AS "Daugavpils Lokomotīvju Remonta Rūpnīca"

CONSOLIDATED ANNUAL REPORT

for the period ended 31 December 2012

prepared in accordance with EU approved
International Financial Reporting Standards

CONTENTS

Management	3
Report of the Management	4
Statement of the management responsibility	5
Financial statements	
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Cash flow statement	9
Notes to the financial statements	10 - 32
Independent Auditor's Report	33 - 34

MANAGEMENT

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)
	Juri Krasnošlik - Member of the Council (till 21.06.2012)
	Tomas Petraitis - Member of the Council (from 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)

REPORT OF THE MANAGEMENT

Type of operations

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

Performance of the Group during the financial year

In 2012 the consolidated net sales of the Group amounted to 21.9 million LVL (128.7% in respect of net sales 2011).

In 2012 the Group was provided with orders throughout the year, which made it possible to complete the year with a profit 0.725 million LVL. In 2012 the Group exported its products to 8 countries, the total export volume amounted to 19.7 million LVL (in 2011 - 14.0 million LVL), while net sales in Latvia amounted to 2.3 million LVL (in 2011 - 3.1 million LVL). The main directions of export in 2012 were EU countries: Lithuania and Estonia, and the third countries: Russia, Belarus and Uzbekistan.

During the reporting year, the Group 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.

Financial risk management

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

Future prospects

In 2013 the Group will continue the development in the sector of railway rolling stock repair and spare parts production. The Group plans to expand its customer base, therefore expected, that volume of the rolling stock repair and spare part production will increase. The Group 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 Group'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 of the Group in accordance with International Financial Reporting Standards (IFRS) as adopted the EU. The financial statements give a true and fair view of the financial position of the Group at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 6 to page 32 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the Group's assets and preventing and detecting of fraud and other irregularities in the Group. It is also responsible for operating the Group in compliance with the legislation of the Republic of Latvia.

Natālija Petrova
Chairman of the Board

Daugavpils, 29 April 2013

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2012 Ls	2011 Ls
Net sales	(1)	21 979 431	17 148 878
Cost of sales	(2)	(18 620 412)	(14 535 449)
Gross profit (loss)		**3 359 019**	**2 613 429**
Distribution expenses	(3)	(441 391)	(390 397)
Administrative expenses	(4)	(2 008 336)	(1 771 359)
Other income	(5)	104 704	130 653
Other expenses	(6)	(19 034)	(18 261)
Finance income and costs (net)	(8)	(59 563)	(251 358)
Profit (loss) before tax		**935 399**	**312 707**
Corporate income tax	(9)	(210 059)	36 661
Net profit (loss)		**725 340**	**349 368**
Attributable to:			
Equity holders of a parent company		725 340	349 368
Minority interest		-	-
Earnings per share (in santims)	(10)		
Basic		8,75	4,21
Diluted		8,75	4,21
Total comprehensive income (expense)		**725 340**	**349 368**
Attributable to:			
Equity holders of a parent company		725 340	349 368
Minority interest		-	-

Notes on pages 10 to 32 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 29 April 2013

STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	31.12.2012. Ls	31.12.2011. Ls
Non-current assets			
Intangible assets	(11)	13 243	17 261
Property, plant and equipment (tangible assets)	(11)	7 763 820	7 613 962
Other investments		-	480
Total non-current assets:		**7 777 063**	**7 631 703**
Current assets			
Inventories	(12)	2 393 488	2 227 883
Trade receivables	(13)	1 821 912	1 792 710
Accrued income	(14)	3 710 259	2 446 126
Corporate income tax receivables		-	4 768
Other current assets	(15)	220 555	94 167
Cash and cash equivalents	(16)	28 925	585 161
Total current assets:		**8 175 139**	**7 150 815**
Total assets		**15 952 202**	**14 782 518**

EQUITY AND LIABILITIES		31.12.2012. Ls	31.12.2011. Ls
Equity			
Share capital	(17)	8 294 219	8 294 219
Retained losses of the previous years		(1 905 056)	(2 254 424)
Retained earnings (losses) of the reporting year		725 340	349 368
Total equity:		**7 114 503**	**6 389 163**
Liabilities:			
Non-current liabilities:			
Borrowings	(18)	1 268 387	1 665 190
Deferred income tax liabilities	(9)	502 683	335 125
Other non-current liabilities	(20)	471 829	83 903
Total non-current liabilities:		**2 242 899**	**2 084 218**
Current liabilities:			
Borrowings	(18)	1 443 713	2 291 803
Trade payables		2 936 985	1 726 543
Corporate income tax payables		33 845	-
Provisions	(19)	172 974	123 189
Other liabilities	(20)	2 007 283	2 167 602
Total current liabilities:		**6 594 800**	**6 309 137**
Total liabilities:		**8 837 699**	**8 393 355**
Total equity and liabilities:		**15 952 202**	**14 782 518**

Notes on pages 10 to 32 are an integral part of these financial statements.

