AS "Daugavpils Lokomotīvju Remonta Rūpnīca"

CONSOLIDATED ANNUAL REPORT

for the year ended 31 December 2015

prepared in accordance with EU approved
International Financial Reporting Standards

CONTENTS

MANAGEMENT

Names and positions of the Council members	Oleg Ossinovski - Chairman of the Council
	Sergei Jakovlev - Member of the Council
	Lauri Reinhold - Member of the Council
	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)
	Natālija Petrova - Chairman of the Board (till 24.02.2015), member of the board (from 24.02.2015)
	Vladimirs Kirsanovs - Member of the Board (from
	Aleksejs Kolpakovs - Member of the Board (till 10.04.2015)
	Eduards Krukovskis - Member of the Board (till 10.04.2015)

REPORT OF THE MANAGEMENT

Type of operations

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

Performance of the Group during the financial year

In 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.

During 2015 the Group finalized the acquisition and installation of most of the machinery in the ERDF project. The project was finalized by 02 March 2015. On 30 July 2015 the Group received the EU support financing and partly covered its liabilities towards bank. Significant losses are firstly related to the sales agreements in Russian ruble, as well due to only partial work load during the reporting period. Thus, in order to increases the factories economical efficiency, reorganization and optimization of the manufacturing process was performed and cut of operating expenses.

The Group reorganization included formation of three new subsidiaries: DL Lokomotīve SIA, DL Metaltworking SIA and Loģistika SIA. DL Lokomotīve - Repair or rolling stock and its components, DL Metaltowrking - Metal foundry, repair and production of spare parts, Loģistika - Logistics services and maintenance of fixture, public facility service rendering to Group companies. The new structure of the Group started operating from 01 April 2015.

During 2015 the Group participated in all related exhibitions, in order to present the Group's new theological possibilities and find new customers, as a result as of today the Group already has completed several new orders from EU clients, but unfortunately it is not sufficient to compensate for the lack of the Russian market possibilities. As a target has been set the increase of metal working and manufacturing jobs on the newly acquired machinery under the ERDF project; increase the Group's efficiency and continue operating expenses optimization.

All of 2015 the Group was involved in the "DR1 diesel-train modernization" project as member of the DMY vilcieni. Due to several factors the project was not finalized by December 2015, DMU vilcieni has reached an agreement with the client AS Pasažieru vilciens that the project deadline is postponed till 31 May 2016.

Financial risk management

The policy of financial risk management of the Group is described in financial report's Notes 29

Future prospects

In 2016 the Group'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 Group is aware that the first half of 2016 it will not have sufficient number of projects, so into eh first quarter the Group performed cost-cutting, decreased the number of employees and cut of unprofitable areas of operation. By marketing estimates, the Group 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 of the Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements give a true and fair view of the financial position of the Group at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 6 to page 36 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

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

Natālija Petrova
Member of the Board

Daugavpils, 29 April 2016

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2015 EUR	2014 EUR
Revenue	(1)	19 213 652	20 068 041
Cost of sales	(2)	(20 049 053)	(18 673 012)
Gross profit		**(835 401)**	**1 395 029**
Distribution expenses	(3)	(229 717)	(398 964)
Administrative expenses	(4)	(1 761 571)	(1 901 530)
Other income	(5)	1 167 107	99 430
Other expenses	(6)	(369 050)	(79 723)
Finance costs	(8)	(608 392)	(356 510)
Profit (loss) before tax		**(2 637 024)**	**(1 242 268)**
Corporate income tax	(9)	(109 131)	(1 057)
Net profit (loss)		**(2 746 155)**	**(1 243 325)**
Attributable to:			
Equity holders of a parent company		(2 746 155)	(1 243 325)
Earnings per share (in cents)	(10)		
Basic		(33,11)	(14,99)
Diluted		(33,11)	(14,99)
Total comprehensive income (expense)		**(2 746 155)**	**(1 243 325)**
Attributable to:			
Equity holders of a parent company		(2 746 155)	(1 243 325)

Notes on pages 10 to 36 are an integral part of these financial statements.

Natālija Petrova
Member of the Board

Daugavpils, 29 April 2016

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2015. EUR	31.12.2014. EUR
ASSETS			
Non-current assets			
Intangible assets	(11)	19 229	22 212
Property, plant and equipment	(11)	14 247 772	16 024 673
Investments in associates		500	-
Total non-current assets:		**14 267 501**	**16 046 885**
Current assets			
Inventories	(13)	3 437 020	3 763 521
Available for sale non-current assets	(11)	112 748	-
Trade receivables	(15)	2 721 407	2 610 649
Accrued income	(16)	6 734 500	2 359 509
Corporate income tax overpaid		11 448	71 584
Other current assets	(17)	2 684 220	2 407 864
Cash and cash equivalents	(18)	890 649	27 811
Total current assets:		**16 591 992**	**11 240 938**
Total assets		**30 859 493**	**27 287 823**

	Notes	31.12.2015. EUR	31.12.2014. EUR
EQUITY AND LIABILITIES			
Equity			
Share capital	(19)	11 801 610	11 801 610
Retained losses of the previous years		(3 163 985)	(1 920 660)
Current year profit (losses)		(2 746 155)	(1 243 325)
Total equity:		**5 891 470**	**8 637 625**
Liabilities:			
Non-current liabilities:			
Borrowings	(20)	-	3 520 256
Deferred income tax liabilities	(9)	769 232	660 101
Deferred income	(21)	1 554 663	572 688
Other liabilities	(23)	131 061	122 834
Total non-current liabilities:		**2 454 956**	**4 875 879**
Current liabilities:			
Borrowings	(20)	7 673 964	5 601 224
Trade payables		6 084 591	3 852 075
Provisions	(22)	152 205	200 178
Deferred income	(21)	292 671	37 742
Other liabilities	(23)	8 309 636	4 083 100
Total current liabilities:		**22 513 067**	**13 774 319**
Total liabilities:		**24 968 023**	**18 650 198**
Total equity and liabilities:		**30 859 493**	**27 287 823**

Notes on pages 10 to 36 are an integral part of these financial statements.

