AS "Daugavpils Lokomotīvju Remonta Rūpnīca"

CONSOLIDATED ANNUAL REPORT

prepared in accordance with EU approved

International Financial Reporting Standards

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MANAGEMENT

Names and positions of the Counsel members	Oleg Ossinovski - Chairman of the Council
	Aivar Keskula - Vice Chairman of the Council
	Juri Krasnošlik - Member of the Council
	Natalja Kumar - Member of the Council
	Aleksandr Golubnitši - Member of the Council
Names and positions of the Board members	Natālija Petrova - Chairman of the Board
	Eduards Krukovskis - Member of the Board
	Mihails Mamonovs - Member of the Board

REPORT OF THE MANAGEMENT

Type of operations

Basic activity of AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" is railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts. AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" 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 2011 the consolidated net sales of the Company amounted to 24.4 million EUR (104.3% in respect of net sales 2010).

In 2011 the Group was provided with orders throughout the year, which made it possible to complete the year with a profit 0.497 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.

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 produced nomenclature, as well as increase the quality of spare parts.

Financial risk management

The policy of financial risk management of the Group is described in financial report's Notes 25.

Future prospects

In 2012 the Group 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 Group 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 Group 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. In order to receive the financing the Company prepared and handed in the required documentation to LIAA, the project amount to 8.5 mil. EUR. Expected date to which LIAA is to present its decisions is July 2, 2012. 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 of the Group in accordance with International Financial Reporting Standards (IFRS) 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 31 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, 27 April 2012

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2011 EUR	2010 EUR
Net sales	(1)	24 400 655	23 401 475
Cost of sales	(2)	(20 682 081)	(21 007 361)
Gross profit (loss)		**3 718 574**	**2 394 114**
Distribution expenses	(3)	(555 485)	(555 466)
Administrative expenses	(4)	(2 520 417)	(2 153 007)
Other income	(5)	185 902	690 054
Other expenses	(6)	(25 983)	(24 179)
Finance income and costs (net)	(8)	(357 650)	(148 141)
Profit (loss) before tax		**444 942**	**203 375**
Corporate income tax	(9)	52 164	(51 985)
Net profit (loss)		**497 106**	**151 391**
Attributable to:			
Equity holders of a parent company		497 106	151 391
Minority interest		-	-
Earnings per share (in santims)	(10)		
Basic		5.99	1.83
Diluted		5.99	1.83
Total comprehensive income (expense)		**497 106**	**151 391**
Attributable to:			
Equity holders of a parent company		497 106	151 391
Minority interest		-	-

Notes on pages 10 to 33 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	31.12.2011. EUR	31.12.2010. EUR
Non-current assets			
Intangible assets		24 560	24 971
Property, plant and equipment (tangible assets)	(11)	10 833 692	9 124 773
Investments in associated companies	(11)	683	711
Total non-current assets:		**10 858 935**	**9 150 456**
Current assets			
Inventories	(12)	3 169 992	2 871 953
Accrued income	(14)	3 480 524	3 706 447
Trade receivables	(13)	2 550 797	2 037 382
Corporate income tax receivables	(9)	6 784	36 680
Other current assets	(15)	133 988	421 620
Cash and cash equivalents	(16)	832 609	867 454
Total current assets:		**10 174 693**	**9 941 536**
Total assets		**21 033 628**	**19 091 992**

EQUITY AND LIABILITIES	Notes	31.12.2011. EUR	31.12.2010. EUR
Equity			
Share capital	(17)	11 801 610	11 801 610
Retained earnings of the previous years		(3 207 756)	(3 359 147)
Retained earnings of the reporting year		497 106	151 391
Total equity:		**9 090 960**	**8 593 854**
Liabilities:			
Non-current liabilities:			
Borrowings	(18)	2 369 352	1 942 987
Deferred income tax liabilities	(9)	476 840	529 004
Other non-current liabilities	(20)	119 383	129 912
Total non-current liabilities:		**2 965 575**	**2 601 903**
Current liabilities:			
Borrowings	(18)	3 260 942	413 114
Trade payables		2 456 649	4 090 075
Provisions	(19)	175 282	162 133
Other liabilities	(20)	3 084 220	3 230 912
Total current liabilities:		**8 977 093**	**7 896 234**
Total liabilities:		**11 942 668**	**10 498 137**
Total equity and liabilities:		**21 033 628**	**19 091 992**

Notes on pages 10 to 33 are an integral part of these financial statements.

