AS "Daugavpils Lokomotīvju Remonta Rūpnīca"

CONSOLIDATED ANNUAL REPORT

for the year ended 31 December 2014

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
	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)
	Roman Zahharov - Member of the Council (from 09.02.2015)
	Aivar Keskula - Vice Chairman of the Council (till 09.02.2015)
	Tomas Petraitis - Member of the Council (till 19.02.2014)
	Natalja Kumar - Member of the Council (till 19.02.2014)
Names and positions of the Board members	Aivar Keskuela - Chairman of the Board (from 24.02.2015)
	Natālija Petrova - Chairman of the Board (till 24.02.2015)
	Natālija Petrova - Member of the Board (from 24.02.2015)
	Vladimirs Kirsanovs - Member of the Board (from
	Aleksejs Kolpakovs - Member of the Board
	Eduards Krukovskis - 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" and its subsidiaries (further - the Group) is railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts. The Group provides repair services of all types of railway rolling stock - diesel and electric locomotives and electric trains.

Performance of the Group during the financial year

In 2014 the Group's consolidated net sales amounted to 20,1 million EUR (decrease of 21% in respect of net sales of 2013).

The Group finished the year with losses of 1,2 million EUR. In 2014 the Group exported its products to 8 countries, the total export volume amounted to 18 million EUR (in 2013 - 23,2 million EUR), while net sales in Latvia amounted to 2,1 million EUR (in 2013 – 2,4 million EUR). The main directions of export in 2014 were EU countries: Lithuania and Estonia, and third countries: Russia, Belarus and Uzbekistan.

During the reporting year, the Group was provided with the repair works only in Q1 and Q3 due to the devaluation of the Russian ruble and the crisis in Ukraine. In 2014 almost all of the equipment within the framework of ERAF project was purchased and brought into operation. The final implementation of the project carried out on March 2, 2015.

Financial risk management

The policy of financial risk management of the Group is described in financial report's Notes 27

Future prospects

In 2015 the Group’s priority is expanding of customer base and developing of new products, including machinery industry. The Group has a material base for these activities, including the equipment purchased in cooperation with ERDF funds. To increase the economic efficiency the Company has carried out reorganization and optimization of production processes, decrease of operational costs. In 2015 the Company will continue the development in the sector of railway rolling stock repair and spare parts production.

In 2015 the reorganization of the Group was done: three subsidiary companies were created: DL LOKOMOTĪVE SIA, DL METALWORKING SIA, Loģistika SIA. Types of operations: DL LOKOMOTĪVE SIA – rolling stock and its aggregate repair; DL METALWORKING SIA – manufacturing of spare parts, metalworking and foundry services; Loģistika SIA – logistic services and services related to the Group's utility services and equipment overhaul. The new structure begins to operate on April 1, 2015.

Natālija Petrova
Member of the Board

Daugavpils, 29 April 2015

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 by 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 35 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
Member of the Board

Daugavpils, 29 April 2015

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2014 EUR	2013 EUR
Revenue	(1)	20 068 041	25 632 291
Cost of sales	(2)	(18 673 012)	(23 402 166)
Gross profit		**1 395 029**	**2 230 125**
Distribution expenses	(3)	(398 964)	(491 435)
Administrative expenses	(4)	(1 901 530)	(1 935 435)
Other income	(5)	99 430	46 025
Other expenses		(79 723)	(48 425)
Finance costs	(7)	(356 510)	(99 139)
Profit (loss) before tax		**(1 242 268)**	**(298 284)**
Corporate income tax	(8)	(1 057)	56 208
Net profit (loss)		**(1 243 325)**	**(242 076)**
Attributable to:			
Equity holders of a parent company		(1 243 325)	(242 076)
Earnings per share (in cents)	(9)		
Basic		(14,99)	(2,92)
Diluted		(14,99)	(2,92)
Total comprehensive income (expense)		**(1 243 325)**	**(242 076)**
Attributable to:			
Equity holders of a parent company		(1 243 325)	(242 076)

Notes on pages 10 to 35 are an integral part of these financial statements.

Natālija Petrova
Member of the Board

Daugavpils, 29 April 2015

STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	31.12.2014. EUR	31.12.2013. EUR
Non-current assets			
Intangible assets	(10)	22 212	17 960
Property, plant and equipment	(10)	16 024 673	13 019 221
Total non-current assets:		**16 046 885**	**13 037 181**
Current assets			
Inventories	(12)	3 763 521	4 548 174
Trade receivables	(14)	2 610 649	1 490 984
Accrued income	(15)	2 359 509	3 456 025
Corporate income tax overpaid		71 584	101 055
Other current assets	(16)	2 407 864	623 306
Cash and cash equivalents	(17)	27 811	216 880
Total current assets:		**11 240 938**	**10 436 424**
Total assets		**27 287 823**	**23 473 605**

EQUITY AND LIABILITIES	Notes	31.12.2014. EUR	31.12.2013. EUR
Equity			
Share capital	(18)	11 801 610	11 801 610
Retained losses of the previous years		(1 920 660)	(1 678 584)
Current year profit (losses)		(1 243 325)	(242 076)
Total equity:		**8 637 625**	**9 880 950**
Liabilities:			
Non-current liabilities:			
Borrowings	(19)	3 520 256	2 249 228
Deferred income tax liabilities	(8)	660 101	659 045
Deferred income	(20)	572 688	527 971
Other liabilities	(22)	122 834	112 585
Total non-current liabilities:		**4 875 879**	**3 548 829**
Current liabilities:			
Borrowings	(19)	5 601 224	2 614 528
Trade payables		3 852 075	3 276 289
Provisions	(21)	200 178	255 041
Deferred income	(20)	37 742	23 998
Other liabilities	(22)	4 083 100	3 873 970
Total current liabilities:		**13 774 319**	**10 043 826**
Total liabilities:		**18 650 198**	**13 592 655**
Total equity and liabilities:		**27 287 823**	**23 473 605**

Notes on pages 10 to 35 are an integral part of these financial statements.

