	612 588
Total inventories:		**1 523 881**	**2 747 537**
Account receivable:			
Trade receivables	(15)	1 427 314	2 166 691
Receivables from group companies	(16)	2 227 076	1 742 808
Other receivables	(17)	108 398	206 313
Deferred expenses	(18)	5 277	5 675
Accrued income	(19)	2 644 020	835 534
Total receivables:		**6 412 085**	**4 957 021**
Cash and bank:	(20)	**600 250**	**108 396**
Total current assets:		**8 536 216**	**7 812 954**
Total assets		**13 418 387**	**12 813 292**

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

BALANCE SHEET

	Notes	31.12.2010. Ls	31.12.2009. Ls
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	(21)	8 294 219	8 294 219
Non-current investments revaluation reserve	(11)	1 250 481	1 278 616
Retained earnings			
a) previous year's retained earnings		(4 433 019)	(4 440 371)
b) current years profit or losses		(376 264)	7 352
Total equity:		**4 735 417**	**5 139 816**
Provisions:	(22)	569 256	469 788
Liabilities:			
Non-current liabilities:			
Loans from banks	(23)	1 365 539	1 636 143
Deferred income tax liabilities	(9)	221 056	225 256
Total non-current liabilities:		**1 586 595**	**1 861 399**
Current liabilities:			
Loans from banks	(23)	290 338	1 107 585
Advances from customers		1 065 381	1 094 837
Trade payables		2 802 332	2 012 658
Payables to group companies	(24)	576 685	532 818
Taxes and social insurance payments	(25)	25 582	1 029
Other liabilities	(26)	37 191	31 947
Accrued liabilities	(27)	1 729 610	561 415
Total current liabilities:		**6 527 119**	**5 342 289**
Total liabilities:		**8 113 714**	**7 203 688**
Total equity, provisions and liabilities		**13 418 387**	**12 813 292**

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
		Ls	**Ls**	**Ls**	**Ls**
31.12.2008.		**8 294 219**	**1 562 694**	**(4 440 371)**	**5 416 542**
Revaluation of fixed assets	(11)	-	(288 815)	-	(288 815)
Disposal of revalue fixed assets	(11)	-	(45 395)	-	(45 395)
Changes in deferred tax	(9)	-	50 132	-	50 132
Profit for the year		-	-	7 352	7 352
31.12.2009.		**8 294 219**	**1 278 616**	**(4 433 019)**	**5 139 816**
Disposal of revalue fixed assets	(11)	-	(33 100)	-	(33 100)
Changes in deferred tax	(9)	-	4 965	-	4 965
Loss for the year		-	-	(376 264)	(376 264)
31.12.2010.		**8 294 219**	**1 250 481**	**(4 809 283)**	**4 735 417**

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

Natālija Petrova
Chairman of the Board

Daugavpils, 28 April 2011

CASH FLOW STATEMENT

		2010 Ls	2009 Ls
Cash flow from operating activities			
Profit or losses before taxes		**(331 838)**	**56 745**
Adjustments for:			
depreciation of investment property, fixed and intangible assets		379 668	402 760
profit from disposal of fixed assets		(49 240)	(49 282)
loss on disposal of investment in subsidiaries		3 997	2 000
changes in provisions		954 069	(140 532)
foreign exchange (gains)/losses		106 498	(10 923)
interest expenses		54 375	142 877
Cash flow prior to changes in current assets and liabilities		**1 117 529**	**403 645**
Inventory (increase)/decrease		1 234 003	(703 409)
Account receivable (increase)/decrease		(2 348 147)	1 938 650
Account payable increase/(decrease)		1 953 453	291 397
Gross cash flow generated from operating activities		**1 956 838**	**1 930 283**
Interest paid		(55 463)	(142 832)
Net cash flow generated from operating activities		**1 901 375**	**1 787 451**
Cash flow from investing activities			
Acquisition of investment property, fixed and intangible assets		(261 085)	(91 272)
Proceeds from sales of fixed assets		51 325	3 887
Equity investments paid		(6 500)	-
Net cash flow generated from investing activities		**(216 260)**	**(87 385)**
Cash flow from financing activities			
Loans repaid		(1 193 261)	(1 620 157)
Net cash flow generated from financing activities		**(1 193 261)**	**(1 620 157)**
Net increase / (decrease) in cash and cash equivalents		**491 854**	**79 909**
Cash and cash equivalents at the beginning of the financial year		**108 396**	**28 487**
Cash and Cash equivalents at the end of the financial year	(20)	**600 250**	**108 396**

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

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.

