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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 consolidated financial statements of Daugavpils Lokomotīvju Remonta Rūpnīca AS and its subsidiaries (together as the Group) set out on pages 6 to 37 of the annual report. These consolidated financial statements comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of cash flow and statement of changes in equity for the period from 1 January 2013 to 31 December 2013 (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 consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, 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
Licence No. 80

Ēriks Bahirs
Certified Auditor
Certificate No.136
Chairman of the Board

Riga, 29 April 2014

AS "Daugavpils Lokomotīvju Remonta Rūpnīca"

CONSOLIDATED ANNUAL REPORT

for the period ended 31 December 2013

prepared in accordance with EU approved
International Financial Reporting Standards

CONTENTS

MANAGEMENT

Names and positions of the Council members	Oleg Ossinovski - Chairman of the Council
	Aivar Keskula - Vice Chairman of the Council
	Sergei Jakovlev - Member of the Council
	Lauri Reinhold - Member of the Council (from 19.02.2014)
	Mihhail Terentjev - Member of the Council (from 19.02.2014)
	Natalja Kumar - Member of the Council (till 19.02.2014)
	Tomas Petraitis - Member of the Council (till 19.02.2014)
Names and positions of the Board members	Natālija Petrova - Chairman of the Board
	Eduards Krukovskis - Member of the Board
	Aleksejs Kolpakovs - Member of the Board
	Mihails Mamonovs - Member of the Board (till 19.02.2014)

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 2013 the consolidated net sales of the Group amounted to 18 million Ls (18% decrease in respect of net sales 2012).

The Group completed the year 2013 with a loss of 170 thousand Ls. In 2013 the Group exported its products to 8 countries, the total export volume amounted to 16.3 million Ls (in 2012 - 19.7 million Ls), while net sales in Latvia amounted to 1.7 million Ls (in 2012 - 2.3 million LVL). The main directions of export in 2013 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 2014.

Financial risk management

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

Future prospects

In 2014 the Group will continue the development in the sector of railway rolling stock repair and spare parts production, as well as continuing the started new projects in 2013. The Group plans to expand its customer base in the rolling stock repair and spare part production sector, as well as to attract customers to a new strands. 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 2014.

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 2014

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 37 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 2014

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2013 Ls	2012 Ls
Revenue	(1)	18 014 477	22 064 104
Cost of sales	(2)	(16 447 136)	(19 369 183)
Gross profit		**1 567 341**	**2 694 921**
Distribution expenses	(3)	(345 383)	(441 391)
Administrative expenses	(4)	(1 360 232)	(1 259 565)
Other income	(5)	32 347	71 268
Other expenses		(34 033)	(19 034)
Finance costs	(7)	(69 675)	(110 800)
Profit (loss) before tax		**(209 635)**	**935 399**
Corporate income tax	(8)	39 503	(210 059)
Net profit (loss)		**(170 132)**	**725 340**
Attributable to:			
Equity holders of a parent company		(170 132)	725 340
Minority interest		-	-
Earnings per share (in santims)	(9)		
Basic		(2,05)	8,75
Diluted		(2,05)	8,75
Total comprehensive income (expense)		**(170 132)**	**725 340**
Attributable to:			
Equity holders of a parent company		(170 132)	725 340
Minority interest		-	-

Notes on pages 10 to 37 are an integral part of these financial statements.

Natālija Petrova
Chairman of the Board

Daugavpils, 29 April 2014

STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	31.12.2013. Ls	31.12.2012. Ls
Non-current assets			
Intangible assets	(10)	12 623	13 243
Property, plant and equipment	(10)	9 149 961	7 763 820
Total non-current assets:		**9 162 584**	**7 777 063**
Current assets			
Inventories	(11)	3 196 475	2 393 488
Trade receivables	(13)	1 047 869	1 821 912
Accrued income	(14)	2 428 908	3 710 259
Corporate income tax overpaid		71 022	-
Other current assets	(15)	438 063	220 555
Cash and cash equivalents	(16)	152 424	28 925
Total current assets:		**7 334 761**	**8 175 139**
Total assets		**16 497 345**	**15 952 202**

EQUITY AND LIABILITIES	Notes	31.12.2013. Ls	31.12.2012. Ls
Equity			
Share capital	(17)	8 294 219	8 294 219
Retained losses of the previous years		(1 179 716)	(1 905 056)
Current year profit (losses)		(170 132)	725 340
Total equity:		**6 944 371**	**7 114 503**
Liabilities:			
Non-current liabilities:			
Borrowings	(18)	1 580 766	1 268 387
Deferred income tax liabilities	(8)	463 180	502 683
Other liabilities	(20)	450 185	471 829
Total non-current liabilities:		**2 494 131**	**2 242 899**
Current liabilities:			
Borrowings	(18)	1 837 501	1 443 713
Trade payables		2 302 590	2 936 985
Corporate income tax payables		-	33 845
Provisions	(19)	179 244	172 974
Other liabilities	(20)	2 739 508	2 007 283
Total current liabilities:		**7 058 843**	**6 594 800**
Total liabilities:		**9 552 974**	**8 837 699**
Total equity and liabilities:		**16 497 345**	**15 952 202**

Notes on pages 10 to 37 are an integral part of these financial statements.

