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AS Daugavpils Lokomotīvju Remonta Rūpnīca

ANNUAL REPORT

for the 12 months period ended 31 December 2011

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INFORMATION ON THE COMPANY

Name of the company	AS Daugavpils Lokomotīvju Remonta Rūpnīca
Legal status of the company	Joint Stock Company
Number, place and date of registration	Company Register Nr. 40003030219 Riga, 3 October 1991 Commercial Register 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% Lokomotiiv Investeeringuud OU (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 Natalja Kumar - Member of the Council Juri Krasnošlik - Member of the Council Aleksandr Golubnitši - Member of the Council
Names and positions of the Board members	Natālija Petrova - Chairman of the Board Mihails Mamonovs - Member of the Board Eduards Krukovskis - Member of the Board
Financial year	1 January, 2011 - 31 December, 2011
Auditor's name and address:	Baker Tilly Baltics SIA License No. 80 Kronvalda boulevard 10 Riga LV-1010 Latvia Certified auditor in charge Natālija Zaiceva Certificate No.138

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 repair services of all types of railway rolling stock - diesel - electric locomotives and electric trains.

Performance of the Company during the financial year

In 2011 net sales of the Company was in amount 33.4 million EUR (in 2010 - 31.7 million EUR). Sales of principal activity comprised 23.3 million EUR, that compile 103,8% of 2010. 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 10.1 million EUR (in 2010 - 9.0 million EUR). During the reporting period the Company was working full-time and ended the year with a profit of 545.4 thousand EUR. In the year of account the Company acquired the passenger wagons overhaul. During the financial year, the Company purchased and installed two machines: grinding machine NILES and machining centre MAZAK, using EU funding. The project total value excluding VAT amounted to 1 714 191 EUR, EU co-financing was 35% of project value. At the end of the year, the Company successfully completed the project. Its implementation will allow the Company to increase sales and range of spare parts produced, as well as increase the quality of spare parts.

Performance of the Group during the financial year

In 2011 the Group's consolidated net sales amounted to 24.3 million. EUR (104,3% in respect of annual turnover of 2010).

In 2011 the Group has been fully provided by the repair orders during the year, that allowed to close the reporting period with a profit of 0.498 million EUR. In 2011 the Group exported its products to 8 countries, the total export volume amounted to 19.9 million EUR (in 2010 - 20.8 million EUR), while turnover in Latvia amounted to 4.4 million EUR (in 2010 - 2.7 million EUR). The main directions of export in 2011 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 35

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.

Distribution of profit proposed by the Board

	2011
	EUR
Profit share to be distributed	**545 407**
Proposed profit distribution:	
Retained earnings	545 407

Future prospects

In 2012 the Company intends to continue the economic activity: increase the volume of repairs performed on railway rolling stock, as well as spare parts production and sales. At the previous marketing schedule, the Company will be provided with repair facilities throughout the year. 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. The Company intends to invest in modernization of the existing infrastructure, as well as build new production building and purchase of new technological production line, using ERAF funds. The project realization will allow to attract new customers, increase the quality of manufactured parts and learn new technologies.

Natālija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements in accordance with the Laws of the Latvian Republic On Accounting, On the Annual Reports and effective Latvian Accounting Standards. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management confirms that in preparation of financial statements on page 7 to page 31 decisions and assessments were made prudent and reasonable. Accounting policies compared with last year has not changed. 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 Company's assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Natālija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

INCOME STATEMENT

	Notes	2011 EUR	2010 EUR
Net sales	(1)	33 385 470	31 660 178
Cost of sales	(2)	(30 665 914)	(29 011 071)
Gross profit or losses		**2 719 556**	**2 649 107**
Distribution expenses	(3)	(555 485)	(555 466)
Administrative expenses	(4)	(1 527 784)	(1 287 319)
Other operating income	(5)	372 067	193 637
Other operating expenses	(6)	(25 636)	(1 419 242)
Interest and similar income	(7)	9	44 603
Interest and similar expenses	(8)	(299 194)	(97 482)
Profit or losses before taxes		**683 532**	**(472 163)**
Corporate income tax	(9)	(76 536)	(1 088)
Other taxes	(10)	(61 589)	(62 124)
Net profit or losses		**545 407**	**(535 375)**
Earnings per share (in santims)	(11)		
Basic		4,62	(4,5)
Diluted		4,62	(4,5)

Notes on pages 12 to 31 are an integral part of these financial statements.

