

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

ANNUAL REPORT

for the 12 months period ended 31 December 2016

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INFORMATION ON THE COMPANY

Name of the company	Daugavpils Lokomotīvu Remonta Rūpnīca
Legal status of the company	Joint Stock Company
Number, place and date of registration	Company Register No 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
Members of the Board	Margus Mals - Member of the Board (since March 21, 2016), Chairman of the Board (since February 20, 2017) Aivar Keskuela - Chairman of the Board (till February 20, 2017) Natālija Petrova - Member of the Board Vladimirs Kirsanovs - Member of the Board Gatis Kamarūts - Member of the Board (since February 20, 2017)
Members of the Council	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
Financial year	1 January, 2016 - 31 December, 2016
Auditor's name and address:	Baker Tilly Baltics SIA License No. 80 Kronvalda boulevard 10 Riga, LV-1010 Latvia
	Certified auditor in charge Ēriks 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 locomotives and electric trains.

Performance of the Company during the financial year

In 2016 revenue of the Company were 18.7 million EUR (in 2015 - 27.5 million EUR). Sales of principal activity (repair services and sales of spare parts) comprised 10.8 million EUR, that compile 36% reduction against to the 2015. In addition to principal activity the Company has rendered to subsidiaries as well as to other companies the following services: sale of materials, rent, administration services and others, which provided the additional net sales of 7.9 million EUR (in 2015 - 10.6 million EUR).

During the reporting period the Company restructured its activities including cost optimization, reduction of the number of employees and abandonment of unprofitable activities.

In the reporting period the Company completed the DR1 diesel trains modernization project as a member of Partnership DMU vilcieni. AS Pasažieru Vilciens imposed a fine of 10% of contract amount and withheld this amount from the payments to Partnership DMU vilcieni, as the result the Company recognized a partial provisions against the receivables from Partnership DMU vilcieni.

The Company finished the reporting year with significant losses: firstly, additional provisions were made for accounts receivable at the amount of 4.1 million EUR, secondly, the Company had not been provided with the necessary amount of customer orders.

Performance of the Group during the financial year

In 2016 the Group's consolidated revenue amounted to 13.5 million EUR (decrease of 30% in respect of revenue of 2015).

The Group finished the year with losses of 2.3 million EUR. In 2016 the Group exported its products to 8 countries, the total export volume amounted to 7.5 million EUR (in 2015 - 12 million EUR), while net sales in Latvia amounted to 6 million EUR (in 2015 – 7.2 million EUR). The main directions of export in 2016 were EU countries: Lithuania and Estonia, and third countries: Russia, Belarus and Uzbekistan.

During the reporting period Group's reorganization was carried out, three new subsidiaries were founded (DL metal SIA - metalworking, LokRem SIA - the rolling stock repair, LogKom SIA - transport services) and the sale of shares in existing subsidiaries (DL Metalworking SIA, DL Lokomotive SIA, Logistika). Reorganization will not leave a material impact on the Group's performance in the future. The new structure came into being on 01 October 2016.

Group during the reporting period was not fully loaded with projects. To minimize losses, the Group carried out the following measures: cost optimization, staff cuts and the cut of loss-making activities. Large losses in the reporting period are related to the Group's lack of projects, as well as the negative result of DMU project.

Research and development

The Company's total costs of research and business development activities amounted to 31 733 EUR. Theses works consisted of the development of new services, certificates and the improvement of product quality procedures.

Financial risk management

The policy of financial risk management of the Company is described in the financial report's Notes 40

Subsequent events

In the time period between the last day of the financial year and the date of signing the financial statements there have been no significant events that would have a significant effect on the financial results of the year or the financial position of the Company.

Use of going concern assumption

Due to the negative performance of recent years the Company's liquidity ratios has worsen. At the end of the reporting period Company's current liabilities exceeded current assets by 7.7 mil. EUR. On that date the Company's major creditors are the Company's largest shareholder's AS Skinest Rail group companies (8.2 mil. EUR) and AS Swedbank loans outstanding (2.6 mil. EUR).

The capability of the Company to continue its activities depends on the financial results in future periods, the extension of bank's loan repayment terms and the support from shareholders. In 2017 the Company forecasts revenue growth and modest positive cash flow from operating activities. No substantial investments projects and investments in fixed assets are planned for the next year. The Company is negotiating a bank loans' refinancing and rescheduling. Given that the existing bank borrowings are secured by the pledge of all Company's assets, as well as AS Skinest Rail financial guaranty it is reasonably confident that an agreement will be reached.

The Company received a support letter from its shareholder AS Skinest Rail that it will support the Company to continue going concern in 2017. Accordingly, the Company's financial statements have been prepared in accordance with the going concern principle.

Future prospects

During 2017 the Group's priority is the development of the metal processing sector - attraction of new customers and a significant increase in turnover. According to forecasts, in 2017 the Company will be provided with increased number repair objects in comparison to the reporting period. The 1st quarter of 2017 for the Company's workload is significantly higher than the same period in 2016. Contracts with the Polish company PKP Linia Hutnicza Szerokotorowa SPOLKA z o.o. on repair of locomotives, as well as other significant contracts have been signed.

Natālija Petrova
Member of the Board

Daugavpils, 02 May 2017

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STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements of the Company in accordance with the Laws of the Republic of Latvia "On Accounting" and "On the Annual Report and Consolidated Annual Report". 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 certifies that proper accounting methods were applied to preparation of these financial statements on page 7 to page 35 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the 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, 02 May 2017

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INCOME STATEMENT

	Notes	2016 EUR	2015 EUR
Revenue	(2)	18 674 793	27 483 348
Costs of goods sold or services provided	(3)	(17 185 653)	(25 942 053)
Gross profit or losses		<u>1 489 140</u>	<u>1 541 295</u>
Distribution expenses	(4)	(288 365)	(229 717)
Administrative expenses	(5)	(1 101 722)	(1 622 429)
Other operating income	(6)	635 403	644 325
Other operating expenses	(7)	(4 225 172)	(456 045)
Income from participation: incl.	(8)	(8 490)	(8 534)
<i>a) in the capital of group companies</i>		<i>(8 490)</i>	<i>(8 534)</i>
Interest and similar expenses incl.	(9)	(543 070)	(488 043)
<i>b) from other parties</i>		<i>(543 070)</i>	<i>(488 043)</i>
Profit or losses after corporate income tax		<u>(4 042 276)</u>	<u>(619 148)</u>
Changes in deferred tax assets or liabilities	(10)	393	109 534
Profit or losses for the financial year		<u>(4 041 883)</u>	<u>(509 614)</u>
Earnings per Share (euro cents)	(11)		
Basic		(48.73)	(6.14)
Adjusted		(48.73)	(6.14)

Notes on pages 12 to 35 are an integral part of these financial statements.