Natalija Petrova
Chairman of the Board

Daugavpils, 29 April 2013

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	Ls	Ls	Ls
31.12.2010.	**8 294 219**	**(2 254 424)**	**6 039 795**
Profit of the reporting year	-	349 368	349 368
Total comprehensive income	-	349 368	349 368
31.12.2011.	**8 294 219**	**(1 905 056)**	**6 389 163**
Profit of the reporting year	-	725 340	725 340
Total comprehensive income	-	725 340	725 340
31.12.2012.	**8 294 219**	**(1 179 716)**	**7 114 503**

Notes on pages 10 to 32 are an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	2012 Ls	2011 Ls
Cash flow from operating activities			
Profit or losses before income tax		**935 399**	**312 707**
Adjustments for:			
depreciation and amortization	(11)	548 526	437 170
profit from disposals of tangible assets	(11)	(2 811)	(7 028)
changes in provisions		86 255	(130 380)
(gains) or losses from exchange rate fluctuations		(3 336)	77 173
interest expenses		82 043	69 380
Cash flow prior to changes in current assets		**1 646 076**	**759 022**
Inventory (increase)/decrease		(370 854)	(203 977)
Account receivable (increase)/decrease		(1 250 464)	133 370
Account payable increase/(decrease)		1 015 601	(1 255 076)
Gross cash flow generated from operating activities		**1 040 359**	**(566 661)**
Interest paid	(18)	(76 586)	(60 767)
Corporate income tax paid		(8 404)	-
Net cash flow generated from operating activities		**955 369**	**(627 428)**
Cash flow from investing activities			
Acquisition of tangible assets	(11)	(697 085)	(1 638 139)
Proceeds from sales of tangible assets		5 530	7 155
Proceeds from sales of equity investments		-	500
Equity investments paid		-	480
Net cash flow generated from investing activities		**(691 555)**	**(1 630 004)**
Cash flow from financing activities			
Grants received	(20)	421 659	-
Loans repaid	(18)	(1 241 709)	(2 196 889)
Loans received		-	4 429 832
Net cash flow generated from financing activities		**(820 050)**	**2 232 943**
Net increase / (decrease) in cash and cash equivalents		**(556 236)**	**(24 489)**
Cash and cash equivalents at the beginning of the financial year		**585 161**	**609 650**
Cash and Cash equivalents at the end of the financial year	(16)	**28 925**	**585 161**

Notes on pages 10 to 32 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

AS "DAUGAVPILS LOKOMOTIVJU REMONTA RUPNICA" (further in text - the Company) is registered in Enperprise register of Republic of Latvia in Daugavpils on 3 October 1991 and in Commercial register of the Republic of Latvia in Daugavpils on 8 June 2004. The legal address of the Company is 1 Marijas Street, Daugavpils, LV-5404, Latvia.

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

Basic activity is repair, maintenance and modernization of railway rolling stocks, production, repair and sale of their spare parts.

The Group financial year is from 1 January 2012 till 31 December 2012.

These financial statements were authorised for issue by the Board of Directors of the Company on 29 April 2013, and Chairman of the Board Natalija Petrova signed these for and on behalf of the Board of Directors.

These financial statements are consolidated financial statements of the Company. The Company is the parent company of the Group. At the end of 2006 the Company established 11 subsidiary companies holding 100% shares in each. Subsidiary companies commenced active operations only in January 2007. At the end of the reporting period, the Group has investments in 11 subsidiaries.

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

II. ACCOUNTING POLICIES

(1) Basis of preparation

These financial statements have been prepared in accordance with the EU-approved International Financial Reporting standards (IFRS).

Financial statements are prepared on the basis of historical cost accounting method, that is modified by the revaluation of the real estate property at their fair value and using this value as its costs on transition to IFRS, as set out in note (11) to accounting policies.

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgments applying the accounting policies adopted by the Group. Critical estimates and judgments are represented in Note (22) to accounting policies.

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

IFRS 7 Financial Instruments: Disclosures - Transfer of financial assets - Amendment (effective for annual periods beginning on or after 1 July 2011).
The amendment promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on a entity's financial position, particularly those involving securitisation of financial assets. This amendment did not affect these financial statements because the Group does not have such transactions.

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

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income - Amendment (effective for annual periods beginning on or after 1 July 2012).
The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects only presentation of Other Comprehensive Income and will not impact the Company’s financial position or performance. The Group is considering the impact of amendment on its financial statements.

IAS 12 Income Taxes – Recovery of Underlying Assets - Amendment (effective for annual periods beginning on or after 1 January 2013).
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured at fair value will be recognized on a sale basis. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group has assessed that this amendment will not affect its financial position and performance, because the Group does not have investment properties' assets.

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

IFRS 1 First-time Adoption of IFRS - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - Amendment (effective for annual periods beginning on or after 1 January 2013).
The amendment provides guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. This amendment will not have an impact to Group's financial statements.

IFRS 1 First-time Adoption of IFRS - Government Loans - Amendment (effective for annual periods beginning on or after 1 January 2013).
The amendment addresses how a first-time adopter would account for a government loan a below-market rate of interest when transition to IFRS. This amendment will not have an impact to Group's financial statements.

Basis of preparation (continuation)

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

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities - Amendment (effective for annual periods beginning on or after 1 January 2013).
This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted, but only with the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. The Group is considering the impact of the amendment on the Group's financial statements.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendment (effective for annual periods beginning on or after 1 January 2013).
The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity’s financial position. The amendments to IFRS 7 are to be retrospectively applied. The Group is considering the impact of the amendment on the Group's financial statements.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014, not yet adopted by the EU).
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 does not change the consolidation procedures, rather changes whether an entity is consolidated by revising the definition of control. The Group is considering the impact of the amendment on the Group's financial statements.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014).
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. As the Group does not have any investments in joint ventures and jointly controlled entities, there is no impact of this standard on Group's financial statements.

IFRS 12 Disclosures of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2014).
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Group is considering the impact of the amendment on the Group's financial statements.

IAS 27 Separate Financial Statements - Revised (effective for annual periods beginning on or after 1 January 2014).
As a result of the new IFRS 10 and IFRS 12, revised IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. As this is consolidated financial statements of the Group, there is no impact of revised standard to these financial statements.

IAS 28 Investments in Associates and Joint Ventures -Revised (effective for annual periods beginning on or after 1 January 2014).
As a result of the new IFRS 11 and IFRS 12, revised IAS 28 has been renamed as IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group is considering the impact of the amendment on the Group's financial statements.

