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 17.1 million lats (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 0.350 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.

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 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 6 mil. Ls. 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 Ls	2010 Ls
Net sales	(1)	17 148 878	16 446 650
Cost of sales	(2)	(14 535 449)	(14 764 057)
Gross profit (loss)		**2 613 429**	**1 682 593**
Distribution expenses	(3)	(390 397)	(390 384)
Administrative expenses	(4)	(1 771 359)	(1 513 142)
Other income	(5)	130 653	484 973
Other expenses	(6)	(18 261)	(16 993)
Finance income and costs (net)	(8)	(251 358)	(104 114)
Profit (loss) before tax		**312 707**	**142 933**
Corporate income tax	(9)	36 661	(36 535)
Net profit (loss)		**349 368**	**106 398**
Attributable to:			
Equity holders of a parent company		349 368	106 398
Minority interest		-	-
Earnings per share (in santims)	(10)		
Basic		4.21	1.28
Diluted		4.21	1.28
Total comprehensive income (expense)		**349 368**	**106 398**
Attributable to:			
Equity holders of a parent company		349 368	106 398
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. Ls	31.12.2010. Ls
Non-current assets			
Intangible assets		17 261	17 550
Property, plant and equipment (tangible assets)	(11)	7 613 962	6 412 927
Investments in associated companies	(11)	480	500
Total non-current assets:		**7 631 703**	**6 430 977**
Current assets			
Inventories	(12)	2 227 883	2 018 420
Accrued income	(14)	2 446 126	2 604 906
Trade receivables	(13)	1 792 710	1 431 880
Corporate income tax receivables	(9)	4 768	25 779
Other current assets	(15)	94 167	296 316
Cash and cash equivalents	(16)	585 161	609 650
Total current assets:		**7 150 815**	**6 986 951**
Total assets		**14 782 518**	**13 417 928**

EQUITY AND LIABILITIES	Notes	31.12.2011. Ls	31.12.2010. Ls
Equity			
Share capital	(17)	8 294 219	8 294 219
Retained earnings of the previous years		(2 254 424)	(2 360 822)
Retained earnings of the reporting year		349 368	106 398
Total equity:		**6 389 163**	**6 039 795**
Liabilities:			
Non-current liabilities:			
Borrowings	(18)	1 665 190	1 365 539
Deferred income tax liabilities	(9)	335 125	371 786
Other non-current liabilities	(20)	83 903	91 303
Total non-current liabilities:		**2 084 218**	**1 828 628**
Current liabilities:			
Borrowings	(18)	2 291 803	290 338
Trade payables		1 726 543	2 874 521
Provisions	(19)	123 189	113 948
Other liabilities	(20)	2 167 602	2 270 698
Total current liabilities:		**6 309 137**	**5 549 505**
Total liabilities:		**8 393 355**	**7 378 133**
Total equity and liabilities:		**14 782 518**	**13 417 928**

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
	Ls	Ls	Ls
31.12.2009.	**8 294 219**	**(2 360 822)**	**5 933 397**
Profit of the previous year	-	106 398	106 398
Total comprehensive income	-	106 398	106 398
31.12.2010.	**8 294 219**	**(2 254 424)**	**6 039 795**
Profit of the reporting year	-	349 368	349 368
Total comprehensive income	-	349 368	349 368
31.12.2011.	**8 294 219**	**(1 905 056)**	**6 389 163**

