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 16.4 million lats (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 106.4 thousand lats.

In 2010 the Company 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 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 33 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 Ls	2009 Ls
Net sales	(2)	16 446 650	10 094 082
Cost of sales	(3)	(14 989 476)	(8 733 325)
Gross profit (loss)		**1 457 174**	**1 360 757**
Distribution expenses	(4)	(164 965)	(120 158)
Administrative expenses	(5)	(1 513 142)	(1 312 497)
Other income	(6)	484 973	125 697
Other expenses	(7)	(16 993)	(11 626)
Finance income and costs (net)	(9)	(104 114)	(315 256)
Profit (loss) before tax		**142 933**	**(273 083)**
Corporate income tax	(10)	(36 535)	26 325
Net profit (loss)		**106 398**	**(246 758)**
Attributable to:			
Equity holders of a parent company		106 398	(246 758)
Minority interest		-	-
Earnings per share (in santims)	(11)		
Basic		1,28	(2,98)
Diluted		1,28	(2,98)
Total comprehensive income (expense)		**106 398**	**(246 758)**
Attributable to:			
Equity holders of a parent company		106 398	(246 758)
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.	31.12.2009.
		Ls	Ls
ASSETS			
Non-current assets			
Intangible assets		17 550	-
Property, plant and equipment (tangible assets)	(12)	6 412 927	6 593 204
Investments in associated companies		500	-
Total non-current assets:		**6 430 477**	**6 593 204**
Current assets			
Inventories	(13)	2 018 420	2 856 179
Accrued income	(15)	2 604 906	792 494
Trade receivables	(14)	1 431 880	2 279 713
Corporate income tax receivables	(10)	25 779	113 592
Other current assets	(16)	296 316	761 321
Cash and cash equivalents	(17)	609 650	111 965
Total current assets:		**6 986 951**	**6 915 264**
Total assets		**13 417 428**	**13 508 468**

		31.12.2010.	31.12.2009.
EQUITY AND LIABILITIES		Ls	Ls
Equity			
Share capital	(18)	8 294 219	8 294 219
Retained earnings of the previous years		(2 360 822)	(2 114 064)
Retained earnings of the reporting year		106 398	(246 758)
Total equity:		**6 039 795**	**5 933 397**
Liabilities:			
Non-current liabilities:			
Borrowings	(19)	1 365 539	1 636 143
Deferred income tax liabilities	(10)	371 786	335 251
Other non-current liabilities	(21)	91 303	91 303
Total non-current liabilities:		**1 828 628**	**2 062 697**
Current liabilities:			
Borrowings	(19)	290 338	1 107 585
Trade payables		2 874 521	2 048 923
Corporate income tax payables	(10)	-	8 509
Provisions	(20)	113 948	120 172
Other liabilities	(21)	2 270 698	2 227 185
Total current liabilities:		**5 549 505**	**5 512 374**
Total liabilities:		**7 378 133**	**7 575 071**
Total equity and liabilities:		**13 417 928**	**13 508 468**

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
	Ls	Ls	Ls
31.12.2008.	**8 294 219**	**(2 114 064)**	**6 180 155**
Loss of the previous year	-	(246 758)	(246 758)
Total profit or loss	-	(246 758)	(246 758)
31.12.2009.	**8 294 219**	**(2 360 822)**	**5 933 397**
Profit of the reporting year		106 398	106 398
Total profit or loss		106 398	106 398
31.12.2010.	**8 294 219**	**(2 254 424)**	**6 039 795**

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

CASH FLOW STATEMENT

	Notes	2010 Ls	2009 Ls
Cash flow from operating activities			
Profit or losses before income tax		**142 933**	**(273 083)**
Adjustments for:			
depreciation and amortization	(12)	421 371	435 874
profit from disposal of tangible assets	(12)	(16 140)	(3 887)
changes in provisions		354 642	(173 251)
foreign currency (gains)/losses		106 498	(10 923)
interest expenses		54 374	142 877
Cash flow prior to changes in current assets		**1 063 678**	**117 607**
Inventory (increase)/decrease		827 413	(171 968)
Account receivable (increase)/decrease		(850 094)	1 430 065
Account payable increase/(decrease)		954 616	648 990
Gross cash flow generated from operating activities		**1 995 613**	**2 024 694**
Interest paid	(19)	(55 463)	(142 832)
Income tax paid		-	(94 936)
Net cash flow generated from operating activities		**1 940 150**	**1 786 926**
Cash flow from investing activities			
Acquisition of tangible assets		(261 086)	(91 272)
Proceeds from sales of tangible assets		18 382	3 887
Equity investments paid		(6 500)	-
Net cash flow generated from investing activities		**(249 204)**	**(87 385)**
Cash flow from financing activities			
Borrowings repaid	(19)	(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		**497 685**	**79 384**
Cash and cash equivalents at the beginning of the financial year		**111 965**	**32 581**
Cash and Cash equivalents at the end of the financial year	(17)	**609 650**	**111 965**

