AS "Daugavpils Lokomotīvju Remonta Rūpnīca"

CONSOLIDATED ANNUAL REPORT

for the 12 months period ended 31 December 2016

prepared in accordance with EU approved
International Financial Reporting Standards

CONTENTS

GENERAL INFORMATION

Major Shareholders	AS Skinest Rail (Estonia) - 47,97% AS Spacecom (Estonia) - 25,27% Others - 26,76%
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
Members of the Board	Margus - Mals - Member of the Board (from 21 March 2016), Chairman of the Board (from 20 February 2017) Aivar Keskuela - Chairman of the Board (till 20 February 2017) Natālija Petrova - Member of the Board Vladimirs Kirsanovs - Member of the Board Gatis Kamarūts - Member of the Board (from 20 February 2017)

REPORT OF THE MANAGEMENT

Type of operations

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

Performance of the Group during the financial year

In 2015 the Group's consolidated net sales amounted to 13.5 million EUR (decrease of 29.4% in respect of net sales of 2015).

The Group finished the financial year of 2016 with a loss 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). The main directions of export in 2016 were EU countries: Estonia, Poland and Lithuania, and third countries: Russia, Belarus and Uzbekistan. The Group as a member of PS DMU Vilcieni completed works on the modernizations of DR1 trains. In third quarter the Group finished the order by AS Pasažietu vilciens for all the DR1 type trains.

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, Loģistika SIA). Reorganization will not leave a material impact on the Group's performance in the future. The new structure came into effect 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. Significant losses in the reporting period are related to the Group's lack of projects, as well as the negative result of DMU project.

Financial risk management

The policy of financial risk management of the Company is described in the financial report's Notes 30

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 Group's liquidity ratios has worsen. At the end of the reporting period Group's current liabilities exceeded current assets by 7.7 mil. EUR. On that date the Group's major creditors are the Group'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 Group 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 Group 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 Group is negotiating a bank loan's refinancing and rescheduling. Given that the existing bank borrowings are secured by the pledge of all Group's assets, as well as AS Skinest Rail financial guaranty it is reasonably confident that an agreement will be reached.

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

Future prospects

During 2017 the Group's priority is further development of the steel industry - attraction of new customers and a large increase in turnover. According to forecasts, in 2017 the Group will be provided with repair objects in larger scale as it was during the reporting period. In the 1st quarter of 2017 for the Group'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 transactions have been signed.

Natālija Petrova
Member of the Board

Daugavpils, 02 May 2017

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 38 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, 02 May 2017

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2016 EUR	2015 EUR
Revenue	(3)	13 555 695	19 213 652
Costs of sale	(3)	(14 983 881)	(20 049 053)
Gross profit or losses		**(1 428 186)**	**(835 401)**
Distribution expenses	(4)	(288 366)	(229 717)
Administrative expenses	(5)	(1 221 431)	(1 761 571)
Other income	(6)	1 865 305	1 167 107
Other expenses	(7)	(1 259 483)	(489 399)
Interest and similar expenses	(9)	(543 070)	(488 043)
Profit (loss) before tax		**(2 875 231)**	**(2 637 024)**
Corporate income tax	(10)	596 129	(109 131)
Net profit (loss)		**(2 279 102)**	**(2 746 155)**
Attributable to:			
Equity holders of a parent company		(2 279 102)	(2 746 155)
Earnings per share (in cents)	(11)		
Basic		(27.48)	(33.11)
Diluted		(27.48)	(33.11)
Total comprehensive income (expense)		**(2 279 102)**	**(2 746 155)**
Attributable to:			
Equity holders of a parent company		(2 279 102)	(2 746 155)

Notes on pages 11 to 38 are an integral part of these financial statements.