Natalija Petrova
Member of the Board

Daugavpils, 29 April 2016

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	EUR	**EUR**	**EUR**
31.12.2013.	**11 801 610**	**(1 920 660)**	**9 880 950**
Loss of the reporting year	-	(1 243 325)	(1 243 325)
Total comprehensive income	-	(1 243 325)	(1 243 325)
31.12.2014.	**11 801 610**	**(3 163 985)**	**8 637 625**
Losses of the reporting year	-	(2 746 155)	(2 746 155)
Total comprehensive income	-	(2 746 155)	(2 746 155)
31.12.2015.	**11 801 610**	**(5 910 140)**	**5 891 470**

Notes on pages 10 to 36 are an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	2015 EUR	2014 EUR
Cash flow from operating activities			
Profit or losses before income tax		**(2 637 024)**	**(1 242 268)**
Adjustments for:			
depreciation and amortization	(11)	1 550 436	1 022 994
profit from sales of property, plant and equipment	(11)	(2 200)	(21 200)
changes in provisions		10 143	(66 614)
(gains) or losses from exchange rate fluctuations		55 449	65 876
interest expenses		488 043	262 657
Cash flow prior to changes in current assets		**(535 153)**	**21 445**
Inventory (increase)/decrease		2 589 550	(1 422 699)
Account receivable (increase)/decrease		(6 412 812)	512 451
Account payable increase/(decrease)		6 151 407	(30 501)
Gross cash flow generated from operating activities		**1 792 992**	**(919 304)**
Interest paid	(20)	(126 898)	(137 498)
Corporate income tax paid		-	(15 330)
Net cash flow generated from operating activities		**1 666 094**	**(1 072 132)**
Cash flow from investing activities			
Acquisition of property, plant and equipment	(11)	(221 057)	(3 207 962)
Proceeds from sales of property, plant and equipment		6 243	21 200
Loans granted		(277 108)	-
Net cash flow generated from investing activities		**(491 922)**	**(3 186 762)**
Cash flow from financing activities			
Grants received	(21)	1 529 574	96 203
Loans repaid	(20)	(4 999 144)	(1 072 702)
Loans received	(20)	3 158 236	5 046 324
Net cash flow generated from financing activities		**(311 334)**	**4 069 825**
Net increase / (decrease) in cash and cash equivalents		**862 838**	**(189 069)**
Cash and cash equivalents at the beginning of the financial year		**27 811**	**216 880**
Cash and Cash equivalents at the end of the financial year	(18)	**890 649**	**27 811**

Notes on pages 10 to 36 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

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

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

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

The Group financial year is from 1 January 2015 till 31 December 2015.

These financial statements were authorised for issue by the Board of Directors of the Company on 29 April 2015, and Board member Natalija Petrova signed these for and on behalf of the Board of Directors.

These financial statements are consolidated financial statements of the Company. The Company is the parent company of the Group. At the end of 2006 the Company established 11 subsidiary companies holding 100% shares in each. Subsidiary companies commenced active operations from January 2007. In 2015 the Company sold three of its subsidiaries SIA Rel, SIA Remdiz and SIA Metalurgs, the subsidiaries were included in the consolidated financial statement till date of sale, additionally the Company created a new subsidiary SIA DL Metalworking. At the end of reporting year the Company has investments in 9 subsidiaries, as well as due to participation in A/S "Pasažieru vilciens" open tender, the Company together with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zasulauks" founded the general partnership "DMU vilcieni", in which the Company owns 50% of the voting rights, see Note (9) about the details on general partnership.

Name of the subsidiary	**Address**	**Type of operations**	**Share capital 31.12.2015. EUR**	**Participation interest %**
SIA "Elap"	Marijas 1, Daugavpils	Repair of electric equipment of rolling stock	2 845	100
SIA "Ritrem"	Marijas 1, Daugavpils	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock	2 845	100
SIA "DL Lokomotive" former SIA "Elektromaš"	Marijas 1, Daugavpils	Repair and producing of electromotor, generators and transformers and repair and upgrade of wheel couples and lorry, it's knots of rolling stock	2 845	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dyeing of rolling stock	2 845	100
SIA "SPZČ"	Marijas 1, Daugavpils	Repair and producing of spare parts, instruments and equipment	2 845	100
SIA "Remenergo"	Marijas 1, Daugavpils	Maintenance of fixture, technical control and capital repair of buildings, constructions and producing equipment, public facility service rendering to Group companies	2 845	100
SIA "DL Metalworking"	Marijas 1, Daugavpils	Metal foundry, repair and production of spare parts	2 800	100
SIA "Instruments"	Marijas 1, Daugavpils	Dormant status	2 845	100
SIA "Loģistika"	Marijas 1, Daugavpils	Logistics services and maintenance of fixture, technical control and capital repair of buildings, constructions and producing equipment, public facility service rendering to	2 845	100
			25 560	

(1) 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. Whereas, starting from April 2015 SIA REL, SIA Elap, SIA Krāsotājs, SIA SPZČ and SIA Remenergo subsidiaries are not active.

See also Note (5) on the financial effect of the sale of subsidiaries.

II. ACCOUNTING POLICIES

(1) Basis of preparation

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

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

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

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgments applying the accounting policies adopted by the Group. Critical estimates and judgments are represented in Note (23) to accounting policies.

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

IFRIC 21 Levies (effective for annual periods beginning on or after 20 June 2014).
IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government.

Improvements to IFRS: 2011-2013 cycle
The amendments include changes that affect 3 standards - IFRS 3 "Business combinations", IFRS 13 "Fair value measurement" and IAS 40 "Investment property".

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

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

IAS 19, Defined benefit plans: Employee contributions - Amendment (effective for annual periods beginning on or after 1 February 2015).

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

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

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

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

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

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

Improvements to IFRS: 2010-2012 cycle (effective for annual periods beginning on or after 1 February 2015).