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**
			Ls	**%**
SIA "Rel"	Marijas 1, Daugavpils	Repair of diesel and electric locomotives	2 000	100
SIA "Elap"	Marijas 1, Daugavpils	Repair of electric equipment of rolling stock	2 000	100
SIA "Remdīz"	Marijas 1, Daugavpils	Repair of rolling stock diesel and knots	2 000	100
SIA "Ritrem"	Marijas 1, Daugavpils	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock	2 000	100
SIA "Elektromaš"	Marijas 1, Daugavpils	Repair and producing of electromotor, generators and transformers	2 000	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dyeing of rolling stock	2 000	100
SIA "SPZČ"	Marijas 1, Daugavpils	Repair and producing of spare parts, instruments and equipment	2 000	100
SIA "Metalurgs"	Marijas 1, Daugavpils	Metal foundry	2 000	100
SIA "Remenergo"	Marijas 1, Daugavpils	Maintenance of fixture, technical control and capital repair of buildings, constructions and producing equipment, public facility service rendering to Group companies	2 000	100
SIA "Instruments"	Marijas 1, Daugavpils	Is not active	2 000	100
SIA "Loģistika"	Marijas 1, Daugavpils	Logistics services Intermediary for supply of materials for The Group purposes	2 000	100
			22 000	

a) Disposals of subsidiaries

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 profit from disposal LV 273 087.

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 2007 to 31 December 2008.

(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	90 - 5
Technological equipment	25 - 5
Other machinery and equipment	5

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 6 412 927 (31.12.2009 - Ls 6 593 204) 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 Ls 2 604 906 (31.12.2009 - Ls 792 494).

Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. The total carrying amount of receivables at the end of the reporting year is Ls 1 413 880 (31.12.2009 - Ls 2 279 713). 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 Ls 2 018 420 (31.12.2009 - Ls 2 856 179).

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
	Ls	Ls
Russia	5 883 099	2 826 519
Estonia	5 040 848	1 843 500
Latvia	1 873 281	2 163 063
Lithuania	1 353 400	246 000
Belarus	477 722	319 400
Uzbekistan	314 600	2 387 400
Poland	35 277	245 400
Other countries	1 468 423	62 800
	16 446 650	**10 094 082**

(c) Major customers

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

	2010	2009
	Ls	Ls
Customer Nr.1	4 561 610	3 314 451
Customer Nr.2	2 636 218	379 488
Customer Nr.3	614 651	1 954 104
Customer Nr.4	598 234	1 831 372
Other clients	8 035 937	2 614 667
	16 446 650	**10 094 082**

(3) Cost of sales

	2010	2009
	Ls	Ls
Raw materials and consumables	8 811 815	4 841 623
Salary expense	2 695 971	2 073 182
Utility costs	879 099	699 528
Mandatory State social insurance contributions	643 384	490 337
Increase in provisions for inventories and receivables	340 174	-
Depreciation of tangible assets	334 631	335 845
Increase in provisions for warranty and other contingent liabilities	88 846	(141 290)
Increase in provisions for expected losses	69 352	(54 519)
Increase in provisions for post-employment benefits	-	(16 160)
Other production costs	1 126 204	504 779
	14 989 476	**8 733 325**

(4) Distribution expenses

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

(5) Administrative expenses

Salary expenses	871 606	749 700
Mandatory State social insurance contributions	208 302	177 853
Depreciation of tangible assets	85 980	98 920
Utility expenses	109 007	105 815
Professional service costs	37 326	17 957
Office costs	36 909	30 438
Representation costs	2 047	2 614
Other administrative expenses	161 965	129 200
	1 513 142	**1 312 497**