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

CASH FLOW STATEMENT

	Notes	2011 Ls	2010 Ls
Cash flow from operating activities			
Profit or losses before income tax		**312 707**	**142 933**
Adjustments for:			
depreciation and amortization	(11)	437 170	421 371
profit from disposal of tangible assets	(11)	(7 028)	(16 140)
changes in provisions		(130 380)	354 642
foreign currency (gains)/losses		77 173	106 498
interest expenses		69 380	54 374
Cash flow prior to changes in current assets		**759 022**	**1 063 678**
Inventory (increase)/decrease		(203 977)	827 413
Account receivable (increase)/decrease		133 370	(850 094)
Account payable increase/(decrease)		(1 255 076)	954 616
Gross cash flow generated from operating activities		**(566 661)**	**1 995 613**
Interest paid	(18)	(60 767)	(55 463)
Net cash flow generated from operating activities		**(627 428)**	**1 940 150**
Cash flow from investing activities			
Acquisition of tangible assets		(1 638 139)	(261 086)
Proceeds from sales of tangible assets		7 155	18 382
Equity investments paid		-	(6 500)
Proceeds from sales of equity investments		500	-
Paid for equity investments		480	-
Net cash flow generated from investing activities		**(1 630 004)**	**(249 204)**
Cash flow from financing activities			
Loans repaid	(18)	(2 196 889)	(1 193 261)
Loans received		4 429 832	-
Net cash flow generated from financing activities		**2 232 943**	**(1 193 261)**
Net increase / (decrease) in cash and cash equivalents		**(24 489)**	**497 685**
Cash and cash equivalents at the beginning of the financial year		**609 650**	**111 965**
Cash and Cash equivalents at the end of the financial year	(16)	**585 161**	**609 650**

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
			Ls	%
SIA "Rel"	Marijas 1, Daugavpils	Repair of diesel and electric locomotives	2 000	100
SIA "Elap"	Marijas 1, Daugavpils	Repair of electric equipment of rolling stock	2 000	100
SIA "Remdīz"	Marijas 1, Daugavpils	Repair of rolling stock diesel and knots	2 000	100
SIA "Ritrem"	Marijas 1, Daugavpils	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock	2 000	100
SIA "Elektromaš"	Marijas 1, Daugavpils	Repair and producing of electromotor, generators and transformers	2 000	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dyeing of rolling stock	2 000	100
SIA "SPZČ"	Marijas 1, Daugavpils	Repair and producing of spare parts, instruments and equipment	2 000	100
SIA "Metalurgs"	Marijas 1, Daugavpils	Metal foundry	2 000	100
SIA "Remenergo"	Marijas 1, Daugavpils	Maintenance of fixture, technical control and capital repair of buildings, constructions and producing equipment, public facility service rendering to Group companies	2 000	100
SIA "Instruments"	Marijas 1, Daugavpils	Dormant status	2 000	100
SIA "Loģistika"	Marijas 1, Daugavpils	Logistics services Intermediary for supply of materials for the Group purposes	2 000	100
			22 000	

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**	**Ls**
Brokerage services	Distribution expenses	Cost of sales	225 419

(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.

(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 Ls 7 614 058 (31.12.2010 - Ls 6 412 927) 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 Ls 7 614 058 (31.12.2010 - Ls 6 412 927).

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 Ls 2 446 126 (31.12.2010 - Ls 2 604 906).

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 Ls 1 792 710 (31.12.2010 - Ls 1 431 880). 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 Ls 2 227 883 (31.12.2010 - Ls 2 018 420).

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**
	Ls	**Ls**
Russia	7 359 249	5 883 099
Estonia	4 143 117	5 040 848
Latvia	3 154 565	1 873 281
Lithuania	540 183	1 353 400
Belarus	743 288	477 722
Uzbekistan	307 624	314 600
Poland	119 482	35 277
Other countries	781 370	1 468 423
	17 148 878	**16 446 650**

(c) Major customers

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

	2011	**2010**
	Ls	**Ls**
Customer Nr.1	6 470 745	4 561 610
Customer Nr.2	3 733 394	2 636 218
Customer Nr.3	1 052 997	614 651
Customer Nr.4	901 909	598 234
Other clients	4 989 833	8 035 937
	17 148 878	**16 446 650**

(2) Cost of sales

	2011 Ls	2010 Ls
Raw materials and consumables	8 603 954	8 811 815
Salary expense	3 088 709	2 695 971
Utility costs	1 039 737	879 099
Other production costs	738 485	900 785
Mandatory State social insurance contributions	737 520	643 384
Depreciation of tangible assets	352 366	334 631
Increase in provisions for warranty and other provisions	9 241	88 846
Increase in provisions for expected losses	(26 282)	69 352
Increase in provisions for post-employment benefits	(8 281)	-
Increase in provisions for inventories and receivables	-	340 174
	14 535 449	**14 764 057**

(3) Distribution expenses

	2011 Ls	2010 Ls
Brokerage costs	254 708	225 419
Transportation costs	66 809	102 779
Salary expenses	55 614	50 174
Mandatory State social insurance contributions	13 266	12 012
	390 397	**390 384**