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).

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

IFRS 10, IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendment (deferred indefinitely).

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019).

IAS 7 Disclosure Initiative - Amendment (effective for annual periods beginning on or after 1 January 2017).

IAS 12 Recognition of deferred tax assets for unrealized losses - Amendment (effective for annual periods beginning on or after 1 January 2017).

The Group is considering the impact of the new and amended standards on the Group's financial statements.

(2) Methods of consolidation

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

(3) Foreign currencies / change of functional currency

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

Items are recognized in the financial statements of the Group as measured using the currency of the primary economic environment in which the Group operates (the functional currency), that is EUR.

(b) Transactions and balances

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

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

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

(4) Segment disclosure

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

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

(5) Income recognition

Net sales represent the total of goods and services sold during the year net of discounts, value added tax. Main operation of the Group 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 reach 3-6 months.

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

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

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

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

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

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

(6) Intangible assets

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

	Depreciation % per annum
Licenses and patents	20

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

(7) Property, plant and equipment

Property, plant and equipment (PPE) are initially accounted at the purchase cost. Purchase cost includes costs, which are directly related to the purchase of PPE. In financial statements PPE are recognised at purchase cost less depreciation and any impairment losses. See Note (10) for modification of these policies in the first adoption of IFRS.

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

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

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

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

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

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

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

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

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

(9) Joint arrangements

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

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

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

(10) Inventories

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

(11) Loans and trade receivables

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

(12) Cash and cash equivalents

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

(13) Share capital and dividends

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

(14) Borrowings

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

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

(15) Provisions

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

(16) Fair value

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

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

(17) Employee benefits

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

(18) Accrued liabilities for unused annual leave

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

(19) Grants

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

(20) Income tax

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

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

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

(21) Earnings per share

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

(22) Related parties

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

(23) Critical accounting estimates and judgements

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

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

Impairment test

The Group uses *IAS 36 Impairment of Assets* guidance in verification of potential impairment losses. This procedures requires a considerable management decision. Taking into consideration that the estimation of potential sales value of the largest long-term assets of the Group - the real estate and equipment with the carrying value as at 31.12.2014. of EUR 14 247 772 (31.12.2014. - EUR 16 024 673) 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. See also Note (11c) on the impairment test on PPE.

Components of property, plant and equipment (PPE)

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

Property, plant and equipment (PPE) useful life

The Group's management determines the useful life of PPE based on historical information, technical inspections, assessing the current state of the active and external evaluations. During the reporting year and previous year the Groups has not identified factors that indicate a need to change the useful life period of the Group's PPE. Total carrying amount of PEE at the end of the year is EUR 14 247 772 (31.12.2014. - EUR 16 024 673).

Stage of completion method for long-term contacts

The Group carries out an estimation of completion of the repair services at the balance sheet date, as stated in accounting policy in Note (5). The accrued income for supplied repair and upgrading services at the year end are EUR 6 734 500 (31.12.2014. - EUR 2 359 509).

Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflect effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. The total carrying amount of receivables at the end of the reporting period is EUR 2 721 407 (31.12.2014. - EUR 2 610 649). Information on amount and structure of receivables is disclosed in Note (29) of the financial statements.

Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realisation probability and net selling value of the inventories shall be considered. The total carrying amount of inventory at the end of the reporting period is EUR 3 437 020 (31.12.2014. · EUR 3 763 521).

III. OTHER NOTES

(1) Segment Information

(a) Operation and reportable segment

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

(b) Geographical markets

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

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

	2015 EUR	2014 EUR
Latvia	7 254 124	2 066 805
Other EU Contries	6 549 005	6 295 775
Russia	4 688 756	9 491 364
Belarus	573 600	808 120
Uzbekistan	83 541	443 487
Other countries	64 626	962 490
	19 213 652	**20 068 041**

(c) Major customers

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

	2015 EUR	2014 EUR
Customer Nr.1	5 197 373	4 801 245
Customer Nr.2	4 605 039	4 493 969
Customer Nr.3	2 809 269	3 084 079
Customer Nr.4	1 793 049	2 559 734
Other clients	4 808 922	5 129 014
	19 213 652	**20 068 041**

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	13 651 104	16 734 109
Income from sale of spare parts	3 216 570	1 873 520
Income from sales of railway rolling stock	82 380	456 201
Rental income	120 102	107 291
Other income	2 143 496	896 920
	19 213 652	**20 068 041**

(2) Cost of sales

	2015 EUR	2014 EUR
Costs of row materials and goods	12 036 693	9 142 400
Salary expense	3 849 789	5 359 139
Depreciation of property, plant and equipment	1 383 848	749 273
Utility costs	1 032 451	1 509 230
Mandatory state social insurance contributions	912 836	1 250 753
Other production costs	446 839	741 033
Increase in provisions for inventories and receivables	193 718	86 283
Increase in provisions for warranty and other contingent liabilities	183 320	(54 863)
Increase in provisions for expected losses	9 559	(110 236)
	20 049 053	**18 673 012**

(3) Distribution expenses

Salary expenses	82 980	96 891
Brokerage costs	75 046	38 097
Transportation costs	34 525	203 029
Mandatory state social insurance contributions	19 529	22 635
Other distribution costs	17 637	38 312
	229 717	**398 964**

(4) Administrative expenses

Salary expenses	912 225	926 640
Other administrative expenses	292 493	255 966
Mandatory state social insurance contributions	200 193	217 205
Depreciation of tangible assets	166 588	273 712
Professional service costs	116 238	26 913
Office costs	41 054	55 192
Utility costs	30 723	143 143
Representation costs	2 057	2 759
	1 761 571	**1 901 530**

(5) Other income

Gain on disposal of subsidiaries *	673 848	-
Received ERDF grant (see Note (21))	292 671	37 742
Gains from exchange rate fluctuations	143 682	-
Other income	49 833	34 174
Other grants from EU funds	4 873	6 314
Net income from sale of property, plant and equipment	2 200	21 200
	1 167 107	**99 430**