Natalija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

STATEMENT OF CHANGES IN EQUITY

	Share capital	Accumulated losses	Total
	EUR	**EUR**	**EUR**
31.12.2009.	**11 801 610**	**(3 359 147)**	**8 442 463**
Profit of the previous year	-	151 391	151 391
Total comprehensive income	-	151 391	151 391
31.12.2010.	**11 801 610**	**(3 207 756)**	**8 593 854**
Profit of the reporting year	-	497 106	497 106
Total comprehensive income	-	497 106	497 106
31.12.2011.	**11 801 610**	**(2 710 650)**	**9 090 960**

Notes on pages 10 to 33 are an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	2011 EUR	2010 EUR
Cash flow from operating activities			
Profit or losses before income tax		**444 942**	**203 375**
Adjustments for:			
depreciation and amortization	(11)	622 037	599 557
profit from disposal of tangible assets	(11)	(10 000)	(22 965)
changes in provisions		(185 514)	504 610
foreign currency (gains)/losses		109 807	151 533
interest expenses		98 719	77 367
Cash flow prior to changes in current assets		**1 079 991**	**1 513 477**
Inventory (increase)/decrease		(290 233)	1 177 303
Account receivable (increase)/decrease		189 768	(1 209 575)
Account payable increase/(decrease)		(1 785 812)	1 358 296
Gross cash flow generated from operating activities		**(806 286)**	**2 839 501**
Interest paid	(18)	(86 464)	(78 917)
Net cash flow generated from operating activities		**(892 750)**	**2 760 585**
Cash flow from investing activities			
Acquisition of tangible assets		(2 330 862)	(371 492)
Proceeds from sales of tangible assets		10 181	26 155
Equity investments paid		-	(9 249)
Proceeds from sales of equity investments		711	-
Paid for equity investments		683	-
Net cash flow generated from investing activities		**(2 319 287)**	**(354 585)**
Cash flow from financing activities			
Loans repaid	(18)	(3 125 891)	(1 697 857)
Loans received		6 303 083	-
Net cash flow generated from financing activities		**3 177 192**	**(1 697 857)**
Net increase / (decrease) in cash and cash equivalents		**(34 845)**	**708 142**
Cash and cash equivalents at the beginning of the financial year		**867 454**	**159 312**
Cash and Cash equivalents at the end of the financial year	(16)	**832 609**	**867 454**

Notes on pages 10 to 33 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.

The Company is open joint stock company and it's shares are quoted in AS NASDAQ OMX Secondary list, 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 2011 till 31 December 2011.

These financial statements were authorised for issue by the Board of Directors of the Company on 27 April 2012, 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. At the end of the reporting period, the Group has investments in 11 subsidiaries.

Name of the subsidiary	Address	Type of operations	Share capital	Participation interest
			EUR	%
SIA "Rel"	Marijas 1, Daugavpils	Repair of diesel and electric locomotives	2 846	100
SIA "Elap"	Marijas 1, Daugavpils	Repair of electric equipment of rolling stock	2 846	100
SIA "Remdīz"	Marijas 1, Daugavpils	Repair of rolling stock diesel and knots	2 846	100
SIA "Ritrem"	Marijas 1, Daugavpils	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock	2 846	100
SIA "Elektromaš"	Marijas 1, Daugavpils	Repair and producing of electromotor, generators and transformers	2 846	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dyeing of rolling stock	2 846	100
SIA "SPZČ"	Marijas 1, Daugavpils	Repair and producing of spare parts, instruments and equipment	2 846	100
SIA "Metalurgs"	Marijas 1, Daugavpils	Metal foundry	2 846	100
SIA "Remenergo"	Marijas 1, Daugavpils	Maintenance of fixture, technical control and capital repair of buildings, constructions and producing equipment, public facility service rendering to Group companies	2 846	100
SIA "Instruments"	Marijas 1, Daugavpils	Dormant status	2 846	100
SIA "Loģistika"	Marijas 1, Daugavpils	Logistics services Intermediary for supply of materials for the Group purposes	2 846	100
			31 303	

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 (11) 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 (23) to accounting policies.

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

IAS 24, Related Party Disclosures - Amendment
The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The amendment is applied retrospectively. The amendment did not have any material effect on related parties disclosures in these financial statements.

IAS 32 Classification of Rights Issues - Amendment
The amendments alter the definition of a financial liabilities in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applied retrospectively. The adoption of this amendment did not affect the Group's financial position or performance because the Group does not have such instruments.

IFRIC 14 - Prepayments of a Minimum Funding Requirements - Amendment
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of minimum funding requirements to be recognised as a pension asset. The amendment is applied retrospectively. This amendment did not affect these financial statements because the Group does not have defined benefit assets.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. This interpretation did not affect these financial statements because the Group does not have such transactions.

Improvements to IFRS issued in May 2010
Amendments have been made to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. Improvements consist mostly of a mixture of insignificant changes and clarifications in the different areas. These amendments did not have any material effect on Group's financial statements.

b) Standards, amendments and interpretations, which are not yet effective and not yet adopted by the Group

IAS 12 Income Taxes – Recovery of Underlying Assets - Amendment (effective for annual periods beginning on or after 1 January 2012, not yet adopted by the EU).
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured at fair value will be recognized on a sale basis. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group has assessed that this amendment will not affect its financial position and performance because the Group measure their investment properties according to the cost model.