Basis of preparation (continuation)

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

Improvements to IFRS issued in 2011 (effective for annual periods beginning on or after 1 January 2013).
Amendments has been made to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. Improvements consist mostly of a mixture of insignificant changes and clarifications in the different areas. These amendments did not have any material effect on Group's financial statements.

IFRS 10, IFRS 11 and IFRS 12 - Transition guidance- Amendment (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
These amendments provide additional transition relief to IFRS 10, 11 and 12, limiting the requirements to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirements to present comparative information for period before IFRS 12 is first applied. The Group is considering the impact of the amendment on the Group's financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurements (effective for annual periods beginning on or after 1 January 2015, not yet adopted by the EU).
The IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Group is considering the impact of the amendment on the Group's financial statements.

(2) Methods of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. The financial year and accounting principles of the Company and subsidiary companies are the same. Financial statements of subsidiaries are included in the consolidated financial statements of the Group based on the full consolidation method. Taking into consideration that all subsidiaries of the Company were established by the Company, no goodwill of acquisition has appeared. Subsidiary companies are consolidated from the time of its incorporation till their disposal.

(3) Foreign currencies

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

(b) Transactions and balances
All foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income for the period.

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

	31.12.2012.	**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) Segment disclosure

An operation segment is a component of the Group which qualifies for the following criteria: (i) engages in business activities from which it may earn revenues and incur expenses; (ii) whose operation results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (iii) for which discrete financial information is available.

Operation segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker being the Board of the Company.

(5) Income recognition

Net sales represent the total of goods and services sold during the year net of discounts, value added tax. Main operation of the Group are repair and modernization of railway rolling stock. Taking into account the type of repair and modernization work and complicity of the order the period of provisioning the services could reach 3-6 months.

Income related to repair and modernization services are recognised on the basis of completion. Expenses connected with repair service agreement are recognized in the moment when occurred. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense at recognition.

The Group apply the stage of completion method to determine the correct amount of revenues to be recognized in a given period. The stage of completion is measured by reference to the contract costs incurred up to balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories or other assets, depending on their nature.

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

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profit (less recognized losses). Advances received from customers are disclosed under "Other liabilities".

Income from sales of goods in Latvia is recognized when the customer has accepted the goods. Income from sales of goods outside Latvia is recognized in accordance with the terms of delivery. Income from provision of other services is recognized by reference to the stage of completion of the services.

Interest income or expenses are recognized in the statement of comprehensive income for all loans and borrowings assessed at amortized cost applying the effective interest rate method.

(6) Intangible assets

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

	Depreciation % per annum
Licenses and patents	20

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

(7) Property, plant and equipment

Property, plant and equipment (PPE) are initially accounted at the purchase cost. Purchase cost includes costs, which are directly related to the purchase of PPE. In financial statements PPE are recognised at purchase cost less depreciation and any impairment losses. See Note (11) for modification of these policies in the first adoption of IFRS.

Subsequent costs are shown in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful live, as follows:

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

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

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

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalised during the time that is required to complete and prepare the asset for its intended use as part of the cost of the asset. Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within the statement of comprehensive income for the relevant period.

(8) Impairment of tangible and intangible assets

All tangible and intangible assets of the Group have their estimated useful lives and they are amortised or depreciated. Assets that are subject to amortisation and depreciation are revaluated every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Loss from value decrease is recognised at difference between book value of the asset and its recoverable value. Recoverable value is the higher of an asset's fair value less costs to sell and its value in use. In order to determine decrease of the value, assets are classified based on the lower level of identifiable cash flows (cash-bearing units). Assets, which value has been decreased, are assessed at the end of every reporting year to identify the probable value decrease reservation.

(9) Lease without redemption rights (operating lease)

In cases, when the material part of the risks and rewards of ownership of the leased assets are remained to the lesser, the transaction is classified as operating lease. Lease payments and prepayment for lease are included in statement of comprehensive income on a straight-line basis over the lease period.

(10) Inventories

The inventories are stated at the lower of cost and net realisable value. Cost is determined using the FIFO method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realisable value of inventories is lower than their cost, provisions are created to reduce the value of inventories to their net realisable value.

(11) Loans and trade receivables

Loans and trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective rate. Changes in provisions are recognized in the statement of comprehensive income.

(12) 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.

(13) Share capital and dividends

Ordinary shares are classified as equity. Dividends to be paid to shareholders of the Group are represented as liabilities during the financial period of the Group, when shareholders of the Group approve the dividends.

(14) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(15) 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.

(16) Pension obligations

The Group pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian laws. State funded pension scheme is a defined contribution plan under which the Group pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis.

(17) 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.

(18) Grants

Grants or subsidies received for the acquisition of fixed assets or other non-current assets are recorded as deferred income and recognized as an income in the statement of comprehensive income on straight-line basis over the useful life of the assets acquired. Other subsidies or grants to cover the expenses are recognized as an income in the same period when the respective expenses have arisen and all material conditions in respect of the grants received has been fulfilled. Grants are recognized in the financisal statements in the period, in which the grants are received.

(19) Income tax

Corporate income tax is calculated in accordance with tax laws of the Republic of Latvia. Effective laws provide for 15 % tax rate.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business combination, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognised. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the deferred income tax is settled.

The principal temporary differences, in general, arise from different tangible assets depreciation rates as well as provisions for slow-circulating goods, other provisions as well as tax losses carried forward. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

(20) Earnings per share

Earnings per share are determined dividing the net gains or losses attributable to shareholders of the Company by the average weighted quantity of the shares in the reporting period.