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Natālija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

BALANCE SHEET

	Notes	31.12.2011. EUR	31.12.2010. EUR
ASSETS			
Non-current assets			
Intangible assets:			
Other intangible assets	(12)	24 560	24 971
Total intangible assets:		**24 560**	**24 971**
Fixed assets:			
Land and buildings	(12)	1 914 243	1 868 166
Equipment and machinery	(12)	3 407 250	1 579 604
Other fixed assets	(12)	121 085	170 859
Fixed assets under construction	(12)	69 272	49 466
Total fixed assets:		**5 511 849**	**3 668 095**
Investment property:			
Buildings	(12)	3 156 755	3 221 623
Total non-current financial investments:		**3 156 755**	**3 221 623**
Non-current financial investments:			
Investments in subsidiaries	(13)	31 303	31 303
Other securities and investments	(13)	683	711
Total non-current financial investments:		**31 986**	**32 015**
Total non-current investments:		**8 725 151**	**6 946 703**
Current assets			
Inventories:			
Raw materials and consumables	(14)	2 036 430	1 727 622
Finished goods and goods for sale	(15)	91 173	182 149
Advances for inventories		101 720	258 516
Total inventories:		**2 229 323**	**2 168 287**
Account receivable:			
Trade receivables	(16)	2 466 232	2 030 885
Receivables from group companies	(17)	3 335 236	3 168 844
Other receivables	(18)	25 114	154 236
Deferred expenses	(19)	6 158	7 508
Accrued income	(20)	3 491 029	3 762 102
Total receivables:		**9 323 769**	**9 123 575**
Cash and bank:	(21)	**827 835**	**854 079**
Total current assets:		**12 380 927**	**12 145 941**
Total assets		**21 106 078**	**19 092 645**

Notes on pages 12 to 31 are an integral part of these financial statements.

BALANCE SHEET

	Notes	31.12.2011. EUR	31.12.2010. EUR
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	(22)	11 801 610	11 801 610
Non-current investments revaluation reserve	(12)	1 677 720	1 779 274
Retained earnings			
a) previous year's retained earnings		(6 842 993)	(6 307 618)
b) current years profit or losses		545 407	(535 375)
Total equity:		**7 181 743**	**6 737 891**
Provisions:	(23)	733 920	809 978
Liabilities:			
Non-current liabilities:			
Loans from banks	(24)	2 369 352	1 942 987
Deferred income tax liabilities	(9)	373 148	314 534
Total non-current liabilities:		**2 742 500**	**2 257 521**
Current liabilities:			
Loans from banks	(24)	2 788 776	413 114
Other borrowings	(25)	472 166	-
Advances from customers		1 895 824	1 515 901
Trade payables		2 207 913	3 987 359
Payables to group companies	(26)	396 577	820 549
Taxes and social insurance payments	(27)	53 914	36 400
Other liabilities	(28)	63 555	52 918
Deferred income		10 709	-
Accrued liabilities	(29)	2 558 480	2 461 013
Total current liabilities:		**10 447 914**	**9 287 254**
Total liabilities:		**13 190 414**	**11 544 775**
Total equity, provisions and liabilities		**21 106 078**	**19 092 645**

Notes on pages 12 to 31 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Non-current assets revaluation reserve	Retained earnings	Total
		EUR	**EUR**	**EUR**	**EUR**
31.12.2009.		**11 801 610**	**1 819 307**	**(6 307 618)**	**7 313 299**
Disposal of revalued fixed assets	(12)	-	(47 097)	-	(47 097)
Changes in deferred tax liabilities	(9)	-	7 065	-	7 065
Loss for the year		-	-	(535 375)	(535 375)
31.12.2010.		**11 801 610**	**1 779 274**	**(6 842 993)**	**6 737 891**
Disposal of revalue fixed assets	(12)	-	(119 477)	-	(119 477)
Changes in deferred tax liabilities	(9)	-	17 922	-	17 922
Profit for the year		-	-	545 407	545 407
31.12.2011.		**11 801 610**	**1 677 720**	**(6 297 587)**	**7 181 743**

Notes on pages 12 to 31 are an integral part of these financial statements.