Natalija Petrova
Member of the Board

Daugavpils, 29 April 2015

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	EUR	EUR	EUR
31.12.2012.	**11 801 610**	**(1 678 584)**	**10 123 026**
Loss of the reporting year	-	(242 076)	(242 076)
Total comprehensive income	-	(242 076)	(242 076)
31.12.2013.	**11 801 610**	**(1 920 660)**	**9 880 950**
Losses of the reporting year	-	(1 243 325)	(1 243 325)
Total comprehensive income	-	(1 243 325)	(1 243 325)
31.12.2014.	**11 801 610**	**(3 163 985)**	**8 637 625**

Notes on pages 10 to 35 are an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	2014 EUR	2013 EUR
Cash flow from operating activities			
Profit or losses before income tax		**(1 242 268)**	**(298 284)**
Adjustments for:			
depreciation and amortization	(10)	1 022 994	786 628
profit from sales of property, plant and equipment	(10)	(21 200)	-
changes in provisions		(66 614)	31 078
(gains) or losses from exchange rate fluctuations		65 876	(23 650)
interest expenses		262 657	70 802
Cash flow prior to changes in current assets		**21 445**	**566 574**
Inventory (increase)/decrease		(1 422 699)	(1 553 459)
Account receivable (increase)/decrease		512 451	3 003 830
Account payable increase/(decrease)		(30 501)	110 342
Gross cash flow generated from operating activities		**(919 304)**	**2 127 287**
Interest paid	(19)	(137 498)	(74 726)
Corporate income tax paid		(15 330)	(147 226)
Net cash flow generated from operating activities		**(1 072 132)**	**1 905 335**
Cash flow from investing activities			
Acquisition of property, plant and equipment	(10)	(3 207 962)	(2 758 046)
Proceeds from sales of property, plant and equipment		21 200	-
Net cash flow generated from investing activities		**(3 186 762)**	**(2 758 046)**
Cash flow from financing activities			
Grants received	(20)	96 203	-
Loans repaid	(19)	(1 072 702)	(1 284 569)
Loans received	(19)	5 046 324	2 313 003
Net cash flow generated from financing activities		**4 069 825**	**1 028 434**
Net increase / (decrease) in cash and cash equivalents		**(189 069)**	**175 723**
Cash and cash equivalents at the beginning of the financial year		**216 880**	**41 157**
Cash and Cash equivalents at the end of the financial year	(17)	**27 811**	**216 880**

Notes on pages 10 to 35 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 2014 till 31 December 2014.

These financial statements were authorised for issue by the Board of Directors of the Company on 29 April 2015, and Board member 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 from January 2007. At the end of reporting year the Company has investments in 11 subsidiaries, as well as due to participation in A/S "Pasažieru vilciens" open tender, the Company together with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zasulauks" founded the general partnership "DMU vilcieni", in which the Company owns 50% of the voting rights, see Note 9 about the details on general partnership.

Name of the subsidiary	**Address**	**Type of operations**	**Share capital**	**Participation interest**
			EUR	**%**
SIA "Rel"	Marijas 1, Daugavpils	Repair of diesel and electric locomotives	2 846	100
SIA "Elap"	Marijas 1, Daugavpils	Repair of electric equipment of rolling stock	2 846	100
SIA "Remdīz"	Marijas 1, Daugavpils	Repair of rolling stock diesel and knots	2 846	100
SIA "Ritrem"	Marijas 1, Daugavpils	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock	2 846	100
SIA "Elektromaš"	Marijas 1, Daugavpils	Repair and producing of electromotor, generators and transformers	2 846	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dyeing of rolling stock	2 846	100
SIA "SPZČ"	Marijas 1, Daugavpils	Repair and producing of spare parts, instruments and equipment	2 846	100
SIA "Metalurgs"	Marijas 1, Daugavpils	Metal foundry	2 846	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	2 846	100
SIA "Instruments"	Marijas 1, Daugavpils	Dormant status	2 846	100
SIA "Loģistika"	Marijas 1, Daugavpils	Logistics services	2 846	100
			31 306	

Reorganization of subsidiaries' activities in 2015

To increase the economic efficiency in the beginning of 2015 the Company has carried out reorganization and optimization of production processes, decrease of operational costs. As a result changes to the structure of the Group have been made, redistributing subsidiaries' functions in the beginning of 2015:

a) All subsidiaries that are dealing with repair services (SIA Elektromaš, SIA REL, SIA Remdīz, SIA Ritrem, SIA Elap, SIA Krāsotājs) were merged under one subsidiary SIA Elektromaš (renamed as SIA DL Lokomotīve).

b) A new subsidiary was established in 2015 - SIA DL Metalworking, which will operates for same functions as SIA Metalurgs un SIA SPZČ

c) SIA Remenergo functions were transferred to SIA Logistika

d) In March 2015 the shares of subsidiaries SIA REL, SIA Remdīz and SIA Metalurgs were disposed for EUR 1 each, so preparing the Company's annual report they were reclassified as short-term financial investments. Whereas, starting from April 2015 SIA REL, SIA Elap, SIA Krāsotājs, SIA SPZČ and SIA Remenergo subsidiaries are not active.