Natalija Petrova
Chairman of the Board

Daugavpils, 29 April 2014

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	Ls	**Ls**	**Ls**
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**
Losses of the reporting year	-	(170 132)	(170 132)
Total comprehensive income (expense)	-	(170 132)	(170 132)
31.12.2013.	**8 294 219**	**(1 349 848)**	**6 944 371**

Notes on pages 10 to 37 are an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	2013 Ls	2012 Ls
Cash flow from operating activities			
Profit or losses before income tax		**(209 635)**	**935 399**
Adjustments for:			
depreciation and amortization	(10)	552 845	548 526
profit from sales of tangible assets	(10)	-	(2 811)
changes in provisions		21 842	86 255
(gains) or losses from exchange rate fluctuations		(16 621)	(3 336)
interest expenses		49 760	82 043
Cash flow prior to changes in current assets		**398 191**	**1 646 076**
Inventory (increase)/decrease		(1 091 777)	(370 854)
Account receivable (increase)/decrease		2 111 104	(1 250 464)
Account payable increase/(decrease)		77 548	1 015 601
Gross cash flow generated from operating activities		**1 495 066**	**1 040 359**
Interest paid	(18)	(52 518)	(76 586)
Corporate income tax paid		(103 471)	(8 404)
Net cash flow generated from operating activities		**1 339 077**	**955 369**
Cash flow from investing activities			
Acquisition of tangible assets	(10)	(1 938 366)	(697 085)
Proceeds from sales of tangible assets		-	5 530
Net cash flow generated from investing activities		**(1 938 366)**	**(691 555)**
Cash flow from financing activities			
Grants received	(20)	-	421 659
Loans repaid	(18)	(902 800)	(1 241 709)
Loans received	(18)	1 625 588	-
Net cash flow generated from financing activities		**722 788**	**(820 050)**
Net increase / (decrease) in cash and cash equivalents		**123 499**	**(556 236)**
Cash and cash equivalents at the beginning of the financial year		**28 925**	**585 161**
Cash and Cash equivalents at the end of the financial year	(16)	**152 424**	**28 925**

Notes on pages 10 to 37 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 Enterprise 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 2013 till 31 December 2013.

These financial statements were authorised for issue by the Board of Directors of the Company on 29 April 2014, 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. During the reporting period there have been no changes in the Group 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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union (IFRS).

The consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The consolidated financial statements are presented in accordance with IAS 1 Presentation of Financial Statements (Revised 2007). The Group has elected to present the 'Statement of comprehensive income' in one statement.

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

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 did not have any impact the Group's 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. This amendment did not affected the Group's financial position and performance.

IAS 19 Employee Benefits - Revised (effective for annual periods beginning on or after 1 January 2013).
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 amendments have no significant impact on Group's 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 July 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 did not affected the Group's financial statements.

IFRS 1 First-time Adoption of IFRS - Government Loans - Amendment (effective for annual periods beginning on or after 1 July 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 did not affected the Group's financial statements.

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 amendment did not affected 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 have no significant impact on 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 have no significant impact on Group's financial statements.

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 does not involved in mining activities and, therefore, the interpretations does not affect the Group's 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 significant effect on Group's financial statements.

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

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014).
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 standard 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. The Group is considering the impact of the standard on the 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 standard on the Company'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. The Group is considering the impact of the standard on the Company's 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 standard on the Group's financial statements.

IFRS 10, IFRS 11 and IFRS 12 - Transition guidance - Amendment (effective for annual periods beginning on or after 1 January 2014).
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 standard 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 standard on the Group's financial statements.

IAS 36, Recoverable amount disclosures for non-financial assets - Amendment (effective for annual periods beginning on or after 1 January 2014).
The amendment remove the requirements to disclose the recoverable amount when a cash generated unit contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group does not expect, that this amendment to have significant impact on the financial statements.

IAS 39, Novation of derivatives and continuation of hedge accounting - Amendment (effective for annual periods beginning on or after 1 January 2014).
The amendment will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedge instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of law or regulation, if specific condition are met. The Group currently does not apply hedge accounting, consequently, the Group does not expect, that this amendment to have significant impact on the financial statements.