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Natālija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

CASH FLOW STATEMENT

		2011 EUR	2010 EUR
Cash flow from operating activities			
Profit or losses before taxes		**683 532**	**(472 163)**
Adjustments for:			
depreciation of investment property, fixed and intangible assets	(12)	552 467	540 219
profit from disposal of fixed assets	(5)	(129 477)	(70 062)
loss on disposal of investment in subsidiaries		-	5 687
changes in provisions		(263 157)	1 357 518
foreign exchange (gains)/losses		109 807	151 533
interest expenses	(8)	98 719	77 369
Cash flow prior to changes in current assets and liabilities		**1 051 891**	**1 590 101**
Inventory (increase)/decrease		(62 212)	1 755 828
Account receivable (increase)/decrease		6 000	(3 341 112)
Account payable increase/(decrease)		(1 306 765)	2 779 513
Gross cash flow generated from operating activities		**(311 087)**	**2 784 330**
Interest paid		(86 464)	(78 917)
Net cash flow generated from operating activities		**(397 550)**	**2 705 413**
Cash flow from investing activities			
Acquisition of investment property, fixed and intangible assets	(12)	(2 330 862)	(371 490)
Proceeds from sales of fixed assets		9 920	73 029
Equity investments paid		(683)	(9 249)
Proceeds from sales of equity investments		711	-
Net cash flow generated from investing activities		**(2 320 913)**	**(307 710)**
Cash flow from financing activities			
Loans received	(24)	5 818 111	-
Loans repaid	(24)	(3 125 891)	(1 697 857)
Net cash flow generated from financing activities		**2 692 220**	**(1 697 857)**
Net increase / (decrease) in cash and cash equivalents		**(26 243)**	**699 845**
Cash and cash equivalents at the beginning of the financial year		**854 079**	**154 234**
Cash and Cash equivalents at the end of the financial year	(21)	**827 835**	**854 079**

Notes on pages 12 to 31 are an integral part of these financial statements.

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Natālija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

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 (5) 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) Reclassification of comparatives

During the reporting year has been a change in classification of items in comparison with the previous period. Reclassification does not have the impact on the financial results. The previous year comparatives have been reclassified accordingly and are comparable.

Reclassified assets, liabilities, revenues or costs	2010 Adjusted	2010 Prior adjustments	Amount
	Name of line item	Name of line item	EUR
Brokerage services	Distribution expenses	Cost of sales	320 742

(3) 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".

(4) 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.

	31.12.2011.	**31.12.2010.**
	Ls	**Ls**
1 USD	0,544	0,535
1 EUR	0,702804	0,702804
1 LTL	0,204	0,203
1 RUB	0,017	0,0176

(5) 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”. All other fixed and intangible assets are shown at acquisition cost less accumulated depreciation. The acquisition costs include all related expenses of asset acquisition.

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 EUR 427 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than EUR 427 is calculated 50-100% after commissioning and 0-50% after exclusion.

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 calculated as the highest of fair value less costs to sell or value in use.

(6) 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

(7) 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.

(8) 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.

(9) 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 .

(10) 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.

(11) 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.

(12) 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.

(13) 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, unless the deferred tax asset or liability is not the initial recognition, that are not business merging and at the transaction time does not affect the financial nor taxable profit. 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.

(14) 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.

(15) Grants

Grants or subsidies received for the acquisition of fixed assets or other non-current assets are recorded as deferred income and recognized as an income in the income statement on straight-line basis over the useful life of the assets acquired. Other subsidies or grants to cover the expenses are recognized as an income in the same period when the respective expenses have arisen and all material conditions in respect of the grants received has been fulfilled.

(16) 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.

(17) 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.

(18) Related parties

Related parties are considered Group and associated 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

	2011 EUR	2010 EUR
By operating activities		
Income from railway rolling stock repair and upgrade services	23 010 835	18 667 485
Income from sales of materials (see Note (34))	7 666 401	6 476 365
Income from sales of railway spare parts, wagons	-	3 803 042
Income from rent of premises and equipment (see Note (34))	1 816 176	1 821 777
Other income	558 642	392 414
Management and administrative services (see Note (34))	272 617	262 958
Other income from transactions with subsidiaries (see Note (34))	60 799	236 138
	33 385 470	**31 660 178**
By location		
Income from sales of goods/services in Latvia	13 985 299	11 295 983
Income from sales of goods/services to EU	6 321 808	8 782 436
Income from sales of goods/services to Russia	10 471 268	8 370 896
Income from sales of goods/services to Uzbekistan	437 710	1 258 509
Income from sales of goods/services to Belarus	1 057 604	679 737
Income from sales of goods/services to other countries	1 111 782	1 272 618
	33 385 470	**31 660 178**

a) Rental income

The Company rents most of the property, plants and equipment and other intangible and tangible assets to its subsidiary SIA "Remenergo". Rental income for property, plants and equipment in 2011 amounted to EUR 1 816 176 (2010 - EUR 1 821 777). Rent agreements are signed till 31 December 2012.