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 Ls	2009 Ls
By operating activities		
Income from railway rolling stock repair and upgrade services	13 119 583	7 774 870
Income from sales of materials (see Note (30))	4 551 615	2 364 111
Income from sales of railway spare parts, locomotives and wagons	2 672 793	1 736 014
Income from rent of premises and equipment (see Note (30))	1 280 352	1 292 103
Management and administrative services (see Note (30))	184 808	125 455
Other income from transactions with subsidiaries (see Note (30))	165 959	89 319
Other income	275 790	133 082
	22 250 900	**13 514 954**
By location		
Income from sales of goods/services in Latvia	7 938 862	5 773 454
Income from sales of goods/services to EU	6 172 331	2 145 400
Income from sales of goods/services to Russia	5 883 099	2 826 500
Income from sales of goods/services to Uzbekistan	884 485	2 387 400
Income from sales of goods/services to Belarus	477 722	319 400
Income from sales of goods/services to other countries	894 401	62 800
	22 250 900	**13 514 954**

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 Ls 1 280 352 (2009 - Ls 1 292 103). Rent agreements are signed till 31 December 2011.

(2) Cost of sales

	2010 Ls	2009 Ls
Service costs from subsidiaries	10 446 651	6 923 173
Aquisition costs for raw materials, consumables and goods	9 160 184	4 922 802
Depreciation of fixed assets	292 571	302 730
Utility expenses	130 834	58 135
Costs of goods sold	92 170	68 565
Salary expenses	46 324	44 193
Social insurance costs	11 037	10 522
Changes in provisions for warranty repairs	(13 968)	(27 784)
Other production costs	448 713	226 348
	20 614 516	**12 528 684**

(3) Distribution expenses

Transportation costs	102 779	70 579
Salary expenses	50 174	40 045
Social insurance	12 012	9 534
	164 965	**120 158**

(4) Administrative expenses

	2010	2009
	Ls	Ls
Salary expenses	387 690	336 636
Utility expenses	109 007	105 815
Social insurance costs	92 625	80 049
Depreciation of fixed assets	85 980	98 920
Office expenses	34 527	27 483
Professional service costs	37 726	17 957
Rent expenses	8 599	10 166
Representation costs	2 047	2 614
Other administrative expenses	146 532	107 201
	904 733	**786 841**

(5) Other operating income

Net gain from disposal of fixed assets	49 240	49 281
Changes in provisions for financial support (see Note (22))	-	318 929
Rental income	48 806	58 060
Other income	38 043	47 761
	136 089	**474 031**

(6) Other operating expenses

Provisions for impairment of trade receivables	864 947	242 644
Changes in provisions for financial support (see Note (22))	110 947	-
Collective agreement costs	9 154	7 093
Loss from disposal of investments in subsidiaries	3 997	-
Other expenses	8 404	6 046
	997 449	**255 783**

(7) Interest and similar income

Net income from exchange rate fluctuations	10 130	-
Interest income	295	812
Fines received for delay in payments	20 922	-
	31 347	**812**

(8) Interest and similar expenses

Interest charge	54 375	142 877
Penalties paid	14 136	4 767
Net loss from exchange rate fluctuations	-	93 942
	68 511	**241 586**

(9) Corporate income tax

a) Components of corporate income tax	**2010 Ls**	**2009 Ls**
Changes in deferred income tax	765	4 282
	765	**4 282**

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 Ls	**2009 Ls**
Profit before taxes	(331 838)	56 745
Real estate taxes	(43 661)	(45 111)
Profit before corporate income tax	(375 499)	11 634
Theoretically calculated tax at 15% tax rate	**(56 325)**	**1 745**
Tax effects on:		
Permanent differences	57 090	2 537
Total corporate income tax expenses	**765**	**4 282**

