ENG

AS Daugavpils Lokomotīvju Remonta Rūpnīca

ANNUAL REPORT

for the 12 months period ended 31 December 2012

CONTENTS

INFORMATION ON THE COMPANY

Name of the company	Daugavpils Lokomotīvju Remonta Rūpnīca
Legal status of the company	Joint Stock Company
Number, place and date of registration	Company Register Nr. 40003030219 Riga, 3 October 1991 Commercial Register Riga, 8 June 2004
Address	Marijas Str. 1 Daugavpils, LV-5401 Latvia
Type of operations	Railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts
Parent company	AS Skinest Rail (Estonia) - 47,97% AS Spacecom (Estonia) - 25,27% Other shareholders - 26,76%
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 Sergei Jakovlev - Member of the Council (from 21.06.2012) Tomas Petraitis - Member of the Council (from 21.06.2012) Juri Krasnošlok - Member of the Council (till 21.06.2012) Aleksandr Golubnitši - Member of the Council (till 21.06.2012)
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 Aleksejs Kolpakovs - Member of the Board (from 11.01.2013)
Financial year	1 January, 2012 - 31 December, 2012
Auditor's name and address:	Baker Tilly Baltics SIA License No. 80 Kronvalda boulevard 10 Riga LV-1010 Latvia Certified auditor in charge Eriks Bahirs Certificate No.136

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 and electric locomotives and electric trains.

Performance of the Company during the financial year

In 2012 net sales of the Company were 43.5 million EUR (in 2011 - 33.4 million EUR). Sales of principal activity comprised 30.5 million EUR, that compile 130,5% of 2011. In addition to principal activity the Company rendered to subsidiaries the following services: sales of materials, rent, administration and management services and others, which provides the additional net sales of 13.1 million EUR (in 2011 - 10.1 million EUR). During the reporting period the Company was working full-time and ended the year with a profit of 944.8 thousand EUR. During the reporting year, the Company has continued the acquisition of new products' manufacturing technology, using the equipment, that was purchased in 2011 in cooperation with ERDF funds. In 2012 the implementation process of a new resource planning system has been started, which is planned to be implemented till the end of 2015.

Performance of the Group during the financial year

In 2012 the Group's consolidated net sales amounted to 31.2 million EUR (128.7% in respect of net sales of 2011).

In 2012 the Group has been fully provided with orders during the year, that allowed to close the reporting period with a profit of 1.0 million EUR. In 2012 the Group exported its products to 8 countries, the total export volume amounted to 28.0 million EUR (in 2011 - 19.9 million EUR), while net sales in Latvia amounted to 3.3 million EUR (in 2011 - 4.4 million EUR). The main directions of export in 2012 were EU countries: Lithuania and Estonia, and third countries: Russia, Belarus and Uzbekistan.

Financial risk management

The policy of financial risk management of the Company is described in financial report's Notes 35

Post balance sheet events

In the time period between the last day of the financial year and the date of signing the financial statements by the Board there have been no important events that would have a significant effect on the financial results of the year or the financial position of the Company.

Distribution of profit proposed by the Board

	2012
	EUR
Profit share to be distributed	**944 807**
Retained earnings	944 807

Future prospects

In 2013 the Company will continue the development in the sector of railway rolling stock repair and spare parts production. The Company plans to expand its customer base, therefore expected, that volume of the rolling stock repair and spare part production will increase. The Company will continue the project of modernization of the existing infrastructure with ERDF funds financing assistance. Part of this project is expected to be completed at the end of 2013.

The Company's key priority remains - higher quality control for the services and goods produced and the extension of offered services and goods produced nomenclature.

Natālija Petrova
Chairman of the Board

Daugavpils, 29 April 2013

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 and On the Annual Reports. 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 6 to page 27 decisions and assessments were made prudent and reasonable. Accounting policies compared with last year have 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, 29 April 2013

INCOME STATEMENT

	Note	2012 EUR	2011 EUR
Net sales	(1)	43 527 160	33 385 470
Cost of sales	(2)	(40 359 645)	(30 665 914)
Gross profit or losses		**3 167 515**	**2 719 556**
Distribution expenses	(3)	(628 043)	(555 485)
Administrative expenses	(4)	(1 601 969)	(1 527 784)
Other operating income	(5)	275 657	372 067
Other operating expenses	(6)	(35 387)	(25 636)
Interest and similar income		-	9
Interest and similar expenses	(7)	(60 821)	(299 194)
Profit or losses before taxes		**1 116 952**	**683 532**
Corporate income tax	(8)	(109 136)	(76 536)
Other taxes	(9)	(63 009)	(61 589)
Net profit or losses		**944 807**	**545 407**
Earnings per share (in santims)	(10)		
Basic		11,39	6,58
Diluted		11,39	6,58

Notes on pages 11 to 27 are an integral part of these financial statements.