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Natālija Petrova
Member of the Board

Daugavpils, 02 May 2017

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2016. EUR	31.12.2015. EUR
ASSETS			
Non-current assets			
Intangible assets	(12)	40 784	19 229
Property, plant and equipment	(12)	12 841 193	14 247 772
Investments in associates		500	500
Total intangible assets:		**12 882 477**	**14 267 501**
Total non-current assets:		**12 882 477**	**14 267 501**
Current assets			
Inventories	(14)	3 583 820	3 437 020
Available for sale non-current assets	(12)	-	112 748
Trade receivables	(16)	1 102 280	2 721 407
Accrued income	(17)	433 635	6 734 500
Corporate income tax overpaid		-	11 448
Other current assets	(18)	122 187	2 684 220
Cash and cash equivalents	(20)	785 912	890 649
Total current assets:		**6 027 834**	**16 591 992**
Total assets		**18 910 311**	**30 859 493**
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital	(20)	11 611 907	11 801 610
Reserves	(20)	189 698	-
Retained losses of the previous years		(5 910 140)	(3 163 985)
Current year profit (losses)		(2 279 102)	(2 746 155)
Total equity:		**3 612 363**	**5 891 470**
Liabilities:			
Non-current liabilities:			
Deferred income tax liabilities	(10)	170 901	769 232
Deferred income	(22)	1 261 992	1 554 663
Other liabilities	(24)	101 335	131 061
Total non-current liabilities:		**1 534 228**	**2 454 956**
Current liabilities:			
Borrowings	(21)	7 142 947	7 673 964
Trade payables		4 497 117	6 084 591
Provisions	(23)	104 033	152 205
Deferred income	(22)	292 671	292 671
Corporate income tax payable	(10)	2 002	-
Other liabilities	(24)	1 724 950	8 309 636
Total current liabilities:		**13 763 720**	**22 513 067**
Total liabilities:		**15 297 948**	**24 968 023**
Total equity, provisions and liabilities		**18 910 311**	**30 859 493**

Notes on pages 11 to 38 are an integral part of these financial statements.

Natālija Petrova
Member of the Board

Daugavpils, 02 May 2017

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
	EUR	**EUR**	**EUR**	**EUR**
31.12.2014.	**11 801 610**		**(3 163 985)**	**8 637 625**
Loss 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**
Share capital denomination to euro	(189 703)	189 698	-	(5)
Losses of the reporting year	-	-	(2 279 102)	(2 279 102)
Total comprehensive income	-		(2 279 102)	(2 279 102)
31.12.2016.	**11 611 907**	**189 698**	**(8 189 242)**	**3 612 363**

Notes on pages 11 to 38 are an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	2016 EUR	2015 EUR
Cash flow from operating activities			
Profit or losses before corporate income tax		**(2 875 231)**	**(2 637 024)**
Adjustments for:			
depreciation and impairment of fixed assets	(12)	1 434 886	1 550 436
profit from sales of property, plant and equipment	(6)	(2 438)	(2 200)
changes in provisions	(3)	(8 052)	10 143
(gains) or losses from exchange rate fluctuations		-	55 449
interest expenses	(9)	543 070	488 043
Profit or loss prior to changes in current assets and current liabilities		**(907 765)**	**(535 153)**
Increase or decrease of account receivable		9 984 713	(6 412 812)
Increase or decrease of inventory		67 480	2 589 550
Increase or decrease of account payables and other liabilities		(8 494 229)	6 151 407
Gross cash flow generated from operating activities		**650 199**	**1 792 992**
Interest paid		**(659 703)**	**(126 898)**
Net cash flow generated from operating activities		**(9 504)**	**1 666 094**
Cash flow from investing activities			
Acquisition of property, plant and equipment		(55 155)	(221 057)
Proceeds from sales of property, plant and equipment		97 729	6 243
Loans granted		-	(277 108)
Repayment of loans		277 108	-
Net cash flow generated from investing activities		**319 682**	**(491 922)**
Cash flow from financing activities			
Grants received		-	1 529 574
Loans repaid		(2 389 915)	(4 999 144)
Loans received		1 975 000	3 158 236
Net cash flow generated from financing activities		**(414 915)**	**(311 334)**
Net cash flow in the financial year		**(104 737)**	**862 838**
Cash and cash equivalents at the beginning of the financial year	(19)	**890 649**	**27 811**
Cash and cash equivalents at the end of the financial year	(19)	**785 912**	**890 649**

Notes on pages 11 to 38 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(1) 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 2016 till 31 December 2016.

These financial statements were authorised for issue by the Board of Directors of the Company on 02 May 2017, 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.

a) At the end of reporting year the Company has investments in 8 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 summary of accounting policies "Joint arrangements" about the details on general partnership. Starting from April 2015 SIA REL, SIA Krāsotājs, SIA SPZČ and SIA Remenergo subsidiaries are not active.

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

c) 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. See also Note (6) on the financial effect of the sale of subsidiaries.

