

ENG

AS Daugavpils Lokomotīvu Remonta Rūpnīca

ANNUAL REPORT

for the 12 months period ended 31 December 2011

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
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for the period ended 31 December 2011

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INFORMATION ON THE COMPANY

Name of the company	AS Daugavpils Lokomotīvu 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% Lokomotiv 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

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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 23.5 million Ls (in 2010 - 22.3 million Ls). Sales of principal activity comprised 16,4 million Ls, 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 7.1 million Ls (in 2010 - 6.3 million Ls). During the reporting period the Company was working full-time and ended the year with a profit of 383.3 thousand Ls. 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 1 204 740 Ls, 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 17.1 million. Ls (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 0.350 million Ls. In 2011 the Group exported its products to 8 countries, the total export volume amounted to 14.0 million Ls (in 2010 - 14.6 million Ls), while turnover in Latvia amounted to 3.1 million Ls (in 2010 - 1.9 million Ls). 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

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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
	Ls
Profit share to be distributed	383 314
Proposed profit distribution:	
Retained earnings	383 314

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

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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

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INCOME STATEMENT

	Notes	2011 Ls	2010 Ls
Net sales	(1)	23 463 442	22 250 900
Cost of sales	(2)	(21 552 127)	(20 389 097)
Gross profit or losses		<u>1 911 315</u>	<u>1 861 803</u>
Distribution expenses	(3)	(390 397)	(390 384)
Administrative expenses	(4)	(1 073 733)	(904 733)
Other operating income	(5)	261 490	136 089
Other operating expenses	(6)	(18 017)	(997 449)
Interest and similar income	(7)	6	31 347
Interest and similar expenses	(8)	(210 275)	(68 511)
Profit or losses before taxes		<u>480 389</u>	<u>(331 838)</u>
Corporate income tax	(9)	(53 790)	(765)
Other taxes	(10)	(43 285)	(43 661)
Net profit or losses		<u><u>383 314</u></u>	<u><u>(376 264)</u></u>
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.

Natālija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

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BALANCE SHEET

		31.12.2011. Ls	31.12.2010. Ls
	Notes		
<u>ASSETS</u>			
Non-current assets			
Intangible assets:			
Other intangible assets	(12)	17 261	17 550
Total intangible assets:		17 261	17 550
Fixed assets:			
Land and buildings	(12)	1 345 337	1 312 954
Equipment and machinery	(12)	2 394 628	1 110 151
Other fixed assets	(12)	85 098	120 080
Fixed assets under construction	(12)	48 686	34 766
Total fixed assets:		3 873 749	2 577 951
Investment property:			
Buildings	(12)	2 218 580	2 264 170
Total non-current financial investments:		2 218 580	2 264 170
Non-current financial investments:			
Investments in subsidiaries	(13)	22 000	22 000
Other securities and investments	(13)	480	500
Total non-current financial investments:		22 480	22 500
Total non-current investments:		6 132 070	4 882 171
Current assets			
Inventories:			
Raw materials and consumables	(14)	1 431 211	1 214 180
Finished goods and goods for sale	(15)	64 077	128 015
Advances for inventories		71 490	181 686
Total inventories:		1 566 778	1 523 881
Account receivable:			
Trade receivables	(16)	1 733 278	1 427 314
Receivables from group companies	(17)	2 344 017	2 227 076
Other receivables	(18)	17 650	108 398
Deferred expenses	(19)	4 328	5 277
Accrued income	(20)	2 453 509	2 644 020
Total receivables:		6 552 782	6 412 085
Cash and bank:	(21)	581 806	600 250
Total current assets:		8 701 366	8 536 216
<u>Total assets</u>		<u>14 833 436</u>	<u>13 418 387</u>

