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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 street 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 Council 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 Natālija Zaiceva Certificate No.138

REPORT OF THE MANAGEMENT

Type of operations

Basic activity of AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" (further - the Company) is railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts. The Company provides repair services of all types of railway rolling stock - diesel and electric locomotives and electric trains.

Performance of the Company during the financial year

In 2012 net sales of the Company were 30.6 million Ls (in 2011 - 23.5 million Ls). Sales of principal activity comprised 21.4 million Ls, 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 9.2 million Ls (in 2011 - 7.1 million Ls). During the reporting period the Company was working full-time and ended the year with a profit of 664 thousand Ls. 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 21.9 million Ls (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 0.725 million Ls. In 2012 the Group exported its products to 8 countries, the total export volume amounted to 19.7 million Ls (in 2011 - 14.0 million Ls), while net sales in Latvia amounted to 2.3 million Ls (in 2011 - 3.1 million Ls). 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
	Ls
Profit share to be distributed	**664 015**
Retained earnings	664 015

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 Ls	2011 Ls
Net sales	(1)	30 591 062	23 463 442
Cost of sales	(2)	(28 364 920)	(21 552 127)
Gross profit or losses		**2 226 142**	**1 911 315**
Distribution expenses	(3)	(441 391)	(390 397)
Administrative expenses	(4)	(1 125 870)	(1 073 733)
Other operating income	(5)	193 733	261 490
Other operating expenses	(6)	(24 870)	(18 017)
Interest and similar income		-	6
Interest and similar expenses	(7)	(42 745)	(210 275)
Profit or losses before taxes		**784 999**	**480 389**
Corporate income tax	(8)	(76 701)	(53 790)
Other taxes	(9)	(44 283)	(43 285)
Net profit or losses		**664 015**	**383 314**
Earnings per share (in santims)	(10)		
Basic		8,01	4,62
Diluted		8,01	4,62

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. Ls	31.12.2011. Ls
ASSETS			
Non-current assets			
Intangible assets:			
Other intangible assets	(11)	13 243	17 261
Total intangible assets:		**13 243**	**17 261**
Fixed assets:			
Land and buildings	(11)	1 343 270	1 345 337
Equipment and machinery	(11)	2 532 982	2 394 628
Other fixed assets	(11)	53 547	85 098
Fixed assets under construction	(11)	126 211	48 686
Total fixed assets:		**4 056 010**	**3 873 749**
Investment property:			
Buildings	(11)	2 230 900	2 218 580
Total non-current financial investments:		**2 230 900**	**2 218 580**
Non-current financial investments:			
Investments in subsidiaries	(12)	22 000	22 000
Other securities and investments	(12)	-	480
Total non-current financial investments:		**22 000**	**22 480**
Total non-current investments:		**6 322 153**	**6 132 070**
Current assets			
Inventories:			
Raw materials and consumables	(13)	1 536 121	1 431 211
Finished goods and goods for sale	(14)	91 176	64 077
Advances for inventories		174 589	71 490
Total inventories:		**1 801 886**	**1 566 778**
Account receivable:			
Trade receivables	(15)	1 695 731	1 733 278
Receivables from group companies	(16)	2 809 200	2 344 017
Other receivables	(17)	26 142	17 650
Deferred expenses	(18)	18 916	4 328
Accrued income	(19)	3 745 360	2 453 509
Total receivables:		**8 295 349**	**6 552 782**
Cash and bank:	(20)	**27 613**	**581 806**
Total current assets:		**10 124 848**	**8 701 366**
Total assets		**16 447 001**	**14 833 436**