(21) Related parties

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

(22) Critical accounting estimates and judgements

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management must make estimates and judgements applying the accounting policies adopted by the Group.

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities shown in the financial statements, and disclosures in the notes at the date of the balance sheet as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are impairment test of tangible assets, assumptions and estimates of the Management on calculation of stage of the completion of the repair services contract, tangible asset classification between components as well as recoverable receivables and inventories as well as disclosed in the relevant notes.

Impairment test

The Group uses *IAS 36 Impairment of Assets* guidance in verification of potential impairment losses. This procedures requires a considerable management decision. Taking into consideration that the estimation of potential sales value of the largest long-term assets of the Group - the real estate and equipment with the carrying value as at 31.12.2012. of LVL 7 763 820 (31.12.2011. - LVL 7 613 962) that is used in principal activity of the Group - is subjective, as well as the low level of liquidity in the real estate market, the Group carried out the calculation of recoverable value of assets by the value in use method. In estimation of the future cash flow the management of the Group evaluated, among other factors, useful life of asset, trends of economics and competitiveness, potential changes in technology and in activity of the Group, changes in the operational and financial cash flows of the Group. Estimates used for impairment test are disclosed in Note (11) of the financial statement.

Components of property, plant and equipment (PPE)

The Group accounts and depreciates PPE by it's material components as per IAS 16. Estimates of the Group about allocation of PPE to it's components and density of each part in total value of PPE are build on calculation which shows costs replacement of each component in total amount of costs replacement of each PPE.

Critical accounting estimates and judgements (continuation)

Property, plant and equipment (PPE) useful life

The Group's management determines the useful life of PPE based on historical information, technical inspections, assessing the current state of the active and external evaluations. During the reporting year and previous year the Groups has not identified factors that indicate a need to change the useful life period of the Group's PPE. Total carrying amount of PEE at the end of the year is Ls 7 763 820 (31.12.2011. - Ls 7 613 962).

Stage of completion method for long-term contacts

The Group carries out an estimation of completion of the repair services at the balance sheet date, as stated in accounting policy in note (5). The accrued income for supplied repair and upgrading services at the year end are LVL 3 710 259 (31.12.2011. - LVL 2 446 126).

Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflect effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. The total carrying amount of receivables at the end of the reporting period is LVL 1 821 912 (31.12.2011. - LVL 1 792 710). Information on amount and structure of receivables is disclosed in Note (25) of the financial statements.

Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realisation probability and net selling value of the inventories shall be considered. The total carrying amount of inventory at the end of the reporting period is LVL 2 393 488 (31.12.2011. - LVL 2 227 883).

III. OTHER NOTES

(1) Segment Information

(a) Operation and reportable segment

Basic activity of the Group is repair and modernization of railway rolling stock, as well as producing, repair and sale of spare parts. The Group repairs and modernizes any kind railways rolling stocks (diesel-electric locomotives and electric trains), as well as producing and repairing large amount of spare parts and knots of rolling stocks. Since the Group's main activity is repair of railway rolling stocks and sale of related goods, the Group has only one reporting business segment. Operation segment is reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(b) Geographical markets

The Group operates in Latvia by selling repair services and spare parts in domestic market, as well as exporting these services and spare parts.

The operations of the Group can be divided into several geographical segments, which are sales in Latvia, export of services segregated by registration place of railway rolling stock and sales of goods divided by the country of the residence of the client. Distribution of sales among these segments is as follows:

	2012	**2011**
	Ls	**Ls**
Russia	14 889 310	7 359 249
Estonia	2 516 732	4 143 117
Latvia	2 328 369	3 154 565
Uzbekistan	924 864	307 624
Belarus	668 976	743 288
Lithuania	400 710	540 183
Poland	63 024	119 482
Other countries	187 446	781 370
	21 979 431	**17 148 878**

(c) Major customers

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

	2012	**2011**
	Ls	**Ls**
Customer Nr.1	5 054 973	6 470 745
Customer Nr.2	4 585 960	3 733 394
Customer Nr.3	3 718 470	1 052 997
Customer Nr.4	2 022 504	901 909
Other clients	6 597 524	4 989 833
	21 979 431	**17 148 878**

(2) Cost of sales

	2012 Ls	2011 Ls
Costs of row materials and goods	11 573 588	8 603 954
Salary expense	3 522 792	3 088 709
Utility costs	1 350 930	1 039 737
Other production costs	843 415	738 485
Mandatory state social insurance contributions	839 232	737 520
Depreciation of tangible assets	412 455	352 366
Increase in provisions for warranty and other contingent liabilities	49 785	9 241
Increase in provisions for expected losses	21 925	(26 282)
Increase in provisions for inventories and receivables	6 290	-
Changes in provisions for post-employment benefits	-	(8 281)
	18 620 412	**14 535 449**

(3) Distribution expenses

Brokerage costs	244 881	254 708
Transportation costs	83 900	66 809
Salary expenses	79 924	55 614
Mandatory state social insurance contributions	19 117	13 266
Other distribution costs	13 569	-
	441 391	**390 397**

(4) Administrative expenses

Salary expenses	1 238 786	1 037 810
Mandatory state social insurance contributions	295 715	248 125
Other administrative expenses	176 678	223 603
Utility expenses	131 582	113 264
Depreciation of tangible assets	90 262	79 454
Office costs	54 734	48 678
Professional service costs	18 747	18 833
Representation costs	1 832	1 592
	2 008 336	**1 771 359**

(5) Other income

Rental income	49 591	79 658
Other income	35 082	43 967
Received ERDF grant (see Note (20))	17 220	-
Net income from sale of tangible assets	2 811	7 028
	104 704	**130 653**