Natālija Petrova
Member of the Board

Svetlana Beļvaska
chief accountant

Daugavpils, 02 May 2017

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BALANCE SHEET

	Notes	31.12.2016. EUR	31.12.2015. EUR
<u>ASSETS</u>			
Non-current assets			
Intangible assets			
Concessions, patents, licenses, trademarks and similar rights	(12)	40 784	19 229
Total intangible assets:		40 784	19 229
Fixed assets:			
Immovable properties			
a) land plots, buildings and engineering structures	(12)	4 827 279	5 030 730
Technological equipment and machinery	(12)	5 951 205	7 067 452
Other fixed assets	(12)	69 650	94 729
Fixed assets under development and construction in progress	(12)	59 690	94 541
Total fixed assets:		10 907 824	12 287 452
Non-current financial investments:			
Investments in group companies	(13)	22 625	25 566
Other securities and investments	(13)	500	500
Total non-current financial investments:		23 125	26 066
Total non-current assets:		10 971 733	12 332 747
Current assets			
Inventories:			
Raw materials and consumables	(14)	1 815 257	2 008 935
Finished goods and goods for sale	(15)	1 011 304	483 693
Advances for inventories		28 210	231 652
Total inventories:		2 854 771	2 724 280
Account receivable:			
Trade receivables	(16)	1 047 851	2 719 440
Receivables from group companies	(17)	539 951	3 055 132
Receivables from associates	(18)	448 947	2 236 832
Other receivables	(19)	73 111	185 752
Deferred expenses	(20)	18 810	22 970
Accrued income	(21)	534 979	6 746 534
Total receivables:		2 663 649	14 966 660
Current financial investments:			
Investments in group companies	(13)	2 851	-
Total current financial investments:		2 851	0
Cash and bank:	(22)	89 938	889 456
Total current assets:		5 611 209	18 580 396
<u>Total assets</u>		<u>16 582 942</u>	<u>30 913 143</u>

Notes on pages 12 to 35 are an integral part of these financial statements.

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BALANCE SHEET

		31.12.2016. EUR	31.12.2015. EUR
	Notes		
<u>EQUITY, PROVISIONS AND LIABILITIES</u>			
Equity			
Share capital	(23)	11 611 907	11 801 610
Non-current investments revaluation reserve	(12)	1 018 322	1 156 415
Reserves:			
f) other reserves	(23)	189 698	-
Retained earnings or uncovered losses brought forward from previous years	(24)	(6 824 948)	(6 315 334)
Current year profit or losses	(24)	(4 041 883)	(509 614)
Total equity:		1 953 096	6 133 077
Total provisions:	(25)	24 155	112 543
Liabilities:			
Non-current liabilities:			
Deferred tax liabilities	(10)	-	24 762
Deferred income	(32)	1 261 992	1 554 663
Total non-current liabilities:		1 261 992	1 579 425
Current liabilities:			
Loans from banks	(26)	2 607 839	2 211 027
Other borrowings	(27)	4 535 108	5 462 937
Advances from customers		509 862	304 265
Trade payables		4 418 799	5 909 579
Payables to group companies	(28)	158 733	180 244
Payables to associates	(29)	-	5 958 775
Taxes and state social insurance payments	(30)	97 296	569 938
Other creditors	(31)	84 286	85 337
Deferred income	(32)	292 671	292 671
Accrued liabilities	(33)	639 105	2 113 325
Total current liabilities:		13 343 699	23 088 098
Total liabilities:		14 605 691	24 667 523
<u>Total equity, provisions and liabilities</u>		<u>16 582 942</u>	<u>30 913 143</u>

Notes on pages 12 to 35 are an integral part of these financial statements.

Natālija Petrova
Member of the Board

Svetlana Beļvaska
chief accountant

Daugavpils, 02 May 2017

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STATEMENT OF CHANGES IN EQUITY

	Notes	2016 EUR	2015 EUR
Share capital			
Opening balance		11 801 610	11 801 610
Increase/decrease in share capital	(23)	<u>(189 703)</u>	<u>-</u>
Closing balance		<u>11 611 907</u>	<u>11 801 610</u>
Non-current investment revaluation reserve			
Opening balance		1 156 415	1 602 393
Increase/decrease of non-current investment revaluation reserve	(12) b)	<u>(138 093)</u>	<u>(445 978)</u>
Closing balance		<u>1 018 322</u>	<u>1 156 415</u>
Reserves			
Increase/decrease of the balance of the reserves	(23)	<u>189 698</u>	<u>-</u>
Closing balance		<u>189 698</u>	<u>0</u>
Retained earnings			
Opening balance		(6 824 948)	(6 315 334)
Increase/decrease in retained earnings		<u>(4 041 883)</u>	<u>(509 614)</u>
Closing balance		<u>(10 866 831)</u>	<u>(6 824 948)</u>
Equity			
Opening balance		<u>6 133 077</u>	<u>7 088 669</u>
Closing balance		<u>1 953 096</u>	<u>6 133 077</u>

Notes on pages 12 to 35 are an integral part of these financial statements.

Natālija Petrova
Member of the Board

Svetlana Beļvaska
chief accountant

Daugavpils, 02 May 2017

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CASH FLOW STATEMENT

	Notes	2016 EUR	2015 EUR
Cash flow from operating activities			
Profit or losses before corporate income tax		(4 042 276)	(619 148)
<u>Adjustments for:</u>			
depreciation and impairment of fixed assets	(12)	1 396 928	1 444 252
depreciation and impairment of intangible assets	(12)	11 009	7 944
provisions (except provisions for doubtful debts)		(22 856)	91 304
gain or losses from fluctuations of foreign currency rates		-	55 449
gain from participation in capital of group companies, associates or other entities	(8)	8 490	8 534
interest and similar expenses	(9)	543 070	488 043
Profit or loss prior to changes in current assets and current liabilities		(2 105 635)	1 476 378
Increase or decrease of account receivable		12 096 216	(7 542 776)
Increase or decrease of inventory		(308 770)	365 116
Increase or decrease of account payables and other liabilities		(9 649 993)	7 384 475
Gross cash flow generated from operating activities		31 818	1 683 193
Interest payments		(659 703)	(126 898)
Net cash flow generated from operating activities		(627 885)	1 556 295
Cash flow from investing activities			
Acquisition of shares of group companies, associates or other entities		(8 400)	(3 300)
Acquisition of fixed and intangible assets		(55 155)	(108 309)
Proceeds from sale of fixed and intangible assets		97 729	6 243
Loans issued		-	(277 108)
Repayment of loans		227 108	-
Net cash flow generated from investing activities		261 282	(382 474)
Cash flow from financing activities			
Loans received		1 957 000	3 158 236
Subsidies, grants, gifts or donations received		-	1 529 574
Repayment of loans		(2 389 915)	(4 999 144)
Net cash flow generated from financing activities		(432 915)	(311 334)
Net cash flow in the financial year		(799 518)	862 487
Cash and cash equivalents at the beginning of the financial year	(22)	889 456	26 969
Cash and cash equivalents at the end of the financial year	(22)	89 938	889 456

Notes on pages 12 to 35 are an integral part of these financial statements.

Natālija Petrova
Member of the Board

Svetlana Beļvaska
chief accountant

Daugavpils, 02 May 2017

NOTES TO THE FINANCIAL STATEMENTS

(1) Summary of accounting policies

General principles

Financial statements are prepared in accordance with the Laws of the Republic of Latvia "On Accounting" and "On the Annual Report and Consolidated Annual Report" (the Law).

The financial statements have been prepared according to the historical cost accounting principle except the fixed assets, which are measured by revaluated cost. The income statement is prepared in accordance with the function of expense method. The cash flow statement has been prepared under indirect cash flow method.