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BALANCE SHEET

		31.12.2011.	31.12.2010.
		Ls	Ls
	Notes		
<u>EQUITY, PROVISIONS AND LIABILITIES</u>			
Equity			
Share capital	(22)	8 294 219	8 294 219
Non-current investments revaluation reserve	(12)	1 179 108	1 250 481
Retained earnings			
a) previous year's retained earnings		(4 809 283)	(4 433 019)
b) current years profit or losses		383 314	(376 264)
Total equity:		<u>5 047 358</u>	<u>4 735 417</u>
Provisions:	(23)	515 802	569 256
Liabilities:			
Non-current liabilities:			
Loans from banks	(24)	1 665 190	1 365 539
Deferred income tax liabilities	(9)	262 250	221 056
Total non-current liabilities:		<u>1 927 440</u>	<u>1 586 595</u>
Current liabilities:			
Loans from banks	(24)	1 959 963	290 338
Other borrowings	(25)	331 840	-
Advances from customers		1 332 393	1 065 381
Trade payables		1 551 730	2 802 332
Payables to group companies	(26)	278 716	576 685
Taxes and social insurance payments	(27)	37 891	25 582
Other liabilities	(28)	44 667	37 191
Deferred income		7 526	-
Accrued liabilities	(29)	1 798 110	1 729 610
Total current liabilities:		<u>7 342 836</u>	<u>6 527 119</u>
Total liabilities:		<u>9 270 276</u>	<u>8 113 714</u>
<u>Total equity, provisions and liabilities</u>		<u>14 833 436</u>	<u>13 418 387</u>

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

Natālija Petrova
Chairman of the Board

Daugavpils, 27 April 2012

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STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Non-current assets revaluation reserve	Retained earnings	Total
		Ls	Ls	Ls	Ls
31.12.2009.		8 294 219	1 278 616	(4 433 019)	5 139 816
Disposal of revalued fixed assets	(12)	-	(33 100)	-	(33 100)
Changes in deferred tax liabilities	(9)	-	4 965	-	4 965
Loss for the year		-	-	(376 264)	(376 264)
31.12.2010.		8 294 219	1 250 481	(4 809 283)	4 735 417
Disposal of revalue fixed assets	(12)	-	(83 969)	-	(83 969)
Changes in deferred tax liabilities	(9)	-	12 596	-	12 596
Profit for the year		-	-	383 314	383 314
31.12.2011.		8 294 219	1 179 108	(4 425 969)	5 047 358

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

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Daugavpils, 27 April 2012

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CASH FLOW STATEMENT

		2011 Ls	2010 Ls
Cash flow from operating activities			
Profit or losses before taxes		480 389	(331 838)
<u>Adjustments for:</u>			
depreciation of investment property, fixed and intangible assets	(12)	388 276	379 668
profit from disposal of fixed assets	(5)	(90 997)	(49 240)
loss on disposal of investment in subsidiaries		-	3 997
changes in provisions		(184 948)	954 069
foreign exchange (gains)/losses		77 173	106 498
interest expenses	(8)	69 380	54 375
		<u>739 273</u>	<u>1 117 529</u>
Cash flow prior to changes in current assets and liabilities			
Inventory (increase)/decrease		(43 723)	1 234 003
Account receivable (increase)/decrease		4 217	(2 348 147)
Account payable increase/(decrease)		(918 400)	1 953 453
		<u>(218 633)</u>	<u>1 956 838</u>
Gross cash flow generated from operating activities			
Interest paid		(60 767)	(55 463)
		<u>(279 400)</u>	<u>1 901 375</u>
Net cash flow generated from operating activities			
Cash flow from investing activities			
Acquisition of investment property, fixed and intangible assets	(12)	(1 638 139)	(261 085)
Proceeds from sales of fixed assets		6 972	51 325
Equity investments paid		(480)	(6 500)
Proceeds from sales of equity investments		500	-
		<u>(1 631 147)</u>	<u>(216 260)</u>
Net cash flow generated from investing activities			
Cash flow from financing activities			
Loans received	(24)	4 088 992	-
Loans repaid	(24)	(2 196 889)	(1 193 261)
		<u>1 892 103</u>	<u>(1 193 261)</u>
Net cash flow generated from financing activities			
		<u>(18 444)</u>	<u>491 854</u>
Net increase / (decrease) in cash and cash equivalents			
		<u>600 250</u>	<u>108 396</u>
Cash and cash equivalents at the beginning of the financial year			
		<u>581 806</u>	<u>600 250</u>
Cash and Cash equivalents at the end of the financial year	(21)		

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Chairman of the Board

Daugavpils, 27 April 2012

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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	2010	Amount Ls
	Adjusted Name of line item	Prior adjustments Name of line item	
Brokerage services	Distribution expenses	Cost of sales	225 419

(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.