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

IFRS 10 Consolidated Financial Statements
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 implementation of IFRS 10 did not have any significant effect on Group's financial statements.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 requires investor to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to classify its interest either as joint operation or joint venture. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation. Jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The Group has implemented IFRS 11 and classifies its interest in Partnership "DMU vilcieni" as joint operation.

IFRS 12 Disclosures of Involvement with Other Entities.
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 disclosed the information according to IFRS 12 requirements.

IAS 27 Separate Financial Statements - Revised
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 revised standard is not applicable for the Company's consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures - Revised
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 revised standard is not applicable for the Company's consolidated financial statements.

IFRS 10, IFRS 11 and IFRS 12, Transition guidance - Amendment.
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 amendment has no significant impact on the Group's financial statements.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities - Amendment.
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. This amendment did not affected the Group's financial statements.

IAS 36, Recoverable amount disclosures for non-financial assets - Amendment.
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. This amendment did not affect the Group's financial statements.

IAS 39, Novation of derivatives and continuation of hedge accounting - Amendment
The amendment allows 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, this amendment does not have an impact on the financial statements.

IFRS 10, IFRS 12 and IAS 27 - Amendments
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. These amendments did not affect the Group's financial statements.

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

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

Improvements to IFRS: 2010-2012 cycle (effective for annual periods beginning on or after 1 July 2014).
Improvements to IFRS: 2011-2013 cycle (effective for annual periods beginning on or after 1 July 2014).
IFRIC 21 Levies (effective for annual periods beginning on or after 20 June 2014).

The Group does not expect, that these amendments to have significant impact on the financial statements.

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

IFRS 9, Financial instruments - 2014 (effective for annual periods beginning on or after 1 January 2018).

IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016).

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2017).

IAS 1, Disclosure Initiative - Amendment (effective for annual periods beginning on or after 1 January 2016).

IFRS 10, 12, IAS 28, Investment Entities: Applying the Consolidation Exemption - Amendment (effective for annual periods beginning on or after 1 January 2016).

IFRS 10, IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendment (effective for annual periods beginning on or after 1 January 2016).

IFRS 11, Accounting for Acquisitions of Interest in Joint Operations - Amendment (effective for annual periods beginning on or after 1 January 2016).

IAS 16, 38, Clarification of Acceptable Methods of Depreciation and Amortization - Amendment (effective for annual periods beginning on or after 1 January 2016).

IAS 16, 41, Bearer Plants - Amendment (effective for annual periods beginning on or after 1 January 2016).

IAS 27, Equity Method in Separate Financial Statements - Amendment (effective for annual periods beginning on or after 1 January 2016).

Improvements to IFRS: 2012-2014 cycle (effective for annual periods beginning on or after 1 July 2016).

The Group is considering the impact of the new and amanded standards 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 / change of functional currency

(a) Functional and presentation currency / change of functional currency

Items are recognized 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). Before 2014 year the functional currency of the Group was Latvian lat (Ls), but starting from 2014 the functional and presentation currency of the Group is euro (EUR).

Starting from the 1st January 2014 the national currency of the Latvian Republic is euro (EUR), as a result from this date the functional and presentation curency of the Group has been changed. All assets, liabilities and components of equity are converted from the lats to the euros, applying flat rate 0.702804 LVL/EUR. This conversion has no impact on the income statement. Financial statement comparative indicators for the previous year also are converted, using flat rate 0.702804 LVL/EUR.

(b) Transactions and balances

All transactions denominated in foreign currencies are converted into euro at the exchange rate set by the European Central Bank on the day of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into euro in accordance with the official exchange rate set by European Central Bank for the last day of the financial year. The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized in the income statements in the respective period on net amount.

	31.12.2014.	**31.12.2013.**
	EUR	**EUR**
1 USD	0,8237	0,7251
1 LTL	0,2896	0,2896
1 RUB	0,0138	0,0221

(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 (10) 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 revalued 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.

(8) Impairment of property, plant and equipment and intangible assets

All PPE 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) Joint arrangments

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its sole joint arrangement in Partnership "DMU vilcieni" and determined it to be joint operation. Partnership "DMU vilcieni" being the legal entity recognise the joint operation assets, liabilities, income and expense in its respective financial statements.

The classification of investment in Partnership "DMU vilcieni" as joint operation is based on the following terms of contract between the partners of partnership:
- the contract establish the allocation of most revenues and expenses on the basis of relative performance of each partner in the partnership;
- the contract establish that the partners of partnership share its liabilities, obligations, costs and expenses in the proportion to the activity carried out through partnership.

The Group, being joint operator, recognise in relation to its interest in joint operation:
- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from joint operation;
- its share of the revenue from the sale of the output by the joint operation and
- its expenses, including its share of ny expenses incurred jointly.

(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 of 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

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.