(2) Cost of sales

	2011 EUR	2010 EUR
Service costs from subsidiaries	17 393 499	14 864 245
Costs of goods sold	12 116 341	13 033 768
Depreciation of fixed assets	432 069	416 291
Other production costs	332 966	317 719
Utility expenses	142 482	186 160
Acquisition costs for raw materials, consumables and goods	158 475	131 146
Salary expenses	68 146	65 913
Social insurance costs	16 252	15 704
Changes in provisions for warranty repairs and expected losses	5 683	(19 875)
	30 665 914	**29 011 071**

(3) Distribution expenses

Mediation expenses	362 417	320 742
Transport costs	95 061	146 241
Salaries	79 132	71 391
Social insurance costs	18 876	17 092
	555 485	**555 466**

(4) Administrative expenses

	2011 EUR	2010 EUR
Salary expenses	682 655	551 633
Other administration costs	297 865	208 496
Social insurance costs	162 966	131 794
Utility expenses	161 160	155 103
Depreciation of fixed assets	113 053	122 339
Office expenses	58 426	49 127
Professional service costs	26 797	53 679
Rent expenses	22 597	12 235
Representation costs	2 265	2 913
	1 527 784	**1 287 319**

(5) Other operating income

Net income from sale and disposal of fixed assets, including write-off of revaluation reserve	129 477	70 062
Income from rents	113 343	69 445
Changes in provisions for financial support (see Note (23))	81 741	-
Other income	47 505	54 130
	372 067	**193 637**

(6) Other operating expenses

Collective agreement costs	15 549	13 025
Other costs	10 087	11 958
Impairment loss of trade receivables	-	1 230 709
Changes in provisions for financial support (see Note (23))	-	157 863
Loss from disposal of investments in subsidiaries	-	5 687
	25 636	**1 419 242**

(7) Interest and similar income

Interest income	9	420
Received interest on overdue bills	-	29 769
Net income from exchange rate fluctuations	-	14 414
	9	**44 603**

(8) Interest and similar expenses

Net loss from exchange rate fluctuations	170 806	-
Interest expense	98 719	77 368
Penalties paid	29 670	20 114
	299 194	**97 482**

(9) Corporate income tax

a) **Components of corporate income tax**	**2011 EUR**	**2010 EUR**
Changes in deferred income tax	76 536	1 088
Corporate income tax according to the tax return	-	-
	76 536	**1 088**

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:

	2011 EUR	**2010 EUR**
Profit before taxes	683 532	(472 163)
Real estate taxes	(61 589)	(62 124)
Profit before corporate income tax	621 943	(534 287)
Theoretically calculated tax at 15% tax rate	**93 291**	**(80 143)**
Tax effects on:		
Permanent differences	10 159	81 232
Discount on new machinery acquisition	(26 915)	-
Total corporate income tax expenses	**76 536**	**1 088**

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	314 534	320 510
Deferred tax charged to the income statement	76 536	1 088
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	(17 922)	(7 065)
Deferred tax liabilities (asset) at the end of the financial year	**373 148**	**314 534**

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):

	31.12.2011. EUR	**31.12.2010. EUR**
Temporary difference on depreciation of fixed and intangible assets	539 466	502 260
Gross deferred tax liabilities	**539 466**	**502 260**
Provisions for expected losses	-	(91)
Provisions for financial support and guarantee services	(110 089)	(121 496)
Provisions for impairment of inventories	(13 975)	(13 799)
Tax losses carried forward	(42 254)	(52 339)
Gross deferred tax assets	**(166 318)**	**(187 725)**
Net deferred tax liability (assets)	**373 148**	**314 534**

(10) Other taxes

	2011 EUR	2010 EUR
Real estate tax for land	5 616	5 950
Real estate tax for buildings	55 973	56 174
	61 589	**62 124**

(11) Earnings per Share (Expressed in Santims per Share)

Since the Company 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 net profit of the reporting year by the average number of shares in the reporting year.