* In 2015 the Company disposed of three of its subsidiaries SIA Rel, SIA Metalurgs un SIA Remdiz, the net result from disposal is shown in the table below:

Cash	(318)
Assets	(1 524)
Liabilities	675 687
Proceeds from sale	3
Net result from disposal	**673 848**

(6) Other expenses

	2015 EUR	2014 EUR
Impairment loss on fixed assets (see Note (11))	328 265	-
Cost of collective agreement with employees	14 538	18 155
Other expenses	26 247	22 308
Loss from exchange rate fluctuations	-	39 260
	40 785	**79 723**

(7) Expenses by Nature

Costs of row materials and consumables	12 036 693	9 142 400
Salary expenses	4 844 994	6 382 670
Depreciation of PPE and intangible assets	1 550 436	1 022 985
Mandatory state social insurance contributions	1 132 558	1 490 593
Utility costs	1 063 174	1 652 373
Other expenses	913 992	1 141 947
Impairment loss on fixed assets (see Note (11))	328 265	-
Increase in provisions for inventories and receivables	193 718	86 283
Increase in provisions for warranty and other contingent liabilities	183 320	(54 863)
Brokerage costs	75 046	38 097
Office expenses	41 054	55 192
Transportation expenses	34 525	203 029
Increase in provisions for expected losses	9 559	(110 236)
Representation expenses	2 057	2 759
	22 409 391	**21 053 229**

(8) Finance expenses

Interest charge	494 280	346 050
Interest capitalized	(6 237)	(83 393)
Interest charge, net	488 043	262 657
Penalties paid	120 349	93 853
	608 392	**356 510**

(9) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	109 131	1 057
Corporate income tax according to the tax return	-	-
	109 131	**1 057**

b) Reconciliation of accounting profit to income tax charges

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

	2015 EUR	2014 EUR
Profit before taxes	(2 637 024)	(1 242 268)
Theoretically calculated tax at 15% tax rate	**(395 554)**	**(186 340)**
Tax effects on:		
Permanent differences	69 264	50 760
Tax allowance on the purchase of new technological equipment	(70 996)	(71 326)
Reclassification of temporary differences	86 303	-
Changes in unrecognized deferred tax asset	420 114	207 963
Total tax charge	**109 131**	**1 057**

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	660 101	659 044
Deferred tax charged to the statement of comprehensive income	109 131	1 057
Deferred tax liabilities (asset) at the end of the financial year	**769 232**	**660 101**

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 PPE and intangible assets	899 789	959 278
Gross deferred tax liabilities	**899 789**	**959 278**
Temporary difference on accruals for expected losses	(1 806)	(1 281)
Temporary difference on provisions for warranties	(22 831)	(30 027)
Temporary difference on provisions for impairment of inventories and receivables	(34 906)	(26 189)
Tax losses carried forward	(699 091)	(449 643)
Unrecognized deferred tax asset and other temporary differences *	207 963	207 963
Gross deferred tax assets	**(550 671)**	**(299 177)**
Net deferred tax liability (assets)	**349 118**	**660 101**

Corporate income tax (continuation)

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

Deferred tax assets:		
deferred tax asset to be recovered within a year	(59 543)	(57 497)
deferred tax asset to be recovered within more than a year	(71 014)	(241 680)
	(130 557)	(299 177)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	97 732	93 995
deferred tax liabilities to be recovered after more than a year	802 057	865 283
	899 789	959 278
Net deferred tax liabilities (assets)	**769 232**	**660 101**

On 31 December 2015 total accrued tax losses are EUR 4 660 606, of which EUR 870 606 are from subsidiaries, which are not active in 2015. It is not expected that the Group will be able to use this tax losses in the future and, therefore, they are not recognized as deferred tax assets. The remaining tax losses carried forward of EUR 3 790 000 have no expiration date.

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

	Accelerated depreciation of PPE	Accruals for expected losses	Impairments of inventories and receivables	Provisions for warranty obligations	Tax losses carried forward	Total
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
31.12.2013.	**876 865**	**(17 817)**	**(27 951)**	**(38 255)**	**(133 797)**	**659 045**
Charged / (credited) to income statement	82 413	16 536	1 762	8 228	(107 883)	1 055
31.12.2014.	**959 278**	**(1 281)**	**(26 189)**	**(30 027)**	**(241 680)**	**660 101**
Charged / (credited) to income statement	(59 489)	(525)	(8 717)	7 196	170 666	109 131
31.12.2015.	**899 789**	**(1 806)**	**(34 906)**	**(22 831)**	**(71 014)**	**769 232**

(10) Earnings per share (expressed in euro cents per share)

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

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

	2015	**2014**
Profit/(loss) attributed to shareholders of the Group (EUR)	(2 746 155)	(1 243 325)
Average annual number of shares	8 294 219	8 294 219
Earnings/(loss) per share (expressed in cents)	**(33,11)**	**(14,99)**