General accounting principles

Financial statement items are valued according to the following accounting principles:

- a) it is assumed that the Company will continue its activities;
- b) unless specified separately, the same valuation methods are used as in the previous year;
- c) valuation is made with sufficient care, including:
 - profit is recognized only if earned before the end of financial year;
 - all known and foreseeable liabilities and losses occurred before the end of the financial year shall be considered, including when they were revealed during the period between the end of the financial year and the day of preparation of the financial statement;
 - all asset impairment losses and depreciation are considered, regardless of whether the financial year is closed with profit or loss.
- d) unless specified separately, revenues and expenses are recognized according to accruals method, that is, considering the moment of occurrence regardless of the day of payment and day of invoice issue or receipt. Expenses are reconciled with the revenues in the financial year.
- e) The sections of the items of Assets and Equity, Provisions and Liabilities are measured and classified separately. Income and expenses are classified and disclosed separately except the gains or losses from sale of non-current assets and from similar transactions (e.g., the result of currency exchange rate fluctuation or the result of sale or purchase of foreign currency), which are offsetted.
- f) Transactions are reflected with account of their economic intention and matter and not with account of their legal form.

Changes in accounting policies and correction of fundamental errors

Due to adoption of the Law on the Annual Report and Consolidated Annual Report (the Law) in 2016, the Company has changed the accounting standards as mentioned below.

a) Measurement and classification of investment property, biological assets and non-current assets held for sale

Starting with 2016, the investment property, biological assets and non-current investments held for sale could not be measured at their fair value with the effect through income statement. Investment property and non-current biological assets (draft animals and productive animals, perennial plantings) shall be further classified under fixed assets and are subject to the fixed assets recognition and measurement policy.

The investment properties held by the Company have been previously evaluated at fair (revalued) value less depreciation and impairment losses, therefore, the changes of the Law affected only the classification of investment property in the Company's financial statements.

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b) Recognition of deferred tax assets or liabilities

As per 2016 entities are no longer required to evaluate and recognize the deferred tax assets or liabilities. Pursuant to transition regulations previously recognized deferred tax assets or liabilities shall be written off at the beginning of the financial year to the retained earnings without correcting the comparatives.

If the Company does not recognize deferred tax assets or liabilities, its financial reports may not give clear and fair presentation of its financial position and operating results. Therefore, the Company is using a derogation clause of the Law which allows applying of International Financial Reporting Standards (IFRS) for the deferred tax accounting. The accounting policy applied is specified in section "Corporate income tax". If the Company had applied the changes adopted by the Law regarding derecognition of deferred tax at the beginning of the reporting year accrued deferred tax liabilities EUR 24 762 would be reclassified to retained earnings. Net profit for the financial year would be reduced by EUR 393 without the effect on equity at the end of the financial year.

c) Depreciation of fixed assets revaluation reserves

Due to enactment of the Law, fixed assets revaluation reserves may be reduced (depreciated) for a respective part of the annual depreciation of a revaluated fixed assets. Depreciation of the reserve shall be recognized in the income statement as income. The Company did not depreciate the fixed assets revaluation reserves previously. Change of the policy shall not be recognized with retrospective effect, but reducing the amount of reserves as at beginning of 2016 during the residual useful life of fixed assets.

The Company decided do not change the existing accounting policy and do not recognize the amortisation of revaluation reserves.

d) Changes in classification of items and disclosure of information in the balance sheet, income statement, cash flow statement and statement of changes in equity

Due to enactment of the Law, the structural form of the balance sheet, income statement and cash flow statement has been changed. A new structural form of the statement of changes in equity has been also introduced. Prior year comparatives were classified in the financial statements according to the principles of the financial year and are comparable. Reclassification does not affect the financial results.

Name of items reclassified	31.12.2015		Amount EUR
	Adjusted Name of line item	Prior adjustments Name of line item	
Investment properties	Fixed assets, Immovable properties	Investment properties	3 289 415
Non-current assets held for sale	Finished goods and goods for sale	Non-current assets held for sale	112 748

Name of items reclassified	2015		Amount EUR
	Adjusted Name of item	Prior adjustments Name of item	
Real estate tax expenses	Costs of goods sold and services provided	Other taxes	(76 282)
Penalties paid	Other operating expenses	Interest and similar expenses	(21 698)

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e) Disclosure of information in the notes to financial statement

Due to enactment of the Law, the scope of information disclosed in the notes to financial statement has been changed by defining different criteria depending on the size of a company. Based on the financial data for the two recent years, the Company is classified as a **medium** size entity. Financial statements reflect all information as defined by the Law, as well as additional information to provide the fair and clear presentation.

Except the above mentioned, the accounting policies and valuation methods used by the Company are consistent with those used in the previous reporting year.

Foreign currency conversion in euro

This financial statement is prepared in euro (EUR), which is the functional currency of the Company and the official currency of the Republic of Latvia.

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.

	31.12.2016.	31.12.2015.
	EUR	EUR
1 USD	1.0541	1.0887
1 RUB	64.300	80.674

Income recognition and revenue

Revenue 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 percentage of completion method;

Income from fines and penalties - at the moment of receiving the payments;

Interest income - on an accrual basis;

Dividends - at the moment of acquiring legal rights to receive them.

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.

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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".

Intangible investments and fixed 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. All other fixed and intangible assets are recognized at acquisition cost less accumulated depreciation. The acquisition costs include all related expenses of asset acquisition.

The difference arising from revaluation (by deducting the deferred tax) is recognized in equity under "Non-current investment revaluation reserve", but reduction of value of fixed assets is written-off against the reserve to the extent of residual value of respective fixed assets revalued in prior year and including the surplus in the income statement. Revaluation reserves are not subject to amortization.

In case of disposal or liquidation of fixed assets, the reserves are written-off to the Income statement in full.

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 recognized by 100 % after commissioning.

If sufficient evidence is acquired that the future economic benefit associated with subsequent repair or reconstruction 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.

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Capitalization of borrowings and other costs

The cost of asset under development is increased by borrowing costs and other direct costs during the period of time that is required to complete and prepare the asset for its intended use. The cost of asset is not increased by borrowing costs during the period with no active development of asset.

Research and development costs

Research costs are recognized in the income statement when incurred. Development costs that relate to development of asset intended for sale or own use, are recognized as intangible assets and amortized on a straight-line basis starting from the beginning of commercial production of the respective product over the period when the return on this asset is expected.

Investments in subsidiaries, associates and other entities

Participation in capital of subsidiaries, associates and other entities, are recognized at cost less impairment losses.

Inventories

Inventories are recognized 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, based on the normal capacity method, are included in the production cost of inventories. The balance value of the inventories is calculated by using 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. Impairment of inventories is determined by evaluating each of the inventories individually based on the expected use set by the management and repair objects expected in the future.

Accounts receivable

Trade receivables are recognized at invoiced amounts. After the initial recognition account receivables are measured at net amount less provisions for doubtful debts. Provisions for doubtful receivables are recognized when the management of the Company considers that it is probable that the total amount of receivables will not be collected in full.