(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 arise 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 property, plant and equipment depreciation rates as well as provisions for slow-moving 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 shall make an 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 property, plant and equipment, assumptions and estimates of the Management on calculation of stage of the completion of the repair services contract, PPE classification between components as well as recoverability of receivables and inventories 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 31.12.2014. of EUR 16 024 673 (31.12.2013. - EUR 13 019 221) 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 EUR 16 024 673 (31.12.2013. - EUR 13 019 221).

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
EUR 2 359 509 (31.12.2013. - EUR 3 456 025).

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 EUR 2 610 649 (31.12.2013. - EUR 1 490 984). Information on amount and structure of receivables is disclosed in Note (27) 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 EUR 3 763 521 (31.12.2013. - EUR 4 548 174).

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:

	2014 EUR	2013 EUR
Russia	9 491 364	14 721 136
Estonia	5 063 817	5 600 395
Latvia	2 066 805	2 369 964
Lithuania	1 028 626	722 335
Other countries	962 490	303 554
Belarus	808 120	1 543 900
Uzbekistan	443 487	301 679
Poland	203 332	69 328
	20 068 041	**25 632 291**

(c) Major customers

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

	2014 EUR	2013 EUR
Customer Nr.1	4 801 245	6 350 368
Customer Nr.2	4 493 969	5 300 991
Customer Nr.3	3 084 079	5 275 933
Customer Nr.4	2 559 734	4 535 138
Other clients	5 129 014	4 169 861
	20 068 041	**25 632 291**

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	16 734 109	21 115 673
Income from sale of spare parts	1 873 520	997 960
Income from sales of railway rolling stock	456 201	2 567 574
Rental income	107 291	115 853
Other income	896 920	835 231
	20 068 041	**25 632 291**

(2) Cost of sales

	2014 EUR	2013 EUR
Costs of row materials and goods	9 142 400	12 462 368
Salary expense	5 359 139	5 881 823
Utility costs	1 509 230	2 040 180
Mandatory state social insurance contributions	1 250 753	1 402 848
Depreciation of property, plant and equipment	749 273	575 495
Other production costs	741 033	936 668
Increase in provisions for inventories and receivables	86 283	25 192
Increase in provisions for expected losses	(110 236)	68 671
Increase in provisions for warranty and other contingent liabilities	(54 863)	8 921
	18 673 012	**23 402 166**

(3) Distribution expenses

Transportation costs	203 029	135 806
Salary expenses	96 891	135 837
Other distribution costs	38 312	48 309
Brokerage costs	38 097	138 966
Mandatory state social insurance contributions	22 635	32 517
	398 964	**491 435**

(4) Administrative expenses

Salary expenses	926 640	971 420
Depreciation of tangible assets	273 712	155 390
Other administrative expenses	255 966	291 690
Mandatory state social insurance contributions	217 205	231 860
Utility costs	143 143	180 100
Office costs	55 192	71 546
Professional service costs	26 913	29 557
Representation costs	2 759	3 872
	1 901 530	**1 935 435**

(5) Other income

Received ERDF grant (see Note (20))	37 742	23 998
Other income	34 174	-
Net income from sale of property, plant and equipment	21 200	-
Other grants from EU funds	6 314	14 045
Gains from exchange rate fluctuations	-	7 982
	99 430	**46 025**

(6) Expenses by Nature

	2014	2013
	EUR	EUR
Costs of row materials and consumables	9 142 400	12 462 368
Salary expenses	6 382 670	6 989 081
Utility costs	1 652 373	2 220 280
Mandatory state social insurance contributions	1 490 593	1 667 224
Other expenses	1 141 947	1 354 648
Depreciation of PPE and intangible assets	1 022 985	730 885
Transportation expenses	203 029	135 806
Increase in provisions for inventories and receivables	86 283	25 192
Office expenses	55 192	71 546
Brokerage costs	38 097	138 966
Advertising, representation expenses	2 759	3 872
Increase in provisions for warranty and other contingent liabilities	(54 863)	8 921
Increase in provisions for expected losses	(110 236)	68 671
	21 053 229	**25 877 460**

(7) Finance expenses

Interest charge	346 050	81 060
Interest capitalized	(83 393)	(10 257)
Interest charge, net	262 657	70 803
Penalties paid	93 853	28 336
	356 510	**99 139**

(8) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	1 057	(56 208)
Corporate income tax according to the tax return	-	-
	1 057	**(56 208)**

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
	EUR	EUR
Profit before taxes	(1 242 268)	(298 284)
Theoretically calculated tax at 15% tax rate	**(186 340)**	**(44 743)**
Tax effects on:		
Permanent differences	50 760	15 890
Tax allowance on the purchase of new technological equipment	(71 326)	(19 845)
Tax discount for reinvested profit	-	(7 510)
Not recognised tax losses of subsidiaries	207 963	-
Total tax charge	**1 057**	**(56 208)**

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	659 044	715 253
Deferred tax charged to the statement of comprehensive income	1 057	(56 208)
Deferred tax liabilities (asset) at the end of the financial year	**660 101**	**659 044**

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):

	31.12.2014. EUR	31.12.2013. EUR
Temporary difference on depreciation of PPE and intangible assets	959 278	876 865
Gross deferred tax liabilities	**959 278**	**876 865**
Temporary difference on accruals for expected losses	(1 281)	(17 817)
Temporary difference on provisions for warranties	(30 027)	(38 255)
Temporary difference on provisions for impairment of inventories and receivables	(26 189)	(27 951)
Tax losses carried forward	(449 643)	(133 797)
Unrecognized deferred tax asset	207 963	-
Gross deferred tax assets	**(299 177)**	**(217 820)**
Net deferred tax liability (assets)	**660 101**	**659 045**