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	225 256	271 106
Deferred tax charged to the income statement	765	4 282
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	(4 965)	(50 132)
Deferred tax liabilities (asset) at the end of the financial year	**221 056**	**225 256**

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. Ls	**31.12.2009. Ls**
Temporary difference on depreciation of fixed and intangible assets	352 990	361 811
Gross deferred tax liabilities	**352 990**	**361 811**
Provisions for expected losses	(64)	(437)
Provisions for contingent liabilities	(85 388)	(70 280)
Provisions for impairment of inventories	(9 698)	(11 250)
Provisions for impairment of trade receivables	-	(36 397)
Tax losses carried forward	(36 784)	(18 191)
Gross deferred tax assets	**(95 150)**	**(118 364)**
Net deferred tax liability (assets)	**257 840**	**243 447**

(10) Other taxes	**2010 Ls**	**2009 Ls**
Real estate tax for land	4 182	3 837
Real estate tax for buildings	39 479	41 274
	43 661	**45 111**

(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
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Cost/revaluation							
31.12.2009.	-	2 685 647	1 716 513	5 592 815	691 396	19 805	8 020 529
Additions	21 125	21 685	3 457	175 590	24 268	261 085	464 400
Disposals	-	(795)	(5 634)	(59 063)	(20 389)	(246 124)	(331 210)
31.12.2010.	21 125	2 706 537	1 714 336	5 709 342	695 275	34 766	**8 153 719**
Depreciation							
31.12.2009.	-	(354 795)	(386 850)	(4 458 915)	(525 278)	-	(5 371 043)
Calculated	(3 575)	(87 958)	(19 600)	(198 229)	(70 306)	-	(288 135)
Disposals	-	386	5 068	57 953	20 389	-	83 410
31.12.2010.	(3 575)	(442 367)	(401 382)	(4 599 191)	(575 195)	-	**(5 575 768)**
Net carrying amount 31.12.2009.	**-**	**2 330 852**	**1 329 663**	**1 133 900**	**166 118**	**19 805**	**2 649 486**
Net carrying amount 31.12.2010.	**17 550**	**2 264 170**	**1 312 954**	**1 110 151**	**120 080**	**34 766**	**2 577 951**

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 Ls 307 803 (31.12.2009 - Ls 476 721), the cadastral value of buildings is Ls 3 347 520 (31.12.2009 - Ls 5 087 732)..

In 1996, 1999 and 2001 the Company has revaluated land, buildings and equipment. Respectively in 1996 value of tangible assets was increased by Ls 659 538, in 1999 by Ls 1 317 852 and in 2001 by Ls 889 954. 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 Ls 2 534 868 in 2007 and Ls 1 357 166 in 2008 and Ls 288 815 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.
	Ls	Ls
Cost	4 696 216	4 689 639
Accumulated depreciation	(1 683 265)	(1 641 004)
Net carrying amount	**3 012 951**	**3 048 635**

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
	Ls	Ls	Ls
Cost			
31.12.2009.	22 000	-	22 000
Purchase	6 000	500	6 500
Disposals	(6 000)	-	(6 000)
31.12.2010.	22 000	500	22 500
Changes of value of investments			
31.12.2009.	(2 000)	-	(2 000)
Revaluation	2 000	-	2 000
31.12.2010.	0	-	0
Net carrying amount 31.12.2009.	**20 000**	**-**	**20 000**
Net carrying amount 31.12.2010.	**22 000**	**500**	**22 500**