(6) Other expenses

Cost of collective agreement with employees	12 255	10 978
Other expenses	6 779	7 283
	19 034	**18 261**

(7) Expenses by Nature

	2012	2011
	Ls	Ls
Costs of row materials and consumables	11 573 588	8 603 954
Salary expenses	4 841 502	4 182 133
Utility costs	1 482 512	1 153 001
Mandatory state social insurance contributions	1 154 064	998 911
Other expenses	1 071 443	999 182
Depreciation of tangible and intangible assets	502 717	431 820
Brokerage costs	244 881	254 708
Transportation expenses	83 900	66 809
Office expenses	54 734	48 678
Increase in provisions for warranty and other contingent liabilities	49 785	9 241
Increase in provisions for expected losses	21 925	(26 282)
Increase in provisions for inventories and receivables	6 290	-
Advertising, representation expenses	1 832	1 592
Changes in provisions for post-employment benefits	-	(8 281)
	21 089 173	**16 715 466**

(8) Finance income and expenses (net)

Net gains / (losses) from exchange rate fluctuations	51 237	(120 043)
(Interest charge)	(82 043)	(69 380)
(Penalties paid)	(28 757)	(61 941)
Interest income	-	6
	(59 563)	**(251 358)**

(9) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	167 558	(36 661)
Corporate income tax according to the tax return	42 501	-
	210 059	**(36 661)**

b) Reconciliation of accounting profit to income tax charges

The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

	2012	2011
	Ls	Ls
Profit before taxes	935 399	312 707
Theoretically calculated tax at 15% tax rate	**140 310**	**46 906**
Tax effects on:		
Permanent differences	84 149	(64 617)
Tax allowance on the purchase of new technological equipment	(16 222)	(18 950)
Tax discount for reinvested profit	(346)	-
Previous years' deferred tax calculation errors	2 168	-
Total tax charge	**210 059**	**(36 661)**

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	335 125	371 786
Deferred tax charged to the statement of comprehensive income	167 558	(36 661)
Deferred tax liabilities (asset) at the end of the financial year	**502 683**	**335 125**

Corporate income tax (continuation)

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 tangible and intangible assets	610 190	531 733
Gross deferred tax liabilities	**610 190**	**531 733**
Temporary difference on accruals for expected losses	(5 265)	(1 976)
Temporary difference on provisions for potential liabilities	(25 946)	(18 478)
Temporary difference on provisions for impairment of inventories and receivables	(16 701)	(12 102)
Tax losses carried forward	(59 595)	(164 052)
Gross deferred tax assets	**(107 507)**	**(196 608)**
Net deferred tax liability (assets)	**502 683**	**335 125**

The Group offsets the deferred tax assets and the deferred tax liabilities only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax is related to the same taxation authority. The offset amounts are as follows:

Deferred tax assets:		
deferred tax asset to be recovered within a year	(107 507)	(32 556)
deferred tax asset to be recovered within more than a year	-	(164 052)
	(107 507)	(196 608)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	20 302	20 149
deferred tax liabilities to be recovered after more than a year	589 888	511 584
	610 190	531 733
Net deferred tax liabilities (assets)	**502 683**	**335 125**

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

	Accelerated depreciation of PPE	Accruals for expected losses	Impairments of inventories and receivables	Provisions for contingent liabilities	Tax losses carried forward	Total
	Ls	Ls	Ls	Ls	Ls	Ls
31.12.2010.	588 611	(5 931)	(11 373)	(17 092)	(182 429)	371 786
Charged / (credited) to statement of comprehensive income	(56 878)	3 955	(729)	(1 386)	18 377	(36 661)
31.12.2011.	531 733	(1 976)	(12 102)	(18 478)	(164 052)	335 125
Charged / (credited) to statement of comprehensive income	78 457	(3 289)	(4 599)	(7 468)	104 457	167 558
31.12.2012.	**610 190**	**(5 265)**	**(16 701)**	**(25 946)**	**(59 595)**	**502 683**

(10) Earnings per Share (expressed in santims per share)

Since the Group has not executed any transactions that could cause changes in the share capital, which would change the amount of earning per share, the adjusted earnings per share is equivalent to the basic earnings per share.

Earnings per share are calculated by dividing the profit of the reporting year by the average number of shares in the reporting year.

	2012	2011
Profit attributed to shareholders of the Group (Ls)	725 340	349 368
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in santims)	**8,75**	**4,21**

(11) Intangible assets and property, plant and equipment

	Intangible assets	Property, plant and equipment				
		Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Total property, plant and equipment
	Ls	Ls	Ls	Ls	Ls	Ls
01.01.2011.						
Initial cost	21 125	6 066 483	5 709 342	695 275	34 766	12 505 866
Accumulated depreciation	(3 575)	(918 553)	(4 599 191)	(575 195)	-	(6 092 939)
Net book value	**17 550**	**5 147 930**	**1 110 151**	**120 080**	**34 766**	**6 412 927**
2011						
Acquisition cost	17 550	5 147 930	1 110 151	120 080	34 766	6 412 927
Acquired	-	-	-	-	1 638 043	1 638 043
Reclassified	4 217	100 527	1 494 217	25 162	(1 624 123)	(4 217)
Disposed	-	-	(67)	(60)	-	(127)
Amortized	(4 506)	(162 907)	(209 673)	(60 084)	-	(432 664)
Closing book value	**17 261**	**5 085 550**	**2 394 628**	**85 098**	**48 686**	**7 613 962**
31.12.2011.						
Initial cost	25 342	6 164 848	7 026 484	718 210	48 686	13 958 228
Accumulated depreciation	(8 081)	(1 079 298)	(4 631 856)	(633 112)	-	(6 344 266)
Net book value	**17 261**	**5 085 550**	**2 394 628**	**85 098**	**48 686**	**7 613 962**
2012						
Acquisition cost	17 261	5 085 550	2 394 628	85 098	48 686	7 613 962
Acquired	1 173	-	-	-	695 912	695 912
Reclassified	-	140 043	459 429	18 915	(618 387)	0
Disposed	-	-	(2 107)	(612)	-	(2 719)
Amortized	(5 191)	(174 513)	(318 968)	(49 854)	-	(543 335)
Closing book value	**13 243**	**5 051 080**	**2 532 982**	**53 547**	**126 211**	**7 763 820**
31.12.2012.						
Initial cost	26 515	6 304 891	7 358 845	729 556	126 211	14 519 503
Accumulated depreciation	(13 272)	(1 253 811)	(4 825 863)	(676 009)	-	(6 755 683)
Net book value	**13 243**	**5 051 080**	**2 532 982**	**53 547**	**126 211**	**7 763 820**