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	(57 497)	(84 022)
deferred tax asset to be recovered within more than a year	(241 680)	(133 797)
	(299 177)	(217 819)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	93 995	13 550
deferred tax liabilities to be recovered after more than a year	865 283	863 315
	959 278	876 865
Net deferred tax liabilities (assets)	**660 101**	**659 045**

On 31 December 2014 total accrued tax losses are EUR 2 997 620, of which EUR 1 386 416 are from subsidiaries, which were disposed or are not active in 2015. It is not expected that the Group will be able to use this tax losses in the future and, therefore, they are not recognized as deferred tax assets. The remaining tax losses carried forward of EUR 1 611 204 have no expiration date.

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 warranty obligations	Tax losses carried forward	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2012.	**868 222**	**(7 491)**	**(23 763)**	**(36 918)**	**(84 796)**	**715 254**
Charged / (credited) to income statement	8 643	(10 326)	(4 188)	(1 337)	(49 001)	(56 210)
31.12.2013.	**876 865**	**(17 817)**	**(27 951)**	**(38 255)**	**(133 797)**	**659 045**
Charged / (credited) to income statement	82 413	16 536	1 762	8 228	(107 883)	1 057
31.12.2014.	**959 278**	**(1 281)**	**(26 189)**	**(30 027)**	**(241 680)**	**660 101**

(9) Earnings per share (expressed in euro cents 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.

	2014	2013
Profit/(loss) attributed to shareholders of the Group (EUR)	(1 243 325)	(242 076)
Average annual number of shares	8 294 219	8 294 219
Earnings/(loss) per share (expressed in cents)	**(14,99)**	**(2,92)**

(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
	EUR	EUR	EUR	EUR	EUR	EUR
01.01.2012.						
Initial cost	37 727	8 971 052	10 470 693	1 038 065	179 582	20 659 392
Accumulated depreciation	(18 884)	(1 784 013)	(6 866 584)	(961 874)	-	(9 612 471)
Net book value	**18 843**	**7 187 040**	**3 604 109**	**76 191**	**179 582**	**11 046 921**
2013						
Opening book value	18 843	7 187 039	3 604 109	76 191	179 582	11 046 920
Acquired	-	-	-	-	2 758 046	2 758 046
Reclassified	7 999	414 515	731 693	33 960	(1 188 168)	(8 000)
Amortized	(8 882)	(261 346)	(488 616)	(27 784)	-	(777 746)
Closing book value	**17 960**	**7 340 208**	**3 847 186**	**82 367**	**1 749 460**	**13 019 221**
Initial cost	45 727	9 385 567	11 129 681	846 774	1 749 460	23 111 482
Accumulated depreciation	(27 767)	(2 045 359)	(7 282 495)	(764 407)	-	(10 092 261)
Net book value	**17 960**	**7 340 208**	**3 847 186**	**82 367**	**1 749 460**	**13 019 221**
2014						
Opening book value	17 960	7 340 208	3 847 186	82 367	1 749 460	13 019 221
Acquired	-	-	-	-	4 032 689	4 032 689
Reclassified	14 886	672 963	4 069 623	32 947	(4 790 419)	(14 886)
Amortized	(10 634)	(303 021)	(673 720)	(35 610)	-	(1 012 351)
Closing book value	**22 212**	**7 710 150**	**7 243 089**	**79 704**	**991 730**	**16 024 673**
31.12.2014.						
Initial cost	60 612	10 058 530	15 178 338	873 673	991 730	27 102 271
Accumulated depreciation	(38 400)	(2 348 380)	(7 935 249)	(793 969)	-	(11 077 598)
Net book value	**22 212**	**7 710 150**	**7 243 089**	**79 704**	**991 730**	**16 024 673**

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. 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 transition to IFRS of real estate initial value was EUR 3 606 792.

In the Company's individual financial statements, taking into account the selected revaluation policies for PPE, the increase of these assets' value in the amount of EUR 3 606 792 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 EUR 1 931 073 and in 2009 for EUR 410 947.

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 discounted future cash flow method. The current value of estimated future cash flows is higher than the residual value of assets, as a result no impairment of assets value has been recognised.

b) Capital commitment

During the reporting year, the Company has continued the execution of contract with the Latvian Investment and Development Agency (LIAA) within the EU co-funded project "High value-added investments". EU financing 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 purchases of equipment. Based on the signed purchase contracts the Company has obligation to make total payments for equipment in the amount of EUR 741 334.

c) Other notes

In the current year the acquired assets value has been increased by capitalized borrowing costs of EUR 83 393 (2013: EUR 10 157), including all borrowing costs of loans specifically for acquisition of qualifying assets.

All intangible and property, plant and equipment of the Group are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from banks (see Note (19)).

The total initial value of the fully depreciated property, plant and equipment at the end of the year amounted to EUR 6 449 840 (31.12.2013. - EUR 6 898 649).

(11) Joint operations

The Group in cooperation with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zasulauks" as an association of persons won AS "Pasažieru vilciens" open tender for modernization of diesel wagons and on January 31, 2014 entered into a contract with AS "Pasažieru vilciens". To comply with this agreement, the Group together with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zasulauks" founded the general partnership "DMU vilcieni", in which the Group owns 50% of the voting rights. General partnership does not have separate capital. The completion date of the contract with AS "Pasažieru vilciens" is the end of 2015 and the Group's share of the total works could reach EUR 9.5 million.