(4) Administrative expenses

	2011 Ls	2010 Ls
Salary expenses	1 037 810	871 606
Mandatory State social insurance contributions	248 125	208 302
Other administrative expenses	223 603	161 965
Utility expenses	113 264	109 007
Depreciation of tangible assets	79 454	85 980
Office costs	48 678	36 909
Professional service costs	18 833	37 326
Representation costs	1 592	2 047
	1 771 359	**1 513 142**

(5) Other income

	2011 Ls	2010 Ls
Rental income	79 658	48 806
Other income	43 967	146 940
Net income from sale of tangible assets	7 028	16 140
Net income from sale of subsidiaries	-	273 087
	130 653	**484 973**

(6) Other expenses

	2011 Ls	2010 Ls
Cost of collective agreement with employees	10 978	8 547
Other expenses	7 283	8 446
	18 261	**16 993**

(7) Expenses by Nature

	2011 Ls	2010 Ls
Raw materials, consumables and cost of goods sold	8 603 954	8 811 815
Salary expenses	4 182 133	3 617 751
Utility costs	1 153 001	988 106
Other expenses	999 182	1 117 069
Mandatory State social insurance contributions	998 911	863 698
Depreciation of tangible and intangible assets	431 820	420 611
Mediation expenses	254 708	225 419
Transportation expenses	66 809	102 779
Office expenses	48 678	36 909
Increase in provisions for expected losses	(26 282)	69 352
Increase in provisions for warranty and other contingent liabilities	9 241	88 846
Increase in provisions for post-employment benefits	(8 281)	-
Advertisement expenses	1 592	2 047
Increase in provisions for inventories and receivables	-	340 174
	16 715 466	**16 684 576**

(8) Finance income and expenses (net)

	2011	2010
Net income and expenses from exchange rate fluctuations	(120 043)	10 131
Interest charge	(69 380)	(54 374)
Penalties paid	(61 941)	(81 089)
Interest income	6	21 218
	(251 358)	**(104 114)**

(9) Corporate income tax

a) Components of corporate income tax

	2011	2010
Changes in deferred income tax	(36 661)	36 535
Corporate income tax according to the tax return	-	-
	(36 661)	**36 535**

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 Ls	2010 Ls
Profit before taxes	312 707	142 933
Theoretically calculated tax at 15% tax rate	**46 906**	**21 440**
Tax effects on:		
Permanent differences	(64 617)	15 095
Tax allowance on the purchase of new technological equipment	(18 950)	-
Total tax charge	**(36 661)**	**36 535**

c) Movement and components of deferred tax

	2011	2010
Deferred tax liabilities (asset) at the beginning of the financial year	371 786	335 251
Deferred tax charged to the income statement	(36 661)	36 535
Deferred tax liabilities (asset) at the end of the financial year	**335 125**	**371 786**

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 tangible and intangible assets	531 733	588 611
Gross deferred tax liabilities	**531 733**	**588 611**
Temporary difference on accruals for expected losses	(1 976)	(5 931)
Temporary difference on provisions for potential liabilities	(18 478)	(17 092)
Temporary difference on provisions for impairment of inventories and receivables	(12 102)	(11 373)
Tax losses carried forward	(164 052)	(182 429)
Gross deferred tax assets	**(196 608)**	**(216 825)**
Net deferred tax liability (assets)	**335 125**	**371 786**

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	(32 556)	(34 396)
deferred tax asset to be recovered within more than a year	(164 052)	(182 429)
	(196 608)	(216 825)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	20 149	27 365
deferred tax liabilities to be recovered after more than a year	511 584	561 246
	531 733	588 611
Net deferred tax liabilities (assets)	**335 125**	**371 786**

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**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**	**Ls**
31.12.2009	603 931	(5 596)	(13 135)	(18 026)	(231 923)	335 251
Charged / (credited) to the statement of comprehensive income	(15 320)	(335)	1 762	934	49 494	36 535
31.12.2010	588 611	(5 931)	(11 373)	(17 092)	(182 429)	371 786
Charged / (credited) to the statement of comprehensive income	(56 878)	3 955	(729)	(1 386)	18 377	(36 661)
31.12.2011	**531 733**	**(1 976)**	**(12 102)**	**(18 478)**	**(164 052)**	**335 125**

