



JSC "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA"

CONSOLIDATED REPORT

For 3 months 2014

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COMPANY INFORMATION

<i>Name of the company</i>	DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA
<i>Legal status of the company</i>	Joint-stock company
<i>Number, place and date of registration</i>	Enterprise Register Nr.40003030219 Riga, 3 October 1991 Commercial register Riga, 8 June 2004
<i>Address</i>	Marijas street 1, Daugavpils LV-5401 Latvia
<i>Type of operations</i>	Railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts
<i>Names of the major shareholders</i>	AS SKINEST RAIL – 47,97% Moisa 4, 13522 Tallinn, Estonia AS SPACECOM - 25,27% Kadaka tee 1, 10621 Tallinn, Estonia LLC LOKOMOTIIV IVESTEERINGUUD - 15,37% Tartu street 18-18, 10115 Tallinn, Estonia Other shareholders - 11,39%
<i>Names and positions of the Counsel Members</i>	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 (to 19.02.2014) Tomas Petraitis - Member of the Council (to 19.02.2014)
<i>Names and positions of the Board Members</i>	Natālija Petrova – Chairman of the Board Eduards Krukovskis - Member of the Board Aleksejs Kolpakovs - Member of the Board Mihails Mamonovs - Member of the Board (to 19.02.2014)
<i>Auditor`s name and address</i>	Unaudited report

Report of the management.

I. The key figures of the enterprise.

In 3 months 2014 year joint-stock company „Daugavpils Lokomotīvu Remonta Rūpnīca” has distributed goods for 7522.7 thousand EUR, which constitutes 114% compared to the of 3 months 2013. Displayed below is the dynamics of the output of the production of the basic classification.

Table No.1

The basic classification of the production.

thousands, EUR

Designation	3 months 2014	3 months 2013	(+, -)
Diesel locomotive repair, section	6 113.3	5 555.3	+558.0
Wheel pair repair, pieces	138.8	120.9	+17.9
Electric machines repair, pieces	158.3	424.2	-265.9
Diesel repair	142.8	-	+142.8
Spare parts	239.1	-	+239.1
Other production	730.4	500.0	+230.4
Total	7 522.7	6 600.4	+922.3

Table No.2

The structure of the distributed goods by the clients.

The client	3 months 2014		3 months 2013	
	sum	%	sum	%
Latvia	457.7	6.1	695.1	10.5
Lithuania	151.2	2.0	125.4	1.9
Estonia	3 513.1	46.7	344.6	5.2
Belarus	13.6	0.2	448.6	6.8
Uzbekistan	102.5	1.3	153.0	2.3
Russia	3 276.8	43.6	4 812.4	72.9
Poland	7.8	0.1	3.1	0.1
Other	-	-	18.2	0.3
Total	7 522.7	100.0	6 600.4	100.0

II. Financial figures.

The enterprise finished 3 months 2014 year with balance sheet profit of 278.9 thousand EUR.

On the account of turnover and increased borrowed funds the company made total investments of 1250.8 thousand EUR, including:

- | | |
|--|------------------------|
| 1. Production facilities | - 1 083.1 thousand EUR |
| 2. Repair of facilities, equipment repairs | - 155.8 thousand EUR |
| 3. Furniture and equipment | - 11.9 thousand EUR |

Chairman of the Board

Natālija Petrova

Statement of Directors' responsibility

The Board of Directors of the Joint Stock Company "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" (hereinafter – the Company) is responsible for the preparation of the interim financial statements of the Company. Interim financial statements of the Company are not audited.

The financial statements on pages 7 to 26 are prepared in accordance with the underlying accounting records and source documents and present fairly the financial position of the Company as of March 31, 2014 and the result of its operations and cash flows for of the 3 months 2014.

The financial statements are prepared in accordance with International Financial Reporting Standards on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Board of Directors in the preparation of the financial statements.

The Board of Directors of JSC "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. The Board of Directors is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Natālija Petrova
Chairman of the Board

31.03.2014.