As disclosed in the Note (9) of the accounting policies the Company classifies this joint arrangements in Partnership "DMU vilcieni" as joint operation. During the reporting year the Company has started the preparation activities and revenue is recognized based on the stage of completion method for the amount of accrued costs of EUR 136 979.

(12) Inventories

	31.12.2014. EUR	31.12.2013. EUR
Raw materials	2 845 554	3 522 242
Work-in-progress	156 355	267 511
Finished goods	936 203	944 763
(Provisions for impairment of inventories)	(174 591)	(186 342)
	3 763 521	**4 548 174**

All inventories of the Group are pledged in accordance with terms of Commercial pledge agreements as security for loans from banks (see Note (19)).

	31.12.2014. EUR	31.12.2013. EUR
Opening balances of provisions	186 342	158 427
Changes in provisions in the financial year	(11 751)	27 915
Closing balances	**174 591**	**186 342**

(13) Financial instruments by category

	31.12.2014. EUR	31.12.2013. EUR
Financial assets - Loans and receivables		
Trade receivables	2 610 649	1 490 984
Accrued income	2 359 509	3 456 025
Other current assets	143 694	141 877
Cash and cash equivalents	27 811	216 880
	5 141 663	**5 305 766**
Financial liabilities - Other financial liabilities at amortised cost		
Borrowings	9 121 480	4 863 756
Trade payables	3 852 075	3 276 289
Provisions	200 178	255 041
Other liabilities	964 348	1 337 010
	14 138 081	**9 732 096**

(14) Trade receivables

	31.12.2014. EUR	31.12.2013. EUR
Book value of trade receivables	4 088 966	2 870 751
(Provisions for impairment of trade receivables)	(1 478 317)	(1 379 767)
	2 610 649	**1 490 984**

For information on the Group's credit risk management and disclosure of information about structure of customers and movement of provisions see Note (27).

All receivables of the Group are pledged in accordance with terms of Commercial pledge agreements as security for loans from banks (see Note (19)).

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

(15) Accrued income

	31.12.2014. EUR	31.12.2013. EUR
Accrued income for repair and modernization contracts	2 368 047	3 574 796
Expected losses	(8 538)	(118 771)
Gross amount of work-in-progress	**2 359 509**	**3 456 025**
where:		
Amount due from customers	2 359 509	3 456 025
	2 359 509	**3 456 025**

Corresponding amounts:	31.12.2014. EUR	31.12.2013. EUR
Contract revenue recognised in statement of comprehensive income	16 734 109	21 115 673
Advances received from customers (under "Other liabilities")	2 260 761	2 343 949
Retentions on repair and modernization contracts (under "Other current assets")	40 799	60 654

(16) Other current assets

Financial assets		
Other receivables	102 895	81 223
Retentions	40 799	60 654
	143 694	141 877
Non-financial assets		
Payables for raw materials	2 219 103	405 679
Deferred expenses	26 158	29 655
Other taxes overpaid	18 909	46 095
	2 264 170	481 429
	2 407 864	**623 306**

(17) Cash and cash equivalents

Cash at bank on current accounts	27 216	215 925
Cash on hand	595	955
	27 811	**216 880**

(18) Share capital

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

(19) Borrowings

	Note	31.12.2014. EUR	31.12.2013. EUR
Non-current			
Loan from related company in EUR	e)	2 751 240	-
Accrued interest on loan from relate company	e)	218 225	-
Investment credit in USD non-current portion	a)	244 989	480 211
Investment credits with EU structural funds in EUR	c)	-	1 480 101
Investment credit in EUR non-current portion	b)	305 802	288 916
		3 520 256	**2 249 228**
Current			
Credit line facilities in EUR	d)	1 415 900	1 469 057
Investment credit in USD current portion	a)	293 931	261 909
Investment credits with EU structural funds in EUR	c)	3 495 460	475 990
Investment credit in EUR current portion	b)	395 933	157 572
Loan from related company in EUR	e)	-	250 000
		5 601 224	**2 614 528**
Total non - current and current part		**9 121 480**	**4 863 756**

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 shall be repaid until 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 shall 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 loan, which provides financing of EUR 1 559 392 for EU Structural Funds' project. The loan shall be repaid till 31.10.2016. The interest rate is 1.5% + 3 month EURIBOR.

In 2013 the Company signed a supplementary agreement with SWEDBANK AS for investment loan, which intended to finance the acquisition of equipment under the new agreement with LIAA. Loan amount is EUR 4 400 000 with a maturity date of 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 LIAA 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 05.07.2015. The interest rate is 1.75% + 3 month EURIBOR and 0.2% per annum on the amount of unused credit line. Starting from February 2015 interest rate has been increased to 2.25% and 0,3% per annum on the amount of unused credit line.

e) In 2013 Company received a loan from related company of EUR 950 000. Part of the loan in the amount of EUR 700 000 was repaid, but in 2014 the additional EUR 450 000 were received. The loan is to be repaid starting from 01 January, 2016. The interest rate per annum is 12%.

In 2014 the Company received additional loans in the amount of EUR 762 240 and EUR 1 739 000. The interest rates are 12 % and 10 % accordingly and the loans are repayable starting from January 01, 2016.