Intangible assets and property, plant and equipment (continuation)

Preparing the first financial statement under IFRS, the Group evaluated a part of tangible assets - own real estate - at their fair value and by using it as their deemed costs at this date. Valuation was prepared by the independent expert AS BDO Invest Riga. Taking into consideration that it was prepared in 2007, which is later than transition date to IFRS as well as correction of market value of real estate at the end of 2007, the appraised value of real estate was decreased by 30%. Total effect of adjustment of tangible assets initial value was LVL 2 534 868.

In Company's individual financial statements, taking into account the selected revaluation policies for tangible assets, the increase of tangible asset value in the amount of Ls 2 534 868 has been recognized in financial statements of 2007. In 2008 and 2009 in Company's financial statements the revaluation of tangible assets was performed under its estimated market (sales) price, and in the result the net book value of land and buildings has been reduced in 2008 for LVL 1 357 166 and in 2009 for LVL 288 815.

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

In calculations of the future cash flow the management of the Group uses the following estimates:
- The Group is considered to be a single cash flow generating unit;
- In the period 2013.-2017. the expected EBITDA (earnings before interest, taxes and depreciation) will be 1.3 to 1.7 mil LVL;
- investments in maintenance of the assets or replacement of assets will not exceed depreciation;
- effect of changes in current assets is not significant for calculations of value in use;
- the weighted average cost of capital (discount rate) is 11% per annum.

The current value of estimated future cash flows is higher than the residual value of assets as a result the impairment of assets value has not been recognised.

All intangible and tangible assets of the Group are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from banks (see Note (18)).

The total initial value of the fully depreciated tangible assets at the end of the year amounted to LVL 4 764 301 (31.12.2011. LVL 4 421 206).

(12) Inventories	**31.12.2012.** **Ls**	**31.12.2011.** **Ls**
Raw materials	1 797 884	1 630 031
Work-in-progress	203 403	254 315
Finished goods	503 544	424 220
(Provisions for impairment of inventories)	(111 343)	(80 683)
	2 393 488	**2 227 883**

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

	31.12.2012. **Ls**	**31.12.2011.** **Ls**
Provisions opening balances	80 683	75 823
Changes in provisions in the financial year	30 660	4 860
Provisions closing balances	**111 343**	**80 683**

(13) Trade receivables

	31.12.2012. Ls	31.12.2011. Ls
Book value of trade receivables	2 779 723	2 744 711
Provisions for impairment of trade receivables	(957 811)	(952 001)
	1 821 912	**1 792 710**

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

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

(14) Accrued income

	31.12.2012. Ls	31.12.2011. Ls
Accrued income for repair and modernization contracts	3 745 359	2 453 509
Accruals for expected losses	(35 100)	(7 383)
Gross amount for accrued income	**3 710 259**	**2 446 126**
where:		
Accrued income as assets	3 710 259	2 446 126
	3 710 259	**2 446 126**
Corresponding amounts:		
Contract revenue recognised in statement of comprehensice income (under "Net sales")	19 701 174	14 513 196
Advances received from customers (under "Other liabilities")	983 879	1 332 968
Retentions on repair and modernization contracts (under "Other current assets")	13 463	8 272

(15) Other current assets

Payables for raw materials	174 589	71 490
Deferred expenses	18 916	4 350
Other receivables	13 576	10 044
Retentions	13 463	8 272
Other taxes overpaid	11	11
	220 555	**94 167**

(16) Cash and cash equivalents

Cash at bank on current accounts	27 538	583 616
Cash on hand	1 387	1 545
	28 925	**585 161**

(17) Share capital

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

The Group's shares are quoted in AS NASDAQ OMX stock exchange in Secondary list. At the end of financial period 8 294 129 shares are quoted.

(18) Borrowings

	Note	31.12.2012. Ls	31.12.2011. Ls
Non-current			
Investment credit in USD non-current portion	a)	537 769	745 371
Investment credit with EU structural funds in EUR	c)	416 825	495 283
Investment credit in EUR non-current portion	b)	313 793	424 536
		1 268 387	**1 665 190**
Current			
Credit line facilities in EUR	d)	996 073	1 054 121
Investment credit in USD current portion	a)	189 790	194 436
Investment credit with EU structural funds in EUR	c)	147 108	600 664
Investment credit in EUR current portion	b)	110 742	110 742
Loan from related company in EUR	e)	-	331 840
		1 443 713	**2 291 803**
Total non - current and current part		**2 712 100**	**3 956 993**

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.

e) 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%.