Provisions, contingent liabilities and assets

Provisions are liabilities related to current or previous years events and at the preparation of financial statements it is probable that an outflow of resources will be required to settle the obligation and its amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognized. These could be classified as liabilities only when a probability of outflow of resources become probable (more likely than not). Similarly, contingent assets are not recognized, but classified as an assets only when the probability that the Company will gain economic benefits related to a transaction becomes virtually certain.

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.

Grants and government assistance

Grants 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 grants and financial support to cover the expenses are recognized as an income in the period when the respective funding has been received and all material conditions in respect of the grants received has been fulfilled.

Corporate income tax

a) Corporate income tax for the financial year

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

b) Deferred tax

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 values for tax calculation purpose (tax basis). However, when the deferred income tax arise from first recognition of the assets and obligations resulted from transactions, which are not the business combination, and at the moment of transaction does not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognized. 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 mainly arise from different fixed asset depreciation rates, impairment of assets as well as from tax losses carried forward. In cases, when the total result of the deferred tax calculation is an asset, it is recognized in the financial statements only if a future taxable profit will be available against which the temporary differences can be utilized.

Cash and cash equivalents

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

Group companies

Subsidiaries of the group or the parent company of the group, or other subsidiaries of the group, or subsidiaries of the subsidiaries of the group are regarded as the group companies.

Associates

An associated company is an entity within a significant influence of other company, which is provided by holding no less than 20% and no more than 50% of the voting rights.

Related parties

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

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(2) Revenue	2016 EUR	2015 EUR
a) By operating activities		
Income from railway rolling stock repair and modernization services	9 447 738	13 651 104
Income from sales of materials	2 665 856	5 153 089
Other income	2 072 545	2 103 700
Income from rent of premises and equipment *	1 791 502	1 791 966
Income from sales of spare parts	1 321 206	3 216 570
Income from utilities services provided	965 867	952 498
Management and administrative services	259 812	274 416
Other income from transactions with subsidiaries	150 267	257 625
Income from sales of railway rolling stock	-	82 380
	<u>18 674 793</u>	<u>27 483 348</u>

* Rental income

Rental payments for the rent of buildings and equipment in 2016 were EUR 1 791 502 (in 2015 - EUR 1 791 966). Rent agreement is concluded till 31 December 2017.

b) By location		
Income from sales of goods/services in Latvia	12 915 959	15 560 484
Income from sales of goods/services to Russia	2 448 262	4 688 756
Income from sales of goods/services to EU	2 431 853	6 548 341
Income from sales of goods/services to Belarus	494 324	537 600
Income from sales of goods/services to Uzbekistan	356 794	83 541
Income from sales of goods/services to other countries	27 601	64 626
	<u>18 674 793</u>	<u>27 483 348</u>

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.

(3) Costs of goods sold or services provided	2016 EUR	2015 EUR
Costs of materials and goods from subsidiaries and others	8 463 374	14 865 348
Service costs from subsidiaries	6 805 892	8 727 390
Depreciation of intangible and fixed assets	1 278 104	1 285 608
Other production costs	206 499	444 977
Salary expenses	160 637	191 249
Utility expenses	133 118	85 349
Changes in provisions for warranty repairs	(99 340)	161 625
Other taxes	76 286	76 282
Changes in provisions for impairment of inventories	65 201	36 239
Expenses related to purchase of materials and goods	57 989	22 945
State mandatory social insurance contributions	37 893	45 041
	<u>17 185 653</u>	<u>25 942 053</u>

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(4) Distribution expenses	2016 EUR	2015 EUR
Brokerage services	89 389	75 046
Transportation costs	82 586	34 525
Salary expenses	65 138	82 980
Advertising expenses	19 163	2 000
Other selling costs	16 864	15 637
State mandatory social insurance contributions	15 225	19 529
	<u>288 365</u>	<u>229 717</u>
(5) Administrative expenses	2016 EUR	2015 EUR
Salary expenses	588 641	761 314
State mandatory social insurance contributions	133 358	178 220
Depreciation of intangible and fixed assets	129 887	166 588
Other administrative expenses	99 436	285 173
Other personnel costs	62 367	57 762
Professional service costs	32 166	105 538
Office maintenance costs	27 726	27 241
Utility expenses	18 364	30 723
Rent expenses	7 940	7 813
Representation costs	1 837	2 057
	<u>1 101 722</u>	<u>1 622 429</u>
(6) Other operating income	2016 EUR	2015 EUR
<i>Income from disposal of intangible and fixed assets</i>	260 191	68 489
<i>Net carrying value of intangible and fixed assets at the moment of disposal</i>	(95 291)	-
Net gain from disposal of fixed and intangible assets	164 900	68 489
Rental income	164 913	120 102
Received ERDF grant for the acquisition of fixed assets (see Note 32)	292 671	292 671
Other income	12 919	14 508
Other financing from EU funds	-	4 873
Net gain from fluctuations of currency exchange rates	-	143 682
	<u>635 403</u>	<u>644 325</u>
(7) Other operating expenses	2016 EUR	2015 EUR
Provisions for doubtful and bad trade receivables	2 615 225	402 057
Provisions for doubtful and bad receivables from associated companies	903 558	-
Provisions for group doubtful and bad receivables	602 496	-
Net losses from exchange rate fluctuations	74 616	-
Penalties paid	19 648	21 698
Costs of collective employment agreement	6 013	14 538
Other costs	3 616	17 752
	<u>4 225 172</u>	<u>456 045</u>

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(8) Income from participation

a) in the capital of group companies	2016	2015
	EUR	EUR
Net gain (loss) from the sale of shares	(8 490)	(8 534)
	<u>(8 490)</u>	<u>(8 534)</u>
Total income from participation	<u>(8 490)</u>	<u>(8 534)</u>

(9) Interest and similar expenses

	2016	2015
	EUR	EUR
b) from other parties		
Interest charge	543 070	494 280
(Interest capitalized)	-	(6 237)
	<u>543 070</u>	<u>488 043</u>
Total interest and similar expenses	<u>543 070</u>	<u>488 043</u>

(10) Corporate income tax

a) Components of corporate income tax	2016	2015
	EUR	EUR
Changes in deferred income tax	(393)	(109 534)
	<u>(393)</u>	<u>(109 534)</u>

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:

	2016	2015
	EUR	EUR
Profit or loss before corporate income tax	(4 042 276)	(619 148)
Theoretically calculated tax at 15% tax rate	<u>(606 341)</u>	<u>(92 872)</u>
Tax effects on:		
Non-deductible expenses for tax purposes	95 017	54 334
Tax discounts on new technological equipment	(57 143)	(70 996)
Changes in unrecognized deferred tax asset	568 074	-
Total corporate income tax expenses	<u>(393)</u>	<u>(109 534)</u>

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b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	24 762	212 999
Deferred tax charged to the income statement	(393)	(109 534)
Changes in deferred tax recognized in non-current investment revaluation reserve	(24 369)	(78 703)
Deferred tax liabilities (asset) at the end of the financial year	<u>0</u>	<u>24 762</u>

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):