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

BALANCE SHEET

	Note	31.12.2012. Ls	31.12.2011. Ls
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	(21)	8 294 219	8 294 219
Non-current investments revaluation reserve	(11)	1 145 942	1 179 108
Retained earnings			
previous year's retained earnings		(4 425 969)	(4 809 283)
current years profit or losses		664 015	383 314
Total equity:		**5 678 207**	**5 047 358**
Provisions:	(22)	495 006	515 802
Liabilities:			
Non-current liabilities:			
Loans from banks	(23)	1 268 387	1 665 190
Deferred income tax liabilities	(8)	300 182	262 250
Deferred income	(28)	387 926	-
Total non-current liabilities:		**1 956 495**	**1 927 440**
Current liabilities:			
Loans from banks	(23)	1 443 713	1 959 963
Other borrowings	(24)	-	331 840
Advances from customers		983 512	1 332 393
Trade payables		2 328 951	1 551 730
Payables to group companies	(25)	205 372	278 716
Taxes and social insurance payments	(26)	77 824	37 891
Other liabilities		55 506	44 667
Deferred income	(28)	18 714	7 526
Accrued liabilities	(29)	3 203 701	1 798 110
Total current liabilities:		**8 317 293**	**7 342 836**
Total liabilities:		**10 273 788**	**9 270 276**
Total equity, provisions and liabilities		**16 447 001**	**14 833 436**

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
		Ls	Ls	Ls	Ls
31.12.2010.		**8 294 219**	**1 250 481**	**(4 809 283)**	**4 735 417**
Disposal of revalued fixed assets	(11)	-	(83 969)	-	(83 969)
Changes in deferred tax liabilities	(8)	-	12 596	-	12 596
Profit for the year		-	-	383 314	383 314
31.12.2011.		**8 294 219**	**1 179 108**	**(4 425 969)**	**5 047 358**
Disposal of revalued fixed assets	(11)	-	(39 019)	-	(39 019)
Changes in deferred tax liabilities	(8)	-	5 853	-	5 853
Profit for the year		-	-	664 015	664 015
31.12.2012.		**8 294 219**	**1 145 942**	**(3 761 954)**	**5 678 207**

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 Ls	2011 Ls
Cash flow from operating activities			
Profit or losses before taxes		**784 999**	**480 389**
Adjustments for:			
depreciation of investment property, fixed and intangible assets	(11)	503 803	388 276
profit from disposal of fixed assets	(5)	(41 830)	(90 997)
loss on disposal of investment in subsidiaries	(12)	480	-
changes in provisions		14 526	(184 948)
(gains)/losses from exchange rate fluctuations		(3 336)	77 173
interest expenses	(7)	82 043	69 380
Cash flow prior to changes in current assets and liabilities		**1 340 685**	**739 273**
Inventory (increase)/decrease		(264 618)	(43 723)
Account receivable (increase)/decrease		(1 781 546)	4 217
Account payable increase/(decrease)		1 700 458	(918 400)
Gross cash flow generated from operating activities		**994 979**	**(218 633)**
Interest paid		(76 586)	(60 767)
Net cash flow generated from operating activities		**918 393**	**(279 400)**
Cash flow from investing activities			
Acquisition of investment property, fixed and intangible assets	(11)	(697 085)	(1 638 139)
Proceeds from sales of fixed assets		44 549	6 972
Equity investments paid		-	(480)
Proceeds from sales of equity investments		-	500
Net cash flow generated from investing activities		**(652 536)**	**(1 631 147)**
Cash flow from financing activities			
Subsidies, grants or donations received		421 659	-
Loans received	(24)	-	4 088 992
Loans repaid	(24)	(1 241 709)	(2 196 889)
Net cash flow generated from financing activities		**(820 050)**	**1 892 103**
Net increase / (decrease) in cash and cash equivalents		**(554 193)**	**(18 444)**
Cash and cash equivalents at the beginning of the financial year		**581 806**	**600 250**
Cash and Cash equivalents at the end of the financial year	(20)	**27 613**	**581 806**

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

(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 the transaction time does not affect the financial nor taxable profit. The deferred tax liability is calculated based on the tax rates that are expected to be applied when the temporary differences reverse. The temporary differences arise from different fixed asset depreciation rates, impairment of assets as well as from tax losses carried to the next taxation periods. In cases, when the total result of the deferred tax calculation is to be reflected as assets, it is recognized in the financial statements only if a future taxable profit will be available against which the temporary differences can be utilised.