IFRS 1 First-time Adoption of IFRS - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - Amendment (effective for annual periods beginning on or after 1 July 2012, not yet adopted by the EU).
The amendment provides guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. This amendment will not have an impact to Group's financial statements.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income - Amendment (effective for annual periods beginning on or after 1 July 2013, not yet adopted by the EU).
The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects only presentation of Other Comprehensive Income and will not impact the Group’s financial position or performance. The Group is considering the impact of amendment on its financial statements.

IAS 19 Employee Benefits - Revised (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
The revised standard includes a number of amendments that range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is considering the impact of amendment on the its financial statements.

IAS 27 Separate Financial Statements - Revised (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
As a result of the new IFRS 10 and IFRS 12, revised IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Company is in the process of assessing the impact of this amendment on the financial position or performance of the Company.

IAS 28 Investments in Associates and Joint Ventures -Revised (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
As a result of the new IFRS 11 the revised IAS 28 has been renamed as Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. As the Company does not hold any investments in jointly controlled entities and associates there is no impact of revised standard on the Company's financial statements.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 does not change the consolidation procedures, rather changes whether an entity is consolidated by revising the definition of control. The Company is in the process of assessing the impact of this standard on the financial position or performance of the Company.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. As the Company does not have any investments in subsidiaries and special purpose entities there is no impact of this standard on Company's financial statements.

IFRS 12 Disclosures of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Company is in the process of assessing the impact of this standard on the disclosure in Company's financial statements.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather describes how to measure fair value where fair value is required or permitted. This standard should be applied retrospectively and early adoption is permitted. The Group is considering the impact of the standard on the Company's financial statements.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities - Amendment (effective for annual periods beginning on or after 1 January 2014, not yet adopted by the EU).
This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted, but only with the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. The Group is considering the impact of the amendment on the Group's financial statements.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendment (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity’s financial position. The amendments to IFRS 7 are to be retrospectively applied. The Group is considering the impact of the amendment on the Group's 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 Group is considering the impact of the standard on the financial statements.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). The Group is not involved in mining activities and, therefore, the interpretations will not effect its financial statements.

(2) Reclassification of comparatives

During the reporting period a change in classification of items in comparison with the previous period has accrued. Reclassification did not have an 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 to reclassification**	**Amount**
	Name of line item	**Name of line item**	**EUR**
Brokerage services	Distribution expenses	Cost of sales	320 742

(3) 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.

(4) Foreign currencies

(a) Functional and presentation currency
Items are shown in the financial statements of the Group as measured using the currency of the primary economic environment in which the Group operates (the functional currency). Financial statements are presented in Latvian lat (Ls), 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 2011 to 31 December 2011.

(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 statement of comprehensive income for the period.

Exchange rates used at the balance sheet date are as follows:

	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 EEK	0.0449	0.0449
1 RUB	0.017	0.0176

(5) 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 Group's chief operating decision maker being the Board of the Company.

(6) Revenue 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 reach 3-6 months.

Income 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.

The Group 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 Group 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 "Other liabilities".

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) Intangible assets

Intangible assets mainly consist of licenses and patents. Intangible assets are stated at historical cost, less accumulated amortization. Depreciation is calculated from the moment as the assets are available for use. Intangible assets depreciation is calculated on a straight-line method to allocate the purchase price up to the estimated residual value of the useful life, using the following periods:

	Depreciation % per annum
Licenses and patents	20

In cases where an intangible asset's financial statement value is greater than its estimated recoverable amount, respective asset's value is reduced to its recoverable value. Recoverable value is the higher of fair value of intangible investment, less costs to sell or value in use.

(8) 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 (11) 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 statement of comprehensive income 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:

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

The asset’s residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. The decrease in the value of assets is recognised as an expense.

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 statement of comprehensive income for the relevant period.

(9) 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.

(10) 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 statement of comprehensive income on a straight-line basis over the lease period.

(11) 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.

(12) 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 provisions are recognized in the statement of comprehensive income.

(13) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, the balances of the current bank account and other current liquid financial assets with maturities up to 90 days.

(14) 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.

(15) 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 statement of comprehensive income 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.

(16) 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.

(17) 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.

(18) 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.

(19) 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 statement of comprehensive income 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. Grants are recognized at the moment of its receipt.

(20) 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. However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business combination, 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. 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, other provisions as well as tax losses carried forward. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

(21) 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 period.

(22) Related parties

Related parties are considered as shareholders of the Company and associated companies, Board and Council members, their close family members and companies, in which the previously mentioned persons/companies have significant influence or control.

(23) 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 31.12.2011 of EUR 10 833 692 (31.12.2010 - EUR 9 124 773) 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 (11) of the financial statement.