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

	2012 Ls	2011 Ls
At beginning of the year	3 956 993	1 655 877
Borrowings in the year	-	4 420 832
Repaid borrowings in the year	(1 241 709)	(2 196 889)
Currency exchange rate fluctuation results	(3 184)	77 173
At the end of the year	**2 712 100**	**3 956 993**

Maturity of the total borrowings is as follows:

	2012 Ls	2011 Ls
Payable in 1 year	1 443 713	2 291 803
Payable in 2 – 5 years	1 268 387	428 999
Payable in more than 5 years	-	1 236 191
	2 712 100	**3 956 993**

The implementation of obligations of the Group are provided and strengthened by:
(i) mortgage on all real estate belonged to the Group;
(ii) commercial pledge of all property of the Group as a totality of belongings at the mortgage moment, including the Company's shares in subsidiaries, as well as totality of belongings for the next components.
The value of Group's mortgaged assets on 31 December 2012 is LVL 15 952 202 (31.12.2011. - LVL 14 782 518).

(19) Provisions

In accordance with signed agreements, the Group provides free of charge warranty repairs to customers under the general provisions of the repair. Taking into account that the rolling stock repairs actually are carried out by the subsidiaries of the Company, which estimates the provisions for warranty repairs in its individual financial statements, the provision in financial statements of the Group valued as the total amount of provisions of the Company and subsidiaries.

	2012	2011
	Ls	Ls
At beginning of the year	123 189	113 948
Changes in the year	49 785	9 241
At the end of the year	**172 974**	**123 189**

(20) Other liabilities

	31.12.2012.	31.12.2011.
	Ls	Ls
Non-current		
Grant received for the purchase of non-current assets (non-current part)*	387 926	-
Accrued liabilities to post-employment benefits (non-current part)	83 903	83 903
	471 829	**83 903**
Current		
Advances received	983 879	1 332 968
Payroll liabilities	275 744	258 670
Accrued liabilities for unused annual leave	270 368	174 175
Other liabilities	203 788	181 379
Mandatory State social contributions liabilities	156 227	129 860
Personnel income tax liabilities	81 190	65 683
Grant received for the purchase of non-current assets (current part)*	16 866	-
VAT liabilities	10 675	11 264
Accrued liabilities for post-employment benefits (current part)	4 725	4 725
Other taxes payable	1 973	1 352
Other deferred income	1 848	7 526
	2 007 283	**2 167 602**

*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 LVL 421 659.

(21) Average number of employees	2012	2011
Average number of people employed during the financial year	1 079	1 004

(22) Remuneration to personnel	2012	2011
	Ls	Ls
Salaries and mandatory state social insurance contributions for production staff	4 362 024	3 826 229
Salaries and mandatory state social insurance contributions for distribution staff	99 041	68 880
Salaries and mandatory state social insurance contributions for administration staff	1 534 501	1 285 935
	5 995 566	**5 181 044**
Including renumeration to key management		
salary expenses	73 372	57 335
mandatory state social insurance contributions	17 675	13 812
Including mandatory state social insurance contributions in the remuneration to personnel	1 154 064	998 911

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

(23) Transactions with related parties

The biggest shareholders of the Company AS Skinest Rail (Estonia) and AS Spacecom (Estonia) have a significant influence in Group's policy and decision making. Disclosed below is information on transactions with these companies as well as with other companies, which are related to AS Skinest Rail (Estonia) and AS Spacecom (Estonia).

a) claims and liabilities

	31.12.2012.		31.12.2011.	
	Receivables	Payables	Receivables	Payables
	Ls	Ls	Ls	Ls
Related parties with significant influence	371 874	1 898 418	56 887	943 223
	371 874	**1 898 418**	**56 887**	**943 223**

The repayment of the debts will be prepared in cash and it is not secured with guarantee or otherwise. In 2012 and 2011 there are no significant bad debts from related parties.

b) transactions

	2012	2011
	Ls	Ls
Related parties with significant influence		
Repair services of railway rolling stock	5 796 896	7 086 664
Purchase of raw materials	6 231 355	3 639 130
Sale of other goods	1 579 518	869 274
Other transactions	-	491 929
Services received	83 893	91 399
	13 691 662	**12 178 396**

(24) Tax Contingent Liabilities

In 2008 the tax authorities have conducted complex tax audit of the Company for the period from 2005 to 2006. The outcome of this audit was not material to these financial statements.

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

(25) Financial and capital risk management

The Group's activity is exposed to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Management of the Group seeks to minimize potential adverse effects of the financial risks on the Group’s financial standing. The Group does not use derivative financial instruments to hedge certain risk exposures.

Financial and capital risk management (continuation)

(a) Market risk

(i) Foreign exchange risks

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

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

The Group significant open currency positions:

	31.12.2012.	31.12.2011.
Financial assets, EUR	165 708	678 966
Financial liabilities, EUR	(5 607 165)	(4 357 809)
Open position of balance sheet, EUR, net	(5 441 457)	(3 678 843)
Open position of balance sheet, EUR, calculated in lats, net	**(3 824 278)**	**(2 585 506)**
Financial assets, USD	551 349	1 349 782
Financial liabilities, USD	(2 569 291)	(4 485 559)
Open position of balance sheet, USD, net	(2 017 942)	(3 135 777)
Open position of balance sheet, 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 of balance sheet, RUB, net	56 194 217	15 656 812
Open position of balance sheet, RUB, calculated in lats, net	**977 779**	**266 166**

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

	2012		2011	
	Increase/ decrease in basis points	Effect on profit before tax	Increase/ decrease in basis points	Effect on profit before tax
		Ls		Ls
USD	+10%	107 153	+10%	170 586
	-10%	(107 153)	-10%	(170 586)
RUB	+10%	97 778	+10%	26 617
	-10%	(97 778)	-10%	(26 617)
EUR	+10%	382 438	+10%	258 551
	-10%	(382 438)	-10%	(258 551)

Financial and capital risk management (continuation)

(b) Interest rate risks

The Group is exposed to interest rate risk as the most liabilities are interest-bearing with the floating interest rate (Note (18)), while the main part of the Group's financial assets are interest-free receivables, therefore the Group is exposed to floating interest rate risk. In 2012 the Group's liabilities with floating interest rates decreased, because the Group conducted bank loan repayments.