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**
		%	%	Ls	Ls	Ls	Ls
SIA Rel	Marijas 1, Daugavpils	-	100%	-	(79 481)	-	(81 481)
SIA Elap	Marijas 1, Daugavpils	100%	100%	36 704	15 136	(31 340)	(21 568)
SIA Remdīz	Marijas 1, Daugavpils	-	100%	-	(154 157)	-	(156 157)
SIA Ritrem	Marijas 1, Daugavpils	100%	100%	63 163	53 279	(3 855)	(9 884)
SIA Elektromaš	Marijas 1, Daugavpils	100%	100%	348 207	326 345	1 557	(21 862)
SIA Krāsotājs	Marijas 1, Daugavpils	100%	100%	(153 642)	(171 742)	(30 307)	(18 100)
SIA SPZČ	Marijas 1, Daugavpils	100%	100%	(46 393)	(204 304)	(197 294)	(157 911)
SIA Metalurgs	Marijas 1, Daugavpils	-	100%	-	(26 030)	-	(28 030)
SIA Remenergo	Marijas 1, Daugavpils	100%	100%	(180 909)	(216 521)	(132 666)	(35 612)
SIA Instruments	Marijas 1, Daugavpils	100%	100%	(107 163)	(107 326)	(129)	(163)
SIA Loģistika	Marijas 1, Daugavpils	100%	100%	1 215	6 281	23 107	5 066
SIA DP Projekti *	Vienības gt. 78-1,Riga	100%	-	(873 476)	-	(151 527)	-
SIA Apdare un Remonts *	Bruņinieku 28-101,Riga	100%	-	(382 302)	-	(55 802)	-
SIA DNF Projekti *	Baltā 3/9, Riga	100%	-	(400 028)	-	8 011	-
				(1 694 624)	**(558 520)**	**(570 245)**	**(525 702)**

* 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 Ls 3 997, as well as write-off for doubtful receivables of Ls 516 242 has been recognized (2009 - Ls 242 644).

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.	31.12.2009.
	Ls	Ls
Raw materials, material and auxiliary material cost	1 255 834	1 825 517
(Accruals for damaged and slow moving stock)	(41 654)	(52 000)
	1 214 180	**1 773 517**

(14) Finished goods and goods for resale

Finished goods	150 925	92 691
Other goods for sale	90	128
(Accruals for damaged and slow moving stock)	(23 000)	(23 000)
	128 015	**69 819**

(15) Trade receivables

Book value of trade receivables	2 511 634	2 902 306
(Provisions for bad and doubtful debts)	(1 084 320)	(735 615)
	1 427 314	**2 166 691**

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

(16) Receivables from group companies

Settlements with subsidiaries	2 166 512	1 925 048
Loans to subsidiaries	60 564	60 404
(Provisions for impairment)	-	(242 644)
	2 227 076	**1 742 808**

(17) Other receivables

VAT overpaid (see Note (25) for details)	42 406	100 844
Corporate income tax overpaid (see Note (25) for details)	-	66 968
Payments for guarantees	45 320	15 488
VAT for advances received	13 387	303
Payments for other services	2 149	2 149
Other receivables	3 732	3 002
Payments to personnel	1 404	327
Other taxes overpaid	-	17 232
	108 398	**206 313**

(18) Deferred expenses

Prepayments of insurance payments	2 073	2 596
Other expenses	3 204	3 079
	5 277	**5 675**

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

	31.12.2010.	**31.12.2009.**
	Ls	**Ls**
Costs incurred and profit recognised as income	2 644 446	838 449
Accruals for recognised losses	(426)	(2 915)
Gross amount of work-in-progress	**2 644 020**	**835 534**
where:		
Work-in-progress as assets (under "Accrued income")	2 644 020	835 534
	2 644 020	**835 534**
Corresponding amounts:		
Contract revenue recognised in income statement (under "Net sales")	13 119 583	7 774 870
Advances received from customers (under "Advances from customers")	1 065 381	1 094 837
Retentions on contracts (under "Trade receivables")	45 320	13 776

(20) Cash and bank

Cash at bank on current accounts	599 408	107 450
Cash on hand	842	946
	600 250	**108 396**

(33) Share capital

Registered and fully paid share capital of the Company is Ls 8 294 219, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is Ls 1. All shares guarantees equal rights to dividends, reception of liquidation quotas and suffrage in shareholder's meeting. One share gives rights to 1 vote. All shares are dematerialized. The Company do not hold own shares or someone else in it's interest. Shares are not convertible, exchangeable or guaranteed.