	31.12.2016.	31.12.2015.
	EUR	EUR
Temporary difference on depreciation of fixed and intangible assets	<u>594 534</u>	<u>605 741</u>
Gross deferred tax liabilities	594 534	605 741
Provisions for expected losses	(50)	-
Temporary difference on provisions for warranty costs	(3 623)	(16 881)
Temporary difference on provisions for doubtful receivables	(850 550)	(244 055)
Temporary difference on provisions for slow moving and obsolete stock	(37 973)	(28 193)
Tax losses carried forward	(270 412)	(291 850)
Unrecognized deferred tax asset	568 074	-
Gross deferred tax assets	<u>(594 534)</u>	<u>(580 979)</u>
Net deferred tax liabilities (assets)	<u>0</u>	<u>24 762</u>

The movement of the deferred tax assets and liabilities during the financial year without settlement of the tax assets against the tax liabilities of the financial year related to the same tax administration:

	Accelerated depreciation and revaluation of fixed assets	Provisions for warranty costs and expected losses	Provisions for receivables	Provisions for inventories	Tax losses carried forward	Unrecognized deferred tax asset	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2014.	669 196	(8 622)	(183 929)	(22 756)	(240 890)	-	212 999
Included in income statement	15 248	(8 259)	(60 126)	(5 437)	(50 960)	-	(109 534)
Included in equity	(78 703)	-	-	-	-	-	(78 703)
31.12.2015.	605 741	(16 881)	(244 055)	(28 193)	(291 850)	0	24 762
Included in income statement	13 162	13 208	(606 495)	(9 780)	21 438	568 074	(393)
Included in equity	(24 369)	-	-	-	-	-	(24 369)
31.12.2016.	594 534	(3 673)	(850 550)	(37 973)	(270 412)	568 074	0

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

Since the Company has not executed any transactions that could cause significant changes in the share capital, which would change the amount of earnings 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.

	2016	2015
Profit/(loss) attributed to shareholders of the Company (EUR)	(4 041 883)	(509 614)
Average annual number of shares	8 294 219	8 294 219
Earnings per share (expressed in euro cents)	<u>(48.73)</u>	<u>(6.14)</u>

(12) Intangible and fixed assets

	Intangible assets		Fixed assets				
	Concessions, patents, licenses, trademarks and similar rights	Total	Land plots, buildings and engineering structures	Technological equipment and machinery	Other fixed assets	Fixed assets under development and construction in progress	
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost/revaluation							
31.12.2015.	65 573	65 573	7 190 347	16 200 241	920 743	94 541	24 405 872
Purchase	-	-	-	-	-	55 154	55 154
Disposals	-	-	(43 054)	(383 036)	(41 973)	0	(468 063)
Reclassification	32 564	32 564	9 504	43 399	4 539	(90 005)	(32 563)
31.12.2016.	98 137	98 137	7 156 797	15 860 604	883 309	59 690	23 960 400
Depreciation							
31.12.2015.	(46 344)	(46 344)	(2 159 617)	(9 132 789)	(826 014)	-	(12 118 420)
Calculated	(11 009)	(11 009)	(212 955)	(1 154 355)	(29 618)	-	(1 396 928)
Disposals	-	-	43 054	377 745	41 973	-	462 772
31.12.2016.	(57 353)	(57 353)	(2 329 518)	(9 909 399)	(813 659)	0	(13 052 576)
Net carrying amount							
31.12.2015.	19 229	19 229	5 030 730	7 067 452	94 729	94 541	12 287 452
31.12.2016.	40 784	40 784	4 827 279	5 951 205	69 650	59 690	10 907 824

a) Capitalized interest

The fixed asset item "Technological equipment and machinery" includes the interest capitalized in 2016 in the amount of EUR 0 (in 2015 - EUR 6 237).

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b) Revaluation of fixed assets

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 expert made the valuation of its land and buildings. The fair 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, that was deducted from the revaluation reserves created in previous periods (less the deferred tax effect). During the financial year there were no circumstances or facts which could indicate significant changes to the fair value of real estates as a result no valuation of real estate fair value has been made.

The changes of fixed asset revaluation reserve in the financial year by fixed assets items are as follows:

	Changes in 2015				Revaluation reserves 31.12.2015
	Revaluation reserves 31.12.2014	Revaluation of fixed assets	Write-off of revaluation reserves from disposal of fixed assets	Deferred tax changes	
	EUR	EUR	EUR	EUR	EUR
Immovable properties					
a) land plots, buildings and engineering structures	1 535 754	(458 391)	(39 613)	74 701	1 112 451
Technological equipment and machinery	66 639	-	(26 676)	4 001	43 964
TOTAL	1 602 393	(458 391)	(66 289)	78 702	1 156 415

	Changes in 2016				Revaluation reserves 31.12.2016
	Revaluation reserves 31.12.2015	Revaluation of fixed assets	Depreciation and write-off of revaluation reserves from disposal of fixed assets	Deferred tax changes	
	EUR	EUR	EUR	EUR	EUR
Immovable properties					
a) land plots, buildings and engineering structures	1 112 451	-	(118 498)	17 774	1 011 727
Technological equipment and machinery	43 964	-	(43 964)	6 595	6 595
TOTAL	1 156 415	0	(162 462)	24 369	1 018 322

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Had not the revaluation been performed, the value of land plots, buildings and engineering structures would be the following:

	31.12.2016. EUR	31.12.2015. EUR
Cost	8 070 905	8 106 805
Accumulated depreciation	<u>(3 041 501)</u>	<u>(2 971 297)</u>
Net carrying amount	<u><u>5 029 404</u></u>	<u><u>5 135 508</u></u>

Pursuant to Section 6 Part 5 of the Corporate Income Tax Law, when defining the taxable corporate income, the results of revaluation of balance sheet items and off-balance sheet items shall not be taken into account, except revaluation of assets due to change of foreign currency rates.

c) Pledged fixed assets

Information on pledged fixed assets is disclosed in the Notes 26 and 32 to the financial statements.

d) Fixed asset impairment test

Due to the negative external factors that led to the significant decrease of revenue at the end of 2015 and 2016, as at 31 December 2016 the Company has performed impairment test on fixed assets.

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

Significant assumptions underlying the calculated value in use comprise expectations for future growth in revenue, expected EBITDA/revenue ratio, expected factor for terminal value and discount rate. The 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 2017 - 2018	Projected 2019 - 2021	Projected 2017 - 2021
Expected average growth in revenue	2.2%	47%	3%	21%
Expected average EBITDA/revenue ratio	4.8%	2.1%	3.9%	3.2%
Expected terminal value		EBITDA (2021) / discount rate		
Discount rate		7.7%		

Expected average growth in revenue represents cumulative average growth rate (CAGR) of the Company's revenue based on budget and long-term forecast and historic data for 2008-2015 periods. Expected EBITDA/revenue ratio calculated based on budget and long-term forecast and historic data for 2008-2015 periods. 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 actual expenses at the beginning of 2017.

Due to the expected market recovery and the diversification of the Company's operation in 2017-2018, it is planned to achieve the Group's "pre-crisis" revenue of 25 million euro. As a result the expected average increase in revenue in 2017 and 2018 is significantly higher than the historical.