(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	2011
	Ls	Ls
a) By operating activities		
Income from railway rolling stock repair and upgrade services	19 701 174	14 222 082
Income from sales of materials (see Note (34))	7 448 382	5 387 977
Income from sales of railway rolling stock	1 658 911	1 950 025
Income from rent of premises and equipment (see Note (34))*	1 268 143	1 276 416
Other income	279 025	392 616
Management and administrative services (see Note (34))	192 817	191 596
Other income from transactions with subsidiaries (see Note (34))	42 610	42 730
	30 591 062	**23 463 442**

* 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 Ls 1 268 143 (2011 - Ls 1 276 416). 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	2011
	Ls	Ls
Income from sales of goods/services to Russia	14 889 220	7 359 249
Income from sales of goods/services in Latvia	11 109 967	9 828 924
Income from sales of goods/services to EU	2 805 581	4 442 992
Income from sales of goods/services to Uzbekistan	924 864	307 624
Income from sales of goods/services to Belarus	668 976	743 288
Income from sales of goods/services to other countries	192 454	781 365
	30 591 062	**23 463 442**

(2) Cost of sales

	2012	2011
	Ls	Ls
Service costs from subsidiaries	15 319 717	12 224 221
Costs of materials and goods	11 838 488	8 515 413
Depreciation of fixed assets	412 455	303 660
Other production costs	337 436	234 010
Utility expenses	211 373	100 137
Expenses related to purchase of materials and goods	144 495	111 377
Salary expenses	49 995	47 893
Changes in provisions for warranty repairs and expected losses	38 999	3 994
Social insurance costs	11 962	11 422
	28 364 920	**21 552 127**

(3) Distribution expenses

	2012	2011
	Ls	Ls
Brokerage services	244 881	254 708
Transport costs	83 900	66 809
Salary expenses	79 924	55 614
Social insurance costs	19 117	13 266
Other distribution costs	13 569	-
	441 391	**390 397**

(4) Administrative expenses

Salary expenses	530 980	479 773
Other administration costs	162 244	209 341
Social insurance costs	126 578	114 533
Utility expenses	131 582	113 264
Depreciation of fixed assets	90 262	79 454
Office expenses	47 664	41 062
Professional service costs	18 747	18 833
Rent expenses	15 981	15 881
Representation costs	1 832	1 592
	1 125 870	**1 073 733**

(5) Other operating income

Changes in provisions for financial support (see Note (22))	59 795	57 448
Rental income	49 591	79 658
Net income from sale and disposal of fixed assets, including write-off of revaluation reserve	41 830	90 997
Other income	25 297	33 387
Received ERDF grant (see Note (28))	17 220	-
	193 733	**261 490**

(6) Other operating expenses

Costs of collective imployment agreement	11 870	10 928
Other costs	6 710	7 089
Impairment losses for receivables	6 290	-
	24 870	**18 017**

(7) Interest and similar expenses

Net (gain)/loss from exchange rate fluctuations	(51 241)	120 043
Interest expense	82 043	69 380
Penalties paid	11 943	20 852
	42 745	**210 275**

(8) Corporate income tax

a) Components of corporate income tax	2012 Ls	2011 Ls
Changes in deferred income tax	43 785	53 790
Corporate income tax according to the tax return	32 916	-
	76 701	**53 790**

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 Ls	2011 Ls
Profit before taxes	784 999	480 389
Real estate taxes	(44 283)	(43 285)
Profit before corporate income tax	740 716	437 104
Theoretically calculated tax at 15% tax rate	**111 107**	**65 566**
Tax effects on:		
Permanent differences	8 104	7 140
Discount for new technological equipment acquisition	(16 046)	(18 916)
Tax losses forwarded from other group companies	(26 379)	-
Tax discount for reinvested profit	(85)	-
Total corporate income tax expenses	**76 701**	**53 790**

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	262 250	221 056
Deferred tax charged to the income statement	43 785	53 790
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	(5 853)	(12 596)
Deferred tax liabilities (asset) at the end of the financial year	**300 182**	**262 250**

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. Ls	31.12.2011. Ls
Temporary difference on depreciation of fixed, intangible assets and investment property	388 682	379 139
Gross deferred tax liabilities	**388 682**	**379 139**
Provisions for financial support and warranty costs	(74 251)	(77 371)
Provisions for impairment of inventories	(14 249)	(9 822)
Tax losses carried forward to next periods	-	(29 696)
Gross deferred tax assets	**(88 500)**	**(116 889)**
Net deferred tax liability (assets)	**300 182**	**262 250**