IFRS 10, IFRS 12 and IAS 27 - Amendments (effective for annual periods beginning on or after 1 January 2014).
The amendments introduce a definition of a investment entity as an entity that (i) obtain funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. The Group does not expect, that this amendment to have an impact on its financial statements.

c) Standards, amendments and interpretations, which are not yet effective and not yet endorsed by the EU

IFRS 9, Financial instruments: Classification and Measurement, IFRIC 21 - Levies (effective for annual periods beginning on or after 1 January 2014).

IAS 19, Defined benefit plans: Employee contributions - Amendment (effective for annual periods beginning on or after 1 July 2014).

Improvements to IFRS issued in 2012 (effective for annual periods beginning on or after 1 July 2014).

Improvements to IFRS issued in 201 3 (effective for annual periods beginning on or after 1 July 2014).

(2) Reclassification of comparatives

Certain items have been classified differently than in previous year financial statements. Reclassification does not have the impact on the financial results. The previous year comparatives have been reclassified accordingly and are comparable.

Reclassified assets, liabilities, revenues or expenses	**2012**	**2013**	**Amount**
	Name of line item	**Name of line item**	**Ls**
Net gains from foreign exchange rate fluctuations	Finance costs	Other income	51 237
Salary expenses	Administrative expenses	Cost of sales	605 018
Mandatory state social insurance contributions	Administrative expenses	Cost of sales	143 753
Rental income	Other income	Revenue	49 591
Other income	Other income	Revenue	35 082

(3) Methods of consolidation

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

(4) Foreign currencies

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

(b) Transactions and balances

	31.12.2013.	**31.12.2012.**
	Ls	**Ls**
1 USD	0,515	0,531
1 EUR	0,702804	0,702804
1 LTL	0,204	0,204
1 RUB	0,0156	0,0174

(5) Segment disclosure

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

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

(6) 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.

(7) Intangible assets

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

	Depreciation % per annum
Licenses and patents	20

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

(8) Property, plant and equipment

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

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

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

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

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

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

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

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

(9) Impairment of tangible and intangible assets

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

(10) 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) Fair value estimation

In respect of financial assets and liabilities held in the balance sheet at carrying amounts other than fair values, the fair values are disclosed separately in notes.

The carrying value of trade receivables and payables are assumed to approximate their fair values. The fair value of financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments unless there is information on market prices.

(17) Employee benefits

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 Company pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis.

(18) Accrued liabilities for unused annual leave

Amount of accumulated unused annual leave is determined by multiplying the average day rate of employees for the last six months of the financial year by the amount of accrued but unused annual leave at the end of the reporting year.

(19) Grants

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

(20) Income tax

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

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

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

(21) Earnings per share

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

(22) Related parties

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

(23) Critical accounting estimates and judgements

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

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

Impairment test

The Group uses *IAS 36 Impairment of Assets* guidance in verification of potential impairment losses. This procedures requires a considerable management decision. Taking into consideration that the estimation of potential sales value of the largest long-term assets of the Group - the real estate and equipment with the carrying value as at 31.12.2013. of Ls 9 149 961 (31.12.2012. - Ls 7 763 820) 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.

Components of property, plant and equipment (PPE)

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

Property, plant and equipment (PPE) useful life

The Group's management determines the useful life of PPE based on historical information, technical inspections, assessing the current state of the active and external evaluations. During the reporting year and previous year the Groups has not identified factors that indicate a need to change the useful life period of the Group's PPE. Total carrying amount of PEE at the end of the year is Ls 9 149 961 (31.12.2012. - Ls 7 763 820).

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
Ls 2 428 908 (31.12.2012. - Ls 3 710 259).

Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflect effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. The total carrying amount of receivables at the end of the reporting period is Ls 1 047 869 (31.12.2012. - Ls 1 821 912). Information on amount and structure of receivables is disclosed in Note (25) of the financial statements.

Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realisation probability and net selling value of the inventories shall be considered. The total carrying amount of inventory at the end of the reporting period is Ls 3 196 475 (31.12.2012. - Ls 2 393 488).

