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AS Daugavpils Lokomotīvju Remonta Rūpnīca

ANNUAL REPORT

for the 12 months period ended 31 December 2015

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INFORMATION ON THE COMPANY

Name of the company	AS Daugavpils Lokomotīvju Remonta Rūpnīca
Legal status of the company	Joint Stock Company
Number, place and date of registration	Company Register Nr. 40003030219 Riga, 3 October 1991 Commercial Register Riga, 8 June 2004
Address	Marijas street 1 Daugavpils, LV-5401 Latvia
Type of operations	NACE 2: 30.20 Railroad locomotives and rolling stock manufacturing
Major Shareholders	AS Skinest Rail (Estonia) - 47,97% AS Spacecom (Estonia) - 25,27% Others - 26,76%
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 Mihhail Terentjev - Member of the Council Roman Zahharov - Member of the Council (from 09.02.2015) Aivar Keskula - Vice Chairman of the Council (till 09.02.2015)
Names and positions of the Board members	Aivar Keskuela - Chairman of the Board (from 24.02.2015) Vladimirs Kirsanovs - member of the Board (from 24.02.2015) Natālija Petrova - Chairman of the Board (till 24.02.2015), member of the Board (from 24.02.2015) Margus Mals - member of the Board (from 21.03.2016) Eduards Krukovskis - Member of the Board (till 10.04.2015) Kolpakovs Aleksejs - Member of the Board (till 10.04.20
Financial year	1 January, 2015 - 31 December, 2015
Auditor's name and address:	Baker Tilly Baltics SIA License No. 80 Kronvalda boulevard 10 Riga LV-1010 Latvia Certified auditor in charge Eriks Bahirs Certificate No.136

REPORT OF THE MANAGEMENT

Type of operations

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

Performance of the Company during the financial year

In 2015 net sales of the Company were 27.5 million EUR (in 2014 - 28.1 million EUR). Sales of principal activity (repair services and sales of spare parts) comprised 16.9 million EUR, that compile 12% reduction against to the 2014. In addition to principal activity the Company has rendered to subsidiaries the following services: sale of materials, rent, administration and management services and others, which provides the additional net sales of 10.6 million EUR (in 2014 - 9.2 million EUR).

During the reporting period the Company did not have the sufficient amount of repair projects. Due to only partial load of work and the high RUB rate to the EUR, part of the Company's subsidiaries closed the reporting year of 2015 with high loses, that in hand forced the Company to evaluate the recoverability of the debts from the said subsidiaries, and additional provisions of 0.4 million EUR were created. Taking under consideration the above facts the Company closed the reporting period with a net loss of 0.5 million EUR.

During the reporting year, the Company has completed the contract with the Latvian Investment and Development Agency (LIAA) within the EU co-funded project and received support financing that partially covered the Company's loans from credit institutions.

Performance of the Group during the financial year

In 2015 the Group's consolidated net sales amounted to 19.2 million EUR (decrease of 4% in respect of net sales of 2014).

The Group finished the year with losses of 2.7 million EUR. In 2015 the Group exported its products to 8 countries, the total export volume amounted to 12 million EUR (in 2014 - 18 million EUR), while net sales in Latvia amounted to 7.2 million EUR (in 2014 – 2.1 million EUR). The main directions of export in 2015 were EU countries: Lithuania and Estonia, and third countries: Russia, Belarus and Uzbekistan.

Financial risk management

The policy of financial risk management of the Company is described in financial report's Notes 36

Future prospects

In 2016 the Company's priority is the finalisation of the DMU project and the growth of the metalwork projects - search for new clients and significant increase in the net sales. The Company is aware that the first half of 2016 it will not have sufficient number of projects, so into eh first quarter the Company performed cost-cutting, decreased the number of employees and cut of unprofitable areas of operation. By marketing estimates, the Company will have sufficient project load taking into effect the cost-cutting procedures.

Natālija Petrova
Member of the Board

Daugavpils, 29 April 2016

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements in accordance with the Laws of the Latvian Republic On Accounting and On the Annual Reports. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management confirms that in preparation of financial statements on page 6 to page 31 decisions and assessments were made prudent and reasonable. Accounting policies compared with last year have not changed. The Management confirms that the financial statements have been prepared on going concern basis.

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

Natālija Petrova
Member of the Board

Daugavpils, 29 April 2016

INCOME STATEMENT

	Note	2015 EUR	2014 EUR
Net sales	(1)	27 483 348	28 092 465
Cost of sales	(2)	(25 865 771)	(25 832 583)
Gross profit or losses		**1 617 577**	**2 259 882**
Distribution expenses	(3)	(229 717)	(398 964)
Administrative expenses	(4)	(1 622 429)	(1 713 644)
Other operating income	(5)	644 325	197 635
Other operating expenses	(6)	(434 347)	(849 444)
Non-current financial investments and short-term bond expenses	(7)	(8 534)	-
Interest and similar expenses	(8)	(509 741)	(282 293)
Profit or losses before taxes		**(542 866)**	**(786 828)**
Corporate income tax	(9)	109 534	147 170
Other taxes	(10)	(76 282)	(58 944)
Net profit or losses		**(509 614)**	**(698 602)**
Earnings per share (in euro cents)	(11)		
Basic		(6,14)	(8,42)
Diluted		(6,14)	(8,42)

Notes on pages 11 to 31 are an integral part of these financial statements.

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Natālija Petrova
Member of the Board

Daugavpils, 29 April 2016

BALANCE SHEET

	Note	31.12.2015. EUR	31.12.2014. EUR
ASSETS			
Non-current assets			
Intangible assets:			
Other intangible assets	(12)	19 229	22 212
Total intangible assets:		**19 229**	**22 212**
Fixed assets:			
Land and buildings	(12)	1 741 315	2 075 726
Equipment and machinery	(12)	7 067 452	7 243 088
Other fixed assets	(12)	94 729	79 704
Fixed assets under construction	(12)	94 541	991 730
Total fixed assets:		**8 998 037**	**10 390 248**
Investment property:			
Buildings	(12)	3 289 415	3 700 542
Total non-current financial investments:		**3 289 415**	**3 700 542**
Non-current financial investments:			
Investments in subsidiaries	(13)	25 566	22 766
Other securities and investments	(13)	500	-
Total non-current financial investments:		**26 066**	**22 766**
Total non-current investments:		**12 332 747**	**14 135 768**
Current assets			
Inventories:			
Raw materials and consumables	(14)	2 008 935	2 549 735
Work in progress	(15)	-	49 489
Finished goods and goods for sale	(16)	370 945	329 786
Advances for inventories		231 652	480 098
Total inventories:		**2 611 532**	**3 409 108**
Non-current assets held for sale	(12)	**112 748**	**-**
Account receivable:			
Trade receivables	(17)	2 719 440	2 603 516
Receivables from group companies	(18)	3 055 132	217 405
Receivables from associates	(36)	2 236 832	1 739 005
Other receivables	(19)	185 752	194 844
Deferred expenses	(20)	22 970	26 158
Accrued income	(21)	6 746 534	2 368 047
Total receivables:		**14 966 660**	**7 148 975**
Current financial investments:			
Investments in subsidiaries	(13)	-	8 537
Total current financial investments:		**0**	**8 537**
Cash and bank:	(22)	**889 456**	**26 969**
Total current assets:		**18 580 396**	**10 593 589**
Total assets		**30 913 143**	**24 729 357**

Notes on pages 11 to 31 are an integral part of these financial statements.