31.03.2014. balance Sheet

	A S S E T S		
	31.03.2014.	31.03.2013.	01.01.2014.
	EUR	EUR	EUR
Fixed assets:			
Total intangible assets	20 470	24 822	17 960
Property, plant and equipment			
Land, buildings and networks	7 269 582	7 146 608	7 340 208
Machinery and equipment	3 837 452	3 543 307	3 847 186
Other property, plant and equipment	82 303	68 860	82 367
Advance payments for fixed assets	1 133 878	-	1 384 380
Construction in progress	1 445 987	270 677	365 080
Total property, plant and equipment	13 769 202	11 029 452	13 019 221
Total fixed assets	13 789 672	11 054 274	13 037 181
Current assets:			
Inventory	4 157 679	3 360 699	4 548 174
Debtors:			
Trade receivables	1 901 822	2 103 073	1 490 984
Corp. income tax (overpay)	125 942		101 055
Other current assets	835 416	469 015	623 306
Accumulate income	2 558 698	4 518 343	3 456 025
Cash and cash equivalents	39 961	1 279 113	216 880
Total current assets	9 619 518	11 730 243	10 436 424
Total assets	23 409 190	22 784 517	23 473 605

31.03.2014. balance Sheet

	LIABILITIES		
	31.03.2014.	31.03.2013.	01.01.2014.
	EUR	EUR	EUR
Shareholders' equity			
Share capital	11 801 610	11 801 610	11 801 610
Previous year retained earnings	-1 920 660	-1 678 584	-1 678 584
Current years profit or loses	278 901	-115 227	-242 076
Total shareholders' equity	10 159 851	10 007 799	9 880 950
Liabilities			
Long-term liabilities			
Long-term loan from credit institution	3 121 846	1 827 808	2 249 228
Other liability	640 556	671 353	640 556
Deffered tax liability	659 045	715 253	659 045
Total long-term liabilities	4 421 447	3 214 414	3 548 829
Current liabilities			
Loan from credit institution	2 235 950	1 951 349	2 364 528
Other loan	700 000	-	250 000
Trade payables	3 197 149	4 816 148	3 276 289
Accumulation	198 057	218 596	255 041
Corp. income tax (liability)	-	48 157	-
Other liabilities	2 496 736	2 528 054	3 897 968
Total current liabilities	8 827 892	9 562 304	10 043 826
Total	13 249 339	12 776 718	13 592 655
Total liabilities	23 409 190	22 784 517	23 473 605

Profit or loss account

For 3 months 2014

	31.03.2014.	31.03.2013.
	EUR	EUR
Net sales	7 652 230	6 712 947
Cost of sales	-6 596 251	-5 864 092
Gross profit (loss)	1 055 979	848 855
Sales and distribution expenses	-63 175	-222 665
Administrative expense	-748 432	-693 535
Other operating income	3 260	8 891
Other expenses	-4 409	-8 207
Financial income and expenses (net)	+35 678	-48 564
Profit or losses before income taxes	278 901	-115 227
Profit or loss after tax	278 901	-115 227
Profit per share	+0.034	-0.014

OVERVIEW OF EQUITY CAPITAL CHANGES

For 3 months 2014

	31.03.2014.	31.03.2013.
	EUR	EUR
Share capital		
Post-balance residue at the beginning of year	11 801 610	11 801 610
Post-balance residue at the end of period	11 801 610	11 801 610
Retained profit		
Post-balance residue at the beginning of year	-1 920 660	-1 678 584
Post-balance residue at the end of period	-1 641 759	-1 793 811
Share capital (total)		
Post-balance residue at the beginning of year	9 880 950	10 123 026
Post-balance residue at the end of period	10 159 851	10 007 799

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 2013 (effective for annual periods beginning on or after 1 July 2014).

(2) Methods of consolidation

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

(3) Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

	31.03.2014.	31.03.2013.
1 USD	1.3788	1.2778
1 LTL	3.4528	3.4451
1 RUB	48.78	39.26

(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 and excise tax. Main operation of the Group is 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 exceed 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 appropriate amount of revenues to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to balance sheet date as a percentage of total estimated costs for each contract or carrying out surveys of work performed to date, which of them are more reliable. 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) exceed 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 included within "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 income statement 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(tangible assets) and intangible assets

Property, plant and equipment (tangible assets) are initially accounted at the purchase cost. Purchase cost includes costs, which are directly related to the purchase of tangible assets. In financial statements tangible assets are recognised at purchase cost less depreciation and any impairment losses.

Subsequent costs are included 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 income statement 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 life, as follows:

	Depreciation % per year
Buildings	1,11-20
Plant and 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 the expense.

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

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

(8) Impairment of tangible and intangible assets

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

(9) Inventories

The inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of Group's 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.