Loans are not secured by a pledge of the Company assets or otherwise.

Borrowings (continuation)

	2014 EUR	2013 EUR
At beginning of the year	4 863 756	3 858 971
Borrowings in the year	5 046 325	2 313 004
Repaid borrowings in the year	(1 072 702)	(1 284 569)
Currency exchange rate fluctuation results	65 876	(23 650)
Accrued interest for loans	218 225	-
At the end of the year	**9 121 480**	**4 863 756**

Maturity of the total borrowings is as follows:

Payable in 1 year	5 601 224	2 614 528
Payable in 2 – 5 years	3 520 256	2 249 227
	9 121 480	**4 863 755**

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 2014 is EUR 27 287 823 (31.12.2013. - EUR 23 473 605).
(iii) guarantees from related parties.

(20) Deferred income

	31.12.2014. EUR	31.12.2013. EUR
Non-current		
Received ERDF grant for the acquisition of equipment	572 688	527 971
	572 688	**527 971**
Current		
Received ERDF grant for the acquisition of equipment	37 742	23 998
	37 742	**23 998**

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 the amount of EUR 599 967.

In November 2012 the Company signed a contract with LIAA for EU co-financed project "High value-added investments" for a total estimated LIAA financing of EUR 1 405 817. After putting into operation part of fixed assets and confirmation of the eligible costs, the support financing of EUR 96 203 was received in 2014 from LIAA. The remaining co-financing will be recognized in the financial statements at the time of approval of the whole project.
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 assets in the place of Project activity 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 in, the Company may be obliged to repay the funds. The management assesses that this probability is very insignificant.

(21) Provisions

In accordance with signed agreements, the Group provides free of charge warranty repairs to customers to one and a half year under the general provisions of the repair. Provisions in financial statements of the Group are estimated taking into account the historical information on warranty costs and changes in net sales of the Group.

	2014 EUR	2013 EUR
At beginning of the year	255 041	246 120
Used during the year	(88 635)	(172 549)
Additional provisions	33 772	181 470
At the end of the year	**200 178**	**255 041**

(22) Other liabilities

	31.12.2014. EUR	31.12.2013. EUR
Non-current		
Accrued liabilities to post-employment benefits (non-current part)	122 834	112 585
	122 834	**112 585**
Current		
Advances received	2 260 761	2 343 949
Payroll liabilities	276 181	394 820
Accrued liabilities for unused annual leave	272 213	339 735
Other liabilities	286 322	483 072
Mandatory State social contributions liabilities	512 480	204 000
Personnel income tax liabilities	465 534	99 383
Accrued liabilities for post-employment benefits (current part)	6 798	6 798
Other taxes payable	2 811	2 213
	4 083 100	**3 873 970**

(23) Average number of employees

	2014	2013
Average number of people employed during the financial year	1 027	1 093

(24) Remuneration to personnel

	2014 EUR	2013 EUR
Salaries and mandatory state social insurance contributions for production staff	6 609 892	7 284 671
Salaries and mandatory state social insurance contributions for distribution staff	119 526	168 354
Salaries and mandatory state social insurance contributions for administration staff	1 143 845	1 203 280
	7 873 263	**8 656 305**
Including mandatory state social insurance contributions in the remuneration to personnel	1 490 593	1 667 224

(25) 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

		31.12.2014.		31.12.2013.	
		Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
Related parties with significant influence					
Trade receivables / payables	(a)	671 760	2 502 683	57 591	1 919 031
Borrowings	(19e)	-	2 969 465	-	250 000
		671 760	**5 472 148**	**57 591**	**2 169 031**

(a) The repayment of the debts will be made in cash and it is not secured with guarantee or otherwise. In 2014 and 2013 there are no significant bad debts from related parties.

b) transactions

	2014	2013
	EUR	EUR
Related parties with significant influence		
Repair services of railway rolling stock	8 982 083	9 452 921
Purchase of raw materials	3 845 113	7 269 471
Sale of other goods	844 450	2 751 346
Services received	292 460	409 306
	13 964 106	**19 883 044**

c) key management remuneration

Remuneration to the members of the Board		
salary expenses	78 340	138 165
mandatory state social insurance contributions	18 480	33 284
	96 820	**171 449**

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

(26) 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.

(27) 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 situation. 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 euro 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, RUB and US dollars, but the significant part of the production is sold in the domestic market and exported to the markets, where USD and RUB dominante.

To minimize RUB exchange risks, the Group enters into contracts for repair with 100% prepayment for base work, as well as the Group enters into SPOT agreements with Swedbank.

The Group significant open currency positions:

	31.12.2014.	31.12.2013.
Financial assets, USD	190 676	650 357
Financial liabilities, USD	(924 357)	(1 623 458)
Open position of balance sheet, USD, net	(733 681)	(973 101)
Open position of balance sheet, USD, calculated in euro, net	**(604 300)**	**(501 147)**
Financial assets, RUB	22 576 376	35 835 842
Financial liabilities, RUB	(28 730 853)	(72 108 110)
Open position of balance sheet, RUB, net	(6 154 477)	(36 272 268)
Open position of balance sheet, RUB, calculated in euro, net	**(85 081)**	**(565 847)**

Financial and capital risk management (continuation)

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:

	2014		2013	
	Change in exchange rates	Effect on profit before tax	Change in exchange rates	Effect on profit before tax
		EUR		EUR
USD	+10%	60 466	+10%	71 307
	-10%	(60 466)	-10%	(71 307)
RUB	+10%	8 344	+10%	80 513
	-10%	(8 344)	-10%	(80 513)

(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 (19)), 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 2014 the Group's liabilities with floating interest rates increased, the Group receiving additional loans.