	2011	2011
Profit attributed to shareholders of the Company (EUR)	545 407	(535 375)
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in santims)	**6,58**	**(6,45)**

(12) Intangible, property, plant and equipment and investment property

	Intangible assets	Investment property	Property, plant and equipment				
	Concessions, licenses, trade marks etc.	Buildings	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost/revaluation							
31.12.2010.	30 058	3 851 055	2 439 281	8 123 662	989 287	49 466	15 482 809
Additions	-	-	-	-	-	2 330 862	2 330 862
Disposals	-	(2 417)	(659)	(251 955)	(3 169)	-	(258 200)
Reclassification	6 000	64 384	78 790	2 126 079	35 802	(2 311 055)	0
31.12.2011.	36 058	3 913 021	2 517 413	9 997 786	1 021 921	69 272	17 555 471
Depreciation							
31.12.2010.	(5 087)	(629 432)	(571 115)	(6 544 058)	(818 428)	-	(8 568 120)
Calculated	(6 411)	(129 457)	(32 769)	(298 338)	(85 492)	-	(552 467)
Disposals	-	2 622	714	251 860	3 083	-	258 280
31.12.2011.	(11 498)	(756 266)	(603 170)	(6 590 536)	(900 836)	0	(8 862 308)
Net carrying amount 31.12.2010.	**24 971**	**3 221 623**	**1 868 166**	**1 579 604**	**170 859**	**49 466**	**6 914 689**
Net carrying amount 31.12.2011.	**24 560**	**3 156 755**	**1 914 243**	**3 407 250**	**121 085**	**69 272**	**8 693 163**

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 32), other land and building s classified as investment property.

Company's land plots cadastral value on 31 December 2011 is EUR 437 964 (31.12.2010 - EUR 437 964), the cadastral value of buildings is EUR 4 772 823 (31.12.2010 - Ls 4 763 092).

In 1996, 1999 and 2001 the Company has revaluated land, buildings and equipment. Respectively in 1996 value of tangible assets was increased by EUR 938 438, in 1999 by EUR 1 875 134 and in 2001 by EUR 1 266 290. Real estate market value was determined using the sales comparison method, as well as revenue discounting method. The difference accrued in the result of revaluation is recognized in the equity item "The long-term assets revaluation reserve".

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

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

	31.12.2011.	**31.12.2010.**
	EUR	**EUR**
Cost	6 825 029	6 682 113
Accumulated depreciation	(2 478 875)	(2 395 070)
Net carrying amount	**4 346 155**	**4 287 043**

Total fixed assets and investment property revaluation amount on the 31 December 2011, less deferred tax effect, was EUR 1 677 720 (31.12.2010 - EUR 1 779 274).

During the financial year the borrowing costs of EUR 27 749 were capitalized.

Information on pledged fixed assets and investment properties is disclosed in the Note (24) to the financial statements.

(13) Equity investments

a) movement of investments

	Non-current		
	Investments in subsidiaries	Other securities and investments	Total
	EUR	EUR	EUR
Cost			
31.12.2010.	31 303	711	32 015
Purchase	-	683	683
Disposals	-	(711)	(711)
31.12.2011.	31 303	683	31 986
Changes of value of investments			
31.12.2010.	-	-	0
31.12.2011.	0	0	0
Net carrying amount 31.12.2010.	**31 303**	**711**	**32 015**
Net carrying amount 31.12.2011.	**31 303**	**683**	**31 986**

b) investments in subsidiaries

		Participating interest		Equity		Profit/(loss)	
Name	**Address**	**31.12.2010.**	**31.12.2011.**	**31.12.2010.**	**31.12.2011.**	**2010**	**2011**
		%	%	EUR	EUR	EUR	EUR
SIA REL	Marijas 1, Daugavpils	100%	100%	(113 091)	(87 103)	(115 937)	25 989
SIA Elap	Marijas 1, Daugavpils	100%	100%	21 537	38 348	(30 688)	16 811
SIA REMDĪZ	Marijas 1, Daugavpils	100%	100%	(219 346)	(269 550)	(222 191)	(50 205)
SIA Ritrem	Marijas 1, Daugavpils	100%	100%	75 809	158 407	(14 064)	82 598
SIA Elektromaš	Marijas 1, Daugavpils	100%	100%	464 347	489 635	(31 107)	25 287
SIA Krāsotājs	Marijas 1, Daugavpils	100%	100%	(244 366)	(245 434)	(25 754)	(1 067)
SIA SPZČ	Marijas 1, Daugavpils	100%	100%	(290 698)	(360 900)	(224 687)	(70 202)
SIA METALURGS	Marijas 1, Daugavpils	100%	100%	(37 037)	(37 360)	(39 883)	(323)
SIA Remenergo	Marijas 1, Daugavpils	100%	100%	(308 082)	(257 341)	(50 671)	50 741
SIA Instruments	Marijas 1, Daugavpils	100%	100%	(152 711)	(152 950)	(232)	(239)
SIA Loģistika	Marijas 1, Daugavpils	100%	100%	8 937	11 288	7 208	2 351
				(794 701)	**(712 960)**	**(748 006)**	**81 741**