(9) Other taxes

	2012 Ls	2011 Ls
Real estate tax for land	3 973	3 947
Real estate tax for buildings	40 310	39 338
	44 283	**43 285**

(10) 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 (Ls)	664 015	383 314
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in santims)	**8,01**	**4,62**

(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	Property, plant and equipment total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Cost/revaluation							
31.12.2011.	25 342	2 750 087	1 769 247	7 026 484	718 210	48 686	9 562 627
Additions	1 173	-	-	-	-	695 912	695 912
Disposals	-	-	-	(127 068)	(7 569)	-	(134 637)
Reclassification	-	108 004	32 039	459 429	18 915	(618 387)	(108 004)
31.12.2012.	26 515	2 858 091	1 801 286	7 358 845	729 556	126 211	10 015 898
Depreciation							
31.12.2011.	(8 081)	(531 507)	(423 910)	(4 631 856)	(633 112)	-	(5 688 878)
Calculated	(5 191)	(95 684)	(34 106)	(318 968)	(49 854)	-	(402 928)
Disposals	-	-	-	124 961	6 957	-	131 918
31.12.2012.	(13 272)	(627 191)	(458 016)	(4 825 863)	(676 009)	0	(5 959 888)
Net carrying amount 31.12.2011.	**17 261**	**2 218 580**	**1 345 337**	**2 394 628**	**85 098**	**48 686**	**3 873 749**
Net carrying amount 31.12.2012.	**13 243**	**2 230 900**	**1 343 270**	**2 532 982**	**53 547**	**126 211**	**4 056 010**

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 Ls 332 060 (31.12.2011 - Ls 307 803), the cadastral value of buildings is Ls 3 312 633 (31.12.2011 - Ls 3 354 359).

In 1996, 1999 and 2001 the Company has revaluated land, buildings and equipment. Respectively in 1996 value of tangible assets was increased by Ls 659 538, in 1999 by Ls 1 317 852 and in 2001 by Ls 889 954. Real estate market value was determined using the sales comparison method, as well as revenue discounting method. The difference accrued in the result of revaluation is recognized in the equity item "The long-term assets revaluation reserve".

With the assistance of licensed independent experts in 2007, 2008 and 2009 the Company has revaluated its own land and buildings. The increase of value occurred as a result of revaluations was in the amount of Ls 2 534 868 in 2007 and Ls 1 357 166 in 2008 and Ls 288 815 in 2009 (less the amount of deferred tax liabilities related to the revaluation of tangible assets) are deducted from revaluation reserves. As per management's estimates no significant factors were identified during the reporting period, that would have a material effect on the changes of the assets value, as a result no impairment test on assets was performed.

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

	31.12.2012.	31.12.2011.
	Ls	Ls
Cost	4 936 517	4 796 658
Accumulated depreciation	(1 817 442)	(1 742 163)
Net carrying amount	**3 119 075**	**3 054 495**

Total fixed assets and investment property revaluation amount on the 31 December 2012, less deferred tax effect, was Ls 1 145 942 (31.12.2011 - Ls 1 179 108).

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
	Ls	Ls	Ls
Cost			
31.12.2011.	22 000	480	22 480
Disposals	-	480	480
31.12.2012.	22 000	0	22 000
Changes of value of investments			
31.12.2011.	-	-	0
31.12.2012.	0	0	0
Net carrying amount 31.12.2011.	**22 000**	**480**	**22 480**
Net carrying amount 31.12.2012.	**22 000**	**0**	**22 000**