	31.12.2012.	**31.12.2011.**
Financial liabilities with variable interest rate, EUR calculated in LVL	1 984 541	2 685 346
Financial liabilities with variable interest rate, USD calculated in LVL	727 559	1 271 647
Open positions, Net Ls	**2 712 100**	**3 956 993**

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

	2012		**2011**	
	Increase/ decrease in basis points	**Effect on profit before tax**	**Increase/ decrease in basis points**	**Effect on profit before tax**
		Ls		**Ls**
EUR	+30	18 232	+30	14 125
	-30	(18 232)	-30	(14 125)
LVL	+30	2 501	+30	4 565
	-30	(2 501)	-30	(4 565)

(c) Credit risk

Maximum exposure to credit risk	**31.12.2012.**	**31.12.2011.**
	Ls	**Ls**
Trade receivables	1 821 912	1 792 710
Accrued income	3 710 259	2 446 126
Other receivables	220 555	94 167
Cash	28 925	585 161
	5 781 651	**4 918 164**

The largest concentration of credit risk arises from trade receivables and related accrued income. The Group controls its credit risk by constant monitoring the payment history of clients and by setting the crediting conditions individually. Furthermore the Group constantly monitors the book value of trade receivables to reduce the risk of bad debts. To reduce credit risks the Group requires advances or prepayment from the customers, which amount at the end of the year was LVL 983 879 (31.12.2011. - LVL 1 332 968).

Maturity analysis of trade receivables

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	split as: in due term	Past due* < 90 days	Past due* 90-180 days	Past due* > 180 days
31.12.2011. Ls	2 744 711	(952 001)	1 792 710	1 420 320	8 799	37 316	326 275
31.12.2012. Ls	2 779 723	(957 811)	1 821 912	1 719 437	-	-	102 475

* Taking into account repayment of debt in 2012 and customers credit history, the Group's management concluded that it is not necessary to make provisions for impairment of assets.

Financial and capital risk management (continuation)

Movement of accruals for decrease of trade receivables	31.12.2012. Ls	31.12.2011. Ls
Accruals at the beginning of the year	952 001	1 086 136
Decrease of accruals for written off bad debts	(480)	(134 135)
Provisions created in the reporting period	6 290	-
Provisions closing balances	**957 811**	**952 001**

(d) Liquidity risk

The Group pursues a prudent liquidity risk management and maintain a sufficient quantity of cash and ensure the availability of financial funds through credit line facilities provided by banks. At the end of the reporting period the Group's current assets exceeded current liabilities by LVL 1 580 339 (31.12.2011. - LVL 842 062). Liquidity ratio at the end of the reporting period is 1,24 (31.12.2011. - 1,13). At the end of the reporting period the Group had unused credit line resources LVL 58 133 (31.12.2011. - LVL 0). Group's management monitors the operational forecasting of liquidity reserves, based on estimated cash flows. Most of the Group's liabilities are short-term. Management believes that the Group will have sufficient financial resources that will be generated from operating activities, for it not to be exposed to liquidity risk.

The following table shows the maturity structure of financial liabilities of the Company, that is based on non-discounted cash flows:

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

On 31 December, 2012	**Total**	**<6 months**	**6-12 months**	**1-2 years**	**2-5 years**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**
Loans from Bank					
EUR	**988 468**	128 925	128 925	257 850	472 768
USD	**727 559**	94 895	94 895	189 790	347 979
Credit lines	**996 073**	-	996 073	-	-
Trade payables	**2 936 985**	2 851 067	85 918	-	-
Other liabilities	**2 652 086**	536 605	1 470 678	194 565	450 238
Total liabilities	**8 301 171**	**3 611 492**	**2 776 489**	**642 205**	**1 270 985**

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

(e) Capital Management

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

Financial and capital risk management (continuation)

Group's management controls the external debt (borrowings) to total capital (gearing ratio). During the reporting year this figure has increased significantly by 15%, which is associated with the repayment of bank loans based on the loan agreements payment schedules. Equity to total assets at the end of the year remained at high levels at 45% (31.12.2011. - 43%).

	31.12.2012. Ls	31.12.2011. Ls
Total borrowings	2 712 100	3 956 993
Cash and its equivalents	(28 925)	(585 161)
Net loans	2 683 175	3 371 832
Equity	7 114 503	6 389 163
Total assets	15 952 202	14 782 518
Gearing ratio	38%	53%
Equity ratio on total assets	45%	43%

(26) 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.

BAKER TILLY
BALTICS

Baker Tilly Baltics SIA
Kronvalda bulv. 10-32
Riga, LV-1010
Latvia
Tel.: +371 6732 1000
Fax.: +371 6732 4444
www.bakertillybaltics.lv

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Daugavpils Lokomotīvju Remonta Rūpnīca AS

Report on the Financial Statements

We have audited the accompanying financial statements of Daugavpils Lokomotīvju Remonta Rūpnīca AS and its subsidiaries (together as the Group) set out on pages 6 to 32 of the annual report. These financial statements comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, 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 International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the above mentioned financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, and of its financial performance and its cash flows for the financial year in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the management report for the financial year as set on page 4 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements.

Baker Tilly Baltics SIA
License No. 80

Natālija Zaiceva
Certified Auditor
Certificate No.138

Riga, 29 April 2013