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

(14) Raw materials and consumables

	31.12.2011. EUR	31.12.2010. EUR
Raw materials, material and auxiliary material cost	2 094 159	1 786 891
(Accruals for damaged and slow moving stock)	(57 729)	(59 268)
	2 036 430	**1 727 622**

(15) Finished goods and goods for resale

Finished goods	126 493	214 747
Other goods for sale	120	128
(Accruals for damaged and slow moving stock)	(35 439)	(32 726)
	91 173	**182 149**

(16) Trade receivables

Book value of trade receivables	3 820 808	3 573 733
(Provisions for bad and doubtful debts)	(1 354 575)	(1 542 848)
	2 466 232	**2 030 885**

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

(17) Receivables from group companies

Settlements with subsidiaries (see Note (34))	3 248 919	3 082 669
Loans to subsidiaries (see Note (34))	86 317	86 175
	3 335 236	**3 168 844**

(18) Other receivables

	31.12.2011. EUR	31.12.2010. EUR
Payments for guarantees	11 770	64 485
VAT for advances received	6 073	19 048
Payments for other services	3 058	3 058
Other receivables	3 462	5 310
Payments to personnel	751	1 998
VAT overpaid (see Note (27))	-	60 338
	25 114	**154 236**

(19) Deferred expenses

Insurance payments	3 021	2 950
Other expenses	3 137	4 559
	6 158	**7 508**

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

Costs incurred and profit recognised as income	3 491 029	3 762 708
Accruals for expected losses	-	(606)
Gross amount of work-in-progress	**3 491 029**	**3 762 102**
where:		
Work-in-progress as assets (under "Accrued income")	3 491 029	3 762 102
	3 491 029	**3 762 102**
Corresponding amounts:		
Contract revenue recognised in income statement (under "Net sales")	23 010 835	18 667 485
Advances received from customers (under "Advances from customers")	1 895 824	1 515 901
Retentions on contracts (under "Other receivables")	11 770	64 485

(21) Cash and bank

Cash at bank on current accounts	825 637	852 881
Cash on hand	2 198	1 198
	827 835	**854 079**

(34) Share capital

Registered and fully paid share capital of the Company is EUR 11 801 610, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is EUR 1.42. 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.

(23) Provisions

	Provisions for warranty costs	Provisions for subsidiaries' financial support	Total
	EUR	EUR	EUR
31.12.2009.	**31 610**	**636 838**	**668 448**
Increase	-	157 863	157 863
Decrease	(16 333)	-	(16 333)
31.12.2010.	**15 277**	**794 701**	**809 978**
Increase	5 683		5 683
Decrease	-	(81 741)	(81 741)
31.12.2011.	**20 960**	**712 960**	**733 920**

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 (34) the Company provides to subsidiary's the financial resources for supporting their operations. Subsidiaries results of operations and financial positions are disclosed in Note (13) 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 .

(24) Loans from banks

	Note	31.12.2011. EUR	31.12.2010. EUR
Non-current			
Non-current loan in USD Norvik banka	a)	-	1 226 739
Loan for privatization of land in EUR Norvik banka	b)	-	714 848
Other loans in EUR	c)	-	1 400
Investment credit in USD SWEDBANK	a)	1 060 567	-
Investment credit for EU-funded project in EUR	d)	704 724	-
Investment credit in EUR SWEDBANK	b)	604 060	-
		2 369 352	**1 942 987**
Current			
Current part of non-current loan in USD Norvik banka	a)	-	262 873
Current part of loan for privatization of land in EUR Norvik banka	b)	-	141 840
Other loans in EUR	c)	-	8 401
Credit line in EUR	e)	1 499 879	-
Investment credit for EU-funded project in EUR	d)	854 668	-
Current part of investment credit in USD SWEDBANK	a)	276 658	-
Current part of investment credit in EUR SWEDBANK	b)	157 572	-
		2 788 776	**413 114**

a) In 2004 the Company has received a loan in amount of USD 4 000 000 (EUR 3 096 169)from A/S NORVIK banka for increase of current assets. On October 2011, the Company signed a contract with SWEDBANK AS for investment loans USD 1 755 394 company's commitment to NORVIK AS refinancing. The loan must be repaid till 31.10.2016. The interest rate is 1.29% plus 3 months LIBOR.