BALANCE SHEET

	Note	31.12.2015. EUR	31.12.2014. EUR
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	(23)	11 801 610	11 801 610
Non-current investments' revaluation reserve	(12)	1 156 415	1 602 393
Retained earnings			
previous year's retained earnings		(6 315 334)	(5 616 732)
current years profit or losses		(509 614)	(698 602)
Total equity:		**6 133 077**	**7 088 669**
Provisions:	(24)	**112 543**	**57 479**
Liabilities:			
Non-current liabilities:			
Loans from banks	(25)	-	550 791
Other borrowings	(26)	-	2 969 465
Deferred income tax liabilities	(8)	24 762	212 999
Deferred income	(30)	1 554 663	572 688
Total non-current liabilities:		**1 579 425**	**4 305 943**
Current liabilities:			
Loans from banks	(25)	2 211 027	5 601 224
Other borrowings	(26)	5 462 937	-
Advances from customers		304 265	802 949
Trade payables		5 909 579	3 416 127
Payables to group companies	(27)	180 244	691 051
Payables to associates	(36)	5 958 775	1 457 731
Taxes and social insurance payments	(28)	569 938	51 397
Other liabilities	(29)	85 337	171 841
Deferred income	(30)	292 671	37 742
Accrued liabilities	(31)	2 113 325	1 047 204
Total current liabilities:		**23 088 098**	**13 277 266**
Total liabilities:		**24 667 523**	**17 583 209**
Total equity, provisions and liabilities		**30 913 143**	**24 729 357**

Notes on pages 11 to 31 are an integral part of these financial statements.

Natālija Petrova
Member of the Board

Daugavpils, 29 April 2016

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Non-current assets revaluation reserve	Retained earnings	Total
		EUR	EUR	EUR	EUR
31.12.2013.		**11 801 610**	**1 604 712**	**(5 616 732)**	**7 789 590**
Disposal of revalued fixed assets	(12)	-	(2 728)	-	(2 728)
Changes in deferred tax liabilities	(9)	-	409	-	409
Losses for the year		-	-	(698 602)	(698 602)
31.12.2014.		**11 801 610**	**1 602 393**	**(6 315 334)**	**7 088 669**
Revaluation of assets	(12)	-	(458 391)	-	(458 391)
Reclassification of reserves	(12)	-	(66 289)	-	(66 289)
Changes in deferred tax liabilities	(9)	-	78 702	-	78 702
Losses for the year		-	-	(509 614)	(509 614)
31.12.2015.		**11 801 610**	**1 156 415**	**(6 824 947)**	**6 133 077**

Notes on pages 11 to 31 are an integral part of these financial statements.

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Natālija Petrova
Member of the Board

Daugavpils, 29 April 2016

CASH FLOW STATEMENT

	Note	2015 EUR	2014 EUR
Cash flow from operating activities			
Profit or losses before taxes		**(542 866)**	**(786 828)**
Adjustments for:			
depreciation of investment property, fixed and intangible assets	(12)	1 452 196	909 712
profit from sales and disposal of fixed assets	(5)	(2 200)	(21 200)
loss on disposal of investment in subsidiaries		-	-
changes in provisions	(14), (16)	91 304	(123 406)
losses from exchange rate fluctuations		55 449	65 876
interest expenses	(8)	488 043	262 657
Cash flow prior to changes in current assets and liabilities		**1 550 460**	**306 811**
Inventory (increase)/decrease		365 116	(1 596 054)
Account receivable (increase)/decrease		(7 540 576)	2 405 853
Account payable increase/(decrease)		7 308 193	(2 072 267)
Gross cash flow generated from operating activities		**1 683 193**	**(955 657)**
Interest paid		(126 898)	(137 498)
Corporate income tax repaid/(paid)	(28)	-	22 523
Net cash flow generated from operating activities		**1 556 295**	**(1 070 632)**
Cash flow from investing activities			
Acquisition of investment property, fixed and intangible assets	(12)	(108 309)	(3 207 962)
Proceeds from sales of fixed assets		6 243	21 200
Loans issued		(277 108)	-
Equity investments paid		(3 300)	-
Net cash flow generated from investing activities		**(382 474)**	**(3 186 762)**
Cash flow from financing activities			
Grants received		1 529 574	96 203
Loans received	(25), (26)	3 158 236	5 046 324
Loans repaid	(25), (26)	(4 999 144)	(1 072 701)
Net cash flow generated from financing activities		**(311 334)**	**4 069 826**
Net increase / (decrease) in cash and cash equivalents		**862 487**	**(187 568)**
Cash and cash equivalents at the beginning of the financial year		**26 969**	**214 537**
Cash and cash equivalents at the end of the financial year	(22)	**889 456**	**26 969**

Notes on pages 11 to 31 are an integral part of these financial statements.

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Natālija Petrova
Member of the Board

Daugavpils, 29 April 2016

NOTES TO THE FINANCIAL STATEMENTS

I. ACCOUNTING POLICIES

(1) General principles

Financial statements are prepared in accordance with the Laws of the Latvian Republic On Accounting, On the Annual Reports.

The financial statements have been prepared according to the historical cost accounting principle, that is modified by revaluation of tangible assets and investment property at fair value, as recognized in Notes (5) to accounting policies. The income statement is prepared in accordance with the turnover cost method. The cash flow statement has been prepared under indirect cash flow method.

(2) Income recognition and net sales

Net sales contains the total value of goods and services sold during the year excluding discounts and value added tax.

Income is recognized according to the following principles:
Sales of goods - after significant ownership risk and rewards have been passed to the buyer;
Rendering of services - under the stage of completion method;
Income from fines and penalties - at the moment of receiving the payments;
Interest income - on an accrual basis.

Income from repair and modernization services is recognised on the basis of percentage of completion method. Contract costs related to repair and modernization services are recognised when incurred. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

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

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

(3) Foreign currencies

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.

	31.12.2015.	**31.12.2014.**
	EUR	**EUR**
1 USD	0,9185	0,8237
1 RUB	0,0124	0,0138

(4) Fixed and intangible assets

Intangible and fixed assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of intangible and fixed assets.

Buildings and constructions are recognized at fair value of regularly made independent evaluation, less accrued depreciation. Land is recognized at fair value of regularly made independent evaluation. The difference that appears from revaluation is recognized in equity under “Non-current assets revaluation reserve”. All other fixed and intangible assets are recognized at acquisition cost less accumulated depreciation. The acquisition costs include all related expenses of asset acquisition.

Depreciation is calculated on a straight-line basis applying the following rates of depreciation set by the management, based on the estimated useful life of the fixed assets:

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

The Company capitalizes its fixed assets valued over EUR 427 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than EUR 427 is calculated at 100% after commissioning.