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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

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The Company capitalizes its fixed assets valued over Ls 300 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than 300 Ls is 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 fair 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.

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(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 of 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.

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(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.

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II. OTHER NOTES

(1) Net sales

	2011	2010
	Ls	Ls
By operating activities		
Income from railway rolling stock repair and upgrade services	16 172 107	13 119 583
Income from sales of materials (see Note (34))	5 387 977	4 551 615
Income from sales of railway spare parts, wagons	-	2 672 793
Income from rent of premises and equipment (see Note (34))	1 276 416	1 280 352
Other income	392 616	275 790
Management and administrative services (see Note (34))	191 596	184 808
Other income from transactions with subsidiaries (see Note (34))	42 730	165 959
	<u>23 463 442</u>	<u>22 250 900</u>
By location		
Income from sales of goods/services in Latvia	9 828 924	7 938 862
Income from sales of goods/services to EU	4 442 992	6 172 331
Income from sales of goods/services to Russia	7 359 249	5 883 099
Income from sales of goods/services to Uzbekistan	307 624	884 485
Income from sales of goods/services to Belarus	743 288	477 722
Income from sales of goods/services to other countries	781 365	894 401
	<u>23 463 442</u>	<u>22 250 900</u>

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 Ls 1 276 416 (2010 - Ls 1 280 352). Rent agreements are signed till 31 December 2012.

(2) Cost of sales

	2011	2010
	Ls	Ls
Service costs from subsidiaries	12 224 221	10 446 651
Costs of goods sold	8 515 413	9 160 184
Depreciation of fixed assets	303 660	292 571
Other production costs	234 010	223 294
Utility expenses	100 137	130 834
Acquisition costs for raw materials, consumables and goods	111 377	92 170
Salary expenses	47 893	46 324
Social insurance costs	11 422	11 037
Changes in provisions for warranty repairs and expected losses	3 994	(13 968)
	<u>21 552 127</u>	<u>20 389 097</u>

(3) Distribution expenses

Mediation expenses	254 708	225 419
Transport costs	66 809	102 779
Salaries	55 614	50 174
Social insurance costs	13 266	12 012
	<u>390 397</u>	<u>390 384</u>

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(4) Administrative expenses	2011 Ls	2010 Ls
Salary expenses	479 773	387 690
Other administration costs	209 341	146 532
Social insurance costs	114 533	92 625
Utility expenses	113 264	109 007
Depreciation of fixed assets	79 454	85 980
Office expenses	41 062	34 527
Professional service costs	18 833	37 726
Rent expenses	15 881	8 599
Representation costs	1 592	2 047
	<u>1 073 733</u>	<u>904 733</u>
(5) Other operating income		
Net income from sale and disposal of fixed assets, including write-off of revaluation reserve	90 997	49 240
Income from rents	79 658	48 806
Changes in provisions for financial support (see Note (23))	57 448	-
Other income	33 387	38 043
	<u>261 490</u>	<u>136 089</u>
(6) Other operating expenses		
Collective agreement costs	10 928	9 154
Other costs	7 089	8 404
Impairment loss of trade receivables	-	864 947
Changes in provisions for financial support (see Note (23))	-	110 947
Loss from disposal of investments in subsidiaries	-	3 997
	<u>18 017</u>	<u>997 449</u>
(7) Interest and similar income		
Interest income	6	295
Received interest on overdue bills	-	20 922
Net income from exchange rate fluctuations	-	10 130
	<u>6</u>	<u>31 347</u>
(8) Interest and similar expenses		
Net loss from exchange rate fluctuations	120 043	-
Interest expense	69 380	54 375
Penalties paid	20 852	14 136
	<u>210 275</u>	<u>68 511</u>