(11) Intangible assets and property, plant and equipment

	Intangible assets	Property, plant and equipment				
		Lands and buildings	Equipment and machinery	Other assets	Assets under construction and advances	Total property, plant and equipment
	EUR	EUR	EUR	EUR	EUR	EUR
01.01.2014.						
Initial cost	45 727	9 385 567	11 129 681	846 774	1 749 460	23 111 482
Accumulated depreciation	(27 767)	(2 045 359)	(7 282 495)	(764 407)	-	(10 092 261)
Net book value	**17 960**	**7 340 208**	**3 847 186**	**82 367**	**1 749 460**	**13 019 220**
2014						
Opening book value	17 960	7 340 208	3 847 186	82 367	1 749 460	13 019 220
Acquired	-	-	-	-	4 032 689	4 032 689
Reclassified	14 886	672 963	4 069 623	32 947	(4 790 419)	(14 886)
Amortized	(10 634)	(303 021)	(673 720)	(35 610)	-	(1 012 351)
Closing book value	**22 212**	**7 710 150**	**7 243 089**	**79 704**	**991 730**	**16 024 673**
Initial cost	60 612	10 058 530	15 178 338	873 673	991 730	27 102 271
Accumulated depreciation	(38 400)	(2 348 380)	(7 935 249)	(793 969)	-	(11 077 598)
Net book value	**22 212**	**7 710 150**	**7 243 089**	**79 704**	**991 730**	**16 024 673**
2015						
Opening book value	22 212	7 710 150	7 243 089	79 704	991 730	16 024 673
Acquired	-	-	-	-	221 057	221 057
Reclassified	4 961	44 310	1 021 904	47 071	(1 118 246)	(4 961)
Disposed	-	(9 219)	(273)	-	0	(9 492)
Reclassified to a available for sale non-current assets		(441 013)	-	-	-	(441 013)
Amortized	(7 944)	(313 179)	(1 197 267)	(32 046)	-	(1 542 492)
Closing book value	**19 229**	**6 991 049**	**7 067 453**	**94 729**	**94 541**	**14 247 772**
31.12.2015.						
Initial cost	65 573	9 661 827	16 200 242	920 744	94 541	26 877 354
Accumulated depreciation	(46 344)	(2 670 778)	(9 132 789)	(826 015)	-	(12 629 582)
Net book value	**19 229**	**6 991 049**	**7 067 453**	**94 729**	**94 541**	**14 247 772**

Intangible assets and property, plant and equipment (continuation)

a) Deemed costs in the first IFRS financial statements

Preparing the first financial statement under IFRS, the Group evaluated a part of PPE - own real estate - at their fair value and by using it as their deemed costs at this date. Valuation was prepared by the independent expert. Taking into consideration that it was prepared in 2007, which is later than transition date to IFRS, as well as correction of market value of real estate at the end of 2007, the appraised value of real estate was decreased by 30%. Total effect of adjustment of transition to IFRS of real estate initial value was EUR 3 606 792.

In the Company's individual financial statements, taking into account the selected revaluation policies for PPE, the increase of these assets' value in the amount of EUR 3 606 792 has been recognized in financial statements of 2007. In 2008 and 2009 in Company's financial statements the revaluation of PPE was performed under its estimated market (sales) price, and in the result the net book value of land and buildings has been reduced in 2008 for EUR 1 931 073 and in 2009 for EUR 410 947.

In 2015 the Group by involving an independent evaluator made valuation of its land and buildings. The net realisable value of the land and 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 in the individual financial statements of the Company, that was deducted from the revaluation reserves created in previous periods (less the deferred tax effect). As a result land and buildings balance value in the Company's individual financial statements was decreased to EUR 5 000 000.

b) Capital commitment

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 (21)). At the end of the reporting period there were no significant contracts on acquisition of machinery.

b) Impairment test

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 (30)) , as at 31 December 2015, the Group has performed impairment test on property, plant and equipment (PPE).

All Group'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 Group 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 Group 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.

Intangible assets and property, plant and equipment (continuation)

Due to the external factors as described in Note (30) 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.

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the impairment calculation of the PPE as of 31 December 2015.

	Factors	31.12.2015 Increase EUR	31.12..2015. Decrease EUR
Expected average growth in revenue	changes by 1%	164 388	(164 388)
Expected average EBITDA/sales ratio	changes by 1%	2 369 124	(2 789 957)
Expected terminal value	1 x EBITDA	1 244 788	(1 244 788)
Discount rate	changes by 1%	2 628 915	(1 366 814)

c) Other notes

In the current year the acquired assets value has been increased by capitalized borrowing costs of EUR 6 237 (2014: EUR 83 393), including all borrowing costs of loans specifically for acquisition of qualifying assets.

Land plots amounting to EUR 441 013, that in 2015 were to be sold and sale of which is expected to take place in during 2016 were reclassified to as available for sale non-current assets, under current assets. Additionally on these assets impairment loss of EUR 328 265 was recognised thus showing assets at their net realisable value.

All intangible and property, plant and equipment of the Group are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from banks (see Note (20)).

The total initial value of the fully depreciated property, plant and equipment at the end of the year amounted to EUR 7 288 837 (31.12.2014. - EUR 6 449 840).

(12) Joint operations

The Group in cooperation with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zasulauks" as an association of persons won AS "Pasažieru vilciens" open tender for modernization of diesel wagons and on January 31, 2014 entered into a contract with AS "Pasažieru vilciens". To comply with this agreement, the Group together with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zasulauks" founded the general partnership "DMU vilcieni", in which the Group owns 50% of the voting rights. Group does not have controlling influence in general partnership "DMU vilcieni" activities, thus it is classified in the financial statements of the Group as associated companies. See also Note (28) for general partnership "DMU vilcieni" financial results and Group contingent liabilities.

As disclosed in the Note (9) of the accounting policies the Company classifies this joint arrangements in Partnership "DMU vilcieni" as joint operation. At the end of the reporting period Company has recognised accrued income of EUR 6 063 618 (31.12.2014: EUR 136 979).

(13) Inventories

	31.12.2015. EUR	31.12.2014. EUR
Raw materials	2 678 441	2 845 554
Work-in-progress	344 999	156 355
Finished goods	646 287	936 203
(Provisions for impairment of inventories)	(232 707)	(174 591)
	3 437 020	**3 763 521**

All inventories of the Group are pledged in accordance with terms of Commercial pledge agreements as security for loans from banks (see Note (20)).