(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 (Ls)	349 368	106 398
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in santims)	**4.21**	**1.28**

(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
		Ls	Ls	Ls	Ls	Ls
01.01.2010						
Initial cost	-	6 048 140	5 592 815	691 396	19 805	12 352 156
Accumulated depreciation	-	(774 759)	(4 458 915)	(525 278)	-	(5 758 952)
Net book value	**0**	**5 273 381**	**1 133 900**	**166 118**	**19 805**	**6 593 204**
2010						
Acquisition cost	-	5 273 381	1 133 900	166 118	19 805	6 593 204
Acquired	21 125	25 142	175 590	24 268	14 961	239 961
Disposed	-	(1 332)	(1 110)	-	-	(2 442)
Amortized	(3 575)	(149 261)	(198 229)	(70 306)	-	(417 796)
Closing book value	**17 550**	**5 147 930**	**1 110 151**	**120 080**	**34 766**	**6 412 927**
31.12.2010						
Initial cost	21 125	6 066 483	5 709 342	695 275	34 766	12 505 866
Accumulated depreciation	(3 575)	(918 553)	(4 599 191)	(575 195)	-	(6 092 939)
Net book value	**17 550**	**5 147 930**	**1 110 151**	**120 080**	**34 766**	**6 412 927**
		0	0	0	0	0
2011		0	0	0	0	0
Acquisition cost	17 550	5 147 930	1 110 151	120 080	34 766	6 412 927
Acquired	-	-	-	-	1 638 043	1 638 043
Reclassified	4 217	100 527	1 494 217	25 162	(1 624 123)	(4 217)
Disposed	-	-	(67)	(60)	-	(127)
Amortized	(4 506)	(162 907)	(209 673)	(60 084)	-	(432 664)
Closing book value	**17 261**	**5 085 550**	**2 394 628**	**85 098**	**48 686**	**7 613 962**
31.12.2011						
Initial cost	25 342	6 164 848	7 026 484	718 210	48 686	13 958 228
Accumulated depreciation	(8 081)	(1 079 298)	(4 631 856)	(633 112)	-	(6 344 266)
Net book value	**17 261**	**5 085 550**	**2 394 628**	**85 098**	**48 686**	**7 613 962**

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 Ls 2 534 868.

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 Ls 2 534 868 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 Ls 1 357 166 and in 2009 for Ls 288 815.

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

In calculations of the future cash flow the management of the Group uses the following estimates:
- The Group is considered to be an intact cash flow generating unit;
- In the period 2012.-2015. the expected EBITDA (earnings before interest, taxes and depreciation) will be 1.0 to 1.2 mil Ls;
- 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 Ls 19 502 (in 2010. Ls 0).

The total initial value of the fully depreciated tangible assets at the end of the year amounted to Ls 4 421 206 (31.12.2010. LVL 4 382 777).

(12) Inventories	**31.12.2011.**	**31.12.2010.**
	Ls	**Ls**
Raw materials	1 630 031	1 399 746
Goods in production	254 315	219 915
Finished goods	424 220	474 582
(Provisions for impairment of inventories)	(80 683)	(75 823)
	2 227 883	**2 018 420**

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.	**31.12.2010.**
	Ls	**Ls**
Provisions opening balances	75 823	86 169
Changes in provisions in the financial period	4 860	(10 346)
Provisions closing balances	**80 683**	**75 823**

(13) Trade receivables

	31.12.2011. Ls	31.12.2010. Ls
Book value of trade receivables	2 744 711	2 518 016
Provisions for impairment of trade receivables	(952 001)	(1 086 136)
	1 792 710	**1 431 880**

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. Ls	31.12.2010. Ls
Accrual income for repair and modernization contracts	2 453 509	2 644 446
Accruals for expected losses	(7 383)	(39 540)
Gross amount for accrued income	**2 446 126**	**2 604 906**
where:		
Accrued income in assets	2 446 126	2 604 906
	2 446 126	**2 604 906**
Corresponding amounts:		
Contract revenue recognised in income statement (under "Net sales")	16 172 107	13 119 583
Advances received from customers (under "Other liabilities")	1 332 968	1 065 381
Retentions on construction contracts (under "Other current assets")	8 272	45 320