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(9) Corporate income tax

a) Components of corporate income tax	2011	2010
	Ls	Ls
Changes in deferred income tax	53 790	765
Corporate income tax according to the tax return	-	-
	<u>53 790</u>	<u>765</u>

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	2010
	Ls	Ls
Profit before taxes	480 389	(331 838)
Real estate taxes	<u>(43 285)</u>	<u>(43 661)</u>
Profit before corporate income tax	<u>437 104</u>	<u>(375 499)</u>
Theoretically calculated tax at 15% tax rate	<u>65 566</u>	<u>(56 325)</u>
Tax effects on:		
Permanent differences	7 140	57 090
Discount on new machinery acquisition	<u>(18 916)</u>	<u>-</u>
Total corporate income tax expenses	<u>53 790</u>	<u>765</u>

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	221 056	225 256
Deferred tax charged to the income statement	53 790	765
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	<u>(12 596)</u>	<u>(4 965)</u>
Deferred tax liabilities (asset) at the end of the financial year	<u>262 250</u>	<u>221 056</u>

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.	31.12.2010.
	Ls	Ls
Temporary difference on depreciation of fixed and intangible assets	<u>379 139</u>	<u>352 990</u>
Gross deferred tax liabilities	<u>379 139</u>	<u>352 990</u>
Provisions for expected losses	-	(64)
Provisions for financial support and guarantee services	(77 371)	(85 388)
Provisions for impairment of inventories	(9 822)	(9 698)
Tax losses carried forward	<u>(29 696)</u>	<u>(36 784)</u>
Gross deferred tax assets	<u>(116 889)</u>	<u>(131 934)</u>
Net deferred tax liability (assets)	<u>262 250</u>	<u>221 056</u>

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(10) Other taxes

	2011 Ls	2010 Ls
Real estate tax for land	3 947	4 182
Real estate tax for buildings	39 338	39 479
	43 285	43 661

(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	2010
Profit attributed to shareholders of the Company (Ls)	383 314	(376 264)
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in santims)	4.62	(4.54)

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

	Intangible assets Concessions, licenses, trade marks etc.	Investment property Buildings	Property, plant and equipment				Assets under construction	Total
			Lands and buildings	Equipment and machinery	Other assets	Ls		
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	
Cost/revaluation								
31.12.2010.	21 125	2 706 537	1 714 336	5 709 342	695 275	34 766	10 881 381	
Additions	-	-	-	-	-	1 638 139	1 638 139	
Disposals	-	(1 699)	(463)	(177 075)	(2 227)	-	(181 464)	
Reclassification	4 217	45 249	55 374	1 494 217	25 162	(1 624 219)	0	
31.12.2011.	25 342	2 750 087	1 769 247	7 026 484	718 210	48 686	12 338 056	
Depreciation								
31.12.2010.	(3 575)	(442 367)	(401 382)	(4 599 191)	(575 195)	-	(6 021 710)	
Calculated	(4 506)	(90 983)	(23 030)	(209 673)	(60 084)	-	(388 276)	
Disposals	-	1 843	502	177 008	2 167	-	181 520	
31.12.2011.	(8 081)	(531 507)	(423 910)	(4 631 856)	(633 112)	0	(6 228 466)	
Net carrying amount								
31.12.2010.	17 550	2 264 170	1 312 954	1 110 151	120 080	34 766	4 859 671	
31.12.2011.	17 261	2 218 580	1 345 337	2 394 628	85 098	48 686	6 109 590	

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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 buildings classified as investment property.

Company's land plots cadastral value on 31 December 2011 is Ls 307 803 (31.12.2010 - Ls 307 803), the cadastral value of buildings is Ls 3 354 359 (31.12.2010 - Ls 3 347 520).