Inventory (continuation)	31.12.2015. EUR	31.12.2014. EUR
Opening balances of provisions	174 591	186 342
Changes in provisions in the financial year	58 116	(11 751)
Closing balances	**232 707**	**174 591**

(14) Financial instruments by category

Financial assets - Loans and receivables		
Trade receivables	2 721 407	2 610 649
Accrued income	6 734 500	2 359 509
Other current assets	464 039	143 694
Cash and cash equivalents	890 649	27 811
	10 810 595	**5 141 663**
Financial liabilities - Other financial liabilities at amortised cost		
Borrowings	7 673 964	9 121 480
Trade payables	6 084 591	3 852 075
Provisions	152 205	200 178
Other liabilities	835 031	964 348
	14 745 791	**14 138 081**

(15) Trade receivables

Book value of trade receivables	4 430 178	4 088 966
(Provisions for impairment of trade receivables)	(1 708 771)	(1 478 317)
	2 721 407	**2 610 649**

For information on the Group's credit risk management and disclosure of information about structure of customers and movement of provisions see Note (28).

All receivables of the Group are pledged in accordance with terms of Commercial pledge agreements as security for loans from banks (see Note (20)).

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

(16) Accrued income

	31.12.2015. EUR	31.12.2014. EUR
Accrued income for repair and modernization contracts	6 746 534	2 368 047
Expected losses	(12 034)	(8 538)
Gross amount of work-in-progress	**6 734 500**	**2 359 509**
where:		
Amount due from customers	6 734 500	2 359 509
	6 734 500	**2 359 509**

Accrued income (continuation)

Corresponding amounts:	31.12.2015. EUR	31.12.2014. EUR
Contract revenue recognised in statement of comprehensive income	13 651 104	16 734 109
Advances received from customers (under "Other liabilities")	6 263 606	2 260 761
Retentions on repair and modernization contracts (under "Other current assets")	60 464	40 799

(17) Other current assets

Financial assets		
Loans	277 108	-
Other receivables	126 467	102 895
Retentions	60 464	40 799
	464 039	143 694
Non-financial assets		
Payables for raw materials	2 191 376	2 219 103
Deferred expenses	28 455	26 158
Other taxes overpaid	350	18 909
	2 220 181	2 264 170
	2 684 220	**2 407 864**

(18) Cash and cash equivalents

Cash at bank on current accounts	890 649	27 216
Cash on hand	-	595
	890 649	**27 811**

(19) Share capital

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

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

(20) Borrowings

	Note	31.12.2015. EUR	31.12.2014. EUR
Non-current			
Loan from related company in EUR	e)	-	2 751 240
Accrued interest on loan from relate company	e)	-	218 225
Investment credit in USD non-current portion	a)	-	244 989
Investment credit in EUR non-current portion	b)	-	305 802
		0	**3 520 256**
Current			
Credit line facilities in EUR	d)	-	1 415 900
Investment credit in USD current portion	a)	272 659	293 931
Investment credits with EU structural funds in EUR	c)	1 807 024	3 495 460
Investment credit in EUR current portion	b)	131 344	395 933
Loan from related company in EUR	e)	4 877 240	-
	e)	585 697	-
		7 088 267	**5 601 224**
Total non - current and current part		**7 673 964**	**9 121 480**

The fair value of the bank borrowings approximate their carrying amount, as they bear floating interest rate. As of 31 December 2015 the Group does not comply with several special condition requirements that have been included in the agreement with the credit institution, such as share capital to total balance sheet, DSCR ratio and DEBT/EBITDA ratio, but this does not have a material effect on the financial statements, since all of the liabilities are short term.

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.

e) 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.

Borrowings (continuation)

	2015 EUR	2014 EUR
At beginning of the year	9 121 480	4 863 756
Borrowings in the year	3 158 236	5 046 325
Repaid borrowings in the year	(4 999 144)	(1 072 702)
Currency exchange rate fluctuation results	55 449	65 876
Changes in accrued interest for loans	301 943	218 225
At the end of the year	**7 637 964**	**9 121 480**

Maturity of the total borrowings is as follows:

	2015 EUR	2014 EUR
Payable in 1 year	7 673 964	5 601 224
Payable in 2 – 5 years	-	3 520 256
	7 673 964	**9 121 480**

The implementation of obligations of the Group are provided and strengthened by:
(i) mortgage on all real estate belonged to the Group;
(ii) commercial pledge of all property of the Group as a totality of belongings at the mortgage moment, including the Company's shares in subsidiaries, as well as totality of belongings for the next components. The value of Group's mortgaged assets on 31 December 2015 is EUR 30 859 493 (31.12.2014. - EUR 27 287 823).
(iii) guarantees from related parties.

(21) Deferred income

	31.12.2015. EUR	31.12.2014. EUR
Non-current		
Received ERDF grant for the acquisition of equipment	1 554 663	572 688
	1 554 663	**572 688**
Current		
Received ERDF grant for the acquisition of equipment	292 671	37 742
	292 671	**37 742**

In 2011 the Company entered into an agreement with Latvian Investment and Development Agency (LIAA) for participation in the project "The development of new products and technologies - support to introduction of new products and technologies in production". Financing was used to purchase new technological equipment. In 2012 the Company has received the funding in the amount of EUR 599 967.

In November 2012 the Company signed a contract with LIAA for EU co-financed project "High value-added investments" for a total estimated LIAA financing of EUR 1 625 778. 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 financing amounting to 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.

(22) Provisions

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

	2015 EUR	2014 EUR
At beginning of the year	200 178	255 041
Used during the year	(231 293)	(88 635)
Additional provisions	183 320	33 772
At the end of the year	**152 205**	**200 178**

(23) Other liabilities

	31.12.2015. EUR	31.12.2014. EUR
Non-current		
Accrued liabilities to post-employment benefits (non-current part)	101 670	122 834
Mandatory State social contributions liabilities *	13 390	-
Personnel income tax liabilities *	16 001	-
	101 670	**122 834**
Current		
Advances received	6 263 606	2 260 761
Value added tax liabilities	509 410	-
Mandatory State social contributions liabilities *	476 475	512 480
Personnel income tax liabilities *	325 077	465 534
Accrued liabilities for unused annual leave	280 459	272 213
Payroll liabilities	224 502	276 181
Other liabilities	222 709	286 322
Accrued liabilities for post-employment benefits (current part)	5 691	6 798
Other taxes payable	1 707	2 811
	8 309 636	**4 083 100**

* In 2015 subsidiary of the Group SIA DL Lokomotive made and agreement with States Revenue Services on extensions on the tax payment liabilities. The extended payment period was given for mandatory State social contribution (SOC) and personnel income tax (PIT) till 23. July, 2017. Respectively SOC of EUR 13 390 and PIT of EUR 16 001 are disclosed under non-current other liabilities.