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Natālija Petrova
Chairman of the Board

Daugavpils, 29 April 2013

BALANCE SHEET

	Note	31.12.2012. EUR	31.12.2011. EUR
ASSETS			
Non-current assets			
Intangible assets:			
Other intangible assets	(11)	18 843	24 560
Total intangible assets:		**18 843**	**24 560**
Fixed assets:			
Land and buildings	(11)	1 911 301	1 914 243
Equipment and machinery	(11)	3 604 108	3 407 250
Other fixed assets	(11)	76 191	121 085
Fixed assets under construction	(11)	179 582	69 272
Total fixed assets:		**5 771 182**	**5 511 850**
Investment property:			
Buildings	(11)	3 174 285	3 156 755
Total non-current financial investments:		**3 174 285**	**3 156 755**
Non-current financial investments:			
Investments in subsidiaries	(12)	31 303	31 303
Other securities and investments	(12)	-	683
Total non-current financial investments:		**31 303**	**31 986**
Total non-current investments:		**8 995 613**	**8 725 151**
Current assets			
Inventories:			
Raw materials and consumables	(13)	2 185 703	2 036 430
Finished goods and goods for sale	(14)	129 732	91 173
Advances for inventories		248 418	101 720
Total inventories:		**2 563 853**	**2 229 323**
Account receivable:			
Trade receivables	(15)	2 412 808	2 466 232
Receivables from group companies	(16)	3 997 131	3 335 236
Other receivables	(17)	37 197	25 114
Deferred expenses	(18)	26 915	6 158
Accrued income	(19)	5 329 167	3 491 029
Total receivables:		**11 803 218**	**9 323 769**
Cash and bank:	(20)	**39 290**	**827 835**
Total current assets:		**14 406 361**	**12 380 927**
Total assets		**23 401 974**	**21 106 078**

Notes on pages 11 to 27 are an integral part of these financial statements.

BALANCE SHEET

	Note	31.12.2012. EUR	31.12.2011. EUR
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	(21)	11 801 610	11 801 610
Non-current investments revaluation reserve	(11)	1 630 529	1 677 720
Retained earnings			
previous year's retained earnings		(6 297 586)	(6 842 993)
current years profit or losses		944 807	545 407
Total equity:		**8 079 360**	**7 181 743**
Provisions:	(22)	704 330	733 920
Liabilities:			
Non-current liabilities:			
Loans from banks	(23)	1 804 752	2 369 352
Deferred income tax liabilities	(8)	427 121	373 148
Deferred income	(28)	551 969	-
Total non-current liabilities:		**2 783 842**	**2 742 500**
Current liabilities:			
Loans from banks	(23)	2 054 219	2 788 776
Other borrowings	(24)	-	472 166
Advances from customers		1 399 412	1 895 824
Trade payables		3 313 798	2 207 913
Payables to group companies	(25)	292 218	396 577
Taxes and social insurance payments	(26)	110 734	53 914
Other liabilities		78 977	63 555
Deferred income	(28)	26 628	10 709
Accrued liabilities	(29)	4 558 456	2 558 480
Total current liabilities:		**11 834 442**	**10 447 914**
Total liabilities:		**14 618 284**	**13 190 414**
Total equity, provisions and liabilities		**23 401 974**	**21 106 078**

Notes on pages 11 to 27 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 29 April 2013

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Non-current assets revaluation reserve	Retained earnings	Total
		EUR	**EUR**	**EUR**	**EUR**
31.12.2010.		**11 801 610**	**1 779 274**	**(6 842 993)**	**6 737 891**
Disposal of revalued fixed assets	(11)	-	(119 477)	-	(119 477)
Changes in deferred tax liabilities	(8)	-	17 922	-	17 922
Loss for the year		-	-	545 407	545 407
31.12.2011.		**11 801 610**	**1 677 720**	**(6 297 586)**	**7 181 743**
Disposal of revalued fixed assets	(11)	-	(55 519)	-	(55 519)
Changes in deferred tax liabilities	(8)	-	8 328	-	8 328
Profit for the year		-	-	944 807	944 807
31.12.2012.		**11 801 610**	**1 630 529**	**(5 352 779)**	**8 079 360**

Notes on pages 11 to 27 are an integral part of these financial statements.