(15) Other current assets

Payables for raw materials	71 490	181 686
Other receivables	10 044	21 621
Payables for warranties	8 272	45 320
Deferred expenses	4 350	5 277
Other taxes overpaid	11	-
VAT overpaid	-	42 412
	94 167	**296 316**

(16) Cash and cash equivalents

Cash at bank on current accounts	583 616	608 808
Cash on hand	1 545	842
	585 161	**609 650**

(17) Share capital

Registered and fully paid share capital of the Company is 8 294 219 LVL, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is 1 LVL. All shares guarantees equal rights to dividends, reception of liquidation quotas and suffrage in shareholder's meeting. One share gives rights to 1 vote. All shares are dematerialized. The Company do not hold own shares or someone else in it's interest. Shares are not convertible, exchangeable or guaranteed. 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. Ls	31.12.2010. Ls
Non-current			
Non-current loan in USD Norvik banka	a)	-	862 157
Loan for privatization of land plots in EUR Norvik banka	b)	-	502 398
Other loans in EUR	c)	-	984
Investment credit in USD SWEDBANK	a)	745 371	-
Investment credit with EU structural funds in EUR	d)	495 283	-
Investment credit in EUR SWEDBANK	b)	424 536	-
		1 665 190	**1 365 539**
Current			
Current part of non-current loan in USD Norvik banka	a)	-	184 748
Current part of loan for privatization of land plots in EUR Norvik banka	b)	-	99 686
Other loans in EUR	c)	-	5 904
Credit line facilities in EUR	e)	1 054 121	-
Investment credit with EU structural funds in EUR	d)	600 664	-
Loan from related company in EUR	f)	331 840	-
Investment credit in USD SWEDBANK	a)	194 436	-
Investment credit in EUR SWEDBANK	b)	110 742	-
		2 291 803	**290 338**
Total non - current and current part		**3 956 993**	**1 655 877**

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 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 Ls	2010 Ls
At beginning of the year	1 655 877	2 743 728
Borrowings in the year	4 420 832	-
Repaid borrowings in the year	(2 196 889)	(1 193 261)
Currency exchange rate fluctuation results	77 173	105 410
At the end of the year	**3 956 993**	**1 655 877**

Maturity of the total borrowings is as follows:

Payable in 1 year	2 291 803	290 338
Payable in 2 – 5 years	428 999	1 138 720
Payable in more than 5 years	1 236 191	226 819
	3 956 993	**1 655 877**

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 Ls 13 987 171 (31.12.2010 - Ls 12 701 002)

(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 Ls	2010 Ls
At beginning of the year	113 948	120 172
Changes in the year	9 241	(6 224)
At the end of the year	**123 189**	**113 948**

(20) Other liabilities

	31.12.2011. Ls	31.12.2010. Ls
Non-current		
Accrued liabilities to post-employment benefits (non-current part)	83 903	91 303
	83 903	**91 303**
Current		
Advances received	1 332 968	1 066 724
Payroll liabilities	258 670	253 143
Other liabilities	181 379	363 683
Accrued liabilities for unused annual leave	174 175	150 728
Mandatory State social contributions liabilities	129 860	250 893
Personnel income tax liabilities	65 683	178 226
VAT liabilities	11 264	-
Deferred income	7 526	-
Accrued liabilities for post-employment benefits (current part)	4 725	5 606
Other taxes payable	1 352	1 695
	2 167 602	**2 270 698**

(21) Average number of employees	**2011**	**2010**
Average number of people employed during the financial year	1 004	922

(22) Remuneration to personnel	**2011**	**2010**
	Ls	**Ls**
Salaries and mandatory State social insurance contributions for production staff	3 826 229	3 339 355
Salaries and mandatory State social insurance contributions for distribution staff	68 880	62 186
Salaries and social insurance contributions for administration staff	1 285 935	1 079 908
	5 181 044	**4 481 449**
Including remuneration to key management		
salary expenses	119 379	147 456
mandatory State social insurance contributions	28 758	35 222
total mandatory State social insurance contributions in the remuneration to personnel	998 911	863 698

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	**Payables**	**Receivables**	**Payables**
	Ls	**Ls**	**Ls**	**Ls**
Related parties with significant	56 887	943 223	162 755	1 688 028
	56 887	**943 223**	**162 755**	**1 688 028**

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	**2010**
	Ls	**Ls**
Related parties with significant influence		
Repair services of railway rolling stock	7 086 664	4 408 560
Purchase of raw materials	3 639 130	5 765 975
Other goods for sale	869 274	-
Other transactions	491 929	34 266
Services received	91 399	84 241
	12 178 396	**10 293 042**

(24) Tax Contingent Liabilities

The tax authorities have conducted complex tax audit of the Group for the period from 2005 to 2006. The outcome of this audit was not material to these financial statements.