(10) 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.

(11) Cash and cash equivalents

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

(12) 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.

(13) 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 income statement 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.

(14) 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.

(15) 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.

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

(16) 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.

(17) 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.

(18) 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. 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, accruals for unused annual leave and accruals for bonuses. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

(19) Earnings per share

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

(21) Related parties

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

(22) Critical accounting estimates and judgements

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

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

Impairment test

The Group uses IAS 36 Impairment of Assets guidance in verification of potential impairment losses. This procedure 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 EUR 13 019 221 (31.12.2012. - EUR 11 046 921) 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 its material components as per IAS 16. Estimates of the Group about allocation of PPE to its components and density of each part in total value of PPE are built 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 Group has not identified factors that indicate a need to change the useful life period of the Group's PPE. Total carrying amount of PPE at the end of the year is EUR 13 019 221 (31.12.2012. - EUR 11 046 921).

Stage of completion method for long-term contracts

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 3 456 025 (31.12.2012. - EUR 5 279 223).

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 1 490 984 (31.12.2012. - EUR 2 592 347).

1. Net sales

EUR

	31.03.2014.	31.03.2013.
According to operating activities		
Production	7 522 686	6 600 419
Other	129 544	112 528
Total	7 652 230	6 712 947
<u>According to the location</u>		
Income from export to Latvia	457 645	695 113
Income from export to Russia	3 276 804	4 812 447
Income from export to EU market	3 672 131	473 089
Income from export to Belarus	13 580	448 599
Income from export to Uzbekistan	102 526	152 963
Other	-	18 208
Total	7 522 686	6 600 419

2. Production costs

Transport costs	499 285	-
Raw, material and spare parts expenses	3 692 000	3 422 769
Utility expenses	449 660	667 128
Salary expenses	1 212 180	1 157 604
Social insurance	262 147	275 878
Depreciation of fixed assets	157 630	151 132
Other production costs	323 349	189 581
Total	6 596 251	5 864 092

3. Selling expenses

Transportation costs	24 693	35 333
Salary	27 658	34 557
Social insurance	6 488	8 261
Mediation services	-	138 966
Advertisement	4 336	5 548
Total	63 175	222 665

4. Administrative expenses

Salary expenses	468 970	424 202
Social insurance	109 540	101 219
Energy prices	36 503	75 347
Office expenses	18 245	23 245
Depreciation of fixed assets	50 239	33 563
Professional services costs	4 522	10 468
Other administrative costs	60 413	25 491
Total	748 432	693 535

5. Other income

The received ERDF funding	-	3 590
Other income	3 260	5 301
Total	3 260	8 891

6. Other expenses

Expenses of collective agreement	2 964	5 589
Other expenses	1 445	2 618
Total	4 409	8 207

7. Fixed assets and intangible assets

	<i>Non-material investments</i>	<i>Land and buildings</i>	<i>Equipment and machinery</i>	<i>Other fixed assets and inventory</i>	<i>Fixed assets under construction</i>	<i>Advance payments</i>	<i>Total</i>
Cost / Valuation 01.01.2014.	45 727	9 385 567	11 129 681	846 774	365 080	1 384 380	23 157 209
Additions	4 962	4 838	137 403	10 826	1 238 937	78 372	1 475 338
Disposals			728		158 030	328 874	487 632
Reclassification							
Revaluation							
31.03.2014.	50 689	9 390 405	11 266 356	857 600	1 445 987	1 133 878	24 144 915
Depreciation 01.01.2014.	27 767	2 045 359	7 282 495	764 407			10 120 028
Charge	2 452	75 464	147 137	10 890			235 943
Disposals			728				728
Reclassification							
Corrections for previous year's error							
31.03.2014.	30 219	2 120 823	7 428 904	775 297			10 355 243
Net book value 01.01.2014.	17 960	7 340 208	3 847 186	82 367	365 080	1 384 380	13 037 181
Net book value 31.03.2014.	20 470	7 269 582	3 837 452	82 303	1 445 987	1 133 878	13 789 672

8. Inventory

Unfinished production	194 909	170 897
Materials	2 904 976	2 403 794
Finished goods and items for sale	1 057 794	786 008
Total	4 157 679	3 360 699

9. Trade receivables

Trade receivables	1 901 822	2 103 073
Total	1 901 822	2 103 073

10. Other current assets

Short term loans	2 204	1 324
VAT overpaid	113 905	58 158
Guarantees and letters of credit	456 875	41 499
Other claims	72 132	38 100
Settlement for raw materials	181 094	322 985
Payment next periods	9 206	6 949
Total	835 416	469 015

11. Cash and bank

Cash op hand	411	521
Cash at bank	39 550	1 278 592
Total	39 961	1 279 113

12. Share capital

As at 31 March 2014 the subscribed and fully paid share capital consists of 8294219 ordinary shares with a nominal value of LVL 1 each.