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Natālija Petrova
Chairman of the Board

Daugavpils, 29 April 2013

CASH FLOW STATEMENT

	Note	2012 EUR	2011 EUR
Cash flow from operating activities			
Profit or losses before taxes		**1 116 952**	**683 532**
Adjustments for:			
depreciation of investment property, fixed and intangible assets	(11)	716 848	552 467
profit from disposal of fixed assets	(5)	(59 519)	(129 477)
loss on disposal of investment in subsidiaries	(12)	683	-
changes in provisions		20 669	(263 157)
foreign exchange (gains)/losses		(4 747)	109 807
interest expenses	(7)	116 737	98 719
Cash flow prior to changes in current assets and liabilities		**1 907 623**	**1 051 891**
Inventory (increase)/decrease		(376 517)	(62 212)
Account receivable (increase)/decrease		(2 534 912)	6 000
Account payable increase/(decrease)		2 419 534	(1 306 765)
Gross cash flow generated from operating activities		**1 415 728**	**(311 087)**
Interest paid		(108 972)	(86 464)
Net cash flow generated from operating activities		**1 306 756**	**(397 550)**
Cash flow from investing activities			
Acquisition of investment property, fixed and intangible assets	(11)	(991 863)	(2 330 862)
Proceeds from sales of fixed assets		63 388	9 920
Equity investments paid		-	(683)
Proceeds from sales of equity investments		-	711
Net cash flow generated from investing activities		**(928 475)**	**(2 320 913)**
Cash flow from financing activities			
Grants received		599 967	-
Loans received	(24)	-	5 818 111
Loans repaid	(24)	(1 766 793)	(3 125 891)
Net cash flow generated from financing activities		**(1 166 826)**	**2 692 220**
Net increase / (decrease) in cash and cash equivalents		**(788 545)**	**(26 243)**
Cash and cash equivalents at the beginning of the financial year		**827 835**	**854 079**
Cash and Cash equivalents at the end of the financial year	(20)	**39 290**	**827 835**

Notes on pages 11 to 27 are an integral part of these financial statements.

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Natālija Petrova
Chairman of the Board

Daugavpils, 29 April 2013

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.

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 policies. 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) 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.

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. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories or other assets, depending on their nature.

The Company presents as an asset the gross amount due from the customers for contract work for all contracts in progress for which costs incurred plus recognized profit (less recognized losses) subtracting progress billings. Progress billings not yet paid by customers and retention are disclosed under "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 disclosed under "Advances from customers".

(3) 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.

	31.12.2012.	31.12.2011.
	Ls	**Ls**
1 USD	0,531	0,544
1 EUR	0,702804	0,702804
1 LTL	0,204	0,204
1 RUB	0,0174	0,017

(4) Fixed and intangible assets

Intangible and fixed assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of intangible and fixed assets.

Buildings and constructions are recognized at fair value of regularly made independent evaluation, less accrued depreciation. Land is recognized at fair value of regularly made independent evaluation. The difference that appears from revaluation is recognized in equity under “Long-term assets revaluation reserve”. All other fixed and intangible assets are shown at acquisition cost less accumulated depreciation. The acquisition costs include all related expenses of asset acquisition.

Depreciation is calculated on a straight-line basis applying the following rates of depreciation set by the management, based on the estimated useful life of the fixed assets:

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

The Company capitalizes its fixed assets valued over Ls 300 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than Ls 300 is calculated 100% after commissioning.

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 prescribed as the highest from actual value of investigation, discharging purchase costs or usage values.

(5) Investment property

Investment property is property (land, building or part of building) held by the Company (as owner or by lessee under a finance lease) to earn rentals or for capital appreciation rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. For the land with uncertain future use (if the Company has not determined that it will use the land as owner occupied or short term sale in the ordinary course of business, it is assumed that land is held for capital appreciation), it is classified as investment property.

Investment property initially recognized at purchase cost. Further the investment property are recognized at fare value of regularly made independent evaluation, less accrued depreciation. Differences in value arising from revaluation is recognized in equity under “Long-term assets revaluation reserve".

Depreciation of buildings is calculated on a straight-line basis applying the following rates of depreciation, based on their estimated useful life:

	Depreciation % per annum
Buildings	1,67 - 10

(6) 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.

(7) 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 have 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.

(8) 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 .

(9) 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.

(10) 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.

(11) 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.

(12) 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 thetransaction 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.

(13) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and the balances of the current bank account.

(14) 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. Grants are recognized in the financial statements in the period, in which the grants are received.

(15) 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.

(16) 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.

(17) Related parties

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

II. OTHER NOTES

(1) Net sales

	2012 EUR	2011 EUR
By operating activities		
Income from railway rolling stock repair and upgrade services	28 032 245	20 236 200
Income from sales of materials (see Note (34))	10 598 093	7 666 401
Income from sales of railway rolling stock	2 360 417	2 774 635
Income from rent of premises and equipment (see Note (34))*	1 804 405	1 816 176
Other income	397 017	558 642
Management and administrative services (see Note (34))	274 354	272 617
Other income from transactions with subsidiaries (see Note (34))	60 629	60 799
	43 527 160	**33 385 470**

* Rental income

The Company rents most of the property, plants and equipment and other tangible assets to its subsidiary SIA "Remenergo". Rental income for property, plants and equipment in 2012 amounted to EUR 1 804 405 (2011 - EUR 1 816 176). Rent agreements are signed till 31 December 2013.

b) By location

The Company operates in Latvian territory by selling repair services and spare parts on the domestic market, as well as performing this service and goods exports.