The tax authorities may at any time conduct the accounting audit for the last three years after the taxation period and apply additional tax liabilities and penalties. The Management of the Group is not aware of any circumstances that could cause potential significant liabilities in the future.

(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,	**(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**
	+10%	170 586	+10%	155 577
USD	-10%	(170 586)	-10%	(155 577)
	+10%	26 617	+10%	44 896
RUB	-10%	(26 617)	-10%	(44 896)

(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 Ls18 690 (2010 - Ls 16 312) 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. Ls	31.12.2010. Ls
Trade receivables	1 792 710	1 431 880
Accrued income	2 446 126	2 604 906
Other receivables	94 167	296 316
Cash	585 161	609 650
	4 918 164	**4 983 295**

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 Ls 1 332 968 (31.12.2010. Ls 1 066 724).

Maturity analysis of trade receivables

				spitted as:		Past due*	
	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	in due term	< 90 days	90-180 days	> 180 days
31.12.2010. Ls	2 518 016	(1 086 136)	1 431 880	909 941	95 350	14 639	411 950
31.12.2011. Ls	2 744 711	(952 001)	1 792 710	1 420 320	8 799	37 316	326 275

* At the end of the reporting period trade receivables with material delay in payment amount to Ls 326 thousand (31.12.2010 - 412 thousand), the net book value of these receivables, excluding receivables from third parties, that enrol proportional risk on recovery of these receivables amount to Ls 69 thousand (31.12.2010 - Ls 96 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. Ls	31.12.2010. Ls
Accruals at the beginning of the year	1 086 136	735 616
Decrease of accruals for written off bad debts	(134 135)	-
Provisions created in the reporting period	-	350 520
Provisions closing balances	**952 001**	**1 086 136**

(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 Ls 842 062 (31.12.2010 - Ls 1 437 446). 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. Ls 70 280). 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**
	Ls	**0**	**0**	**0**	**0**
Loans from related parties	-	-	-	-	-
Loans from Bank					
EUR	**608 972**	52 795	556 177	-	-
USD	**1 046 905**	92 374	954 531	-	-
Credit lines	**-**	-	-	-	-
Trade payables	**2 874 521**	2 185 331	689 190	-	-
Other liabilities	**2 475 949**	683 957	1 586 741	125 160	80 091
Total liabilities	**7 006 347**	**3 014 457**	**3 786 639**	**125 160**	**80 091**

On 31 December, 2011	**Total**	**<6 months**	**6-12 months**	**1-2 years**	**2-5 years**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**
Loans from related parties	**331 840**	-	331 840	-	-
Loans from Bank	**0**	0	0	0	0
EUR	**1 632 225**	536 699	174 707	234 563	686 256
USD	**939 807**	97 218	97 218	194 436	550 935
Credit lines	**1 054 121**	-	1 054 121	-	-
Trade payables	**1 726 543**	1 187 970	538 573	-	-
Other liabilities	**2 374 694**	655 734	1 511 868	132 639	74 453
Total liabilities	**8 059 230**	**2 477 621**	**3 708 327**	**561 638**	**1 311 644**

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.**
	Ls	**Ls**
Total borrowings	3 956 993	1 655 877
Cash and its equivalents	(585 161)	(609 650)
Net loans	3 371 832	1 046 227
Equity	6 389 163	6 039 795
Total assets	14 782 518	13 417 928
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 "Jaunu produktu un tehnoloģiju izstrāde - atbalsts jaunu produktu un tehnoloģiju ieviešanai ražošanā". Funding was used in the reporting period acquiring new technological equipment. In 2012 the Company received approval for funding to be paid LVL 421 659 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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