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:

	2013 Ls	2012 Ls
Russia	10 346 073	14 889 310
Estonia	3 935 980	2 516 732
Latvia	1 665 620	2 413 042
Belarus	1 085 059	668 976
Lithuania	507 660	400 710
Other countries	213 340	187 446
Uzbekistan	212 021	924 864
Poland	48 724	63 024
	18 014 477	**22 064 104**

(c) Major customers

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

	2013 Ls	2012 Ls
Customer Nr.1	4 463 064	5 054 973
Customer Nr.2	3 725 558	4 585 960
Customer Nr.3	3 707 947	3 718 470
Customer Nr.4	3 187 313	2 022 504
Other clients	2 930 595	6 682 197
	18 014 477	**22 064 104**

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	15 541 550	19 701 174
Income from sales of railway rolling stock	1 804 501	1 658 911
Rental income	81 422	49 591
Other income	587 004	654 428
	18 014 477	**22 064 104**

(2) Cost of sales

	2013 Ls	2012 Ls
Costs of row materials and goods	8 758 602	11 573 588
Salary expense	4 133 769	4 127 810
Utility costs	1 433 847	1 350 930
Mandatory state social insurance contributions	985 927	982 985
Other production costs	658 294	843 415
Depreciation of property, plant and equipment	404 460	412 455
Increase in provisions for expected losses	48 262	21 925
Increase in provisions for inventories and receivables	17 705	6 290
Increase in provisions for warranty and other contingent liabilities	6 270	49 785
	16 447 136	**19 369 183**

(3) Distribution expenses

	2013 Ls	2012 Ls
Brokerage costs	97 666	244 881
Transportation costs	95 445	83 900
Salary expenses	95 467	79 924
Mandatory state social insurance contributions	22 853	19 117
Other distribution costs	33 952	13 569
	345 383	**441 391**

(4) Administrative expenses

	2013 Ls	2012 Ls
Salary expenses	682 718	633 768
Mandatory state social insurance contributions	162 952	151 962
Other administrative expenses	205 001	176 678
Utility costs	126 575	131 582
Depreciation of tangible assets	109 209	90 262
Office costs	50 283	54 734
Professional service costs	20 773	18 747
Representation costs	2 721	1 832
	1 360 232	**1 259 565**

(5) Other income

	2013 Ls	2012 Ls
Received ERDF grant (see Note (20))	16 866	17 220
Other grants from EU funds	9 871	-
Gains from exchange rate fluctuations	5 610	51 237
Net income from sale of tangible assets	-	2 811
	32 347	**71 268**

(6) Expenses by Nature

	2013	2012
	Ls	**Ls**
Costs of row materials and consumables	8 758 602	11 573 588
Salary expenses	4 911 954	4 841 502
Utility costs	1 560 422	1 482 512
Mandatory state social insurance contributions	1 171 732	1 154 064
Other expenses	952 053	1 071 443
Depreciation of PPE and intangible assets	513 669	502 717
Brokerage costs	97 666	244 881
Transportation expenses	95 445	83 900
Office expenses	50 283	54 734
Increase in provisions for expected losses	48 262	21 925
Increase in provisions for inventories and receivables	17 705	6 290
Increase in provisions for warranty and other contingent liabilities	6 270	49 785
Advertising, representation expenses	2 721	1 832
	18 186 784	**21 089 173**

(7) Finance expenses

Interest charge	56 969	82 043
Interest capitalized	(7 209)	-
Interest charge, net	49 760	82 043
Penalties paid	19 915	28 757
	69 675	**110 800**

(8) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	(39 503)	167 558
Corporate income tax according to the tax return	-	42 501
	(39 503)	**210 059**

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:

	2013	2012
	Ls	**Ls**
Profit before taxes	(209 635)	935 399
Theoretically calculated tax at 15% tax rate	**(31 445)**	**140 310**
Tax effects on:		
Permanent differences	11 167	84 149
Tax allowance on the purchase of new technological equipment	(13 947)	(16 222)
Tax discount for reinvested profit	(5 278)	(346)
Previous years' deferred tax calculation errors	-	2 168
Total tax charge	**(39 503)**	**210 059**

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	502 683	335 125
Deferred tax charged to the statement of comprehensive income	(39 503)	167 558
Deferred tax liabilities (asset) at the end of the financial year	**463 180**	**502 683**

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):

	31.12.2013. Ls	31.12.2012. Ls
Temporary difference on depreciation of PPE and intangible assets	616 264	610 190
Gross deferred tax liabilities	**616 264**	**610 190**
Temporary difference on accruals for expected losses	(12 521)	(5 265)
Temporary difference on provisions for warranties	(26 886)	(25 946)
Temporary difference on provisions for impairment of inventories and receivables	(19 644)	(16 701)
Tax losses carried forward	(94 033)	(59 595)
Gross deferred tax assets	**(153 084)**	**(107 507)**
Net deferred tax liability (assets)	**463 180**	**502 683**

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	(59 051)	(47 912)
deferred tax asset to be recovered within more than a year	(94 033)	(59 595)
	(153 084)	(107 507)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	9 523	20 302
deferred tax liabilities to be recovered after more than a year	606 741	589 888
	616 264	610 190
Net deferred tax liabilities (assets)	**463 180**	**502 683**

On 31 December 2013 total accrued tax losses are Ls 627 068, of which Ls 108 182 can be used until 2015 (including), but the remaining Ls 518 886 - indefinitely. Tax losses arised for both the Group's parent company, as well as its subsidiaries. It is not expected that some subsidiaries in the future will have sufficient taxable profit in order to utilize accrued tax losses. However, all of the accumulated tax losses are recognized as deferred tax assets in the Group's consolidated financial statements, because the Group plans to use them through reorganization of subsidiaries.