The Company's activity is divided into several geographic markets, which is provision of services and sale of goods to Latvian residents, income from the export of services, broken down by country of Object registration, and income from export of goods, which are divided according to customer's country of registration.

	2012 EUR	2011 EUR
Income from sales of goods/services to Russia	21 185 452	10 471 268
Income from sales of goods/services in Latvia	15 808 059	13 985 298
Income from sales of goods/services to EU	3 991 982	6 321 808
Income from sales of goods/services to Uzbekistan	1 315 963	437 710
Income from sales of goods/services to Belarus	951 867	1 057 604
Income from sales of goods/services to other countries	273 837	1 111 782
	43 527 160	**33 385 470**

(2) Cost of sales

	2012 EUR	2011 EUR
Service costs from subsidiaries	21 797 993	17 393 499
Costs of materials and goods	16 844 651	12 116 341
Depreciation of fixed assets	586 871	432 069
Other production costs	480 128	332 966
Utility expenses	300 757	142 482
Expenses related to purchase of materials and goods	205 598	158 475
Salary expenses	71 136	68 146
Changes in provisions for warranty repairs and expected losses	55 491	5 683
Social insurance costs	17 020	16 252
	40 359 645	**30 665 914**

(3) Distribution expenses

	2012 EUR	2011 EUR
Advertising expenses	348 434	362 417
Transport costs	119 379	95 061
Salaries	113 722	79 132
Social insurance costs	27 201	18 876
Other selling costs	19 307	-
	628 043	**555 486**

(4) Administrative expenses

Salary expenses	755 516	682 655
Other administration costs	230 853	297 865
Social insurance costs	180 104	162 966
Utility expenses	187 224	161 160
Depreciation of fixed assets	128 431	113 053
Office expenses	67 820	58 426
Professional service costs	26 675	26 797
Rent expenses	22 739	22 597
Representation costs	2 607	2 265
	1 601 969	**1 527 784**

(5) Other operating income

Changes in provisions for financial support (see Note (22))	85 081	81 741
Rental income	70 562	113 343
Net income from sale and disposal of fixed assets, including write-off of revaluation reserve	59 519	129 477
Other income	35 993	47 505
Received ERDF grant (see Note (28))	24 502	-
	275 657	**372 067**

(6) Other operating expenses

Collective agreement costs	16 889	15 549
Other costs	9 548	10 087
Provision for receivables impairment losses	8 950	-
	35 387	**25 636**

(7) Interest and similar expenses

Net (gain)/loss from exchange rate fluctuations	(72 909)	170 806
Interest expense	116 737	98 719
Penalties paid	16 993	29 670
	60 821	**299 194**

(8) Corporate income tax

a) Components of corporate income tax	2012 EUR	2011 EUR
Changes in deferred income tax	62 301	76 536
Corporate income tax according to the tax return	46 835	-
	109 136	**76 536**

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:

	2012 EUR	2011 EUR
Profit before taxes	1 116 952	683 532
Real estate taxes	(63 009)	(61 589)
Profit before corporate income tax	1 053 943	621 943
Theoretically calculated tax at 15% tax rate	**158 091**	**93 291**
Tax effects on:		
Permanent differences	11 531	10 159
Discount for new technological equipment acquisition	(22 831)	(26 915)
Tax losses forwarded from other group companies	(37 534)	-
Tax discount for reinvested profit	(121)	-
Total corporate income tax expenses	**109 136**	**76 535**

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	373 148	314 534
Deferred tax charged to the income statement	62 301	76 536
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	(8 328)	(17 922)
Deferred tax liabilities (asset) at the end of the financial year	**427 121**	**373 148**

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):

	31.12.2012. EUR	31.12.2011. EUR
Temporary difference on depreciation of fixed and intangible assets	553 045	539 466
Gross deferred tax liabilities	**553 045**	**539 466**
Provisions for financial support and warranty costs	(105 650)	(110 089)
Provisions for impairment of inventories	(20 274)	(13 975)
Tax losses carried forward to next periods	-	(42 254)
Gross deferred tax assets	**(125 924)**	**(166 318)**
Net deferred tax liability (assets)	**427 121**	**373 148**

(9) Other taxes

	2012 EUR	2011 EUR
Real estate tax for land	5 653	5 616
Real estate tax for buildings	57 356	55 973
	63 009	**61 589**

(29) 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.