Components of property, plant and equipment (PPE)

The Group accounts and depreciates PPE by it's material components as per IAS 16. Estimates of the Group 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.

Property, plant and equipment (PPE) useful life

The Group's management determines the useful life of PPE based on historical information, technical inspections, assessing the current state of the active and external evaluations. During the reporting year and previous year the Groups has not identified factors that indicate a need to change the useful life period of the Group's PPE. Total carrying amount of PEE at the end of the year is EUR 10 833 692 (31.12.2010 - EUR 9 124 773).

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 (6). The accrued income for supplied repair and upgrading services at the year end are EUR 3 480 524 (31.12.2010 - EUR 3 706 447).

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 reflect 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 period is EUR 2 550 797 (31.12.2010 - EUR 2 037 382). Information on amount and structure of receivables is disclosed in note (25) 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 inventory at the end of the reporting period is EUR 3 169 992 (31.12.2010 - EUR 2 871 953).

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:

	2011	2010
	EUR	EUR
Russia	10 471 268	8 370 896
Estonia	5 895 124	7 172 481
Latvia	4 488 542	2 665 439
Lithuania	768 611	1 925 715
Belarus	1 057 604	679 737
Uzbekistan	437 710	447 635
Poland	170 008	50 195
Other countries	1 111 789	2 089 378
	24 400 656	**23 401 475**

(c) Major customers

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

	2011	2010
	EUR	EUR
Customer Nr.1	9 207 041	6 490 586
Customer Nr.2	5 312 141	3 751 000
Customer Nr.3	1 498 280	874 570
Customer Nr.4	1 283 301	851 210
Other clients	7 099 893	11 434 108
	24 400 656	**23 401 475**

(2) Cost of sales

	2011 EUR	2010 EUR
Raw materials and consumables	12 242 324	12 538 083
Salary expense	4 394 837	3 836 021
Utility costs	1 479 412	1 250 845
Other production costs	1 050 769	1 281 702
Mandatory State social insurance contributions	1 049 396	915 453
Depreciation of tangible assets	501 372	476 137
Increase in provisions for warranty and other provisions	13 149	126 416
Increase in provisions for expected losses	(37 396)	98 679
Increase in provisions for post-employment benefits	(11 783)	-
Increase in provisions for inventories and receivables	-	484 024
	20 682 081	**21 007 361**

(3) Distribution expenses

	2011	2010
Brokerage costs	362 417	320 742
Transportation costs	95 061	146 241
Salary expenses	79 132	71 391
Mandatory State social insurance contributions	18 876	17 092
	555 485	**555 466**

(4) Administrative expenses

	2011	2010
Salary expenses	1 476 671	1 240 184
Mandatory State social insurance contributions	353 050	296 387
Other administrative expenses	318 158	230 455
Utility expenses	161 160	155 103
Depreciation of tangible assets	113 053	122 339
Office costs	69 263	52 517
Professional service costs	26 797	53 110
Representation costs	2 265	2 913
	2 520 417	**2 153 007**

(5) Other income

	2011	2010
Rental income	113 343	69 445
Other income	62 559	209 077
Net income from sale of tangible assets	10 000	22 965
Net income from sale of subsidiaries	-	388 568
	185 902	**690 054**

(6) Other expenses

	2011	2010
Cost of collective agreement with employees	15 620	12 161
Other expenses	10 363	12 018
	25 983	**24 179**

(7) Expenses by Nature

	2011 EUR	2010 EUR
Raw materials, consumables and cost of goods sold	12 242 324	12 538 083
Salary expenses	5 950 639	5 147 596
Utility costs	1 640 573	1 405 948
Other expenses	1 221 708	1 589 446
Mandatory State social insurance contributions	1 421 322	1 228 932
Depreciation of tangible and intangible assets	614 425	598 476
Mediation expenses	362 417	320 742
Transportation expenses	95 061	146 241
Office expenses	69 263	52 517
Increase in provisions for expected losses	(37 396)	98 679
Increase in provisions for warranty and other contingent liabilities	13 149	126 416
Increase in provisions for post-employment benefits	(11 783)	-
Advertisement expenses	2 265	2 913
Increase in provisions for inventories and receivables	-	484 024
	23 583 965	**23 740 013**

(8) Finance income and expenses (net)

	2011	2010
Net income and expenses from exchange rate fluctuations	(170 806)	14 415
Interest charge	(98 719)	(77 367)
Penalties paid	(88 134)	(115 379)
Interest income	9	30 190
	(357 650)	**(148 141)**

(9) Corporate income tax

a) Components of corporate income tax

	2011	2010
Changes in deferred income tax	(52 164)	51 985
Corporate income tax according to the tax return	-	-
	(52 164)	**51 985**

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:

	2011 EUR	2010 EUR
Profit before taxes	312 707	142 933
Theoretically calculated tax at 15% tax rate	**66 741**	**30 506**
Tax effects on:		
Permanent differences	(91 942)	21 479
Tax allowance on the purchase of new technological equipment	(26 963)	-
Total tax charge	**(52 164)**	**51 985**

c) Movement and components of deferred tax

	2011	2010
Deferred tax liabilities (asset) at the beginning of the financial year	529 004	477 019
Deferred tax charged to the income statement	(52 164)	51 985
Deferred tax liabilities (asset) at the end of the financial year	**476 840**	**529 004**

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 tangible and intangible assets	756 588	837 518
Gross deferred tax liabilities	**756 588**	**837 518**
Temporary difference on accruals for expected losses	(2 812)	(8 439)
Temporary difference on provisions for potential liabilities	(26 292)	(24 320)
Temporary difference on provisions for impairment of inventories and receivables	(17 220)	(16 182)
Tax losses carried forward	(233 425)	(259 573)
Gross deferred tax assets	**(279 749)**	**(308 514)**
Net deferred tax liability (assets)	**476 840**	**529 004**

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	(46 323)	(48 941)
deferred tax asset to be recovered within more than a year	(233 425)	(259 573)
	(279 748)	(308 514)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	28 669	38 937
deferred tax liabilities to be recovered after more than a year	727 918	798 581
	756 587	837 518
Net deferred tax liabilities (assets)	**335 125**	**529 004**

The movement of deferred tax assets and liabilities during the reporting period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated depreciation of PPE	Accruals for expected losses	Impair-ments of inventories	Provisions for expected losses	Tax losses carried forward	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2009	859 316	(7 962)	(18 689)	(25 649)	(329 997)	477 019
Charged / (credited) to the statement of comprehensive income	(21 798)	(477)	2 507	1 329	70 424	51 985
31.12.2010	837 518	(8 439)	(16 182)	(24 320)	(259 573)	529 004
Charged / (credited) to the statement of comprehensive income	(80 930)	5 627	(1 037)	(1 972)	26 148	(52 164)
31.12.2011	**756 588**	**(2 812)**	**(17 220)**	**(26 292)**	**(233 425)**	**476 840**

(10) 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.

	2011	2010
Profit attributed to shareholders of the Group (EUR)	497 106	151 391
Average annual number of shares	8 294 219	8 294 219
Earnings per share (cents)	**5.99**	**1.83**

(11) Intangible assets and property, plant and equipment

	Intangible assets	Property, plant and equipment				
		Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Total property, plant and equipment
		EUR	EUR	EUR	EUR	EUR
01.01.2010						
Initial cost	-	8 605 728	7 957 859	983 768	28 180	17 575 535
Accumulated depreciation	-	(1 012 383)	(6 344 464)	(747 403)	-	(8 104 250)
Net book value	**0**	**7 593 345**	**1 613 394**	**236 365**	**28 180**	**9 471 284**
2010						
Acquisition cost	-	7 503 345	1 613 394	236 365	28 180	9 381 284
Acquired	30 058	35 774	249 842	34 530	21 288	341 434
Disposed	-	(1 895)	(1 579)	-	-	(3 475)
Amortized	(5 087)	(212 379)	(282 054)	(100 036)	-	(594 470)
Closing book value	**24 971**	**7 324 844**	**1 579 603**	**170 858**	**49 468**	**9 124 773**
31.12.2010						
Initial cost	30 058	8 631 828	5 709 342	695 275	34 766	15 071 211
Accumulated depreciation	(5 087)	(1 306 983)	(4 599 191)	(575 195)	-	(6 481 369)
Net book value	**24 971**	**7 324 844**	**1 110 151**	**120 080**	**34 766**	**8 589 841**
2011						
Acquisition cost	24 971	7 324 844	1 579 603	170 858	49 468	9 124 773
Acquired	-	-	-	-	2 330 725	2 330 725
Reclassified	6 000	143 037	2 126 079	35 802	(2 310 919)	6 000
Disposed	-	-	(95)	(85)	-	(181)
Amortized	6 411	(231 796)	(298 338)	(85 492)	-	(615 626)
Closing book value	**24 560**	**7 236 086**	**3 407 249**	**121 084**	**69 274**	**10 833 692**
31.12.2011						
Initial cost	36 058	8 771 788	9 997 786	1 021 921	69 274	19 860 769
Accumulated depreciation	(11 498)	(1 535 703)	(6 590 537)	(900 837)	-	(9 027 077)
Net book value	**24 560**	**7 236 086**	**3 407 249**	**121 084**	**69 274**	**10 833 692**

Preparing the first financial statement under IFRS, the Group valuated a part of tangible assets - own real estate - at their fair value and by using it as their deemed costs at this date. Valuation was prepared by the independent expert AS BDO Invest Riga. Taking into consideration that it was prepared in 2007, which is later than transition date to IFRS as well as correction of market value of real estate at the end of 2007, the appraised value of real estate was decreased by 30%. Total effect of adjustment of tangible assets initial value was EUR 3 606 792.