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 Ls	Accruals for expected losses Ls	Impairments of inventories and receivables Ls	Provisions for warranty obligations Ls	Tax losses carried forward Ls	Total Ls
31.12.2011.	531 733	(1 976)	(12 102)	(18 478)	(164 052)	335 125
Charged / (credited) to income statement	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
Charged / (credited) to income statement	6 074	(7 256)	(2 943)	(940)	(34 438)	(39 503)
31.12.2013.	**616 264**	**(12 521)**	**(19 644)**	**(26 886)**	**(94 033)**	**463 180**

(9) 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 or loss of the reporting year by the average number of shares in the reporting year.

	2013	2012
Profit/(loss) attributed to shareholders of the Group (Ls)	(170 132)	725 340
Average annual number of shares	8 294 219	8 294 219
Earnings/(loss) per share (expressed in santims)	**(2,05)**	**8,75**

(10) Intangible assets and property, plant and equipment

	Intangible assets	Property, plant and equipment				
		Lands and buildings	Equipment and machinery	Other assets	Assets under construction and advances	Total property, plant and equipment
	Ls	Ls	Ls	Ls	Ls	Ls
01.01.2011.						
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)	-
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**
2013						
Acquisition cost	13 243	5 051 080	2 532 982	53 547	126 211	7 763 820
Acquired	-	-	-	-	1 938 366	1 938 366
Reclassified	5 622	291 323	514 237	23 867	(835 049)	(5 622)
Amortized	(6 242)	(183 675)	(343 401)	(19 527)	-	(546 603)
Closing book value	**12 623**	**5 158 728**	**2 703 818**	**57 887**	**1 229 528**	**9 149 961**
31.12.2013.						
Initial cost	32 137	6 596 214	7 821 984	595 116	1 229 528	16 242 842
Accumulated depreciation	(19 514)	(1 437 486)	(5 118 166)	(537 229)	-	(7 092 881)
Net book value	**12 623**	**5 158 728**	**2 703 818**	**57 887**	**1 229 528**	**9 149 961**

Intangible assets and property, plant and equipment (continuation)

a) Deemed costs in the first IFRS financial statements

Preparing the first financial statement under IFRS, the Group evaluated a part of PPE - 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 real estate initial value was LVL 2 534 868.

In Company's individual financial statements, taking into account the selected revaluation policies for PPE, the increase of these assets' 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 PPE 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 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.

b) Capital commitment

During the reporting year, the Company has initiated agreements with the Latvian Investment and Development Agency (LIAA) within the EU co-funded project "High value-added investments' execution". Financing for the Company will be available of 35% of the eligible project costs, provided that the terms for the financing specified in the agreement will be satisfied. Within the project the Company has signed contracts with 18 suppliers for equipment purchases. Till the end of the year in accordance with the agreements advances have been paid for equipment in amount of LVL 972 948, which are recognized in the item "Assets under construction and advances." Following the signed agreements the Company has obligation to make total payments for equipment in the amount of LVL 2 560 924.

c) Other notes

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 Ls 4 848 398 (31.12.2012. Ls 4 764 301).

(11) Inventories

	31.12.2013. Ls	31.12.2012. Ls
Raw materials	2 475 446	1 797 884
Work-in-progress	188 008	203 403
Finished goods	663 983	503 544
(Provisions for impairment of inventories)	(130 962)	(111 343)
	3 196 475	**2 393 488**

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

	31.12.2013. Ls	31.12.2012. Ls
Opening balances of provisions	111 343	80 683
Changes in provisions in the financial year	19 619	30 660
Closing balances	**130 962**	**111 343**

(12) Financial instruments by category

All financial assets of the Group amounting at the year end to Ls 3 629 201 (31.12.2012. - Ls 5 687 847) fell under the category of loans and receivables.

All financial liabilities of the Group amounting to Ls 8 695 776 (31.12.2012. - Ls 7 878 132) fell under the category of other financial liabilities at amortised costs.