In 1996, 1999 and 2001 the Company has revaluated land, buildings and equipment. Respectively in 1996 value of tangible assets was increased by Ls 659 538, in 1999 by Ls 1 317 852 and in 2001 by Ls 889 954. 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 Ls 2 534 868 in 2007 and Ls 1 357 166 in 2008 and Ls 288 815 in 2009 (less the amount of deferred tax liabilities related to the revaluation of tangible assets) are deducted from revaluation reserves. As per management's estimates no significant factors were identified during the reporting period, that would have a material effect on the changes of the assets value, as a result no impairment test on assets was performed.

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

	31.12.2011.	31.12.2010.
	Ls	Ls
Cost	4 796 658	4 696 216
Accumulated depreciation	<u>(1 742 163)</u>	<u>(1 683 265)</u>
Net carrying amount	<u><u>3 054 495</u></u>	<u><u>3 012 951</u></u>

Total fixed assets and investment property revaluation amount on the 31 December 2011, less deferred tax effect, was Ls 1 179 108 (31.12.2010 - Ls 1 250 481).

During the financial year the borrowing costs of Ls 19 502 were capitalized.

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

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(13) Equity investments

a) movement of investments

	Non-current		
	Investments in subsidiaries	Other securities and investments	Total
	Ls	Ls	Ls
Cost			
31.12.2010.	22 000	500	22 500
Purchase	-	480	480
Disposals	-	(500)	(500)
31.12.2011.	22 000	480	22 480
Changes of value of investments			
31.12.2010.	-	-	0
31.12.2011.	0	0	0
Net carrying amount 31.12.2010.	22 000	500	22 500
Net carrying amount 31.12.2011.	22 000	480	22 480

b) investments in subsidiaries

Name	Address	Participating interest		Equity		Profit/(loss)	
		31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.	2010	2011
		%	%	Ls	Ls	Ls	Ls
SIA REL	Marijas 1, Daugavpils	100%	100%	(79 481)	(61 216)	(81 481)	18 265
SIA Elap	Marijas 1, Daugavpils	100%	100%	15 136	26 951	(21 568)	11 815
SIA REMDĪZ	Marijas 1, Daugavpils	100%	100%	(154 157)	(189 441)	(156 157)	(35 284)
SIA Ritrem	Marijas 1, Daugavpils	100%	100%	53 279	111 329	(9 884)	58 050
SIA Elektromaš	Marijas 1, Daugavpils	100%	100%	326 345	344 117	(21 862)	17 772
SIA Krāsotājs	Marijas 1, Daugavpils	100%	100%	(171 742)	(172 492)	(18 100)	(750)
SIA SPZČ	Marijas 1, Daugavpils	100%	100%	(204 304)	(253 642)	(157 911)	(49 338)
SIA METALURGS	Marijas 1, Daugavpils	100%	100%	(26 030)	(26 257)	(28 030)	(227)
SIA Remenergo	Marijas 1, Daugavpils	100%	100%	(216 521)	(180 860)	(35 612)	35 661
SIA Instruments	Marijas 1, Daugavpils	100%	100%	(107 326)	(107 494)	(163)	(168)
SIA Loģistika	Marijas 1, Daugavpils	100%	100%	6 281	7 933	5 066	1 652
				(558 520)	(501 072)	(525 702)	57 448

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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	Metal foundry
METALURGS	
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.	31.12.2010.
	Ls	Ls
Raw materials, material and auxiliary material cost (Accruals for damaged and slow moving stock)	1 471 783 (40 572) <u>1 431 211</u>	1 255 834 (41 654) <u>1 214 180</u>

(15) Finished goods and goods for resale

Finished goods	88 900	150 925
Other goods for sale	84	90
(Accruals for damaged and slow moving stock)	(24 907)	(23 000)
	<u>64 077</u>	<u>128 015</u>

(16) Trade receivables

Book value of trade receivables	2 685 279	2 511 634
(Provisions for bad and doubtful debts)	(952 001)	(1 084 320)
	<u>1 733 278</u>	<u>1 427 314</u>