If sufficient evidence is acquired that the future economic benefit associated with subsequent costs will flow to the Company, which exceeds the return set previously, costs are capitalized as additional costs to the fixed asset. Capitalizing the cost of replaced parts, the carrying amount of the part replaced is derecognized and charged to the income statement. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Net gains or losses from disposal of fixed assets is calculated, as the difference between the carrying amount of the fixed asset, write-off of related assets revaluation reserve (if any) and proceeds from sale, and recognized in the income statements during the period when disposal are incurred.

If it is possible to conclude due to any kind of occurrence or circumstances that residual value of fixed or intangible assets could exceed its recoverable value, appropriate value of fixed or intangible asset is to be decreased until recoverable value. Recoverable value is calculated as the highest of fair value less costs to sell or value in use.

(5) Investment property

Investment property is property (land, building or part of building) held by the Company (as owner or by lessee under a finance lease) to earn rentals or for capital appreciation rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. For the land with uncertain future use (if the Company has not determined that it will use the land as owner occupied or short term sale in the ordinary course of business, it is assumed that land is held for capital appreciation), it is classified as investment property.

Investment property initially recognized at purchase cost. Further the investment property are recognized at fare value of regularly made independent evaluation, less accrued depreciation. Differences in value arising from revaluation is recognized in equity under “Long-term assets revaluation reserve".

Depreciation of buildings is calculated on a straight-line basis applying the following rates of depreciation, based on their estimated useful life:

	Depreciation % per annum
Buildings	1,67 - 10

(6) Lease without redemption rights (operating lease)

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

(7) Inventories

Inventories are stated at the lower of purchase or production cost and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventories at their current position and value. The costs of materials and other expenses that are directly connected with the production of the appropriate item as well as a respective part of overhead expenses are included in the production cost of inventories. Selling and administration expenses have not included in cost. Cost is stated on the FIFO method. When the net realizable value of inventories is lower than its costs, the difference is recognized as provisions for the decrease of value.

(8) Account receivable

Receivables are recognized in the balance sheet at their net value, less provisions made for doubtful and bad debts. Provisions for doubtful receivables are established when the management of the Company considers that it is probable that the total amount of receivables will not be collected .

(9) Investments in group and associates, other financial investments

Non-current financial investments, including investments in subsidiaries and associates, are stated at cost less impairment losses.

(10) Provisions

Provisions are recognized, when there is a present obligation as a result of current or previous years events, it is probable that an outflow or resources will be required, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

(11) Accrued liabilities for unused annual leave

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

(12) Taxation

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with the tax legislation of the Republic of Latvia.

Deferred tax is calculated according to the liability method with respect to all temporary differences between the values of assets and liabilities in the financial statements and their tax basis, unless the deferred tax asset or liability is not the initial recognition, that are not business acquisition and at the transaction time does not affect the financial nor taxable profit. The deferred tax liability is calculated based on the tax rates that are expected to be applied when the temporary differences reverse. The temporary differences arise from different fixed asset depreciation rates, impairment of assets as well as from tax losses carried to the next taxation periods. In cases, when the total result of the deferred tax calculation is to be reflected as assets, it is recognized in the financial statements only if a future taxable profit will be available against which the temporary differences can be utilised.

(13) Cash and cash equivalents

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

(14) Grants

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

(15) Earnings per share

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

(16) Group companies

Group companies are considered parent, subsidiaries of the parent and subsidiaries of subsidiaries, providing that the parent company has a control over its subsidiaries.

(17) Associates

An associated company is an entity within a significant influence of the Company. The significant influence is provided by holding no less than 20% and no more than 50% of the share capital or voting rights.

(18) Related parties

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

(19) Impairment test

The Company 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 Company - the real estate and equipment with the carrying value as at 31.12.2014. of EUR 12 287 452 (31.12.2014. - EUR 14 090 790) that is used in principal activity of the Company - is subjective, as well as the low level of liquidity in the real estate market, the Company 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 Company evaluated, among other factors, useful life of asset, trends of economics and competitiveness, potential changes in technology and in activity of the Company changes in the operational and financial cash flows of the Company. See also Note (12) on the impairment test on PPE.

II. OTHER NOTES

(1) Net sales

	2015 EUR	2014 EUR
a) By operating activities		
Income from railway rolling stock repair and modernization services	13 651 104	16 573 714
Income from sales of materials (see Note (36))	5 153 089	5 846 934
Income from sale of spare parts	3 216 570	1 873 520
Other income	2 103 700	897 375
Income from rent of premises and equipment (see Note (36))*	1 791 966	1 799 014
Income from utilities services provided (see Note (36))*	952 498	205 272
Management and administrative services (see Note (36))	274 416	274 416
Other income from transactions with subsidiaries (see Note (36))	257 625	166 019
Income from sales of railway rolling stock	82 380	456 201
	27 483 348	**28 092 465**

* Rental income

Till 01 April 2015 most of the property, plants and equipment and other tangible assets of the Company were leased out to subsidiary SIA "Remenergo". After the reorganisation of the group (see Note (13)), rent is invoiced to individual subsidiaries. Rental income for property, plants and equipment in 2015 amounted to EUR 1 791 966 (2014 - EUR 1 799 014). Rent agreements are signed till 31 December 2016.

b) By location

The Company operates in Latvia by selling repair services and spare parts on the domestic market, as well as performing export of this service and goods.

The Company's activity is divided into several geographic markets, which is provision of services and sale of goods to Latvian residents, income from the export of services, broken down by country of registration of railway stock, and income from export of goods, which are divided according to customer's country of registration.

	2015 EUR	2014 EUR
Income from sales of goods/services in Latvia	15 560 484	10 514 827
Income from sales of goods/services to Russia	4 688 756	9 491 364
Income from sales of goods/services to EU	6 548 341	5 990 843
Income from sales of goods/services to Belarus	537 600	808 120
Income from sales of goods/services to Uzbekistan	83 541	443 487
Income from sales of goods/services to other countries	64 626	843 824
	27 483 348	**28 092 465**

(2) Cost of sales

	2015 EUR	2014 EUR
Costs of materials and goods from subsidiaries and others *	14 865 348	7 505 381
Service costs from subsidiaries *	8 727 390	16 612 308
Depreciation of fixed assets	1 285 608	636 000
Other production costs	444 977	703 487
Salary expenses	191 249	145 551
Changes in provisions for warranty repairs	161 625	(111 460)
Utility expenses	85 349	169 624
Social insurance costs	45 041	34 208
Changes in provisions for impairment of inventories	36 239	(11 946)
Expenses related to purchase of materials and goods	22 945	149 430
	25 865 771	**25 832 583**

* Due to changes in the activities and work need for projects in 2015, the main costs of the projects done were materials, thus reducing the amount of services acquired from subsidiaries.