(24) Average number of employees

	2015	2014
Average number of people employed during the financial year	868	1 027

(25) Remuneration to personnel

	2015 EUR	2014 EUR
Salaries and mandatory state social insurance contributions for production staff	4 762 625	6 609 892
Salaries and mandatory state social insurance contributions for distribution staff	102 509	119 526
Salaries and mandatory state social insurance contributions for administration staff	1 112 418	1 143 845
	5 977 552	**7 873 263**
Including mandatory state social insurance contributions in the remuneration to personnel	1 132 558	1 490 593

(26) Transactions with related parties

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

a) claims and liabilities

		31.12.2015.		31.12.2014.	
		Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
Related parties with significant influence					
Trade receivables / payables	(a)	1 219 090	5 396 519	671 760	2 502 683
Borrowings	(20e)	-	5 462 937	-	2 969 465
		1 219 090	**10 859 456**	**671 760**	**5 472 148**

(a) The repayment of the debts will be made in cash and it is not secured with guarantee or otherwise. In 2015 and 2014 there are no significant bad debts from related parties.

Additionally the Group has received a guarantee from a related party for securing a bank loan and for the purposes of complying with other requirements.

b) transactions

	2015	2014
	EUR	**EUR**
Related parties with significant influence		
Repair services of railway rolling stock	8 513 260	8 982 083
Purchase of raw materials	2 725 043	3 845 113
Sale of other goods	266 460	844 450
Services received	4 408 734	292 460
	15 913 497	**13 964 106**

c) key management remuneration

Remuneration to the members of the Board		
salary expenses	142 374	78 340
mandatory state social insurance contributions	33 586	18 480
	175 960	**96 820**

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

(27) Tax Contingent Liabilities

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

(28) Contingent liabilities

As disclosed in the Notes (12) to the financial statements the Group 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 Group has not yet delivered specific parts of the Project's work that according to the agreement between the Group and DMU vilcieni is EUR 9,356 mill. and has recognised accrued income of EUR 6,064 mill. and has received advance in the amount of EUR 5 958 775. The general partnership did not meet the set delivery dates. The late fee in such case can 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 support funds related to this Project are not received. Due to the legal form of DMU vilcieni, its members have joint accountability 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 Group 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 late fines exceed Project income.

(29) Financial and capital risk management

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

(a) Market risk

(i) Foreign exchange risks

The Group acts internationally and is exposed to foreign currency exchange rate fluctuation risk arising from the currency fluctuations of euro, US dollar (USD) and Russian 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 Group in euro, RUB and US dollars, but the significant part of the production is sold in the domestic market and exported to the markets, where USD and RUB dominant.

Financial and capital risk management (continuation)

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

The Group significant open currency positions:

	31.12.2015.	31.12.2014.
Financial assets, USD	154 696	190 676
Financial liabilities, USD	(450 325)	(924 357)
Open position of balance sheet, USD, net	(295 629)	(733 681)
Open position of balance sheet, USD, calculated in euro, net	**(271 543)**	**(604 300)**
Financial assets, RUB	1 387 455	22 576 376
Financial liabilities, RUB	(19 367 790)	(28 730 853)
Open position of balance sheet, RUB, net	(17 980 335)	(6 154 477)
Open position of balance sheet, RUB, calculated in euro, net	**(222 878)**	**(85 081)**

Financial and capital risk management (continuation)

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

	2015		2014	
	Change in exchange rates	Effect on profit before tax	Change in exchange rates	Effect on profit before tax
		EUR		EUR
USD	+10%	24 686	+10%	60 466
	-10%	(24 686)	-10%	(60 466)
RUB	+10%	20 262	+10%	8 344
	-10%	(20 262)	-10%	(8 344)

(b) Interest rate risks

The Group is exposed to interest rate risk as the most liabilities are interest-bearing with the floating interest rate (Note (20)), while the main part of the Group's financial assets are interest-free receivables, therefore the Group is exposed to floating interest rate risk. In 2015 the Group's liabilities with floating interest rates decreased, since the Group receiving financing from ERAF.

	31.12.2015.	31.12.2014.
Financial liabilities with variable interest rate, EUR	1 938 368	5 613 095
Financial liabilities with variable interest rate, USD calculated in EUR	272 659	538 920
Open positions, net, EUR	**2 211 027**	**6 152 015**

Financial and capital risk management (continuation)

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

	2015		2014	
	Increase/ decrease in basis points	**Effect on profit before tax**	**Increase/ decrease in basis points**	**Effect on profit before tax**
		EUR		**EUR**
EUR	+30	35 974	+30	38 299
	-30	(35 974)	-30	(38 299)
USD	+30	1 217	+30	1 922
	-30	(1 217)	-30	(1 922)

(c) Credit risk

Maximum exposure to credit risk	**31.12.2015. EUR**	**31.12.2014. EUR**
Trade receivables	2 721 407	2 610 649
Accrued income	6 734 500	2 359 509
Other receivables	464 039	143 694
Cash	890 649	27 811
	10 810 595	**5 141 663**

The largest concentration of credit risk arises from trade receivables and related accrued income. The Group controls its credit risk by constant monitoring the payment history of clients and by setting the crediting conditions individually. Furthermore the Group constantly monitors the book value of trade receivables to reduce the risk of bad debts. To reduce credit risks, the Group requires advances or prepayment from the customers, which amount at the end of the year was EUR 6 263 606 (31.12.2014. -EUR 2 260 761).