(13) Trade receivables

	31.12.2013. Ls	31.12.2012. Ls
Book value of trade receivables	2 017 575	2 779 723
(Provisions for impairment of trade receivables)	(969 706)	(957 811)
	1 047 869	**1 821 912**

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)).

The net carrying value of trade receivables is considered a reasonable approximation of fair value, as all receivables are short-term.

(14) Accrued income

	31.12.2013. Ls	31.12.2012. Ls
Accrued income for repair and modernization contracts	2 512 381	3 745 359
Expected losses	(83 473)	(35 100)
Gross amount of work-in-progress	**2 428 908**	**3 710 259**
where:		
Amount due from customers	2 428 908	3 710 259
	2 428 908	**3 710 259**

Accrued income (continuation)

Corresponding amounts:	**31.12.2013. Ls**	**31.12.2012. Ls**
Contract revenue recognised in statement of comprehensive income	15 541 550	19 701 174
Advances received from customers (under "Other liabilities")	1 647 337	983 879
Retentions on repair and modernization contracts (under "Other current assets")	42 628	13 463

(15) Other current assets

Financial assets		
Other receivables	57 084	13 576
Retentions	42 628	13 463
	99 712	27 039
Non-financial assets		
Payables for raw materials	285 113	174 589
Deferred expenses	20 842	18 916
Other taxes overpaid	32 396	11
	338 351	193 516
	438 063	**220 555**

(16) Cash and cash equivalents

Cash at bank on current accounts	151 753	27 538
Cash on hand	671	1 387
	152 424	**28 925**

(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	31.12.2013. Ls	31.12.2012. Ls
Non-current			
Investment credit in USD non-current portion	a)	337 494	537 769
Investment credits with EU structural funds in EUR	c)	1 040 221	416 825
Investment credit in EUR non-current portion	b)	203 051	313 793
		1 580 766	**1 268 387**
Current			
Credit line facilities in EUR	d)	1 032 459	996 073
Investment credit in USD current portion	a)	184 071	189 790
Investment credits with EU structural funds in EUR	c)	334 528	147 108
Investment credit in EUR current portion	b)	110 742	110 742
Loan from related company in EUR	e)	175 701	-
		1 837 501	**1 443 713**
Total non - current and current part		**3 418 267**	**2 712 100**

The fair value of the bank borrowings approximate their carrying amount, as they bear floating interest rate.

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

During the financial year, the Company signed a supplementary agreement with SWEDBANK AS for investment loan, which intended to finance equipment under the new agreement with LIAA, loan amount of EUR 4 400 000 with a maturity date 07.05.2015. The interest rate is 2.7% + 3 month EURIBOR until the equipment has been put into operation (final deadline of 31.12.2014) and the funding is received, subsequently fixed rate decreases to 2.4%.

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 31.12.2014. The interest rate is 1.75% + 3month EURIBOR and 0.2% per annum on the amount of unused credit line. Starting from 31.01.2014 interest rate has been increased to 2.2% + 3month EURIBOR and 0,3% per annum on the amount of unused credit line.

e) In August 2013 the Company has received a loan from AS Skinest Rail of EUR 950 000. Part of the loan in the amount of EUR 700 000 was refunded at the beginning of September 2013. Maturity date of the loan is 19.08.2014. The interest rate of 12% per annum.

Borrowings (continuation)

	2013 Ls	2012 Ls
At beginning of the year	2 712 100	3 956 993
Borrowings in the year	1 625 588	-
Repaid borrowings in the year	(902 800)	(1 241 709)
Currency exchange rate fluctuation results	(16 621)	(3 184)
At the end of the year	**3 418 267**	**2 712 100**

Maturity of the total borrowings is as follows:

	2013 Ls	2012 Ls
Payable in 1 year	1 837 501	1 443 713
Payable in 2 – 5 years	1 580 766	1 268 387
	3 418 267	**2 712 100**

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 2013 is Ls 16 497 345 (31.12.2011. - Ls 15 952 202).
(iii) guarantees from related parties.

(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.

	2013 Ls	2012 Ls
At beginning of the year	172 974	123 189
Used during the year	(121 268)	(61 659)
Additional provisions	127 538	111 444
At the end of the year	**179 244**	**172 974**

(20) Other liabilities

	31.12.2013. Ls	31.12.2012. Ls
Non-current		
Grant received for the purchase of non-current assets (non-current part)*	371 060	387 926
Accrued liabilities to post-employment benefits (non-current part)	79 125	83 903
	450 185	**471 829**
Current		
Advances received	1 647 337	983 879
Payroll liabilities	277 481	275 744
Accrued liabilities for unused annual leave	238 767	270 368
Other liabilities	339 505	203 788
Mandatory State social contributions liabilities	143 372	156 227
Personnel income tax liabilities	69 847	81 190
Grant received for the purchase of non-current assets (current part)*	16 866	16 866
Accrued liabilities for post-employment benefits (current part)	4 778	4 725
Other taxes payable	1 555	1 973
VAT liabilities	-	10 675
Other deferred income	-	1 848
	2 739 508	**2 007 283**

*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.