(3) Distribution expenses

Salary expenses	82 980	96 891
Brokerage services	75 046	38 097
Transport costs	34 525	203 029
Social insurance costs	19 529	22 635
Other distribution costs	17 637	38 312
	229 717	**398 964**

(4) Administrative expenses

Salary expenses	761 314	800 111
Other administration costs	285 173	158 503
Social insurance costs	178 220	186 718
Depreciation of fixed assets	166 588	273 712
Professional service costs	105 538	26 913
Other personnel costs	57 762	45 028
Utility expenses	30 723	143 143
Office maintenance costs	27 241	49 455
Rent expenses	7 813	27 302
Representation costs	2 057	2 759
	1 622 429	**1 713 644**

(5) Other operating income

Received ERDF grant (see Note (30)) for the acquisition of fixed assets	292 671	37 742
Net gain from exchange rate fluctuations	143 682	-
Rental income	120 102	107 291
Net income from sale and disposal of fixed assets, including write-off of revaluation reserve	68 489	21 200
Other income	14 508	25 088
Other financing from EU funds	4 873	6 314
	644 325	**197 635**

(6) Other operating expenses

Impairment losses for receivables	402 057	782 860
Other costs	17 752	9 363
Costs of collective employment agreement	14 538	17 961
Net loss from exchange rate fluctuations	-	39 260
	434 347	**849 444**

(10) Non-current financial investments and short-term bond expenses

Net loss from sale of shares in subsidiaries	8 534	-
	8 534	**8 534**

(8) Interest and similar expenses

Interest expense	494 280	346 050
(Interest capitalized to fixed assets)	(6 237)	(83 393)
Interest expense, net	488 043	262 657
Penalties paid	21 698	19 636
	509 741	**282 293**

(9) Corporate income tax

	2015	**2014**
a) Components of corporate income tax	**EUR**	**EUR**
Changes in deferred income tax	(109 534)	(147 170)
Corporate income tax according to the tax return	-	-
	(109 534)	**(147 170)**

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:

	2015	**2014**
	EUR	**EUR**
Profit before taxes	(542 866)	(786 828)
Real estate taxes	(76 282)	(58 944)
Profit before corporate income tax	(619 148)	(845 772)
Theoretically calculated tax at 15% tax rate	**(92 872)**	**(126 866)**
Tax effects on:		
Permanent differences	54 334	51 022
Tax discount for the acquisition new technological equipment	(70 996)	(71 326)
Total corporate income tax expenses	**(109 534)**	**(147 170)**

b) Movement and components of deferred tax	**2015 EUR**	**2014 EUR**
Deferred tax liabilities (asset) at the beginning of the financial year	212 999	360 578
Deferred tax charged to the income statement	(109 534)	(147 170)
Changes in deferred tax recognised in non-current investment (fixed assets) revaluation reserve	(78 703)	(409)
Deferred tax liabilities (asset) at the end of the financial year	**24 762**	**212 999**

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):

	31.12.2015. EUR	**31.12.2014. EUR**
Temporary difference on depreciation of fixed, intangible assets and investment property	605 741	669 196
Gross deferred tax liabilities	**605 741**	**669 196**
Provisions for warranty costs	(16 881)	(8 622)
Provisions for impairment of inventories	(28 193)	(22 756)
Provisions for impairment of receivables	(244 055)	(183 929)
Tax losses carried forward	(291 850)	(240 890)
Gross deferred tax assets	**(580 979)**	**(456 197)**
Net deferred tax liability (assets)	**24 762**	**212 999**

(10) Other taxes

	2015 EUR	**2014 EUR**
Real estate tax for land	7 100	5 654
Real estate tax for buildings	69 182	53 290
	76 282	58 944

(11) Earnings per Share (expressed in cents per share)

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

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

	2015	**2014**
Profit/(loss) attributed to shareholders of the Company (EUR)	(509 614)	(698 602)
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in euro cents)	**(6,14)**	**(8,42)**

(12) Intangible, fixed assets and investment property

	Intangible assets	Investment property	Property, plant and equipment				
	Concessions, licenses, trade marks etc.	Buildings	Lands and buildings	Equipment and machinery	Other assets	Assets under construction and advances for fixed assets	Property, plant and equipment total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost							
31.12.2014.	60 612	4 881 017	2 836 159	15 178 337	873 672	991 730	19 879 898
Additions	-	-	-	-	-	221 057	221 057
Reclassification to non-current assets held for sale	-	-	(112 748)	-	-	-	(112 748)
Reclassification between fixed assets and investment property	4 961	44 310	-	1 021 904	47 071	(1 118 246)	(49 271)
Revaluation	-	(288 129)	(170 262)	-	-	-	(458 391)
31.12.2015.	65 573	4 637 198	2 553 149	16 200 241	920 743	94 541	19 480 545
Depreciation							
31.12.2014.	(38 400)	(1 180 475)	(760 433)	(7 935 249)	(793 968)	-	(9 489 650)
Calculated	(7 944)	(163 538)	(51 401)	(1 197 267)	(32 046)	-	(1 280 714)
Disposals	-	(3 770)	-	(273)	0	-	(273)
31.12.2015.	(46 344)	(1 347 783)	(811 834)	(9 132 789)	(826 014)	-	(10 770 637)
Net carrying amount 31.12.2014.	**22 212**	**3 700 542**	**2 075 726**	**7 243 088**	**79 704**	**991 730**	**10 390 248**
Net carrying amount 31.12.2015.	**19 229**	**3 289 415**	**1 741 315**	**7 067 452**	**94 729**	**94 541**	**8 709 908**

In accordance with the accounting policy of the Company, all land and buildings owned by Company, except those which are leased out to subsidiaries of the Company, are classified as tangible assets (see Note (36)), other buildings classified as investment property.

Land of EUR 112 748 that as of end of the reporting period has been intended to be sold and the sale is to take place in 2016 has been reclassified as Non-current assets held for sale, under current assets.

a) Revaluation of fixed assets and investment property

In 1996, 1999 and 2001 the Company revaluated land, buildings and equipment. Respectively in 1996 value of tangible assets was increased by EUR 938 438, in 1999 by EUR 1 875 134 and in 2001 by EUR 1 266 290. Real estate's market value was determined using the sales comparison method, as well as discounted cash flow method. The difference accrued in the result of revaluation is recognized in the equity item "Non-current assets revaluation reserve".

With the assistance of licensed independent experts in 2007, 2008 and 2009 the Company has revaluated its own land and buildings. The increase of value occurred as a result of revaluations was in the amount of EUR 3 606 792 in 2007 and EUR 1 931 073 in 2008 and EUR 410 947 in 2009 (less the amount of deferred tax liabilities related to the revaluation of tangible assets) are deducted from revaluation reserves.

In 2015 the Company by involving an independent evaluator made valuation of its land and buildings. The market value of the land an buildings was determined using the discounted cash flow method. As a result of the valuation an impairment loss on the land and buildings of EUR 458 391 was recognised, that was deducted from the revaluation reserves created in previous periods (less the deferred tax effect).