b) 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. In 2007 the Company refinanced the loan to EUR. On October 2011, the Company has entered contract with Swedbank AS for investment credit of EUR 773 948 amount. The company's liabilities NORVIK AS refinancing. The loan to be repaid until 31.10.2016. The interest rate is 1.5% + 3 month EURIBOR.

c) 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 loan extinguished early, in 2011. The interest rate was 1.6% plus 6 months EURIBOR.

d) On October 2011, the company signed an agreement with SWEDBANK AS for investment loans, which provides financing of EUR 1 559 392 for EU Structural Funds project. The loan must be repaid till 31.10.2016. The interest rate is 1.5% + 3 month EURIBOR. Contract provides the repayment with received funds from LIAA.

e) October 2011, the Company has entered contract with Swedbank AS on the granting of credit line EUR 1 500 000. The credit line repayable by 31.10.2012. The interest rate is 1.5% + 3month EURIBOR and 0.2% per annum on the amount of unused credit line.

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 2011 is EUR 21 106 078 (31.12.2010 - EUR 19 092 645).

(25) Other borrowings

	31.12.2011.	31.12.2010.
	EUR	EUR
Loan from AS Skinest Rail (see Note 34)	472 166	-
	472 166	**0**

During the reporting period Company received a loan from AS Skinest Rail USD 610 000. The loan is to be repaid till 31.12.2012. The interest rate per annum is 12%.

(26) Payables to group companies

	31.12.2011.	31.12.2010.
	EUR	EUR
Settlements with subsidiaries (see Note (34))	396 577	820 549
	396 577	**820 549**

(27) Taxes and social insurance payments

	31.12.2010.	Calculated	Calculated penalty and delay fees	(Paid)/ repaid	Transferred to other taxes	31.12.2011.
	EUR	EUR	EUR	EUR	EUR	EUR
VAT*	(60 338)	(407 515)	-	(22 665)	506 545	16 027
Personal income tax	12 961	151 606	4	(17 686)	(134 251)	12 634
Social insurance payments	21 351	285 343	-	(33 366)	(249 674)	23 653
Real estate tax (land)	-	5 616	158	(5 774)	-	0
Real estate tax (buildings)	-	55 973	2 278	(58 251)	-	0
Natural resource tax	2 047	6 780	-	(7 269)	-	1 558
Enterprise risk duty	41	526	-	(525)	-	43
Total	**(23 938)**	**98 329**	**2 440**	**(145 537)**	**122 620**	**53 914**
Hereof						
(Overpaid) - see Note 18 for details	**(60 338)**					**-**
Payables	**36 400**					**53 914**

In 2011 the Company has used the 100% exemption from natural resource tax as it is involved in voluntary program of packaging waste management.

* The Company with subsidiaries forms a single VAT group. The Company makes payments to the budget for the whole VAT group. In the financial statements the movement of VAT liabilities reflects the Company's settlements for VAT group. Net transferred tax amount of EUR 122 620 corresponds to the tax liability net movement between the Company and other members of the VAT group.

(28) Other liabilities

	31.12.2011.	31.12.2010.
	EUR	EUR
Payroll liabilities	49 933	48 641
Other liabilities	13 623	4 277
	63 555	**52 918**

(29) Accrued liabilities

	31.12.2011. EUR	31.12.2010. EUR
Accrued liabilities to subsidiaries*	2 393 384	2 061 723
Accrued liabilities to other suppliers	113 070	368 835
Accrued unused annual leave	52 026	30 455
	2 558 480	**2 461 013**

The Company and its subsidiaries use the single policy of revenue recognition for repair services (see Note (3) to the accounting policies). The Company's accrued liabilities recognized at the end of reporting year of EUR 2 393 384 (31.12.2010 - EUR 2 061 723) is equal to the accrued revenues for work-in-progress which are recognized in financial statements of all subsidiaries.