In Company's individual financial statements, taking into account the selected revaluation policies for tangible assets, the increase of tangible asset value in the amount of EUR 3 606 792 has been recognized in financial statements of 2007. In 2008 and 2009 in Company's financial statements the revaluation of tangible assets was performed under its possible market (sales) price, and in the result the net book value of land and buildings has been reduced in 2008 for EUR 1 931 073 and in 2009 for EUR 410 947.

During the preparation of financial statements of the reporting year the management of the Group has prepared estimation of recoverable value of land and buildings by the value in use basis, with application of the future cash flow and discounting method. The value in use of assets is calculated considering that the current use the real estate will be retained.

In calculations of the future cash flow the management of the Group uses the following estimates:
- The Group is considered to be an intact cash flow generating unit;
- In the period 2012.-2015. the expected EBITDA (earnings before interest, taxes and depreciation) will be 1.4 to 1.7 mil EUR;
- 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 11% 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 (18)).

During the year capitalized borrowing costs amounted to EUR 27 749 (in 2010. EUR 0).

The total initial value of the fully depreciated tangible assets at the end of the year amounted to EUR 6 290 809 (31.12.2010. EUR 6 236 130).

(12) Inventories	**31.12.2011. EUR**	**31.12.2010. EUR**
Raw materials	2 319 325	1 991 659
Goods in production	361 858	312 911
Finished goods	603 611	675 269
(Provisions for impairment of inventories)	(144 802)	(107 886)
	3 139 992	**2 871 953**

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 (18)).

	31.12.2011. EUR	**31.12.2010. EUR**
Provisions opening balances	107 886	122 607
Changes in provisions in the financial period	6 915	(14 721)
Provisions closing balances	**114 801**	**107 886**

(13) Trade receivables

	31.12.2011. EUR	31.12.2010. EUR
Book value of trade receivables	3 905 372	3 582 814
Provisions for impairment of trade receivables	(1 354 575)	(1 545 432)
	2 550 797	**2 037 382**

For information on the Group's credit risk management and disclosure of information about structure of customers see note (25).

All receivables of the Group are pledged in accordance with terms of Commercial pledge agreements as security for loans from banks (see note (18)).

(14) Accrued income

	31.12.2011. EUR	31.12.2010. EUR
Accrual income for repair and modernization contracts	3 491 029	3 762 708
Accruals for expected losses	(10 505)	(56 260)
Gross amount for accrued income	**3 480 524**	**3 706 447**
where:		
Accrued income in assets	3 480 524	3 706 447
	3 480 524	**3 706 447**
Corresponding amounts:		
Contract revenue recognised in income statement (under "Net sales")	23 010 835	18 667 485
Advances received from customers (under "Other liabilities")	1 896 643	1 515 901
Retentions on construction contracts (under "Other current assets")	11 770	64 485

(15) Other current assets

Payables for raw materials	101 721	258 516
Other receivables	14 291	30 764
Payables for warranties	11 770	64 485
Deferred expenses	6 189	7 508
Other taxes overpaid	16	-
VAT overpaid	-	60 347
	133 988	**421 620**

(16) Cash and cash equivalents

Cash at bank on current accounts	830 411	866 256
Cash on hand	2 198	1 198
	832 609	**867 454**

(17) 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. During the reporting year registered and paid share number has not changed.

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

(18) Borrowings

	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 plots 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 with EU structural funds 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 plots in EUR Norvik banka	b)	-	141 840
Other loans in EUR	c)	-	8 401
Credit line facilities in EUR	e)	1 499 879	-
Investment credit with EU structural funds in EUR	d)	854 668	-
Loan from related company in EUR	f)	472 166	-
Investment credit in USD SWEDBANK	a)	276 658	-
Investment credit in EUR SWEDBANK	b)	157 572	-
		3 260 942	**413 114**
Total non - current and current part		**5 630 294**	**2 356 101**

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 (EUR 1 358 749) 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 (EUR 1 422 872) 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 for Company's liabilities to 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 project financing EU Structural Funds EUR 1 559 392. The loan must be repaid till 31.10.2016. The interest rate is 1.5% + 3 month EURIBOR. Contract provides for partial redemption with received funds by LIAA.

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

f) During the reporting period the Company received a loan from the related company AS Skinest Rail USD 610 000. Loan must be repaid till 31.12.2012. The interest rate is 12% per year.

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

	2011 EUR	2010 EUR
At beginning of the year	2 356 101	3 903 973
Borrowings in the year	6 290 277	-
Repaid borrowings in the year	(3 125 891)	(1 697 857)
Currency exchange rate fluctuation results	109 807	149 985
At the end of the year	**5 630 294**	**2 356 101**

Maturity of the total borrowings is as follows:

	2011 EUR	2010 EUR
Payable in 1 year	3 260 942	413 114
Payable in 2 – 5 years	610 411	1 620 253
Payable in more than 5 years	1 758 941	322 734
	5 630 294	**2 356 101**

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, including the Company's shares in subsidiaries, as well as totality of belongings for the next components.
The value of Group's mortgaged assets on 31 December 2011 is EUR 19 901 951 (31.12.2010 - EUR 18 071 898)

(19) 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.