Intangible, fixed assets and investment property (continuation)

Had not the revaluation been performed the value of land and building (total value for fixed assets and investment property) would be the following:

	31.12.2015. EUR	31.12.2014. EUR
Cost	8 106 805	8 111 433
Accumulated depreciation	(2 971 297)	(2 858 268)
Net carrying amount	**5 135 508**	**5 253 165**

Total fixed assets and investment property revaluation amount on the 31 December 2015, less deferred tax effect, was EUR 1 156 415 (31.12.2014 - EUR 1 602 393).

b) Capital commitment for acquisition of fixed assets

During the reporting year, the Company has completed the contract with the Latvian Investment and Development Agency (LIAA) within the EU co-funded project "High value-added investments" on putting into operation all the of the purchased machinery (see Note (30)). At the end of the reporting period there were no significant contracts on acquisition of machinery.

c) Other notes

The cadastral value of the Company's land plots on 31 December 2015 was EUR 473 315 (31.12.2014 - EUR 473 315), the cadastral value of buildings is EUR4 561 907 (31.12.2014 - EUR 4 561 907).

Due to the negative external factors that leaded to the significant decrease of revenue at the end of 2015 and beginning of 2016 (see Note (38)) , as at 31 December 2015, the Company has performed impairment test on property, plant and equipment (PPE).

All Company's PPE has been identified as one cash-generating unit. The recoverable amount of PPE has been determined based on value in use calculation using cash flow projections covering a five-year period. As a result of impairment analysis, the Company had satisfied ourselves that no impairment losses are incurred.

Significant assumptions underlying the calculated value in use comprise expectations for future growth in revenue, expected EBITDA/sales ratio, expected factor for terminal value and discount rate. Management has based its assumptions on historical experience, available industry analyses and current expectations of future market developments. The key assumptions for the impairment test are as follows:

	Historical 2008 - 2015	Projected 2016 - 2017	Projected 2018 - 2020	Projected 2016 - 2020
Expected average growth in revenue	2%	-13%	16%	3%
Expected average EBITDA/sales ratio	5%	5%	8%	7%
Expected terminal value			8 x EBITDA	
Discount rate			8%	

Expected average growth in revenue represents cumulative average growth rate (CAGR) of Company revenue based on budget and long-term forecast. Expected EBITDA/sales ratio calculated based on budget and long-term forecast. Expected terminal value represents the earnings before interest, tax, depreciation and amortization (EBITDA) multiple expected to be received upon the possible sale of business in 5 years based on current market conditions for similar transactions. Discount rate represents weighted average cost of capital based on management estimates.

Due to the external factors as described in Note (38) the projected average growth and EBITDA/sales ratio is significantly lower in 2016 - 2017 than the historical ratios. But from 2018 the management estimates for future are more optimistic due to market recovery and increase of market prices.

Information on pledged fixed assets and investment properties disclosed in the Note (25) to the financial statements.

(13) Equity investments

a) movement of investments

	Non-current			Current	
	Investments in subsidiaries	**Other securities and investments**	**Total**	**Investments in subsidiaries**	**Total**
	EUR	**EUR**	**EUR**	**0**	**EUR**
Cost					
31.12.2014.	22 766	-	22 766	8537	8 537
Purchase	2 800	500	3 300	-	-
Disposals	-	-	-	(8 537)	(8 537)
31.12.2015.	25 566	500	26 066	-	0
Net carrying amount 31.12.2014.	**22 766**	**-**	**22 766**	**8 537**	**8 537**
Net carrying amount 31.12.2015.	**25 566**	**500**	**26 066**	**-**	**-**

b) investments in subsidiaries

		Participating interest		Equity		Profit/(loss)	
Name	**Address**	**31.12.2014.**	**31.12.2015.**	**31.12.2014.**	**31.12.2015.**	**2014**	**2015**
		%	**%**	**EUR**	**EUR**	**EUR**	**EUR**
SIA REL	Marijas 1, Daugavpils	100%	-	(169 854)	-	(122 484)	-
SIA Elap	Marijas 1, Daugavpils	100%	100%	75 668	(3 123)	(21 714)	(78 791)
SIA Remdīz	Marijas 1, Daugavpils	100%	-	(201 313)	-	(95 869)	-
SIA Ritrem	Marijas 1, Daugavpils	100%	100%	291 732	223 921	4 124	(67 811)
SIA DL Lokomotīve	Marijas 1, Daugavpils	100%	100%	600 346	(512 802)	(12 228)	(1 113 148)
SIA Krāsotājs	Marijas 1, Daugavpils	100%	100%	(164 175)	(204 796)	3 307	(40 621)
SIA SPZČ	Marijas 1, Daugavpils	100%	100%	(104 371)	(409 016)	(272 183)	(304 645)
SIA Metalurgs	Marijas 1, Daugavpils	100%	-	(1 219 105)	-	(483 900)	-
SIA DL Metalworking	Marijas 1, Daugavpils	-	100%	-	(890 792)	-	(893 592)
SIA Remenergo	Marijas 1, Daugavpils	100%	100%	(1 070 509)	(1 193 878)	(959 228)	(123 369)
SIA Instruments	Marijas 1, Daugavpils	100%	100%	(152 967)	(153 022)	-	(55)
SIA Loģistika	Marijas 1, Daugavpils	100%	100%	(14 718)	(84 731)	(29 344)	(70 013)
				(2 129 266)	**(3 228 239)**	**(1 989 519)**	**(2 692 045)**

Types of operations of subsidiaries

The activity of subsidiary companies is the overhaul repair of different parts of railway rolling stock, maintenance and upgrade, as well as additional function performance, including:

SIA REL	Railway rolling stock carboy repair and upgrade
SIA Elap	Repair and upgrade of electric equipment of rolling stock
SIA Remdīz	Repair of engine and it's knots of rolling stock
SIA Ritrem	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock
SIA DL Lokomotīve	Previously SIA Elektromaš Repair and producing of electromotor, generators and transformers
SIA Krāsotājs	Dyeing of rolling stock
SIA SPZČ	Repair and production of spare parts
SIA Metalurgs	Metal foundry
SIA DL Metalworking	Metal foundry, repair and production of spare parts
SIA Remenergo	Maintenance of movable property and real estate, technical control and overhaul of buildings, constructions and producing equipment, rendering services of public facilities to Group companies
SIA Instruments	Not active
SIA Loģistika	Logistics, loading, unloading services

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 Loģistika

d) In March 2015 the shares of subsidiaries SIA REL, SIA Remdīz and SIA Metalurgs were disposed for EUR 1 each. Additionally, starting from April 2015 SIA Ritrem, SIA Elap, SIA Krāsotājs, SIA SPZČ and SIA Remenergo subsidiaries are not active.

c) investments in associates

The Company 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 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. Company does not have a control over Partnership's "DMU vilcieni" activities, thus it is classified in the financial statements of the Company as associated companies. See also Note (37) for general partnership "DMU vilcieni" financial results and Company's contingent liabilities.

At the end of the reporting period the Company has recognised accrued income of EUR 6 063 618 (31.12.2014: EUR 136 979).

(14) Raw materials and consumables

	31.12.2015. EUR	31.12.2014. EUR
Book value of raw materials and consumables	2 162 347	2 662 071
(Provisions for damaged and slow moving stock)	(153 412)	(112 336)
	2 008 935	**2 549 735**

(15) Work in progress

Work in progress (products)	-	49 489
	0	**49 489**

(16) Finished goods and goods for resale

Finished goods	405 485	369 013
Other goods for sale	-	150
(Provisions for damaged and slow moving stock)	(34 540)	(39 377)
	370 945	**329 786**

(17) Trade receivables

	31.12.2015. EUR	31.12.2014. EUR
Book value of trade receivables	4 363 899	4 081 833
(Provisions for bad and doubtful debts)	(1 644 459)	(1 478 317)
	2 719 440	**2 603 516**

Provisions for bad and doubtful debts have been created in the amount of 50% - 100% of their book value.