	2012	2011
Profit attributed to shareholders of the Company (EUR)	944 807	545 407
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in santims)	**11,39**	**6,58**

(11) Intangible, fixed assets and investment property

	Intangible assets	Investment property	Property, plant and equipment				
	Concessions, licenses, trade marks etc.	Buildings	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost/revaluation							
31.12.2011.	36 058	3 913 021	2 517 413	9 997 786	1 021 921	69 272	13 606 392
Additions	1 669	-	-	-	-	990 195	990 195
Disposals	-	-	-	(180 802)	(10 770)	-	(191 572)
Reclassification	-	153 676	45 587	653 709	26 913	(879 885)	(153 676)
31.12.2012.	37 727	4 066 697	2 563 000	10 470 693	1 038 064	179 582	**14 251 339**
Depreciation							
31.12.2011.	(11 498)	(756 266)	(603 170)	(6 590 536)	(900 836)	-	(8 094 542)
Calculated	(7 386)	(136 146)	(48 529)	(453 851)	(70 936)	-	(573 316)
Disposals	-	-	-	177 802	9 899	-	187 701
31.12.2012.	(18 884)	(892 412)	(651 699)	(6 866 585)	(961 873)	0	**(8 480 157)**
Net carrying amount 31.12.2011.	**24 560**	**3 156 755**	**1 914 243**	**3 407 250**	**121 085**	**69 272**	**5 511 849**
Net carrying amount 31.12.2012.	**18 843**	**3 174 285**	**1 911 301**	**3 604 108**	**76 191**	**179 582**	**5 771 182**

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 (34)), other land and buildings classified as investment property.

Company's land plots cadastral value on 31 December 2012 is EUR 472 479 (31.12.2011 - EUR 437 964), the cadastral value of buildings is EUR 4 713 452 (31.12.2011 - EUR 4 772 823).

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

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

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

	31.12.2012. EUR	31.12.2011. EUR
Cost	7 024 031	6 825 029
Accumulated depreciation	(2 585 987)	(2 478 875)
Net carrying amount	**4 438 044**	**4 346 155**

Total fixed assets and investment property revaluation amount on the 31 December 2012, less deferred tax effect, was EUR 1 630 529 (31.12.2011 - EUR 1 677 720).

Information on pledged fixed assets and investment properties is disclosed in the Note (23) to the financial statements.

(12) Equity investments

a) movement of investments

	Non-current		
	Investments in subsidiaries	Other securities and investments	Total
	EUR	EUR	EUR
Cost			
31.12.2011.	31 303	683	31 986
Disposals	-	683	683
31.12.2012.	31 303	1 366	32 669
Changes of value of investments			
31.12.2011.	-	-	0
31.12.2012.	0	0	0
Net carrying amount 31.12.2011.	**31 303**	**683**	**31 986**
Net carrying amount 31.12.2012.	**31 303**	**1 366**	**32 669**

b) investments in subsidiaries

		Participating interest		Equity		Profit/(loss)	
Name	Address	31.12.2011.	31.12.2012.	31.12.2011.	31.12.2012.	2011	2012
		%	%	EUR	EUR	EUR	EUR
SIA REL	Marijas 1, Daugavpils	100%	100%	(87 103)	(83 469)	25 989	3 634
SIA Elap	Marijas 1, Daugavpils	100%	100%	38 348	51 440	16 811	13 092
SIA Remdīz	Marijas 1, Daugavpils	100%	100%	(269 550)	(83 530)	(50 205)	186 021
SIA Ritrem	Marijas 1, Daugavpils	100%	100%	158 407	203 513	82 598	45 105
SIA Elektromaš	Marijas 1, Daugavpils	100%	100%	489 635	489 832	25 287	198
SIA Krāsotājs	Marijas 1, Daugavpils	100%	100%	(245 434)	(188 826)	(1 067)	56 608
SIA SPZČ	Marijas 1, Daugavpils	100%	100%	(360 900)	(23 870)	(70 202)	337 030
SIA Metalurgs	Marijas 1, Daugavpils	100%	100%	(37 360)	(286 087)	(323)	(248 727)
SIA Remenergo	Marijas 1, Daugavpils	100%	100%	(257 341)	(184 260)	50 741	73 080
SIA Instruments	Marijas 1, Daugavpils	100%	100%	(152 950)	(152 967)	(239)	(17)
SIA Loģistika	Marijas 1, Daugavpils	100%	100%	11 288	12 870	2 351	1 581
				(712 960)	**(245 354)**	**81 741**	**467 605**

The activity of subsidiary companies is the overhaul repair of different parts of railway rolling stock, maintenance and upgrade, as well as additional function performance, including:

SIA REL	Railway rolling stock carboy repair and upgrade
SIA Elap	Repair and upgrade of electric equipment of rolling stock
SIA Remdīz	Repair of engine and it's knots of rolling stock
SIA Ritrem	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock
SIA Elektromaš	Repair and producing of electromotor, generators and transformers
SIA Krāsotājs	Dyeing of rolling stock
SIA SPZČ	Repair and production of spare parts
SIA Metalurgs	Metal foundry
SIA Remenergo	Maintenance of movable property and real estate, technical control and overhaul of buildings, constructions and producing equipment, rendering services of public facilities to Group companies
SIA Instruments	Not active
SIA Loģistika	Logistics, loading, unloading services