(6) Other income

Net income from sale of subsidiaries	273 087	-
Net income from sale of tangible assets	16 140	3 886
Rental income	48 806	58 060
Other income	146 940	63 751
	484 973	**125 697**

(7) Other expenses

Cost of collective agreement with employees	8 547	7 291
Other expenses	8 446	4 335
	16 993	**11 626**

(8) Expenses by Nature

	2010 Ls	2009 Ls
Row materials, consumables and cost of goods sold	8 811 815	4 841 623
Salary expenses	3 617 751	2 862 927
Mandatory State social insurance contributions	863 698	677 724
Utility costs	988 106	805 343
Increase in provisions for inventories and receivables	340 174	-
Increase in provisions for post-employment benefits	-	(16 160)
Increase in provisions for warranty and other contingent liabilities	88 846	(141 290)
Increase in other provisions	69 352	(54 519)
Increase in provisions for expected losses	420 611	434 765
Transportation expenses	102 779	70 579
Office expenses	36 909	30 438
Advertisement expenses	2 047	2 614
Other expenses	1 342 488	663 562
	16 684 576	**10 177 606**

(9) Finance income and expenses (net)

Interest income	21 218	854
Net expenses from exchange rate fluctuations	10 131	(93 942)
Interest charge	(54 374)	(142 877)
Penalties paid	(81 089)	(79 291)
	(104 114)	**(315 256)**

(10) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	36 535	(39 670)
Corporate income tax according to the tax return	-	13 345
	36 535	**(26 325)**

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 Ls	2009 Ls
Profit before taxes	142 933	(273 083)
Theoretically calculated tax at 15% tax rate	**21 440**	**(40 962)**
Tax effects on:		
Non-deductible expenses for tax purposes	15 095	14 637
Total tax charge	**36 535**	**(26 325)**

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	335 251	374 921
Deferred tax charged to the income statement	36 535	(39 670)
Deferred tax liabilities (asset) at the end of the financial year	**371 786**	**335 251**

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.	**31.12.2009.**
	Ls	**Ls**
Temporary difference on depreciation of tangible and intangible assets	588 611	603 931
Gross deferred tax liabilities	**588 611**	**603 931**
Temporary difference on accruals for expected losses	(5 931)	(5 596)
Temporary difference on provisions for potential liabilities	(17 092)	(18 026)
Temporary difference on provisions for impairment of inventories	(11 373)	(13 135)
Tax losses carried forward	(182 429)	(231 923)
Gross deferred tax assets	**(216 825)**	**(268 680)**
Net deferred tax liability (assets)	**371 786**	**335 251**

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	(34 396)	(74 031)
deferred tax asset to be recovered within more than a year	(182 429)	(194 649)
	(216 825)	(268 680)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	27 365	23 937
deferred tax liabilities to be recovered after more than a year	561 246	579 994
	588 611	603 931
Net deferred tax liabilities (assets)	**371 786**	**335 251**

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 deprecia- tion of PPE	**Accruals for expected losses**	**Impair-ments of inventories**	**Provisions for expected losses**	**Tax losses carried forward**	**Total**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**	**Ls**
31.12.2008	617 675	(13 761)	(13 147)	(35 847)	(179 999)	374 921
Charged / (credited) to income statement	(13 744)	8 165	12	17 821	(51 924)	(39 670)
31.12.2009	603 931	(5 596)	(13 135)	(18 026)	(231 923)	335 251
Charged / (credited) to income statement	(15 320)	(335)	1 762	934	49 494	36 535
31.12.2010	**588 611**	**(5 931)**	**(11 373)**	**(17 092)**	**(182 429)**	**371 786**

(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 (Ls)	106 398	(246 758)
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in santims)	**1,28**	**(2,98)**