	2011 EUR	2010 EUR
At beginning of the year	162 133	170 989
Changes in the year	13 149	(8 856)
At the end of the year	**175 282**	**162 133**

(20) Other liabilities

	31.12.2011. EUR	31.12.2010. EUR
Non-current		
Accrued liabilities to post-employment benefits (non-current part)	119 383	129 912
	119 383	**129 912**
Current		
Advances received	1 896 643	1 517 812
Payroll liabilities	368 054	360 190
Other liabilities	258 079	517 474
Accrued liabilities for unused annual leave	247 829	214 467
Mandatory State social contributions liabilities	184 774	356 989
Personnel income tax liabilities	93 458	253 593
VAT liabilities	16 027	-
Deferred income	10 709	-
Accrued liabilities for post-employment benefits (current part)	6 723	7 977
Other taxes payable	1 924	2 412
	3 084 220	**3 230 912**

(21) Average number of employees

	2011	2010
Average number of people employed during the financial year	1 004	922

(22) Remuneration to personnel

	2011 EUR	2010 EUR
Salaries and mandatory State social insurance contributions for production staff	5 444 233	4 751 474
Salaries and mandatory State social insurance contributions for distribution staff	98 007	88 483
Salaries and social insurance contributions for administration staff	1 829 721	1 536 571
	7 371 961	**6 376 487**
Including remuneration to key management		
salary expenses	169 861	209 811
mandatory State social insurance contributions	40 919	50 116
total mandatory State social insurance contributions in the remuneration to personnel	1 421 322	1 228 932

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

(23) 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

	31.12.2011.		31.12.2010.	
	Receivables EUR	**Payables EUR**	**Receivables EUR**	**Payables EUR**
Related parties with significant	80 943	1 342 085	231 580	2 401 847
	80 943	**1 342 085**	**231 580**	**2 401 847**

The repayment of the debts will be prepared in cash and it is not secured with guarantee or otherwise. In 2011 and 2010 there are no significant bed debts from related parties.

b) transactions

	2011 EUR	2010 EUR
Related parties with significant influence		
Repair services of railway rolling stock	10 083 414	6 272 816
Purchase of raw materials	5 178 015	8 204 243
Other goods for sale	1 236 865	-
Other transactions	699 952	48 756
Services received	130 049	119 864
	17 328 296	**14 645 679**

(24) Tax Contingent Liabilities

The tax authorities in 2008 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.

(25) 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 does not use 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 (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 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.

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 Group will not have a significant currency exchange risks in respect of assets and liabilities nominated in euro.

The Group significant open currency positions:

	31.12.2011.	31.12.2010.
Financial assets, EUR	678 966	1 061 500
Financial liabilities, EUR	(4 357 809)	(2 931 852)
Open position of balance sheet, EUR, net	(3 678 843)	(1 870 352)
Open position of balance sheet, EUR, calculated in lats, net	**(2 585 506)**	**(1 314 490)**
Financial assets, USD	1 349 782	1 241 016
Financial liabilities, USD	(4 485 559)	(4 148 998)
Open position of balance sheet, USD, net	(3 135 777)	(2 907 982)
Open position of balance sheet, USD, calculated in lats, net	**(1 705 863)**	**(1 555 770)**
Financial assets, RUB	47 784 170	31 528 709
Financial liabilities, RUB	(32 127 358)	(6 019 731)
Open position of balance sheet, RUB, net	15 656 812	25 508 978
Open position of balance sheet, RUB, calculated in lats, net	**266 166**	**448 958**

The following table demonstrates the sensitivity to a reasonably possible change in currency rates on outstanding foreign currency financial assets and liabilities. With all the other variables held constant the Group's profit before tax is affected as follows:

	2011		**2 010**	
	Increase/ decrease in basis points	**Effect on profit before tax**	**Increase/ decrease in basis points**	**Effect on profit before tax**
		EUR		**EUR**
	+10%	242 722	+10%	221 366
USD	-10%	(242 722)	-10%	(221 366)
	+10%	37 873	+10%	63 881
RUB	-10%	(37 873)	-10%	(63 881)

(b) Interest rate risks

The Group is exposed to interest rate risk as the most liabilities are interest-bearing with the floating interest rate (note (18)), 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 2011 the Group's liabilities with floating interest rates rose.