(13) Raw materials and consumables

	31.12.2012. EUR	31.12.2011. EUR
Raw materials, material and auxiliary material cost	2 285 405	2 094 159
(Accruals for damaged and slow moving stock)	(99 702)	(57 729)
	2 185 703	**2 036 430**

(14) Finished goods and goods for resale

Finished goods	165 026	126 493
Other goods for sale	164	120
(Accruals for damaged and slow moving stock)	(35 458)	(35 439)
	129 732	**91 173**

(15) Trade receivables

Book value of trade receivables	3 775 650	3 820 808
(Provisions for bad and doubtful debts)	(1 362 842)	(1 354 575)
	2 412 808	**2 466 232**

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

(16) Receivables from group companies	31.12.2012. EUR	31.12.2011. EUR
Settlements with subsidiaries (see Note (34))	3 910 814	3 248 919
Loans to subsidiaries (see Note (34))	86 317	86 317
	3 997 131	**3 335 236**

(17) Other receivables

Retentions on contracts	19 156	11 770
Other receivables	13 208	3 462
VAT for advances received	3 929	6 073
Payments to personnel	904	751
Payments for other services	-	3 058
	37 197	**25 114**

(18) Deferred expenses

	31.12.2012. EUR	31.12.2011. EUR
Insurance payments	21 232	3 021
Other expenses	5 683	3 137
	26 915	**6 158**

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

	31.12.2012. EUR	31.12.2011. EUR
Costs incurred and profit recognised as income	5 329 167	3 491 029
Gross amount of work-in-progress	**5 329 167**	**3 491 029**
where:		
Work-in-progress as assets (under "Accrued income")	5 329 167	3 491 029
	5 329 167	**3 491 029**
Corresponding amounts:		
Contract revenue recognised in income statement (under "Net sales")	28 032 245	20 236 200
Advances received from customers (under "Advances from customers")	1 399 412	1 895 824
Retentions on contracts (under "Other receivables")	19 156	11 770

(20) Cash and bank

	31.12.2012. EUR	31.12.2011. EUR
Cash at bank on current accounts	37 316	825 637
Cash on hand	1 974	2 198
	39 290	**827 835**

(21) Share capital

Registered and fully paid share capital of the Company is EUR 11 801 610, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is EUR 1,42. All shares guarantees equal rights to dividends, reception of liquidation quotas and suffrage in shareholder's meeting. One share gives rights to 1 vote. All shares are dematerialized. The Company do not hold own shares or someone else in it's interest. Shares are not convertible, exchangeable or guaranteed.

The Company's shares are quoted in AS NASDAQ OMX stock exchange in second list. At the end of financial period 8 294 219 shares are quoted.

(22) Provisions

	Provisions for warranty costs EUR	Provisions for subsidiaries financial support EUR	Total EUR
31.12.2010.	**15 277**	**794 701**	**809 978**
Increase	5 683	-	5 683
Decrease	-	(81 741)	(81 741)
31.12.2011.	**20 960**	**712 960**	**733 920**
Increase	55 491		55 491
Decrease	-	(85 081)	(85 081)
31.12.2012.	**76 451**	**627 879**	**704 330**

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 (12) to the financial statements. Taking into account that part of subsidiaries have negative financial results of operations, it is expected that the Company or the Group's other subsidiaries 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. In previous periods the provisions were valued as the toal amount of present negative equity of subsidiaries.

Considering that part of subsidiaries are working with significant losses and is not reliably predicted, that in the foreseeable future they will be able to eliminate the negative equity, for these subsidiaries provisions for financial support has been created in the amount of each company negative equity. While the provisions for other subsidiaries are recognized at the total amount of its equity (if it is negative).

Had the method of accounting estimates had not been changed, provisions at the end of the year would amount to EUR 245 354.

(23) Loans from banks

	Note	31.12.2012. EUR	31.12.2011. EUR
Non-current			
Investment credit in USD	a)	765 176	1 060 567
Investment credit with EU structural funds co-financing in EUR	c)	593 089	704 724
Investment credit in EUR	b)	446 487	604 060
		1 804 752	**2 369 352**
Current			
Credit line in EUR	d)	1 417 284	1 499 879
Investment credit with EU structural funds co-financing in EUR	c)	209 316	854 668
Current part of investment credit in USD	a)	270 047	276 658
Current part of investment credit in EUR	b)	157 572	157 572
		2 054 219	**2 788 776**

a) On October 2011, the Company signed a contract with SWEDBANK AS for investment loan USD 1 755 394. The loan must be repaid till 31.10.2016. The interest rate is 1.29% plus 3 months LIBOR.

b) On October 2011, the Company has signed a contract with SWEDBANK AS for investment loan of EUR 773 948 amount. The loan to be repaid until 31.10.2016. The interest rate is 1.5% + 3 month EURIBOR.

c) 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. In February 2012 from LIAA a payment was received in amount of LVL 421 659 (EUR 599 967), by which liabilities to SWEDBANK AS were partly covered.

d) On October 2011, the Company has signed a contract with SWEDBANK AS on the granting of credit line of EUR 1 500 000. The credit line repayable by 31.10.2013. The interest rate is 1.75% + 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 2012 is EUR 23 401 974 (31.12.2011 - EUR 21 106 078).