	31.12.2014.	31.12.2013.
Financial liabilities with variable interest rate, EUR	5 613 095	3 871 636
Financial liabilities with variable interest rate, USD calculated in EUR	538 920	742 120
Open positions, net, EUR	**6 152 015**	**4 613 756**

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:

	2014		2013	
	Increase/ decrease in basis points	Effect on profit before tax	Increase/ decrease in basis points	Effect on profit before tax
		EUR		EUR
EUR	+30	38 299	+30	17 292
	-30	(38 299)	-30	(17 292)
USD	+30	1 922	+30	2 664
	-30	(1 922)	-30	(2 664)

(c) Credit risk

Maximum exposure to credit risk	31.12.2014. EUR	31.12.2013. EUR
Trade receivables	2 610 649	1 490 984
Accrued income	2 359 509	3 456 025
Other receivables	143 694	141 877
Cash	27 811	216 880
	5 141 663	**5 305 766**

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 EUR 2 260 761 (31.12.2013. -EUR 2 343 949).

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	Past due* 90-180 days	Past due* > 180 days
31.12.2013. EUR	2 870 751	(1 379 767)	1 490 983	1 425 368	-	-	65 616
31.12.2014. EUR	4 088 966	(1 478 317)	2 610 649	2 610 649	-	-	-

Movement of provisions for decrease of trade receivables	**31.12.2014. EUR**	**31.12.2013. EUR**
Provisions at the beginning of the year	1 379 767	1 362 842
Decrease of accruals for written off bad debts	-	(8 267)
Provisions created in the reporting period	98 550	25 192
Provisions at the end of the year	**1 478 317**	**1 379 767**

(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 for credit line facilities provided by banks. At the end of the reporting period the Group's current liabilities exceeded current assets by EUR 2 533 381 (31.12.2013. - current assets exceeded current liabilities by EUR 392 598). Liquidity ratio at the end of the reporting period is 0,8 (31.12.2013. - 1,06). The liquidity ratio decreased due to additional borrowings received from bank related to the ERDF project, that at the end of the period amounts to EUR 3 495 460 (see Note 19 c)). In 2015 the mentioned borrowings will be partly closed via financing received from ERDF of EUR 1 309 614, but the remaining portion of the borrowings to be prolonged as long term liabilities. At the end of the reporting period the Group had unused credit line resources EUR 84 100 (31.12.2013. - EUR 30 945).

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, 2013	**Total**	**<6 months**	**6-12 months**	**1-2 years**	**2-5 years**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
Loans from Bank					
EUR	**2 652 579**	316 781	566 781	1 399 902	369 115
USD	**742 120**	130 955	130 955	261 909	218 301
Credit lines	**1 469 057**	-	1 469 057	-	-
Trade payables	**3 276 289**	3 174 520	101 769	-	-
Other liabilities	**1 592 051**	884 690	601 574	13 596	92 191
Total liabilities	**9 732 096**	**4 506 946**	**2 870 136**	**1 675 407**	**679 607**

Financial and capital risk management (continuation)

On 31 December, 2014	Total	<6 months	6-12 months	1-2 years	2-5 years
	EUR	EUR	EUR	EUR	EUR
Loans from Bank					
EUR	**7 166 660**	1 945 697	1 945 697	3 275 267	-
USD	**538 920**	146 966	146 966	244 989	-
Credit lines	**1 415 900**	-	1 415 900	-	-
Trade payables	**3 852 075**	3 852 075 -		-	-
Other liabilities	**1 164 526**	569 301	479 189	13 596	102 440
Total liabilities	**14 138 081**	**6 514 038**	**3 987 751**	**3 533 852**	**102 440**

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. During the reporting period there were no changes in capital management objectives, policies or processes.

Group's management controls the external debt (borrowings) to total capital (gearing ratio). During the reporting year this figure has increased significantly by 56%, which caused by the new bank loans received (see section d). Equity to total assets at the end of the reporting year remained at high levels at 32 % (31.12.2013. - 42%).

	31.12.2014.	31.12.2013.
	EUR	EUR
Total borrowings	9 121 480	4 863 756
Cash and its equivalents	(27 811)	(216 880)
Net loans	9 093 669	4 646 876
Equity	8 637 625	9 880 950
Total assets	27 287 823	23 473 605
Gearing ratio	105%	47%
Equity ratio on total assets	32%	42%

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

Taking into account the structure of the Group and transactions performed, after the preparation of Group's 2014 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.

	2014 **EUR**
Net profit in unaudited financial statements	(1 081 374)
Deferred income tax adjustments	4 691
Accrued income adjustment	(166 642)
Net profit/(loss) in unaudited financial statements	**(1 243 325)**

(29) Subsequent events

To increase the economic efficiency in the beginning of 2015 the Group has carried out reorganization and optimization of production processes of subsidiaries, as well as decrease of operational costs. The detailed information is provided in Note (1) „General information”

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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 35 of the annual report. These consolidated financial statements comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of cash flow and statement of changes in equity for the period from 1 January 2014 to 31 December 2014 (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 2014, 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 2015