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(13) Participation in the capital

(a) movement of participation

	Non-current		Total	Current		Total
	Participation in the equity of group companies	Other securities and investments		Participation in the equity of group companies		
	EUR	EUR	EUR	EUR	EUR	EUR
Cost						
31.12.2015.	25 566	500	26 066	-	-	-
Purchase	8 400	-	8 400	-	-	-
Disposals	(8 490)	-	(8 490)	-	-	-
Reclassification	(2 851)	-	(2 851)	2 851		2 851
31.12.2016.	22 625	500	23 125	2 851		2 851
Net carrying amount 31.12.2015.	25 566	500	26 066	0		0
Net carrying amount 31.12.2016.	22 625	500	23 125	2 851		2 851

(b) participation in the equity of subsidiaries

Name	Address	Participating interest		Equity		Profit	
		31.12.2015.	31.12.2016.	31.12.2015.	31.12.2016.	2015	2016
		%	%	EUR	EUR	EUR	EUR
a)							
SIA LokRem	Marijas 1, Daugavpils	-	100%	-	(304 082)	-	(306 882)
SIA DL metal	Marijas 1, Daugavpils	-	100%	-	(243 748)	-	(246 548)
SIA LogKom	Marijas 1, Daugavpils	-	100%	-	13 383	-	10 583
b)							
SIA Elap	Marijas 1, Daugavpils	100%	-	(3 123)	-	(78 791)	-
SIA DL	Marijas 1, Daugavpils	100%	-	(512 802)	-	(1 113 148)	-
LOKOMOTĪVE							
SIA DL	Marijas 1, Daugavpils	100%	-	(890 792)	-	(893 592)	-
Metalworking							
SIA Loģistika	Marijas 1, Daugavpils	100%	-	(84 731)	-	(70 013)	-
c)							
SIA Ritrem	Marijas 1, Daugavpils	100%	100%	223 921	136 087	(67 811)	(87 834)
SIA Krāsotājs	Marijas 1, Daugavpils	100%	100%	(204 796)	(204 911)	(40 621)	(115)
SIA SPZČ	Marijas 1, Daugavpils	100%	100%	(409 016)	(415 510)	(304 645)	(6 493)
SIA Remenergo	Marijas 1, Daugavpils	100%	100%	(1 193 878)	(1 344 711)	(123 369)	(150 833)
SIA Instruments	Marijas 1, Daugavpils	100%	100%	(153 022)	(153 136)	(55)	(114)
				(3 228 239)	(1 982 181)	(2 692 045)	(245 389)

Reorganization of subsidiaries' activities in 2016

To increase the economic efficiency the Company has carried out in 2016 reorganization and optimization of production processes, decrease of operational costs. As a result changes to the Group' structure have been made in 2016 by redistributing subsidiaries' functions:

a) In September 2016 three new subsidiaries were incorporated - SIA LokRem, SIA DL metal and SIA LogKom which have taken over the functions of SIA DL LOKOMOTĪVE, SIA DL Metalworking and SIA Loģistika.

b) In October 2016 subsidiaries SIA DL LOKOMOTĪVE, SIA DL Metalworking and SIA Loģistika were sold as well as in October 2016 insolvency procedure for SIA Elap was started and insolvency administrator was appointed.

c) Starting from March 2015 SIA Ritrem, SIA Krāsotājs, SIA SPZČ and SIA Remenergo discontinued its business operations.

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c) participation of associates

The Company in cooperation with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zaslauks" 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 Zaslauks" founded the general partnership "DMU vilcieni", in which the Company owns 50% of the voting rights. General partnership does not have separate capital. Company does not have controlling influence in general partnership "DMU vilcieni" activities, thus it is classified in the financial statements of the Company as associated company. See also Note (37) for financial results of Partnership "DMU vilcieni" and Company's contingent liabilities.

(14) Raw materials and consumables	31.12.2016.	31.12.2015.
	EUR	EUR
Book value of raw materials and consumables	1 990 756	2 162 347
(Accruals for damaged and obsolete stock)	(175 499)	(153 412)
	<u>1 815 257</u>	<u>2 008 935</u>

(15) Finished goods and goods for sale	31.12.2016.	31.12.2015.
	EUR	EUR
Finished goods	566 210	405 485
Rolling stock available for sale	500 000	-
Other goods for sale	22 748	112 748
(Accruals for damaged and slow moving stock)	(77 654)	(34 540)
	<u>1 011 304</u>	<u>483 693</u>

(16) Trade receivables	31.12.2016.	31.12.2015.
	EUR	EUR
Book value of trade receivables	3 663 708	4 363 899
(Provisions for bad and doubtful debts)	(2 615 857)	(1 644 459)
	<u>1 047 851</u>	<u>2 719 440</u>

Provisions for bad and doubtful debts have been made 50-100 % of their book value.

Movement of provisions for trade receivables is the following:	2016	2015
	EUR	EUR
Provisions at the beginning of the year	1 644 459	1 478 317
Provisions reclassification from receivables from group companies	-	164 928
Decrease of provisions for written off bad debts	(1 643 827)	-
Provisions created in the reporting period	2 615 225	1 214
Provisions at the year end	<u>2 615 857</u>	<u>1 644 459</u>

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(17) Receivables from group companies	31.12.2016.	31.12.2015.
	EUR	EUR
Receivables from subsidiaries	2 604 323	4 517 009
Loans to subsidiaries	86 549	86 549
(Provisions for bad and doubtful debts)	<u>(2 150 921)</u>	<u>(1 548 426)</u>
	<u>539 951</u>	<u>3 055 132</u>
Movement of provisions for receivables from group companies	2016	2015
	EUR	EUR
Provisions at the beginning of the year	1 548 426	1 312 512
Provisions' reclassification to trade receivables	-	(164 928)
Provisions created in the reporting period	<u>602 495</u>	<u>400 842</u>
Provisions at the year end	<u>2 150 921</u>	<u>1 548 426</u>

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 to repay the debts. For the subsidiaries that in 2015 discontinued their active operations provisions are recognized at the amount of their negative equity. But for subsidiaries that continued their activities (see Note 13) provisions have not been recognized due to the fact that in 2016 they covered or planned to cover all the debts remaining at the end of the financial year.

For the 2016 financial statement purposes the recoverability of the debts from subsidiaries was evaluated for each subsidiary individually by the management of the Company and by examining the ability to repay the debts. For the subsidiaries that in 2015 discontinued their active operations, provisions were created on 100% from receivables balance. But for subsidiaries that continued their activities (see Note 13) provisions have been recognized at the amount of their negative equity.

(18) Receivables from associates	31.12.2016.	31.12.2015.
	EUR	EUR
Receivables from Partnership DMU vilcieni	1 352 505	2 236 832
Provisions for debt impairment	<u>(903 558)</u>	<u>-</u>
	<u>448 947</u>	<u>2 236 832</u>

As disclosed in Note 13 the Company participates in a 22 million EUR contract with AS Pasažieru vilciens for modernization of diesel wagons as a member of Partnerships DMU vilcieni. At the end of 2016 all the works are completed and delivered and 2-year warranty period is in force. AS Pasažieru Vilciens imposed a fine of 10% of contract amount and withheld this amount from the payments to Partnership DMU vilcieni. The Partnership assess penalty as unjustified and do not accept it. Although, according to principle of conservatism, the Partnership evaluated the outstanding receivables from AS Pasažietu vilciens as doubtful and recognized the full provision.