Movement of provisions for trade receivables is the following:	31.12.2015. EUR	31.12.2014. EUR
Provisions at the beginning of the year	1 478 317	1 379 767
Provisions reclassification from receivables from group companies	164 928	-
Provisions created in the reporting period	1 214	98 550
Provisions at the year end	**1 644 459**	**1 478 317**

(18) Receivables from group companies

Settlements with subsidiaries (see Note (36))	4 517 009	1 443 600
Loans to subsidiaries (see Note (36))	86 549	86 317
(Provisions for bad and doubtful debts)	(1 548 426)	(1 312 512)
	3 055 132	**217 405**

Movement of provisions for receivables from group companies

Provisions at the beginning of the year	1 312 512	-
Reclassification of provisions for financial support to subsidiaries *	-	627 879
Provisions reclassification to trade receivables	(164 928)	-
Provisions created in the reporting period	400 842	684 633
Provisions at the year end	**1 548 426**	**1 312 512**

Receivables from group companies (continuation)

Taking into account changes in the split of functions between subsidiaries and disposal of some subsidiaries in 2015, after assessing the recoverability of the debts from subsidiaries at the year end, the decision was made to create a specific provisions for outstanding receivables from subsidiaries at 31 December 2014. Provisions are estimated taking into account the prior year provisions for financial support to subsidiaries (see note 24). In the financial statement of 2014 the provisions for outstanding receivables from subsidiaries was assets as the lowest of debt at the end of reporting year or at the time of the evaluation comparing to the amount of negative equity.

For the 2015 financial statement purposes the recoverability of the debts from subsidiaries was evaluated for each subsidiary individually by management of the Company and by examining the future cash flow of the subsidiary on ability pay the debts. For the subsidiaries that starting from 2015 were not active, provisions were evaluated in the amount of their negative share capital. But for subsidiaries that are active (see Note (13)) provisions were not created, since in 2016 they have already repaid or are planning to repay all the debts that were against the Company at the end of the reporting period. If the same principles were used for recoverability of the debts from subsidiaries analyses as it was in 2014 - assets as the lowest of debt at the end of reporting year or at the time of the evaluation comparing to the amount of negative equity, the provisions at the end of the reporting prior would be EUR 2 992 469.

(19) Other receivables

	31.12.2015. EUR	31.12.2014. EUR
Other receivables	125 148	98 465
Retentions on contracts	60 464	40 799
VAT overpaid (see Note (27))	140	-
Corporate income tax overpaid (see Note (27) for details)	-	35 715
VAT overpaid (see Note (27))	-	18 893
Payments to personnel	-	972
	185 752	**194 844**

(20) Deferred expenses

Insurance payments	21 365	23 807
Other expenses	1 605	2 351
	22 970	**26 158**

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

Costs incurred and profit recognised as income	6 746 534	2 368 047
Gross amount of accrued income	**6 746 534**	**2 368 047**
where:		
Work-in-progress as assets (under "Accrued income")	6 746 534	2 368 047
	6 746 534	**2 368 047**
Corresponding amounts:		
Contract revenue recognised in income statement (under "Net sales")	13 651 104	16 573 714
Advances received from customers (under "Advances from customers" and "Payables to associates")	6 263 160	2 260 680
Retentions on contracts (under "Other receivables")	60 464	40 799

(22) Cash and bank

Cash at bank on current accounts	889 456	26 374
Cash on hand	-	595
	889 456	**26 969**

(23) 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 on behalf of third persons. Shares are not convertible, exchangeable or guaranteed.

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

(24) Provisions

	Provisions for warranty costs	Provisions for financial support to subsidiaries	Total
	EUR	EUR	EUR
31.12.2013.	**168 939**	**627 879**	**796 818**
Reclassified to provisions for Receivables	-	(627 879)	(627 879)
Decrease	(111 460)	-	(111 460)
31.12.2014.	**57 479**	**0**	**57 479**
Increase	55 064	-	55 064
31.12.2015.	**112 543**	**-**	**112 543**

a) Provision for warranty costs

In accordance with sales contracts the Company provides free of charge warranty repairs under general repair terms. The provision in financial statements of the Company is estimated taking into account the historical information on warranty costs and changes in net sales.

b) Provisions for financial support to subsidiaries

Taking into account the changes in the structure of the Group, a disposal of subsidiaries and redistribution of subsidiaries' functions, which are described in Note (13), the provisions for impairment loss of each subsidiary outstanding debts were made in 2014, and prior year provisions for financial support to subsidiaries were reclassified to provisions for receivables from group companies.

(25) Loans from banks

	Note	31.12.2015.	31.12.2014.
		EUR	EUR
Non-current			
Investment credit in USD	a)	-	244 989
Investment credits with EU structural funds' co-financing in EUR	c)	-	-
Investment credit in EUR	b)	-	305 802
		0	**550 791**
Current			
Credit line in EUR	d)	-	1 415 900
Investment credits with EU structural funds' co-financing in EUR	c)	1 807 024	3 495 460
Current part of investment credit in USD	a)	272 659	293 931
Current part of investment credit in EUR	b)	131 344	395 933
		2 211 027	**5 601 224**

Loans from banks (continued)

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%, but from March 2016 increased to 2.7% + 6 month EURIBOR (but not less than 0%) and maturity date is set 31.12.2016. During the reporting period the loan was partly repaid with the support financing received from LIAA for the purchases of the machinery.

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 30.06.2016. The interest rate is 1.75% + 3month 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. Credit line has been paid in full during the reporting period.

The implementation of obligations of the Company are provided and strengthened by:
(i) mortgage on all real estate belonged to the Company;
(ii) commercial pledge of all property of the Company as a total of belongings at the moment of mortgage, as well as total of belongings for the next components.
The currying value of Company's mortgaged assets on 31 December 2015 is EUR 30 913 140 (31.12.2014 - EUR 24 729 357).

(26) Other borrowings

		31.12.2015. EUR	31.12.2014. EUR
Non-current			
Loan from related company	a)	-	2 751 240
Accrued interest for loans from related company		-	218 225
		-	**2 969 465**
Current			
Loan from related company	a)	4 877 240	-
Accrued interest for loans from related company	a)	585 697	0
		5 462 937	**0**

a) In previous periods Company received several loans from related company with annual interest rate of 12%. During the reporting period the Company received additional loans of EUR 2 523 000 total, as well as made repayments of EUR 397 000. The remaining loan is to be repaid till 31.12.2016.