13. Loans

Loans from credit institutions long-term part	3 121 846	1 827 808
Loans from credit institutions short-term part	2 235 950	1 951 349
Other loans	700 000	-
Total	6 057 796	3 779 157

14. Other liabilities

Non-current		
Grant received for the purchase of non-current assets (non-current part)	527 971	551 969
Accrued liabilities to post-employment benefits (non-current part)	112 585	119 384
Total	640 556	671 353
Current		
Accumulation for unused vacations	339 731	384 702
Advances from customers	843 413	1 395 315
Salary	375 658	352 169
Social insurance	341 896	179 958
Personnel income tax	303 940	85 842
Other taxes	22 062	5 622
Grant received for the purchase of non-current assets (current part)	23 998	23 998
Accrued liabilities to post-employment benefits (current part)	6 798	6 723
Other	239 240	93 725
Total	2 496 736	2 528 054

15. Trade payables

Short-term part	3 197 149	4 816 148
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16. Taxes and social insurance

	01.01. 2014.	Calculated	(Paid)/ repaid	Transferred and corporate income tax (advances payment)	31.03.2014.
VAT	-46 095	-360 076		292 266	-113 905
Personnel income tax	99 383	284 284	-32 150	-47 577	303 940
Social insurance	204 000	581 285	-198 700	-244 689	341 896
Corporate income tax	-101 055	-	-24 887	-/125 942	-
Real estate tax (land)	-	2 173	-534	-	1 639
Real estate tax (buildings)	-	17 115	-20	-	17 095
Natural resource tax	1 818	2 943	-1 823	-	2 938
The state tax for company's business	395	1 185	-1 190	-	390
Total	158 446	528 909	-259 304	-/125 942	553 993

Hereof:

Liabilities/ 305 596

667 898

(Overpaid) (147 150)

(-239 847)

17. Average number of employees

Average number of employees	1 068	1 030
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Natālija Petrova

Chairman of the Board

Cash flow statement

I. Cash flow from operating activities for 3 months 2014

EUR

Activities	31.03.2014.		31.03.2013.	
	income	expences	income	expences
Profit before taxes	298 190			115 226
Adjustments: a) depreciation	235 943		200 675	
b) provision		56 984		27 524
c) profit or loss from fluctuacions of currency exchange		19 289	29 328	
Provision decrease				
Income from sale of fixed assets				
Interest expenses				
Adjustments: a) Changes in accounts receivables	249 492		1 094 960	
b) Changes in reserves	390 495		44 927	
c) Changes in accounts payables		1 480 372	309 142	
Gross cash flow operating activities	1 174 120	1 556 645	1 679 032	142 750
Corporate income tax paid				
Cash flow before extraordinary items	1 174 120	1 556 645	1 671 032	142 750
Net cash flow from operating activities		382 525	1 536 282	
Activities	31.03.2014.		31.03.2013.	
	income	expences	income	expences
Acquisition of fixed assets and intangible assets		988 434		189 185
Income from sale of fixed assets and intangible assets				
Participation in other companies				
Net cash flow from investing activities		988 434		189 185
Activities	31.03.2014.		31.03.2013.	
	income	expences	income	expences
Loans from credit institution	3 576 115	2 384 075	50 262	159 403
Borrowing repaid				
Net cash flows from financing activities	1 194 040			109 141
Activities	31.03.2014.		31.03.2013.	
	income	expences	income	expences
Cash flow from operating activities		382 525	1 536 282	
Cash flows from investing activities		988 434		189 185
Cash flows from financing activities	1 194 040			109 141
Net cash flow of the current period		176 919	1 237 956	
Cash and cash equivalents at the beginning of the reporting period		216 880	41 157	
Cash and cash equivalents at the end of the reporting period		39 961	1 279 113	

Chairman of the Board N.Petrova Date 31.03.2014.