(30) Fees paid to auditors

	2011 EUR	2010 EUR
For the audit of financial statements	10 201	12 200
For tax consulting	733	797
	10 933	**12 997**

(31) Average number of employees

	2011	2010
Average number of people employed during the financial year	119	112

(32) Remuneration to personnel

	2011 EUR	2010 EUR
Employee pay	829 933	688 937
Social insurance payments	198 094	164 590
Other expenses	147 607	123 241
	1 175 634	**976 768**

(33) Remuneration to the management

Board members		
· salary expenses	81 580	61 730
· other social insurance expenses	19 653	14 870
	101 233	**76 600**

(34) Transactions with related parties

As mentioned in Note (13), 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 Loģistika. Claims and liabilities against subsidiary companies are classified as receivables and payables to Group companies accordingly.

The main shareholders of the Company - AS Skinest Rail (Estonia) and AS Spacecom (Estonia) has a significant influence in determination of the Company'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

	Notes	31.12.2011. Receivables EUR	31.12.2011. Payables EUR	31.12.2010. Receivables EUR	31.12.2010. Payables EUR
Group companies		3 335 236	396 577	3 168 844	820 549
Other related companies		80 943	1 245 343	224 010	2 401 847
		3 416 179	**1 641 920**	**3 392 854**	**3 222 396**

b) transactions

	Notes	Sales / Return to related parties 2011 EUR	Sales / Return to related parties 2010 EUR	Purchases from related parties 2011 EUR	Purchases from related parties 2010 EUR
Group companies					
Repair services of railway rolling stock	(i)	-	-	15 746 076	11 884 097
Sales/production of materials		7 666 401	6 476 365	1 153 040	1 498 775
Rent of premises and equipment		1 816 176	1 821 777	22 597	12 235
Administrative and management services	(ii)	272 617	262 958	-	-
Other transactions		279 155	471 309	375 231	316 518
Total Group companies:		**10 034 348**	**9 032 409**	**17 296 943**	**13 711 625**
Other related parties					
Repair services of railway rolling stock		10 083 414	5 928 687	130 049	119 864
Sales/purchases of materials		448 246	68 332	5 178 015	8 204 243
Other		800 668	-	1 136 149	-
Total other related parties:		**11 332 329**	**5 997 019**	**6 444 213**	**8 324 107**
		21 366 677	**15 029 428**	**23 741 157**	**22 035 733**

(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 (13)). 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.

(35) 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 (USD) and Russian ruble (RUB) 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, RUB and US dollars, but the significant part of the production is sold in the domestic market and exported to the markets where euro and RUB dominate.

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:

	31.12.2011.	**31.12.2010.**
Financial assets, EUR	678 966	1 058 324
Financial liabilities, EUR	(4 357 809)	(2 931 330)
Open position EUR, net	(3 678 843)	(1 873 006)
Open position EUR, calculated in lats, net	**(2 585 505)**	**(1 316 356)**
Financial assets, USD	1 349 782	1 241 016
Financial liabilities, USD	(4 485 559)	(4 148 998)
Open position USD, net	(3 135 777)	(2 907 982)
Open position USD, calculated in lats, net	**(1 705 863)**	**(1 555 771)**
Financial assets, RUB	47 784 170	31 528 709
Financial liabilities, RUB	(32 127 358)	(6 019 731)
Open position RUB, net	15 656 812	25 508 978
Open position RUB, calculated in lats, net	**266 166**	**448 958**

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 2011 the amount of interest-bearing liabilities has been increased.

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 (23) 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.

(36) Subsequent events

During the reporting period the Company has entered into an agreement with Latvian Investment and Development Agency (LIAA) of the EU co-financed project "The development of new products and technology - support for the implementation in production of new products and technology". Funding was used in the reporting year by acquiring new technological equipment. In 2012 the Company received approval for funding to be paid of EUR 599 967 respectively.

Except for the above, 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 2011.

Natālija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

The annual report has been approved by the general meeting of members 27 April 2012.

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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 set out on pages 7 to 31 of the annual report. These financial statements comprise the balance sheet as at 31 December 2011, and the income statement, statement of cash flow and statement of changes in equity for the period from 1 January 2011 to 31 December 2011 (the Financial year), and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia On Annual Reports and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the risks 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 Daugavpils Lokomotīvju Remonta Rūpnīca AS as at 31 December 2011, and of its financial performance and its cash flows for the financial year in accordance with the Law of the Republic of Latvia On Annual Reports.

Report on Other Legal and Regulatory Requirements

We have read the management report for the financial year as set on pages 4 to 5 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements.

Baker Tilly Baltics SIA
License No. 80

Natālija Zaiceva
Certified Auditor
Certificate No.138

Riga, 27 April 2012

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