The Company evaluated the recoverability of receivables from Partnerships DMU vilcieni taking into account the net assets of Partnership at the end of 2016, the estimated cost for the warranty period by applying of the principles of agreement between the members of the Partnership for the split of works, responsibilities and financial results.

(19) Other receivables	31.12.2016.	31.12.2015.
	EUR	EUR
Settlements for warranties	48 771	60 464
Other receivables	24 290	125 148
Other taxes overpaid	<u>50</u>	<u>140</u>
	<u>73 111</u>	<u>185 752</u>

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(20) Deferred expenses	31.12.2016. EUR	31.12.2015. EUR
Insurance payments	18 513	21 365
Other expenses	297	1 605
	<u>18 810</u>	<u>22 970</u>
(21) Accrued income	31.12.2016. EUR	31.12.2015. EUR
Accrued income related to work-in-progress	534 979	6 746 534
	<u>534 979</u>	<u>6 746 534</u>
a) Work-in-progress		
Costs incurred and recognized profit related to the contracts	534 979	6 746 534
Gross amount of accrued income	<u>534 979</u>	<u>6 746 534</u>
Work-in-progress due from customers (as "Accrued income")	534 979	6 746 534
	<u>534 979</u>	<u>6 746 534</u>
Corresponding amounts of contracts in progress:		
Contract revenue recognized in the income statement (as "Revenue")	534 979	6 746 534
Advances received from customers (as "Advances from customers")	384 157	6 263 160
(22) Cash and bank	31.12.2016. EUR	31.12.2015. EUR
Cash at bank on current accounts	89 938	889 456
	<u>89 938</u>	<u>889 456</u>
(23) Share capital		

As at December 31, 2016 the registered and fully paid share capital is EUR 11 611 907, composed of 8 294 219 ordinary shares with a nominal value of EUR 1,40 each. All shares guarantees equal rights to dividends, reception of liquidation quotas and voting rights in shareholder's meeting. One share gives rights to 1 vote. All shares are dematerialized. The Company does 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 BALTIC stock exchange in the Second list. At the end of the financial year 8 294 219 shares are quoted.

In the financial year the denomination of share capital to euro was carried out leading to allocation of EUR 189 698 to the Company's reserves.

The Company prepares consolidated annual report in accordance with International Financial Reporting Standards. A copy of the consolidated annual report is available in NASDAQ OMX BALTIC web-page (www.nasdaqomxbaltic.com).

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(24) Distribution of the Company's profit

The Company finished the financial year with losses. The Company does not have capital available for the distribution.

(25) Provisions

	Provisions for warranty costs	Total
		EUR
31.12.2014.	57 479	57 479
Increase	55 064	55 064
31.12.2015.	112 543	112 543
Decrease	(88 388)	(88 388)
31.12.2016.	<u>24 155</u>	<u>24 155</u>

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

(26) Loans from banks

		31.12.2016.	31.12.2015.
		EUR	EUR
	Note		
Credit line in EUR	d)	1 328 961	-
Investment credits with co-financing from EU funds in EUR	c)	1 278 878	1 807 024
Current part of investment credit in USD	a)	-	272 659
Current part of investment credit in EUR	b)	-	131 344
		<u>2 607 839</u>	<u>2 211 027</u>

a) On October 2011, the Company signed a contract with SWEDBANK AS for investment loan USD 1 755 394. The interest rate is 1.29% plus 3 months LIBOR. During the financial year the loan is fully repaid.

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. During the financial year the loan is fully repaid.

c) On October 2011, the Company signed an agreement with SWEDBANK AS for investment loan of EUR 1 559 392, for the project co-financed from EU Structural funds. The loan shall be repaid till 30.06.2017. The interest rate is 1.5% + 3 month EURIBOR.

d) On October 2011, the Company has signed a contract with SWEDBANK AS on the granting of credit line of EUR 1 400 000. The credit line is repayable by 30.06.2017. 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% + 3 month EURIBOR and 0,3% per annum on the amount of unused credit line, but from December 2016 interest rate has been increased to 3,5%+ 3 month EURIBOR.

The implementation of obligations of the Company are provided and strengthened by:

(i) mortgage on all real estate belonging 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 Company's assets pledged in the balance sheet value on 31 December 2016 totals EUR 16 582 942 (31.12.2015. - EUR 30 913 143)

(iii) guarantee issued by the Company's shareholder Skinest Rail AS.

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(27) Other borrowings	31.12.2016.	31.12.2015.
	EUR	EUR
Loan from related company	4 051 240	4 877 240
Accrued interest for loans from related company	483 868	585 697
	<u>4 535 108</u>	<u>5 462 937</u>
<p>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 1 557 000 in total, as well repaid EUR 2 383 000. The remaining loan is to be repaid till 31.12.2017, but the loans are subordinated to loans from Swedbank AS.</p> <p>Loans are not secured by a pledge of the Company assets or otherwise.</p>		
(28) Payables to group companies	31.12.2016.	31.12.2015.
	EUR	EUR
Payables to subsidiaries for received services and goods	158 733	180 244
	<u>158 733</u>	<u>180 244</u>
(29) Payables to associates	31.12.2016.	31.12.2015.
	EUR	EUR
Partnership DMU vilcieni	-	5 958 775
	<u>0</u>	<u>5 958 775</u>
(30) Taxes and social insurance payments	31.12.2016.	31.12.2015.
	EUR	EUR
Value added tax	29 665	509 410
Personal income tax	22 522	10 533
State mandatory social insurance contributions	44 337	48 454
Natural resources tax	735	1 500
Business risk state duty	37	41
Real estate tax	-	(140)
	<u>97 296</u>	<u>569 798</u>
(31) Other creditors	31.12.2016.	31.12.2015.
	EUR	EUR
Salaries	43 629	43 949
Payments to other companies	38 635	38 047
Other liabilities	2 022	3 341
	<u>84 286</u>	<u>85 337</u>

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(32) Deferred income	31.12.2016.	31.12.2015.
	EUR	EUR
Non-current		
EU grants for the acquisition of assets - non-current portion	1 261 992	1 554 663
	<u>1 261 992</u>	<u>1 554 663</u>
Current		
EU grants for the acquisition of assets - current portion	292 671	292 671
	<u>292 671</u>	<u>292 671</u>

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 1 625 778 was received in 2014 and 2015.

The Company has an obligation during 5 year period from the receiving of the funds to comply with the terms of grant contract in 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.

(33) Accrued liabilities	31.12.2016.	31.12.2015.
	EUR	EUR
Accrued trade payables	225 455	158 251
Accrued unused annual leave expenses	99 208	84 690
Accrued liabilities to subsidiaries*	314 442	1 870 384
	<u>639 105</u>	<u>2 113 325</u>

* The Company and its subsidiaries use the unified policy of revenue recognition for repair services (see Note "Income recognition"). The Company's accrued liabilities recognized at the end of reporting year of EUR 314 442 (31.12.2015 - EUR 1 870 384) is equal to the accrued income for work-in-progress, which are recognized in financial statements of all subsidiaries.