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))	2 283 353	2 166 512
Loans to subsidiaries (see Note (34))	60 664	60 564
	<u>2 344 017</u>	<u>2 227 076</u>

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(18) Other receivables	31.12.2011.	31.12.2010.
	Ls	Ls
Payments for guarantees	8 272	45 320
VAT for advances received	4 268	13 387
Payments for other services	2 149	2 149
Other receivables	2 433	3 732
Payments to personnel	528	1 404
VAT overpaid (see Note (27))	-	42 406
	<u>17 650</u>	<u>108 398</u>
(19) Deferred expenses		
Insurance payments	2 123	2 073
Other expenses	2 205	3 204
	<u>4 328</u>	<u>5 277</u>
(20) Work-in-progress on repair and modernisation services		
Costs incurred and profit recognised as income	2 453 509	2 644 446
Accruals for expected losses	-	(426)
Gross amount of work-in-progress	<u>2 453 509</u>	<u>2 644 020</u>
where:		
Work-in-progress as assets (under "Accrued income")	<u>2 453 509</u>	<u>2 644 020</u>
	<u>2 453 509</u>	<u>2 644 020</u>
Corresponding amounts:		
Contract revenue recognised in income statement (under "Net sales")	16 172 107	13 119 583
Advances received from customers (under "Advances from customers")	1 332 393	1 065 381
Retentions on contracts (under "Other receivables")	8 272	45 320
(21) Cash and bank		
Cash at bank on current accounts	580 261	599 408
Cash on hand	1 545	842
	<u>581 806</u>	<u>600 250</u>
(34) Share capital		

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

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

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(23) Provisions

	Provisions for warranty costs	Provisions for subsidiaries' financial support	Total
	Ls	Ls	Ls
31.12.2009.	22 215	447 573	469 788
Increase	-	110 947	110 947
Decrease	(11 479)	-	(11 479)
31.12.2010.	10 736	558 520	569 256
Increase	3 994	-	3 994
Decrease	-	(57 448)	(57 448)
31.12.2011.	14 730	501 072	515 802

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 .

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(24) Loans from banks

		31.12.2011.	31.12.2010.
		Ls	Ls
Non-current			
Non-current loan in USD Norvik banka	a)	-	862 157
Loan for privatization of land in EUR Norvik banka	b)	-	502 398
Other loans in EUR	c)	-	984
Investment credit in USD SWEDBANK	a)	745 371	-
Investment credit for EU-funded project in EUR	d)	495 283	-
Investment credit in EUR SWEDBANK	b)	424 536	-
		<u>1 665 190</u>	<u>1 365 539</u>
Current			
Current part of non-current loan in USD Norvik banka	a)	-	184 748
Current part of loan for privatization of land in EUR Norvik banka	b)	-	99 686
Other loans in EUR	c)	-	5 904
Credit line in EUR	e)	1 054 121	-
Investment credit for EU-funded project in EUR	d)	600 664	-
Current part of investment credit in USD SWEDBANK	a)	194 436	-
Current part of investment credit in EUR SWEDBANK	b)	110 742	-
		<u>1 959 963</u>	<u>290 338</u>

a) In 2004 the Company has received a loan in amount of USD 4 000 000 from A/S NORVIK banka for increase of current assets. 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 Ls 14 833 436 (31.12.2010 - Ls 13 418 387).

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(25) Other borrowings

	31.12.2011. Ls	31.12.2010. Ls
Loan from AS Skinest Rail (see Note 34)	331 840	-
	331 840	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. Ls	31.12.2010. Ls
Settlements with subsidiaries (see Note (34))	278 716	576 685
	278 716	576 685