(24) Other borrowings

	31.12.2012.	31.12.2011.
	EUR	EUR
Loan from AS Skinest Rail (see Note (34))	-	472 166
	-	**472 166**

In 2011 Company received a loan from AS Skinest Rail of USD 610 000. The loan was repaid on 1 June 2012. The interest rate per annum is 12%.

(25) Payables to group companies

	31.12.2012.	31.12.2011.
	EUR	EUR
Settlements with subsidiaries (see Note (34))	292 218	396 577
	292 218	**396 577**

(26) Taxes and social insurance payments

	31.12.2011.	Calculated	Calculated penalty and delay fees	(Paid)/ repaid	Transferred to other taxes	31.12.2012.
	EUR	EUR	EUR	EUR	EUR	EUR
VAT*	16 027	(515 872)	-	(35 827)	550 861	15 189
Personal income tax	12 634	176 520	1	(159 468)	(12 992)	16 695
Social insurance payments	23 653	320 887	-	(49 985)	(264 986)	29 569
Corporate income tax	0	46 835	-	-	-	46 835
Real estate tax (land)	0	5 653	6	(5 659)	-	0
Real estate tax (buildings)	0	57 356	363	(57 719)	-	0
Natural resource tax	1 558	8 728	-	(7 885)	-	2 401
Enterprise risk duty	43	555	-	(553)	-	45
Total	**53 914**	**100 662**	**370**	**(317 096)**	**272 883**	**110 734**
Hereof						
Payables	**53 914**					**110 734**

In 2012 the Company has used the 100% exemption from natural resource tax as it is involved in voluntary program of packaging waste management.

* The Company with subsidiaries forms a single VAT group. The Company makes payments to the budget for the whole VAT group. In the financial statements the movement of VAT liabilities reflects the Company's settlements for VAT group. Net transferred tax amount of EUR 272 883 corresponds to the tax liability net movement between the Company and other members of the VAT group.

(27) Other liabilities

	31.12.2012.	31.12.2011.
	EUR	EUR
Payroll liabilities	57 541	49 933
Other liabilities	21 436	13 623
	78 977	**63 555**

(28) Deferred income

	31.12.2012. EUR	31.12.2011. EUR
Non-current		
Received grant for the purchase of non-current assets	551 969	-
	551 969	**0**
Current		
Received grant for the purchase of non-current assets	23 998	-
Other income	2 630	10 709
	26 628	**10 709**

In 2011 the Company entered into an agreement with Latvian Investment and Development Agency (LIAA) for participation in the project "The development of new products and technologies - support to introduction of new products and technologies in production". Financing was used to purchase new technological equipment. In 2012 the Company has received the funding in amount of EUR 599 967.

(29) Accrued liabilities

	31.12.2012. EUR	31.12.2011. EUR
Accrued liabilities to subsidiaries*	4 283 025	2 393 384
Accrued liabilities to other suppliers	194 135	113 070
Accrued unused annual leave	81 296	52 026
	4 558 456	**2 558 480**

* The Company and its subsidiaries use the single policy of revenue recognition for repair services (see Note (2) to the accounting policies). The Company's accrued liabilities recognized at the end of reporting year of EUR 4 283 025 (31.12.2011 - EUR 2 393 384) is equal to the accrued revenues for work-in-progress which are recognized in financial statements of all subsidiaries.

(30) Fees paid to auditors

	2012 EUR	2011 EUR
For the audit of financial statements	9 501	10 201
For tax consulting	-	733
	9 501	**10 934**

(31) Average number of employees

	2012	2011
Average number of people employed during the financial year	122	119

(32) Remuneration to personnel

	2012 EUR	2011 EUR
Employee pay	940 375	829 933
Social insurance payments	224 325	198 094
Other expenses	149 108	147 607
	1 313 808	**1 175 634**

(33) Remuneration to the management

Board members		
· salary expenses	104 399	81 580
· other social insurance expenses	25 149	19 653
	129 548	**101 233**