	31.12.2011.	31.12.2010.
Financial liabilities with variable interest rate, EUR calculated in LVL	2 685 346	608 972
Financial liabilities with variable interest rate, USD calculated in LVL	1 271 647	1 046 905
Open positions, Net Ls	**3 956 993**	**1 655 877**

If during the reporting period variable interest rate would be for 30 points higher/lower under the similar other conditions net profit would be EUR 26 593 (2010 - EUR 23 210) bigger/smaller.

(c) 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	31.12.2011. EUR	31.12.2010. EUR
Trade receivables	2 550 797	2 037 382
Accrued income	3 480 524	3 706 447
Other receivables	133 988	421 620
Cash	832 609	867 454
	6 997 917	**7 073 445**

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, which amount at the end of the year was EUR 1 896 6438 (31.12.2010. EUR 1 517 812).

Maturity analysis of trade receivables

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	spitted as: in due term	Past due* < 90 days	Past due* 90-180 days	Past due* > 180 days
31.12.2010. EUR	3 582 814	(1 545 432)	2 037 382	1 294 729	135 671	20 829	586 152
31.12.2011. EUR	3 905 372	(1 354 575)	2 550 797	2 020 933	12 520	53 096	464 248

* At the end of the reporting period trade receivables with material delay in payment amount to EUR 464.2 thousand (31.12.2010 - EUR 586.2 thousand), the net book value of these receivables, excluding receivables from third parties, that enrol proportional risk on recovery of these receivables amount to EUR 98.2 thousand (31.12.2010 - EUR 136.6 thousand). Taking into account repayment of debt in 2011 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	31.12.2011. EUR	31.12.2010. EUR
Accruals at the beginning of the year	1 545 432	1 046 687
Decrease of accruals for written off bad debts	(190 857)	-
Provisions created in the reporting period	-	498 745
Provisions closing balances	**1 354 575**	**1 545 432**

(d) 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 period the Group's current assets exceeded current liabilities by EUR 1 198 146 (31.12.2010 - EUR 2 045 301). Liquidity ratio at the end of the reporting period is 1,13 (31.12.2010 - 1,26). At the end of the reporting period the Group did not have unused credit line resources (31.12.2010. EUR 99 999). 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, 2010	**Total**	**<6 months**	**6-12 months**	**1-2 years**	**2-5 years**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
Loans from related parties	-	-	-	-	-
Loans from Bank					
EUR	**866 489**	75 121	791 369	-	-
USD	**1 489 612**	131 436	1 358 175	-	-
Credit lines	**-**	-	-	-	-
Trade payables	**4 090 075**	3 109 446	980 629	-	-
Other liabilities	**3 522 958**	973 183	2 257 729	178 087	113 959
Total liabilities	**9 969 133**	**4 289 186**	**5 387 902**	**178 087**	**113 959**

On 31 December, 2011	**Total**	**<6 months**	**6-12 months**	**1-2 years**	**2-5 years**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
Loans from related parties	**472 166**	-	472 166	-	-
Loans from Bank					
EUR	**2 322 447**	763 654	248 586	333 753	976 454
USD	**1 337 225**	138 329	138 329	276 658	783 910
Credit lines	**1 499 879**	-	1 499 879	-	-
Trade payables	**2 456 649**	1 690 329	766 320	-	-
Other liabilities	**3 378 885**	933 025	2 151 194	188 728	105 937
Total liabilities	**11 467 251**	**3 525 337**	**5 276 474**	**799 139**	**1 866 301**

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

(e) Capital Management

According to the Latvian Commercial Law requirements if the equity of the Company falls below 50% of the share capital, the Board is required to address shareholders to make decisions on Company's going concern. Equity of the Company meets the Latvian legal requirements. Company's management manages the capital structure on going concern basis. Part of the Group subsidiaries have negative equity and the Company has provided representation of future financial support. During the reporting period there were no changes in capital management objectives, policies or processes.

Group's management controls the external debt (borrowings) to total capital (gearing ratio). During the reporting year this figure has increased significantly by 36%, which is associated with the new equipment financing. Equity to total assets at the end of the year remained at high levels at 43% (31.12.2010. 45%).

	31.12.2011.	**31.12.2010.**
	EUR	**EUR**
Total borrowings	5 630 294	2 356 101
Cash and its equivalents	(832 609)	(867 454)
Net loans	4 797 685	1 488 647
Equity	9 090 690	8 593 854
Total assets	21 033 628	19 091 992
Gearing ratio	53%	17%
Equity ratio on total assets	43%	45%

(26) Subsequent events

During the reporting period, the Group 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 period acquiring new technological equipment. In 2012 the Company received approval for funding to be paid EUR 599 967 respectively. According to the Group's accounting policy funding will be recognized at the moment of its receipt.

Except for the above, there are no subsequent events since the last date of the financial period 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.

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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 and its subsidiaries (together as the Group) set out on pages 6 to 33 of the annual report. These financial statements comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, 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 International Financial Reporting Standards as adopted by the European Union 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 the Group as at 31 December 2011, and of its financial performance and its cash flows 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 4 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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