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**
		%	%	Ls	Ls	Ls	Ls
SIA REL	Marijas 1, Daugavpils	100%	100%	(61 216)	(58 662)	18 265	2 554
SIA Elap	Marijas 1, Daugavpils	100%	100%	26 951	36 152	11 815	9 201
SIA Remdīz	Marijas 1, Daugavpils	100%	100%	(189 441)	(58 705)	(35 284)	130 736
SIA Ritrem	Marijas 1, Daugavpils	100%	100%	111 330	143 030	58 050	31 700
SIA Elektromaš	Marijas 1, Daugavpils	100%	100%	344 117	344 256	17 772	139
SIA Krāsotājs	Marijas 1, Daugavpils	100%	100%	(172 492)	(132 708)	(750)	39 784
SIA SPZČ	Marijas 1, Daugavpils	100%	100%	(253 642)	(16 776)	(49 338)	236 866
SIA Metalurgs	Marijas 1, Daugavpils	100%	100%	(26 257)	(201 063)	(227)	(174 806)
SIA Remenergo	Marijas 1, Daugavpils	100%	100%	(180 860)	(129 499)	35 661	51 361
SIA Instruments	Marijas 1, Daugavpils	100%	100%	(107 494)	(107 506)	(168)	(12)
SIA Loģistika	Marijas 1, Daugavpils	100%	100%	7 933	9 045	1 652	1 112
				(501 071)	**(172 436)**	**57 448**	**328 635**

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. Ls	31.12.2011. Ls
Book value of raw materials and consumables	1 606 192	1 471 783
(Accruals for damaged and slow moving stock)	(70 071)	(40 572)
	1 536 121	**1 431 211**

(14) Finished goods and goods for resale

Finished goods	115 981	88 900
Other goods for sale	115	84
(Accruals for damaged and slow moving stock)	(24 920)	(24 907)
	91 176	**64 077**

(15) Trade receivables

Book value of trade receivables	2 653 542	2 685 279
(Provisions for bad and doubtful debts)	(957 811)	(952 001)
	1 695 731	**1 733 278**

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

(16) Receivables from group companies

	31.12.2012. Ls	31.12.2011. Ls
Settlements with subsidiaries (see Note (34))	2 748 536	2 283 353
Loans to subsidiaries (see Note (34))	60 664	60 664
	2 809 200	**2 344 017**

(17) Other receivables

Retentions on contracts	13 463	8 272
Other receivables	9 283	2 433
VAT for advances received	2 761	4 268
Payments to personnel	635	528
Payments for other services	-	2 149
	26 142	**17 650**

(18) Deferred expenses

	31.12.2012. Ls	31.12.2011. Ls
Insurance payments	14 922	2 123
Other expenses	3 994	2 205
	18 916	**4 328**

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

Costs incurred and profit recognised as income	3 745 360	2 453 509
Gross amount of accrued income	**3 745 360**	**2 453 509**
where:		
Work-in-progress as assets (under "Accrued income")	3 745 360	2 453 509
	3 745 360	**2 453 509**
Corresponding amounts:		
Contract revenue recognised in income statement (under "Net sales")	19 701 174	14 222 082
Advances received from customers (under "Advances from customers")	983 512	1 332 393
Retentions on contracts (under "Other receivables")	13 463	8 272

(20) Cash and bank

Cash at bank on current accounts	26 226	580 261
Cash on hand	1 387	1 545
	27 613	**581 806**

(21) Share capital

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

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

(22) Provisions

	Provisions for warranty costs Ls	Provisions for subsidiaries financial support Ls	Total Ls
31.12.2010.	**10 736**	**558 520**	**569 256**
Increase	3 994	-	3 994
Decrease	-	(57 448)	(57 448)
31.12.2011.	**14 730**	**501 072**	**515 802**
Increase	38 999		38 999
Decrease	-	(59 795)	(59 795)
31.12.2012.	**53 729**	**441 277**	**495 006**

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 Ls 172 436.

(23) Loans from banks

	Note	31.12.2012. Ls	31.12.2011. Ls
Non-current			
Investment credit in USD	a)	537 769	745 371
Investment credit with EU structural funds co-financing in EUR	c)	416 825	495 283
Investment credit in EUR	b)	313 793	424 536
		1 268 387	**1 665 190**
Current			
Credit line in EUR	d)	996 073	1 054 121
Investment credit with EU structural funds co-financing in EUR	c)	147 108	600 664
Current part of investment credit in USD	a)	189 790	194 436
Current part of investment credit in EUR	b)	110 742	110 742
		1 443 713	**1 959 963**

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, 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 Ls 16 447 001 (31.12.2011 - Ls 14 833 436).