Name of the subsidiary	**Address**	**Type of operations**	**Participation interest % 31.12.2016**	**Participation interest % 31.12.2015**
a)				
SIA "Ritrem"	Marijas 1, Daugavpils	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock	100	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dyeing of rolling stock	100	100
SIA "SPZČ"	Marijas 1, Daugavpils	Repair and producing of spare parts, instruments and equipment	100	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	100	100
SIA "Instruments"	Marijas 1, Daugavpils	Dormant status	100	100

Name of the subsidiary	Address	Type of operations	Participation interest % 31.12.2016	Participation interest % 31.12.2015
b)				
SIA "LokRem"	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	100	-
SIA "DL metal"	Marijas 1, Daugavpils	Metal foundry, repair and production of spare parts	100	-
SIA "LogKom"	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 Group companies	100	-
c)				
SIA "DL Lokomotive"	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	-	100
SIA "DL Metalworking"	Marijas 1, Daugavpils	Metal foundry, repair and production of spare parts	-	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 Group companies	-	100
SIA "Elap"	Marijas 1, Daugavpils	Repair and producing of electromotor, generators and transformers	-	100

(2) Summary of accounting policies

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 accounting policies "Critical accounting estimates and judgements".

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

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).

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

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

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 adoption of these amendments to the existing standards and interpretations has not led to any significant changes in Group's accounting policies or financial statements.

b) Standards, amendments and interpretations issued and endorsed in the EU but not jet effective

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

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

The Group has decided not to apply the above standards before their effective date. The Group is in the process of assessment impact of the above standards on the its accounting policies and financial statements and is not able to present the final evaluation at this stage.

c) Standards, amendments and interpretations, issued but yet endorsed by the EU

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

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

IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions - Amendments (effective for annual periods beginning on or after 1 January 2018),

IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 Financial Instruments is applied first time), *IFRS 10, IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendment* (deferred indefinitely).

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

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),

IAS 40 Investment Property: Transfers of Investment Property - Amendments (effective for annual periods beginning on or after 1 January 2018),

Improvements to IFRSs: 2014-2016 cycle (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

IFRIC 22 Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

The Group has not yet assessed the impact of the above standards, amendments and interpretations on the Group's accounting policies and financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. The financial year and accounting policies of the Company and subsidiary companies are the same. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Control is achieved when the Group has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. Taking into consideration that all subsidiaries of the Company were established by the Company, no goodwill of acquisition arise.

Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to the owners of the Company
and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Foreign currency conversion in euro

(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.

	31.12.2016.	**31.12.2015.**
	EUR	**EUR**
1 USD	1.0541	1.0887
1 RUB	64.3	80.6736

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.

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.

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.

Intangible investments and fixed assets

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 (12) 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.

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.

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" 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.

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.

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.

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.

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.

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.

Fair value estimation

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

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

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

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.

Corporate 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, property, plant and equipment valuations for first time adoption of IFRS, 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.

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.

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.

Related parties

Related parties are considered as shareholders of the Company and associated companies, member of Board, Council and Audit committee, 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.

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 of PPE

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 31.12.2016. of EUR 12 841 193 (31.12.2015. - EUR 14 247 772 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 12 841 193 (31.12.2015 - EUR 14 247 772.

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 section "Income recognition" The accrued income for supplied repair and upgrading services at the year end are EUR 433 635 (31.12.2015. - EUR 6 734 500).

Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflect effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. The total carrying amount of receivables at the end of the reporting period is EUR 1 102 280 (31.12.2015. - EUR 2 721 407). 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 3 583 820 (31.12.2014. - EUR 3 437 020).

(3) 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:

	2016 EUR	2015 EUR
Latvia	6 051 491	7 254 124
Other EU Countries	2 431 853	4 660 116
Canada	1 745 370	1 888 889
Russia	2 448 262	4 688 756
Belarus	494 324	573 600
Uzbekistan	356 794	83 541
Other Countries	27 601	64 626
	13 555 695	**19 213 652**

(c) Major customers

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

Customer Nr.1	5 803 988	5 197 373
Customer Nr.2	1 681 635	4 605 039
Customer Nr.3	1 419 021	2 809 269
Customer Nr.4	1 020 654	1 793 049
Other customers	3 630 397	4 808 922
	13 555 695	**19 213 652**