(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
		Ls	Ls	Ls	Ls	Ls
01.01.2009						
Initial cost/ overrated	-	6 047 478	5 580 290	698 735	33 660	12 360 163
Accumulated depreciation	-	(626 807)	(4 338 678)	(456 871)		(5 422 356)
Net book value	**0**	**5 420 671**	**1 241 612**	**241 864**	**33 660**	**6 937 807**
2009						
Acquisition cost	-	5 420 671	1 241 612	241 864	33 660	6 937 807
Acquired	-	1 931	103 196	-	(13 855)	91 272
Disposed	-		0			0
Amortized	-	(149 221)	(210 908)	(75 746)		(435 875)
Closing book value	**0**	**5 273 381**	**1 133 900**	**166 118**	**19 805**	**6 593 204**
31.12.2009						
Initial cost/ overrated	-	6 048 140	5 592 815	691 396	19 805	12 352 156
Accumulated depreciation	-	(774 759)	(4 458 915)	(525 278)		(5 758 952)
Net book value	**0**	**5 273 381**	**1 133 900**	**166 118**	**19 805**	**6 593 204**
2010						
Acquisition cost	-	5 273 381	1 133 900	166 118	19 805	6 593 204
Acquired	21 125	25 142	175 590	24 268	14 961	239 961
Disposed	-	(1 332)	(1 110)	-	-	(2 442)
Amortized	(3 575)	(149 261)	(198 229)	(70 306)	-	(417 796)
Closing book value	**17 550**	**5 147 930**	**1 110 151**	**120 080**	**34 766**	**6 412 927**
31.12.2010						
Initial cost/ overrated	21 125	6 066 483	5 709 342	695 275	34 766	12 505 866
Accumulated depreciation	(3 575)	(918 553)	(4 599 191)	(575 195)	-	(6 092 939)
Net book value	**17 550**	**5 147 930**	**1 110 151**	**120 080**	**34 766**	**6 412 927**

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 Ls 2 534 868.

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

During the preparation of financial statements of the reporting year the management of The Group has 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 Ls 1 300 000 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. Ls	31.12.2009. Ls
Raw materials	1 399 746	1 906 194
Goods in production	219 915	493 131
Finished goods	474 582	543 023
(Provisions for impairment of inventories)	(75 823)	(86 169)
	2 018 420	**2 856 179**

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	86 169	86 169
Changes in provisions in the financial year	(10 346)	-
Provisions closing balances	**75 823**	**86 169**

(14) Trade receivables

	31.12.2010. Ls	31.12.2009. Ls
Book value of trade receivables	2 518 016	3 015 329
Provisions for impairment of trade receivables	(1 086 136)	(735 616)
	1 431 880	**2 279 713**

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. Ls	31.12.2009. Ls
Accrual income for repair and modernization contracts	2 644 446	829 792
Accruals for expected losses	(39 540)	(37 298)
Gross amount for accrued income	**2 604 906**	**792 494**
where:		
Accrued income in assets	2 604 906	792 494
	2 604 906	**792 494**
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 construction contracts (under "Trade receivables")	45 320	13 776

(16) Other current assets

	31.12.2010. Ls	31.12.2009. Ls
VAT overpaid	42 412	101 459
Payables for raw materials	181 686	612 891
Payables for warranties	45 320	15 488
Deferred expenses	5 277	5 675
Other taxes overpaid	-	17 243
Other receivables	21 621	8 565
	296 316	**761 321**

(17) Cash and cash equivalents

Cash at bank on current accounts	608 808	111 019
Cash on hand	842	946
	609 650	**111 965**

(18) Share capital

Registered and fully paid share capital of the Company is 8 294 219 LVL, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is 1 LVL. 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)	862 157	956 891
Loan for privatization of land plots in EUR	c)	502 398	602 084
Other loans in EUR	d)	984	6 888
Non - current loan in EUR	e)	-	70 280
		1 365 539	**1 636 143**
Current			
Current part of non-current loan in USD	a)	184 748	168 863
Current part of loan for gas equipment in EUR	b)	0	89 846
Current part of loan for privatization of land plots 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**
Total non - current and current part		**1 655 877**	**2 743 728**

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 Ls	2009 Ls
At beginning of the year	2 743 728	4 374 763
Repaid borrowings in the year	(1 193 261)	(1 620 157)
Currency exchange rate fluctuation results	105 410	(10 878)
At the end of the year	**1 655 877**	**2 743 728**

Maturity of the total borrowings is as follows:

Payable in 1 year	290 338	1 107 585
Payable in 2 – 5 years	1 138 720	1 151 365
Payable in more than 5 years	226 819	484 778
	1 655 877	**2 743 728**

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 Ls 13 417 928 (31.12.2009 - Ls 13 508 468).

(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 Ls 6 224 and at the end of the year estimated in amount of Ls 113 948.