(34) Transactions with related parties

As mentioned in Note (12), 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) have 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	31.12.2012. Receivables EUR	31.12.2012. Payables EUR	31.12.2011. Receivables EUR	31.12.2011. Payables EUR
Group companies	(16), (25)	3 997 131	292 218	3 335 236	396 577
Other related companies		528 894	2 047 255	80 943	1 245 343
		4 526 025	**2 339 473**	**3 416 179**	**1 641 920**

b) transactions

	Notes	Sales / Return of related parties 2012 EUR	Sales / Return of related parties 2011 EUR	Purchases from related parties 2012 EUR	Purchases from related parties 2011 EUR
Group companies					
Repair services of railway rolling stock	a)	-	-	19 908 353	15 746 076
Sales/purchases of materials		10 598 093	7 666 401	1 808 729	1 153 040
Rent of premises and equipment	1 a)	1 804 405	1 816 176	22 739	22 597
Administrative and management	b)	274 354	272 617	-	-
Other transactions		554 757	279 154	370 793	375 231
Total Group companies:		**13 231 609**	**10 034 348**	**22 110 614**	**17 296 943**
Other related parties					
Repair services of railway rolling stock		8 094 803	10 083 414	-	130 049
Sales/purchases of materials		265 975	448 246	7 546 317	5 178 015
Other transactions		1 894 000	800 668	119 369	1 136 149
Total other related parties:		**8 360 778**	**11 332 328**	**7 665 686**	**6 444 213**
		21 592 387	**21 366 677**	**29 776 300**	**23 741 157**

a) Starting from 2007 the Company provides repair of the railway rolling stock by purchasing repair services from its subsidiaries. The largest subsidiaries, providing the Company with railway rolling stock repair services, are SIA Rel, SIA Elap, SIA Remdīz, SIA Elektromaš, SIA Ritrem un SIA Krāsotājs. Each of these mentioned companies carry out the separate part of mentioned services according to every subsidiary's activity (see Note (12)). 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. Transaction amount disclosed in this Note does not include accrued liabilities for work-in-progress.

b) The Company provides administrative management services for subsidiaries, which include accounting, economic, control and metrology, technical services and supplement technological process with services of engineers - constructors.

(35) Financial risk management

Financial risks, related to the financial instruments of the Company, mainly, are currency risk, interest rate risk, liquidity risk and credit risk. The management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial position. The Company does not use derivative financial instruments to hedge certain risk exposures.

Foreign currency risks

The Company acts internationally and is exposed to foreign currency exchange rate fluctuation risk arising from the currency fluctuations of US Dollar (USD) and Russian ruble (RUB) to lats and against other currencies fixed to euro. The risk of foreign currency comes from future commercial transactions, recognized assets and liabilities. The majority of raw materials are purchased by the Company in euro, RUB and US dollars, but the significant part of the production is sold in the domestic market and exported to the markets where euro and RUB dominate.

Since 2005 the Bank of Latvia has stated a fixed currency exchange rate for lats against euro, i.e. 0.702804, and ensure that the market rate will not differ from the official rate by more than 1%. As far as the Bank of Latvia maintains the above mentioned exchange corridor, the Company will not have a significant currency exchange risks in respect of assets and liabilities nominated in euro.

The companies foreign exchange open position is:

	31.12.2012.	**31.12.2011.**
Financial assets, EUR	165 708	678 966
Financial liabilities, EUR	(5 031 533)	(4 357 809)
Open position EUR, net	(4 865 825)	(3 678 843)
Open position EUR, calculated in lats, net	**(3 419 721)**	**(2 585 506)**
Financial assets, USD	551 349	1 349 782
Financial liabilities, USD	(2 569 291)	(4 485 559)
Open position USD, net	(2 017 942)	(3 135 777)
Open position USD, calculated in lats, net	**(1 071 527)**	**(1 705 863)**
Financial assets, RUB	75 349 052	47 784 170
Financial liabilities, RUB	(19 154 835)	(32 127 358)
Open position RUB, net	56 194 217	15 656 812
Open position RUB, calculated in lats, net	**977 779**	**266 166**

Interest rate risks

The Company is exposed to interest rate risk as the most liabilities are interest-bearing with the floating interest rate (see 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 2012 the amount of interest-bearing liabilities have decreased.

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 (22) on provisions created for financial support to subsidiaries.

Liquidity risk

The Company manages its liquidity risk, maintaining the appropriate amount of cash and cash equivalents and also using the bank credit line facilities.

(36) Subsequent events

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 2012.

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Natālija Petrova
Chairman of the Board

Daugavpils, 29 April 2013

The annual report has been approved by the general meeting of members 29 April 2013.

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Daugavpils Lokomotīvju Remonta Rūpnīca AS

Report on the Financial Statements

We have audited the accompanying financial statements of Daugavpils Lokomotīvju Remonta Rūpnīca AS set out on pages 6 to 27 of the annual report. These financial statements comprise the balance sheet as at 31 December 2012, and the income statement, statement of cash flow and statement of changes in equity for the period from 1 January 2012 to 31 December 2012 (the Financial year), and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the above mentioned financial statements give a true and fair view of the financial position of Daugavpils Lokomotīvju Remonta Rūpnīca AS as at 31 December 2012, 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 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, 29 April 2013