(24) Other borrowings

	31.12.2012.	31.12.2011.
	Ls	Ls
Loan from AS Skinest Rail (see Note (34))	-	331 840
	-	**331 840**

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.
	Ls	Ls
Settlements with subsidiaries (see Note (34))	205 372	278 716
	205 372	**278 716**

(26) Taxes and social insurance payments

	31.12.2011.	Calculated	Calculated penalty and delay fees	(Paid)/ repaid	Transferred to other taxes	31.12.2012.
	Ls	Ls	Ls	Ls	Ls	Ls
VAT*	11 264	(362 557)	-	(25 179)	387 147	10 675
Personal income tax	8 879	124 059	1	(112 075)	(9 131)	11 733
Social insurance payments	16 624	225 521	-	(35 130)	(186 233)	20 782
Corporate income tax	0	32 916	-	-	-	32 916
Real estate tax (land)	0	3 973	4	(3 977)	-	0
Real estate tax (buildings)	0	40 310	255	(40 565)	-	0
Natural resource tax	1 094	6 134	-	(5 541)	-	1 687
Enterprise risk duty	30	390	-	(389)	-	31
Total	**37 891**	**70 746**	**260**	**(222 856)**	**191 783**	**77 824**
Hereof						
Payables	**37 891**					**77 824**

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 Ls 191 783 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.
	Ls	Ls
Payroll liabilities	40 440	35 093
Other liabilities	15 066	9 574
	55 506	**44 667**

(28) Deferred income

	31.12.2012. Ls	31.12.2011. Ls
Non-current		
Received grant for the purchase of non-current assets	387 926	-
	387 926	**0**
Current		
Received grant for the purchase of non-current assets	16 866	-
Other income	1 848	7 526
	18 714	**7 526**

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 Ls 421 659.

(29) Accrued liabilities

	31.12.2012. Ls	31.12.2011. Ls
Accrued liabilities to subsidiaries*	3 010 127	1 682 080
Accrued liabilities to other suppliers	136 439	79 466
Accrued unused annual leave	57 135	36 564
	3 203 701	**1 798 110**

* 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 Ls 3 010 127 (31.12.2011 - Ls 1 682 080) 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 Ls	2011 Ls
For the audit of financial statements	6 677	7 169
For tax consulting	-	515
	6 677	**7 684**

(31) Average number of employees

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

(32) Remuneration to personnel

	2012 Ls	2011 Ls
Employee pay	660 899	583 280
Social insurance payments	157 657	139 221
Other expenses	104 794	103 739
	923 350	**826 240**

(33) Remuneration to the management

Board members		
· salary expenses	73 372	57 335
· other social insurance expenses	17 675	13 812
	91 047	**71 147**

(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

		31.12.2012.		31.12.2011.	
	Notes	Receivables Ls	Payables Ls	Receivables Ls	Payables Ls
Group companies	(16), (25)	2 809 200	205 372	2 344 017	278 716
Other related companies		371 709	1 438 819	56 887	875 232
		3 180 909	**1 644 191**	**2 400 904**	**1 153 948**

b) transactions

	Notes	Sales / Return to related parties 2012 Ls	Sales / Return to related parties 2011 Ls	Purchases from related parties 2012 Ls	Purchases from related parties 2011 Ls
Group companies					
Repair services of railway rolling stock	a)	-	-	13 991 670	11 066 405
Sales/purchases of materials		7 448 382	5 387 977	1 271 182	810 361
Rent of premises and equipment	1 a)	1 268 143	1 276 416	15 981	15 881
Administrative and management services	b)	192 817	191 596	-	-
Other transactions		389 886	196 191	260 595	263 714
Total Group companies:		**9 299 228**	**7 052 180**	**15 539 428**	**12 156 361**
Other related parties					
Repair services of railway rolling stock		5 689 060	7 086 664	-	91 399
Sales/purchases of materials		186 928	315 029	5 303 582	3 639 130
Other transactions		1 331 111	562 713	83 893	798 490
Total other related parties:		**7 207 099**	**7 964 406**	**5 387 475**	**4 529 019**
		16 506 327	**15 016 586**	**20 926 903**	**16 685 380**

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