(21) Other liabilities

	31.12.2010. Ls	31.12.2009. Ls
Non-current		
Accrued liabilities to disability pensions (non-current part)	91 303	91 303
	91 303	**91 303**
Current		
Advances received	1 066 724	1 094 951
Payroll liabilities	253 143	157 192
Mandatory State social contributions	250 893	454 984
Personnel income tax liabilities	178 226	218 109
Accrued liabilities for unused annual leave	150 728	124 974
Accrued liabilities for post-employment benefits (current part)	5 606	5 606
Other taxes payable	1 695	1 219
VAT liabilities	-	68 924
Other liabilities	363 683	101 226
	2 270 698	**2 227 185**

(22) Average number of employees	**2010**	**2009**
Average number of people employed during the financial year	922	940

(23) Remuneration to personnel	**2010 Ls**	**2009 Ls**
Salaries and mandatory State social insurance contributions for production staff	3 339 355	2 563 519
Salaries and mandatory State social insurance contributions for distribution staff	62 186	49 579
Salaries and social insurance contributions for administration staff	1 079 908	927 553
	4 481 449	**3 540 651**
Including renumeration to key management		
salary expenses	150 567	147 456
mandatory State social insurance contributions	36 272	35 222

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 Ls	Payables Ls	Receivables Ls	Payables Ls
Related parties with significant influence	162 755	2 075 369	609 699	671 140
	162 755	**2 075 369**	**609 699**	**671 140**

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 Ls	2009 Ls
Related parties with significant influence		
Repair services of railway rolling stock	4 408 560	3 377 649
Purchase of raw materials	5 765 975	1 765 730
Services received	84 241	16 728
Other transactions	34 266	40 937
	10 293 042	**5 201 044**

(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,	**(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 Ls 18 250 (2009 - Ls 41 602) bigger/smaller, mainly it would effect interest payments for loans with floating interest rate.

(b) Credit risk

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

Maximum exposure to credit risk	**31.12.2009**	**31.12.2008**
	Ls	**Ls**
Trade receivables	1 431 880	2 279 713
Accrued income	2 604 906	792 494
Other receivables	291 039	755 646
Cash	609 650	111 965
	4 937 475	**3 939 818**

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	90-180 days	> 180 days
31.12.2009. Ls	3 015 329	(735 616)	2 279 713	1 511 611	122 622	-	645 480
31.12.2010. Ls	2 518 016	(1 086 136)	1 431 880	909 941	95 350	14 639	411 950

* At the end of the reporting period trade receivables with material delay in payment amount to Ls 412 thousand (31.12.2009 - 645 thousand), the net book value of these receivables, excluding receivables from third parties, that enrol proportional risk on recovery of these receivables amount to Ls 96 thousand (31.12.2009 - Ls 308 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.** **Ls**	**31.12.2009.** **Ls**
Accruals at the beginning of the year	735 616	779 040
Decrease of accruals for written off bad debts	-	(43 424)
Provisions created in the reporting period	350 520	-
Provisions closing balances	**1 086 136**	**735 616**

(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 Ls 1 437 446 (31.12.2009 - Ls 1 402 890). 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 Ls 70 280 (31.12.2009: Ls 913 645). On 31 December 2010 the unused part of the credit line was Ls 70 280 (2009: Ls 100 079). 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**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**
Long-term loans	1 636 143	-	344 733	806 632	484 778
Short -term loans	1 107 585	1 107 585	-	-	-
Trade payables	2 048 923	2 048 923	-	-	-
Accruals	120 172	120 172	-	-	-
Other liabilities	2 362 001	2 227 185	-	-	134 816
	7 274 824	**5 503 865**	**344 733**	**806 632**	**619 594**

On 31 December, 2010	**Total**	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**
Long-term loans	1 365 539	-	285 418	853 302	226 819
Short -term loans	290 338	290 338	-	-	-
Trade payables	2 874 521	2 874 521	-	-	-
Accruals	113 948	113 948	-	-	-
Other liabilities	2 362 001	2 270 698	-	-	91 303
	7 006 347	**5 549 505**	**285 418**	**853 302**	**318 122**

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 nagative 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**
	Ls	**Ls**
Total borrowings	1 655 877	2 743 728
Cash and its equivalents	(609 650)	(111 965)
Net loans	1 046 227	2 631 763
Equity	6 039 795	5 933 397
Total assets	13 417 928	13 508 468
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.