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

(27) Payables to group companies

	31.12.2015. EUR	31.12.2014. EUR
Settlements with subsidiaries (see Note (36))	180 244	691 051
	180 244	**691 051**

(28) Taxes and social insurance payments

	31.12.2014.	Calculated	Calculated penalty and delay fees	(Paid)/ repaid	Transferred to/(from) other taxes	31.12.2015.
	EUR	EUR	EUR	EUR	EUR	EUR
VAT*	(18 893)	666 856	7 350	(302 558)	156 655	509 410
Personal income tax	25 507	174 706	1 062	(141 662)	(49 080)	10 533
Social insurance payments	23 375	348 804	154	(207 632)	(116 247)	48 454
Corporate income tax	(35 715)	-	-	-	35 715	-
Real estate tax (land)	141	7 100	173	(7 469)	-	(55)
Real estate tax (buildings)	1 237	69 182	1 820	(72 324)	-	(85)
Natural resource tax	1 086	4 696	-	(4 284)	2	1 500
Enterprise risk duty	51	561	-	(571)	-	41
Total	**(3 211)**	**1 271 905**	**10 559**	**(736 500)**	**27 045**	**569 798**
Hereof						
(Overpaid) - see Note 19 for details	**(54 608)**					**(140)**
Payables	**51 397**					**569 938**

* In 2015 the Company has used the 100% exemption from natural resource tax as it is involved in voluntary program of packaging waste management. In the reporting year the Company has used discounts for corporate income tax on acquisition of new technological equipment.

** The Company with subsidiaries forms a VAT group. The Company makes payments to the state budget for the whole VAT group. In the financial statements the movement of VAT liabilities reflects the Company's settlements for VAT group. Net transferred tax amount of EUR 27 045 corresponds to the tax liability net movement between the Company and other members of the VAT group.

(29) Other liabilities

	31.12.2015.	31.12.2014.
	EUR	EUR
Salaries	43 949	62 260
Payments to other companies	38 047	30 662
Other liabilities	3 341	2 501
VAT from advances	-	76 418
	85 337	**95 423**

(30) Deferred income

	31.12.2015.	31.12.2014.
	EUR	EUR
Non-current		
Received grants for the acquisition of non-current assets	1 554 663	572 688
	1 554 663	**572 688**
Current		
Received grants for the acquisition of non-current assets	292 671	37 742
	292 671	**37 742**

Deferred income (continued)

In 2011 the Company entered into an agreement with Latvian Investment and Development Agency (LIAA) for participation in the project "The development of new products and technologies - support to introduction of new products and technologies in production". Financing was used to purchase new technological equipment. In 2012 the Company has received the funding in amount of 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 1 625 778. 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. In 2015 the Company received support financing of EUR 1 529 575.

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.

(31) Accrued liabilities

	31.12.2015. EUR	31.12.2014. EUR
Accrued liabilities to subsidiaries*	1 870 384	905 387
Accrued liabilities to other suppliers	158 251	69 551
Accrued unused annual leave	84 690	72 266
	2 113 325	**1 047 204**

* The Company and its subsidiaries use the unified policy of revenue recognition for repair services (see Note (2) to the accounting policies). The Company's accrued liabilities recognized at the end of reporting year of EUR 1 870 384 (31.12.2013 - EUR 2 751 993) is equal to the accrued income for work-in-progress, which are recognized in financial statements of all subsidiaries.

(32) Fees paid to auditors

	2015 EUR	2014 EUR
For the audit of financial statements	9 600	9 501
	9 600	**9 501**

(33) Average number of employees

	2015	2014
Average number of people employed during the financial year	118	134

(34) Remuneration to personnel

	2015 EUR	2014 EUR
Employee pay	1 035 543	1 042 553
Social insurance payments	242 790	243 561
Other expenses	57 762	62 990
	1 336 095	**1 349 104**

(35) Remuneration to the management

Board members		
· salary expenses	142 374	78 340
· other social insurance expenses	33 586	18 480
	175 960	**96 820**

(36) Transactions with related parties

As mentioned in Note (13), the Company holds 100% shares of subsidiary companies SIA Elap, SIA Ritrem, SIA DL Lokomotive, SIA Krāsotājs, SIA SPZČ, SIA Remenergo, SIA Instruments, SIA DL Metalworking and SIA Loģistika. Claims and liabilities against subsidiaries are classified as Receivables and payables to group companies accordingly.

The Company in cooperation 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 – classified as „Associates".

The main shareholders of the Company - AS Skinest Rail (Estonia) and AS Spacecom (Estonia) have a significant influence in determination of the Company's policy and decision making. Disclosed below is information on transactions with these companies as well as with other companies, which are related to AS Skinest Rail (Estonia) and AS Spacecom (Estonia) – classified as „Other related parties".

a) claims and liabilities

	Notes	31.12.2015. Receivables EUR	31.12.2015. Payables EUR	31.12.2014. Receivables EUR	31.12.2014. Payables EUR
Group companies	(18), (27)	3 055 132	180 244	217 405	691 051
Associates	c)	2 236 832	5 958 775	1 739 005	1 457 731
Other related companies	(26)	1 219 090	10 453 448	668 317	4 984 528
		6 511 054	16 592 467	2 624 727	7 133 310

b) transactions

	Notes	Sales / Return to related parties 2015 EUR	Sales / Return to related parties 2014 EUR	Purchases from related parties 2015 EUR	Purchases from related parties 2014 EUR
Group companies					
Repair services of railway rolling stock	a)	-	-	8 575 281	16 395 868
Sales/purchases of materials		5 153 089	5 846 934	1 251 318	1 671 836
Rent of premises and equipment	1 a)	1 791 966	1 799 014	-	22 802
Administrative and management services	b)	274 416	274 416	-	-
Other transactions		1 210 123	371 291	170 504	384 662
Total - Group companies:		**8 429 594**	**8 291 655**	**9 997 103**	**18 475 168**
Other related parties					
Repair services of railway rolling stock		8 490 123	8 938 228	-	-
Sales/purchases of materials		230 080	285 714	2 570 098	3 302 824
Other transactions		36 038	456 201	4 408 362	281 304
Total - Other related parties:		**8 756 241**	**9 680 143**	**6 978 460**	**3 584 128**
		17 185 835	17 971 798	16 975 563	22 059 296

a) Starting from 2007 the Company provides repair of the railway rolling stock by subcontracting its subsidiaries. The largest subsidiaries, providing the Company with railway rolling stock repair services, are SIA Rel, SIA Elap, SIA Remdīz, SIA Elektromaš, SIA Ritrem un SIA Krāsotājs. Each of these mentioned companies carry out the separate part of mentioned services according to every subsidiary's activity (see Note (13)). Respectively, SIA Remenergo, SIA SPZČ, SIA Instruments, SIA DL Metalworking, SIA Metalurgs and SIA Loģistika mainly provide assistance functions in railway rolling stock repair works. These services are provided to other subsidiaries, as well as to the Company. Transaction amount disclosed in this Note does not include accrued liabilities for work-in-progress. See also Note (13) related to changes in Group structure in 2015.

Transactions with related parties (continued)

b) The Company provides administrative and management services for subsidiaries, which include accounting, economic, control and metrology, technical services and supplement technological process with services of engineers - constructors.

c) Due to the time line of the diesel rail cart modernisation project till the end of the reporting period the Company has still not finished its part in the modernisation project, as a result in 2014 and 2015 only advance payments were made for the diesel rail cart modernisation project as well as advance payments made for purchases of materials and parts.