The Company has an obligation during 5 year period from the receiving of the funds to comply with the terms of grant contract is respect of use of the assets in the Project activity place and for the intended purpose, not alienating and not to transfer the assets for use by third parties, insuring the property and performing of other duties. In the event of non-compliance with the conditions specified, the Company may be obliged to repay the funds. The management assesses, that it is not probable that such occurrence could arise.

(21) Average number of employees

	2013	2012
Average number of people employed during the financial year	1 093	1 079

(22) Remuneration to personnel

	2013 Ls	2012 Ls
Salaries and mandatory state social insurance contributions for production staff	5 119 696	5 110 795
Salaries and mandatory state social insurance contributions for distribution staff	118 320	99 041
Salaries and mandatory state social insurance contributions for administration staff	845 670	785 730
	6 083 686	**5 995 566**

Including mandatory state social insurance contributions in the remuneration to personnel	1 171 732	1 154 064

(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 under AS Skinest Rail (Estonia) and AS Spacecom (Estonia) control.

a) claims and liabilities

		31.12.2013.		31.12.2012.	
		Receivables	**Payables**	**Receivables**	**Payables**
		Ls	**Ls**	**Ls**	**Ls**
Related parties with significant influence					
Trade receivables / payables	(a)	40 475	1 348 703	371 874	1 898 418
Borrowings	(b)	-	175 701	-	-
		40 475	**1 524 404**	**371 874**	**1 898 418**

(a) The repayment of the debts will be prepared in cash and it is not secured with guarantee or otherwise. In 2013 and 2012 there are no significant bad debts from related parties.

(b) In August 2013 the Company has received a loan from AS Skinest Rail of EUR 950 000. Part of the loan in the amount of EUR 700 000 was refunded at the beginning of September 2013. Maturity date of the loan is 19.08.2014. The interest rate of 12% per annum.

	2013	2012
	Ls	**Ls**
At beginning of the year	-	-
Borrowings in the year	667 664	-
Repaid borrowings in the year	(491 963)	-
At the end of the year	**175 701**	**-**

b) transactions

	2013	2012
	Ls	**Ls**
Related parties with significant influence		
Repair services of railway rolling stock	6 643 551	5 796 896
Purchase of raw materials	5 109 013	6 231 355
Sale of other goods	1 933 657	1 579 518
Services received	287 662	83 893
	13 973 883	**13 691 662**

c) key management remuneration

Remuneration to the members of the Board		
salary expenses	97 103	73 372
mandatory state social insurance contributions	23 392	17 675

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

(24) Tax Contingent Liabilities

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.

(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.

At the end of the year the Company has an open position in euro, but considering held in 2014 Latvian national currency changeover to the euro at the current exchange rate, 0.702804 LVL/EUR, it do not lead to currency risk.

The Group significant open currency positions:

	31.12.2013.	**31.12.2012.**
Financial assets, USD	650 357	551 349
Financial liabilities, USD	(1 623 458)	(2 569 291)
Open position of balance sheet, USD, net	(973 101)	(2 017 942)
Open position of balance sheet, USD, calculated in lats, net	**(501 147)**	**(1 071 527)**
Financial assets, RUB	35 835 842	75 349 052
Financial liabilities, RUB	(72 108 110)	(19 154 835)
Open position of balance sheet, RUB, net	(36 272 268)	56 194 217
Open position of balance sheet, RUB, calculated in lats, net	**(565 847)**	**977 779**

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:

	2013		**2012**	
	Change in exchange rates	**Effect on profit before tax**	**Change in exchange rates**	**Effect on profit before tax**
		Ls		**Ls**
USD	+10%	50 115	+10%	107 153
	-10%	(50 115)	-10%	(107 153)
RUB	+10%	56 585	+10%	97 778
	-10%	(56 585)	-10%	(97 778)

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 2013 the Group's liabilities with floating interest rates increased, because the Group received additional loans.