(27) Taxes and social insurance payments

	31.12.2010. Ls	Calculated Ls	Calculated penalty and delay fees Ls	(Paid)/ repaid Ls	Transferred to other taxes Ls	31.12.2011. Ls
VAT*	(42 406)	(286 403)	-	(15 929)	356 002	11 264
Personal income tax	9 109	106 549	3	(12 430)	(94 352)	8 879
Social insurance payments	15 006	200 540	-	(23 450)	(175 472)	16 624
Real estate tax (land)	-	3 947	111	(4 058)	-	0
Real estate tax (buildings)	-	39 338	1 601	(40 939)	-	0
Natural resource tax	1 438	4 765	-	(5 109)	-	1 094
Enterprise risk duty	29	370	-	(369)	-	30
Total	(16 824)	69 106	1 715	(102 284)	86 178	37 891
Hereof						
(Overpaid) - see Note 18 for details	(42 406)					-
Payables	25 582					37 891

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 LVL 86 178 corresponds to the tax liability net movement between the Company and other members of the VAT group.

(28) Other liabilities

	31.12.2011. Ls	31.12.2010. Ls
Payroll liabilities	35 093	34 185
Other liabilities	9 574	3 006
	44 667	37 191

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(29) Accrued liabilities	31.12.2011.	31.12.2010.
	Ls	Ls
Accrued liabilities to subsidiaries*	1 682 080	1 448 987
Accrued liabilities to other suppliers	79 466	259 219
Accrued unused annual leave	36 564	21 404
	<u>1 798 110</u>	<u>1 729 610</u>

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 Ls 1 682 080 (31.12.2010 - LVL 1 448 987) 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	2010
	Ls	Ls
For the audit of financial statements	7 169	8 574
For tax consulting	515	560
	<u>7 684</u>	<u>9 134</u>

(31) Average number of employees	2011	2010
Average number of people employed during the financial year	<u>119</u>	<u>112</u>

(32) Remuneration to personnel	2011	2010
	Ls	Ls
Employee pay	583 280	484 188
Social insurance payments	139 221	115 674
Other expenses	103 739	86 614
	<u>826 240</u>	<u>686 476</u>

(33) Remuneration to the management		
Board members		
· salary expenses	57 335	43 384
· other social insurance expenses	13 812	10 451
	<u>71 147</u>	<u>53 835</u>

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(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.		31.12.2010.	
	Receivables Ls	Payables Ls	Receivables Ls	Payables Ls
Group companies	2 344 017	278 716	2 227 076	576 685
Other related companies	56 887	875 232	157 435	1 688 028
	<u>2 400 904</u>	<u>1 153 948</u>	<u>2 384 511</u>	<u>2 264 713</u>

b) transactions

Notes	Sales / Return to related parties		Purchases from related parties	
	2011 Ls	2010 Ls	2011 Ls	2010 Ls
Group companies				
Repair services of railway rolling stock (i)	-	-	11 066 405	8 352 191
Sales/production of materials	5 387 977	4 551 615	810 361	1 053 345
Rent of premises and equipment	1 276 416	1 280 352	15 881	8 599
Administrative and management services (ii)	191 596	184 808	-	-
Other transactions	196 191	331 238	263 714	222 450
Total Group companies:	<u>7 052 180</u>	<u>6 348 013</u>	<u>12 156 361</u>	<u>9 636 585</u>
Other related parties				
Repair services of railway rolling stock	7 086 664	4 166 705	91 399	84 241
Sales/purchases of materials	315 029	48 024	3 639 130	5 765 975
Other	562 713	-	798 490	-
Total other related parties:	<u>7 964 406</u>	<u>4 214 729</u>	<u>4 529 019</u>	<u>5 850 216</u>
	<u>15 016 586</u>	<u>10 562 742</u>	<u>16 685 380</u>	<u>15 486 801</u>

(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 Remdiz, 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.

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

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.

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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 LVL 421 659 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 Lokomotīvu Remonta Rūpnīca AS

Report on the Financial Statements

We have audited the accompanying financial statements of Daugavpils Lokomotīvu 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 Lokomotīvu 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

A handwritten signature in blue ink, appearing to read 'Natālija Zaiceva'.

Natālija Zaiceva
Certified Auditor
Certificate No.138

Riga, 27 April 2012

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