(37) Contingent liabilities

As disclosed in the Notes (13c) to the financial statements the Company is participating in the general partnership DMU vilcieni and performing the part of the work of the EUR 22m contract with AS Pasažieru vilciens for modernization of diesel trains (Project). As at the end of the reporting period the Company has not yet delivered specific parts of the Project's work that according to the agreement between the Company and DMU vilcieni is EUR 9,356 mill. and has recognised accrued income of EUR 6,014 mill. and has received advance in the amount of EUR 5, 959 mill. The general partnership did not meet the set delivery dates. The penalties in such case could reach up to 10% of the original contract amount, additionally AS Pasažieru vilciens has the right to receive compensation on any loses, if the EU structure funds related to this Project are not received. Due to the legal form of DMU vilcieni, its members have joint liability for the Project and its financial result.

The management is in opinion that DMU vilcieni will dispute the potential fines, it will be reimbursed from Project subcontractors or will be compensated from the DMU vilcieni revenue surplus over the Project costs, and therefore, the Company will not suffer the losses from the Project. The financial statements do not include any provisions for liabilities, which could arise, in case if DMU vilcieni Project costs and potential penalties would exceed Project income.

(38) Impact of negative external factors and expected decrease of revenues in 2016

The Company serves the customers and railway trains operating in the CIS and neighbourhood countries. This market is highly influenced by the overall economical and political environment. There are a certain correlation of the total market volume with the changes of GDP in the countries of this region, availability and cost of financial resources and the political relationship between EU and Russia. In 2008 - 2009 years, due to the worldwide economic crisis leading to the lack of available financial resources and stable economical environment, the customers have postponed their orders. The technical requirements for maintenance and modernization of railway trains set the periodical repair works, therefore, decrease of orders in the previous years leaded to the significant increase of orders in the following years.

The Company has experienced the sharp decrease of customers' orders and revenues at the end of 2015 and beginning of 2016 mostly caused by the economic sanctions towards Russia and its response in the way of trade restrictions. The management projects the downsize of operations in 2016 - 2017 period with the sharp increase of revenues for 2018 onwards.

To limit the impact of the negative external factors the Company is planning to carried out the optimization of production processes and resources including decrease the number of employees and cut-of of unprofitable areas of operation.

(39) Financial risk management

Financial risks, related to the financial instruments of the Company, mainly, are currency risk, interest rate risk, liquidity risk and credit risk. The management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial position. The Company does not use derivative financial instruments to hedge certain risk exposures.

Foreign currency risks

The Company acts internationally and is exposed to foreign currency exchange rate fluctuation risk arising from the currency fluctuations of US Dollar (USD) and Russian rubble (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 Company in euro, RUB and US dollars, but the significant part of the production is sold in the domestic market and exported to the markets where euro and RUB dominate. To minimize the RUB exchange risks, the Company enters into contracts for repair with 100% prepayment base value, as well as the Company enters into SPOT agreements with Swedbank.

The companies foreign exchange open position is:

	31.12.2015.	**31.12.2014.**
Financial assets, USD	154 696	190 676
Financial liabilities, USD	(450 325)	(924 357)
Open position USD, net	(295 629)	(733 681)
Open position USD, calculated in euro, net	**(243 496)**	**(604 300)**
Financial assets, RUB	1 387 455	22 576 376
Financial liabilities, RUB	(19 367 790)	(28 730 853)
Open position RUB, net	(17 980 335)	(6 154 477)
Open position RUB, calculated in euro, net	**(248 563)**	**(85 081)**

Interest rate risks

The Company is exposed to interest rate risk as the most liabilities are interest-bearing with the floating interest rate (see Note (25)), while the main part of the Company's financial assets are interest-free receivables, therefore the Company is exposed to floating interest rate risk. During the reporting year the amount of interest-bearing liabilities have decreased.

Credit risk

The Company is subject to the credit risk with respect to the debts of its buyers and customers, related parties receivables, other receivables and money and its equivalents. The Company manages its credit risk constantly reviewing the repayment history of the client debts and stating the credit conditions for each client separately. The Company also monitoring the balances of trade receivables to decrease the risk of non-recoverability of debts. See also Note (18) on provisions for outstanding debts of subsidiaries.

Liquidity risk

The Company manages its liquidity risk, maintaining the appropriate amount of cash and cash equivalents and also using the bank credit line facilities.

(40) Subsequent events

Except as disclosed in Note (38), there are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2015.

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Natālija Petrova
Member of the Board

Daugavpils, 29 April 2016

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Daugavpils Lokomotīvju Remonta Rūpnīca AS

Report on the Financial Statements

We have audited the accompanying financial statements of Daugavpils Lokomotīvju Remonta Rūpnīca AS (the Company) set out on pages 6 to 31 of the annual report. These financial statements comprise the balance sheet as at 31 December 2015, and the income statement, statement of cash flow and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia On Annual Reports and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Basis for Qualified Opinion

As disclosed in the Notes 13 and 37 to the financial statements the Company is participating in the general partnership DMU vilcieni and performing the part of the work of the EUR 22m contract with AS Pasažieru vilciens for modernization of diesel trains (Project). At the end of 2015 the Company has not yet delivered the Project's work and has recognized the accrued income of EUR 6m and advance received of EUR 6m from DMU vilcieni. In 2015 Partnership DMU vilcieni has not complied with the delivery deadline as set in the contract. The penalties of non-compliance of delivery deadline are up to 10% of the value of the contract and also AS Pasažieru vilciens has a right to claim the compensation of losses if Project related EU funds will not be obtained. Taking into account the legal form of Partnership DMU vilcieni, its members has a joint liability for this Project and its financial results. The management is in opinion that Partnership DMU vilcieni will dispute the potential penalties, it will be reimbursed from Project subcontractors or will be compensated from the Partnership DMU vilcieni revenue surplus over the Project costs, and therefore, the Company will not suffer the losses from the Project. Due to existing uncertainties, we were not able to estimate the probability and volume the potential penalties, the financial outcome of the Project and its potential impact to the Company's financial performance of the financial year and financial position at the year end.

Qualified Opinion

In our opinion, except for the possible effect of the matters described in the Basis for Qualified Opinion, the above mentioned financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia On Annual Reports.

Emphasis of Matter Paragraph

At the end of 2015 the carrying value of tangible assets and investment properties is EUR 12,3m, including carrying value of real estate of EUR 5m and production equipment of EUR 7,1m. As disclosed in Note 12 the management has performed the impairment test by value in use method estimating the present value of future cash flows and has satisfied itself that no impairment of assets incurred. In the Note 38 to the financial statements, the Company discloses information on sharp decrease of customers' orders and revenues at the end of 2015 and beginning of 2016 mostly caused by the economic sanctions towards Russia and its response of the way of trade restrictions. Without qualifying the opinion, we pay attention to these negative external factors, and therefore, significant level of uncertainty related to the future cash flows that could have a material impact on the calculation of recoverable value of assets.

Report on Other Legal and Regulatory Requirements

We have read the management report for 2015 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