	31.12.2013.	31.12.2012.
Financial liabilities with variable interest rate, EUR calculated in LVL	2 719 202	1 984 541
Financial liabilities with variable interest rate, USD calculated in LVL	520 868	727 559
Open positions, net, Ls	**3 240 070**	**2 712 100**

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:

	2013		2012	
	Increase/ decrease in basis points	Effect on profit before tax	Increase/ decrease in basis points	Effect on profit before tax
		Ls		Ls
EUR	+30	12 153	+30	18 232
	-30	(12 153)	-30	(18 232)
USD	+30	1 872	+30	2 501
	-30	(1 872)	-30	(2 501)

(c) Credit risk

Maximum exposure to credit risk	31.12.2013.	31.12.2012.
	Ls	Ls
Trade receivables	1 047 869	1 821 912
Accrued income	2 428 908	3 710 259
Other receivables	99 712	27 039
Cash	152 424	28 925
	3 728 913	**5 588 135**

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 Ls 1 647 337 (31.12.2012. - Ls 983 879).

Financial and capital risk management (continuation)

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	90-180 days	> 180 days
31.12.2012. Ls	2 779 723	(957 811)	1 821 912	1 719 437	-	-	102 475
31.12.2013. Ls	2 017 575	(969 706)	1 047 869	1 001 754	-	-	46 115

* At the end of the reporting year receivable with a significant delay in payment terms amount to Ls 46 thousand (31.12.2012. - Ls 102 thousand) the net value of asset less any debts to third parties who bear the proportional risk for recovery of amounts receivable constitute obligations to the Group Ls 0 (31.12.2012. - Ls 48 thousand). Taking into account this arrangement, the Group's management has concluded that there is no need to make provisions for impairment losses.

Movement of provisions for decrease of trade receivables	**31.12.2013. Ls**	**31.12.2012. Ls**
Provisions at the beginning of the year	957 811	952 001
Decrease of accruals for written off bad debts	(5 810)	(480)
Provisions created in the reporting period	17 705	6 290
Provisions at the enf of the year	**969 706**	**957 811**

(d) Liquidity risk

The Group pursues a prudent liquidity risk management and maintain a sufficient quantity of cash and ensure the availability of financial funds through credit line facilities provided by banks. At the end of the reporting period the Group's current assets exceeded current liabilities by Ls 275 918 (31.12.2012. - Ls 1 580 339). Liquidity ratio at the end of the reporting period is 1,06 (31.12.2012. - 1,24). At the end of the reporting period the Group had unused credit line resources Ls 21 748 (31.12.2012. - Ls 58 133). 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 (excluding interest payments):

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**

Financial and capital risk management (continuation)

On 31 December, 2013	**Total**	**<6 months**	**6-12 months**	**1-2 years**	**2-5 years**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**
Loans from Bank					
EUR	**1 864 243**	222 635	398 336	1 211 610	31 662
USD	**521 565**	92 036	92 036	184 071	153 423
Credit lines	**1 032 459**	-	1 032 459	-	-
Trade payables	**2 302 590**	2 231 066	71 524	-	-
Other liabilities	**3 368 937**	492 255	2 247 253	200 888	428 541
Total liabilities	**9 089 794**	**3 037 992**	**3 841 608**	**1 596 569**	**613 626**

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

(e) Capital Management

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

Group's management controls the external debt (borrowings) to total capital (gearing ratio). During the reporting year this figure has decreased significantly by 9%, which is associated with the reception of new loans. Equity to total assets at the end of the year remained at high levels at 42% (31.12.2012. - 45%).

	31.12.2013.	**31.12.2012.**
	Ls	**Ls**
Total borrowings	3 418 267	2 712 100
Cash and its equivalents	(152 424)	(28 925)
Net loans	3 265 843	2 683 175
Equity	6 944 371	7 114 503
Total assets	16 497 345	15 952 202
Gearing ratio	47%	38%
Equity ratio on total assets	42%	45%

(26) The financial results comparison to the unaudited financial statements

Taking into account the structure of the Group and transactions, after the preparation of Group's 2013 unaudited financial statements the Group has performed additional procedures in evaluating certain assets and liabilities, due to this the result in these financial statements significantly differs from the unaudited financial statements results.

	2013
	Ls
Net profit in unaudited financial statements	234 705
Accrued income adjustment	(270 090)
Provisions for warranty repairs, adjustment	(124 151)
Other adjustments	(10 596)
Net profit/(loss) in unaudited financial statements	**(170 132)**

(27) Subsequent events

The company together with AS Rīgas Vagonbūves Rūpnīca un AS VRC Zasulauks, as an association of persons, won in AS Pasažieru vilciens open tender for the modernization of wagons of diesel trains and in 31 January 2014 signed the agreement with AS Pasažieru vilciens. In order to comply this agreement, the Company together with AS Rīgas Vagonbūves Rūpnīca un AS VRC Zasulauks established the general partnership "DMU vilcieni", where the Company owns 50% of voting rights. Completion date of the agreement is the end of 2015 and by the estimates of the management, the Company's part of the total work could reach 9.5 million EUR.