(34) Average number of employees	2016	2015
Average number of employees during the financial year	<u>94</u>	<u>118</u>

(35) Remuneration to personnel	2016	2015
	EUR	EUR
Remuneration for work	814 416	1 035 543
State mandatory social insurance contributions	186 476	242 790
Other expenses	43 600	57 762
	<u>1 044 492</u>	<u>1 336 095</u>

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(36) Remuneration to the management	2016 EUR	2015 EUR
Members of the Board	185 576	175 960
Members of the Council	-	-
	185 576	175 960

(37) Transactions with related parties

As mentioned in Note 13, the Company holds 100% shares of subsidiaries SIA Ritrem, SIA Krāsotājs, SIA SPZČ, SIA Remenergo, SIA Instruments, SIA LokRem, SIA LogKom and SIA DL metal, but till the disposal or loss of control in October 2016 also SIA DL LOKOMOTĪVE, SIA DL Metalworking, SIA Loģistika and SIA Elap. 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 Zaslauks" participates 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	31.12.2016.		31.12.2015.	
		Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
Subsidiaries	(17), (28)	539 951	158 733	3 055 132	180 244
Associates	(18), (29),	448 947	-	2 236 832	5 958 775
Other related parties	(27)	397 889	8 249 418	1 219 090	10 453 448
		1 386 787	8 408 151	6 511 054	16 592 467

b) transactions

	Notes	Sales to related parties		Purchases from related parties	
		2016 EUR	2015 EUR	2016 EUR	2015 EUR
Group companies					
Repair services of railway rolling stock	a)	132 300	-	6 737 320	8 575 281
Sale of goods	(2)	2 586 128	5 153 089	1 649 455	1 251 318
Rent of premises and equipment	(2)	1 791 502	1 791 966	-	-
Management services	b)	269 962	274 416	-	-
Other transactions		973 684	1 210 123	68 572	170 504
		5 753 576	8 429 594	8 455 347	9 997 103
Associated company					
Repair services of railway rolling stock		9 807 939	233 665	-	-
Sale of goods		-	-	2 874 389	-
Other transactions		-	-	-	3 080
		9 807 939	233 665	2 874 389	3 080
Other related parties					
Repair services of railway rolling stock		3 556 488	8 490 123	-	-
Sale of goods		161 375	230 080	1 690 427	2 570 098
Other transactions		-	36 038	203 437	4 040 890
Loans' interests		-	-	463 850	367 472
		3 717 863	8 756 241	2 357 714	6 978 460
		9 471 439	17 185 835	10 813 061	16 975 563

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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 in 2016 are SIA LokRem and SIA SIA DL Lokomotīve. Respectively, SIA LogKom, SIA DL metal, SIA Loģistika and SIA DL Metalworking in 2016 mainly provided assistance functions in railway rolling stock repair works. These services are provided to other subsidiaries, as well as to the Company. Amount of transactions disclosed in this Note does not include accrued liabilities for work-in-progress. See also Note 13 related to the changes in Group's structure in 2016.

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

(38) Operations of Partnership DMU vilcieni and 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 22 million contract with AS Pasažieru vilciens for modernization of diesel trains (Project). General partnership DMU Vilcieni (the Partnership) is not a separate legal entity and its members have joint liability for the obligations of Partnerships. Partnership currently has 2 members - the Company and AS Rīgas Vagonu Rūpnīca.

At the end of 2016 all works are completed and delivered and 2-year warranty period is in force. AS Pasažieru vilciens imposed a penalty 10% of the contract amount for the failure to comply with the terms of delivery of work and deducted a penalty of the deferred payment. The Partnership objects that it is liable for non-compliance with the delivery deadlines and plans to begin legal actions with AS Pasažieru vilciens.

The Partnership has recognized amount of outstanding receivables from AS Pasažietu vilciens as doubtful, as a result the equity of the Partnership at the year-end is negative. The Partnership's main creditors are its members for the Project's works done, but its main assets are cash in current bank accounts. According to the Company's estimates the amount of contingent liabilities of the Project's 2 years free warranty period is much lower than the assets of the Partnership. The Company does not recognize the additional provisions if the Partnership would not been able to fulfil the warranty obligations.

The Company evaluated the recoverability of receivables from Partnerships DMU vilcieni taking into account the net assets of the Partnership at the end of 2016 and the estimated cost for the warranty period by applying of the principles of agreement between the members of the Partnership for the split of works, responsibilities and financial results.

(39) Impact of negative external factors to the operations of the Company

The Company serves the customers and provide repair services to 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 2008 -2009 years led 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 2016 mostly caused by the economic sanctions towards Russia and its response in the way of trade restrictions. The management of the Company is putting efforts to diversify activities and to expand the geographic markets and product range. Therefore, the Company expects a sharp increase of customer orders and revenue in 2017-2018 to achieve the volume of operations equivalent to 2010-2015 years period.

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(40) Financial risk management

Financial risks related to the financial instruments of the Company are mainly the exchange risk, the interest rate risk, the liquidity risk and the 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.

Market risk - Foreign currency risks

The Company is subject to foreign currency exchange rate fluctuation risk, mainly due to its other liabilities denominated in USD and RUB currency, and account receivables in USD and RUB currency.

The Company's foreign currency open position at the end of the financial year is:

	31.12.2016.	31.12.2015.
Financial assets, USD	87 455	154 696
Financial liabilities, USD	(112 419)	(450 325)
Open position USD, net	<u>(24 964)</u>	<u>(295 629)</u>
Open position USD, calculated in euro, net	<u>(23 683)</u>	<u>(271 543)</u>
Financial assets, RUB	6 214 769	1 387 455
Financial liabilities, RUB	(26 968 728)	(19 367 790)
Open position RUB, net	<u>(20 753 959)</u>	<u>(17 980 335)</u>
Open position RUB, calculated in euro, net	<u>(322 768)</u>	<u>(222 878)</u>

Market risk - 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 26), 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 increased.

Credit risk

The Company is subject to the credit risk with respect to the trade receivables, cash and cash 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 is constantly monitoring the balances of trade receivables to decrease the risk of non-recoverability of debts. See Notes 17 and 18 concerning receivables from group and associates.

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. See also Note 41 in respect of the use of going concern assumption.

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(41) Use of going concern assumption

The Company has finished the current financial year with losses of EUR 4 mil. As of 31 December 2016 the Company's current liabilities exceeded current assets by EUR 7.7 mil. On that date the Company's major creditors are the largest shareholder's AS Skinest Rail group companies (8.2 mil. EUR) and AS Swedbank loans outstanding (2.6 mil. EUR).

The capability of the Company to continue its activities depends on the financial results in future periods, the extension of bank's loan repayment terms and the support from shareholders.

In 2017 the Company forecasts revenue growth and modest positive cash flow from operating activities. No substantial investments projects and investments in fixed assets are planned for the next year. The Company is negotiating a bank loans' refinancing and rescheduling. Given that the existing bank borrowings are secured by the pledge of all Company's assets, as well as AS Skinest Rail financial guaranty it is reasonably confident that an agreement for the restructuring of bank loans will be reached.

The Company received a comfort letter from its shareholder AS Skinest Rail that it will support the Company to continue going concern in 2017. Accordingly, the Company's financial statements have been prepared in accordance with the going concern principle.

(42) Subsequent events

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 2016.

Natālija Petrova
Member of the Board

Daugavpils, 02 May 2017

Svetlana Beļvaska
chief accountant