Maturity analysis of trade receivables:

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	split as: in due term	Past due* < 90 days	Past due* 90-180 days	Past due* > 180 days
31.12.2014. EUR	4 088 966	(1 478 317)	2 610 649	2 610 649	-	-	-
31.12.2015. EUR	4 430 178	(1 708 771)	2 721 407	2 590 825	-	-	130 582

Movement of provisions for decrease of trade receivables	**31.12.2015. EUR**	**31.12.2014. EUR**
Provisions at the beginning of the year		1 379 767
Provisions created in the reporting period	230 454	98 550
Provisions at the end of the year	**230 454**	**1 478 317**

Financial and capital risk management (continuation)

(d) Liquidity risk

The Group pursues a prudent liquidity risk management and maintain a sufficient quantity of cash and ensure the availability of financial funds for credit line facilities provided by banks. At the end of the reporting period the Group's current liabilities exceeded current assets by EUR 5 921 075 (31.12.2014. - current liabilities exceeded current assets by EUR 2 533 381). Liquidity ratio at the end of the reporting period is 0,75 (31.12.2014. - 0,8). The liquidity ratio decreased due additional funds received for the long term projects, that the Company plans to finish in 2016 and settle the received loans. At the end of the reporting period the Group had unused credit line resources EUR 1 500 000 (but it was only available till 15.01.2016) (31.12.2014. - EUR 84 100).

Group's management monitors the operational forecasting of liquidity reserves, based on estimated cash flows. Most of the Group's liabilities are short-term. Management believes that the Group will have sufficient financial resources that will be generated from operating activities, for it not to be exposed to liquidity risk.

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

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

On 31 December, 2015	**Total**	**<6 months**	**6-12 months**	**1-2 years**	**2-5 years**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
Loans from Bank					
EUR	**1 938 368**	969 184	969 184	-	-
USD	**272 659**	136 330	136 330	-	-
Trade payables	**6 084 591**	6 084 591 -		-	-
Other liabilities	**1 016 627**	452 902	438 355	40 773	84 597
Total liabilities	**9 312 245**	**7 643 007**	**1 543 869**	**40 773**	**84 597**

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

(e) Capital Management

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

Financial and capital risk management (continuation)

Group's management controls the external debt (borrowings) to total capital (gearing ratio). During the reporting year this figure has increased by 10%, which caused by the new loans received. Equity to total assets at the end of the reporting year remained at 19% (31.12.2014. - 32%).
The Group foresees that the loans from related party EUR 5 462 937 will be prolonged and they are subordinated against the credit institution loans.

	31.12.2015. EUR	31.12.2014. EUR
Total borrowings	7 673 964	9 121 480
Cash and its equivalents	(890 649)	(27 811)
Net loans	6 783 315	9 093 669
Equity	5 891 470	8 637 625
Total assets	30 859 493	27 287 823
Gearing ratio	115%	105%
Equity ratio on total assets	19%	32%

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

The Group 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, availability and cost of financial resources and the political relationships between EU and Russia. In 2008 -2009 years period 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 Group 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 Group is carrying out in 2016 the optimization of production processes and resources including decrease the number of employees and cut unprofitable areas of operation.

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

Taking into account the structure of the Group and transactions performed, after the preparation of Group's 2015 unaudited financial statements the Group has performed additional procedures in evaluating certain assets and liabilities, due to this the result in these financial statements significantly differs from the unaudited financial statements results.

	2015 EUR
Net profit in unaudited financial statements	(2 503 922)
Deferred income tax adjustments	(144 611)
Accrued income adjustment	(443 205)
Impairment loss on fixed assets available for sale	(328 265)
Gain on sale of subsidiaries	673 848
Net profit/(loss) in audited financial statements	**(2 746 155)**

(32) Subsequent events

Except as disclosed in Note (30), 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 Group as at 31 December 2015.

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Daugavpils Lokomotīvju Remonta Rūpnīca AS

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Daugavpils Lokomotīvju Remonta Rūpnīca AS and its subsidiaries (together as the Group) set out on pages 6 to 35 of the annual report. These consolidated financial statements comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of cash flow and statement of changes in equity for the period from 1 January 2015 to 31 December 2015 (the Financial year), and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Basis for Qualified Opinion

As disclosed in the Notes 13 and 37 to the financial statements the Group 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 2015 the Group 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 fines of non-compliance of delivery deadline are up to 10% of the value of the contract and AS Pasažieru vilciens has a right to claim the compensation of losses if Project's related EU funds will not be received.

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 DMU vilcieni will dispute the potential penalties, it will be reimbursed from Project subcontractors or will be compensated from the DMU vilcieni revenue surplus over the Project costs, and therefore, the Group 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 Group's financial performance of the financial year and financial position at the year end.

In the Note 30 to the financial statements, the Group 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 in the way of trade restrictions. This information identified as an indicator of potential impairment of assets. As at the end of 2015 the carrying value of property, plant and equipment (PPE) is EUR 14,3m, including carrying value of real estate of EUR 7m and production equipment of EUR 7,1m. According to the Group's accounting policy the real estate in the separate financial statements is recognized at fair value, estimated regularly by independent expert, less accrued depreciation, but in consolidated financial statements – at their fair value in the moment of first adoption of IFRS in 2008, using it as their deemed costs at this date, less accrued depreciation. In 2015 the parent company of the Group has recorded in the separate financial statements the decrease of real estate's fair value down to EUR 5m based on the external valuation of fair value less costs to disposal. However, in the consolidated financial statements for impairment testing purposes the value in use method is used, and all PPE are treated as one cash generating unit. As disclosed in Note 11 the management has performed the impairment test by estimating the present value of future cash flows and has satisfied themselves that no impairment of PPE incurred. In our opinion, taking into account the difference in accounting policy for real estate and our developed range of estimate of the future cash flows, the value of PPE might be impaired, but we could not evaluate its potential volume and impact to the financial performance of the financial year and financial position at the year end.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion, the above mentioned consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and its cash flows for the financial year in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

Baker Tilly Baltics SIA
Licence No. 80

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

Riga, 29 April 2016