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
	Ls	**Ls**	**Ls**
31.12.2008.	**50 000**	**766 502**	**816 502**
Decrease	(27 785)	(318 929)	(346 714)
31.12.2009.	**22 215**	**447 573**	**469 788**
Increase	-	110 947	110 947
Decrease	(11 479)	-	(11 479)
31.12.2010.	**10 736**	**558 520**	**569 256**

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. Ls	31.12.2009. Ls
Non-current			
Non-current loan in USD	a)	862 157	956 891
Loan for privatization of land in EUR	c)	502 398	602 084
Other loans in EUR	d)	984	6 888
Credit line facilities in EUR	e)	-	70 280
		1 364 555	**1 558 975**
Current			
Current part of non-current loan in USD	a)	184 748	168 863
Current part of non-current loan for gas equipment in EUR	b)	-	89 846
Current part of loan for privatization of land in EUR	c)	99 686	99 686
Other loans in EUR	d)	5 904	5 904
Credit line facilities in EUR	e)	-	743 286
		290 338	**1 107 585**

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 Ls 13 418 387 (31.12.2009 - Ls 12 813 292).

(24) Payables to group companies

	31.12.2010. Ls	31.12.2009. Ls
Settlements with subsidiaries (see Note (30))	576 685	532 818
	576 685	**532 818**

(25) Taxes and social insurance payments

	31.12.2009.	Calculated	Calculated penalty and delay fees	(Paid)/ repaid	Transferred to other taxes	31.12.2010.
	Ls	Ls	Ls	Ls	Ls	Ls
VAT	(100 844)	(255 722)	-	177 710	136 450	(42 406)
Personal income tax	(1 094)	99 566	-	(7 310)	(82 053)	9 109
Social insurance payments	(15 966)	164 567	-	(12 230)	(121 365)	15 006
Corporate income tax	(66 968)	-	-	-	66 968	-
Real estate tax (land)	(172)	4 181	200	(4 209)	-	-
Real estate tax (buildings)	-	39 479	306	(39 785)	-	-
Natural resource tax	1 001	4 739	-	(4 302)	-	1 438
Enterprise risk duty	28	350	-	(349)	-	29
Total	**(184 015)**	**57 160**	**506**	**109 525**	**0**	**(16 824)**
Hereof						
(Overpaid) - see Note 17 for details	**(185 044)**					**(42 406)**
Payables	**1 029**					**25 582**

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.
	Ls	Ls
Payroll liabilities	34 185	27 584
Other liabilities	3 006	4 363
	37 191	**31 947**

(27) Accrued liabilities

Accrued liabilities to subsidiaries	1 448 987	490 918
Accrued trade payables	259 219	35 086
Accrued unused annual leave expenses	21 404	35 411
	1 729 610	**561 415**

(28) Fees paid to auditors

	2010	2009
	Ls	Ls
For the audit of financial statements	18 554	17 957
For tax consulting	560	595
	19 114	**18 552**

(29) Average number of employees

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

(30) Remuneration to personnel

	2010 Ls	2009 Ls
Employee pay	484 188	376 681
Social insurance payments	115 674	89 538
Other expenses	65 129	90 389
	664 991	**556 608**

(31) Remuneration to the management

Board members	**53 835**	**89 881**
· salary expenses	43 384	72 432
· other social insurance expenses	10 451	17 449

(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 Ls	Payables Ls	Receivables Ls	Payables Ls
Group companies		2 227 076	576 685	1 742 808	532 818
Other related companies		157 435	1 688 028	596 247	671 140
		2 384 511	**2 264 713**	**2 339 055**	**1 203 958**

b) transactions

	Notes	Sales to related parties		Purchases from related parties	
		2010	**2009**	**2010**	**2009**
		Ls	**Ls**	**Ls**	**Ls**
Group companies					
Repair services of railway rolling stock	(i)	-	-	8 352 191	5 454 890
Sales/production of materials		4 551 615	2 364 111	1 053 345	1 408 026
Rent of premises and equipment		1 280 352	1 292 103	8 599	10 166
Administrative and management services	(ii)	195 280	136 592	-	-
Other transactions		320 758	118 747	222 450	262 702
Total Group companies:		**6 348 005**	**3 911 553**	**9 636 585**	**7 135 784**
Other related parties					
Repair services of railway rolling stock		4 166 705	2 215 245	84 241	16 728
Sales/purchases of materials		48 024	36 156	5 765 975	1 765 515
Total other related parties:		**4 214 729**	**2 251 401**	**5 850 216**	**1 782 243**
		10 562 734	**6 162 954**	**15 486 801**	**8 918 027**

(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.