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	9 897 379	13 651 104
Other income	2 092 470	2 143 496
Income from sale of spare parts	1 400 934	3 216 570
Rental income	164 912	120 102
Income from sales of railway rolling stock	-	82 380
	13 555 695	**19 213 652**

(3) Costs of sale

	2016 EUR	2015 EUR
Costs of row materials and goods	8 309 252	12 036 693
Salary expense	2 816 991	3 849 789
Depreciation of property, plant and equipment	1 303 003	1 383 848
Utility costs	1 060 362	1 032 451
Mandatory state social insurance contributions	660 558	912 836
Other production costs	555 433	446 839
Increase in provisions for inventories and receivables	309 778	193 718
Increase in provisions for warranty and other contingent liabilities	(19 462)	183 320
Increase in provisions for expected losses	(12 034)	9 559
	14 983 881	**20 049 053**

(4) Distribution expenses

	2016 EUR	2015 EUR
Other distribution costs	96 322	17 637
Transportation costs	82 705	34 525
Salary expenses	65 138	82 980
Brokerage costs	28 976	75 046
Mandatory state social insurance contributions	15 225	19 529
	288 366	**229 717**

(5) Administrative expenses

	2016 EUR	2015 EUR
Salary expenses	664 607	912 225
Other administrative expenses	179 672	292 493
Mandatory state social insurance contributions	151 279	200 193
Depreciation of tangible assets	129 883	166 588
Professional service costs	45 166	116 238
Office costs	30 623	41 054
Utility costs	18 364	30 723
Representation costs	1 837	2 057
	1 221 431	**1 761 571**

(6) Other income

	2016 EUR	2015 EUR
Net Gain on disposal of subsidiaries and loss of control *	1 545 734	673 848
Received ERDF grant (see Note (22))	292 671	292 671
Net income from sale of property, plant and equipment	2 438	2 200
Other income	24 462	49 833
Gains from exchange rate fluctuations	-	143 682
Other grants from EU funds	-	4 873
	1 865 305	**1 167 107**

* In October 2016 Company disposed of its subsidiaries SIA DL Lokomotīve, SIA DL Metatlworking un SIA Loģistika. In October subsidiaries SIA Elap insolvency procedure was started and an administrator was appointed, respectavly the subsidiary is excluded from the consolidattion as from the moment of loss of control. In 2015 the Company disposed of three of its subsidiaries SIA Rel, SIA Metalurgs un SIA Remdiz, the net result from disposal or loss of control in 2015 and 2016 is shown in the table below:

	2016 EUR	2015 EUR
Cash	(2 048)	(318)
Assets	(1 350)	(1 524)
Liabilities	1 547 116	675 687
Proceeds from sale	-	3
Net result from disposal	**1 545 734**	**673 848**

(7) Other expenses

	2016 EUR	2015 EUR
Penalties paid	1 243 732	120 349
Cost of collective agreement with employees	6 638	14 538
Loss from exchange rate fluctuations	5 261	-
Other expenses	3 852	26 247
Impairment loss on fixed assets (see Note (12))	-	328 265
	1 259 483	**489 399**

(9) Expenses by Nature

	2016 EUR	2015 EUR
Costs of row materials and consumables	8 309 252	12 036 693
Salary expenses	3 546 736	4 844 994
Other expenses	2 136 076	1 034 341
Depreciation of PPE and intangible assets	1 432 886	1 550 436
Utility costs	1 078 726	1 063 174
Mandatory state social insurance contributions	827 062	1 132 558
Increase in provisions for inventories and receivables	309 778	193 718
Transportation expenses	82 705	34 525
Office expenses	30 623	41 054
Brokerage costs	28 976	75 046
Increase in provisions for warranty and other contingent liabilities	(19 462)	183 320
Increase in provisions for expected losses	(12 034)	9 559
Representation expenses	1 837	2 057
Impairment loss on fixed assets (see Note (12))	-	328 265
	17 753 161	**22 529 740**

(9) Finance expenses

	2016 EUR	2015 EUR
Interest charge	543 070	494 280
(Interest capitalized)	-	(6 237)
Interest charge, net	543 070	488 043
	543 070	**488 043**

(10) Corporate income tax

a) Components of corporate income tax

	2016 EUR	2015 EUR
Corporate income tax according to the tax return	2 202	-
Changes in deferred income tax	(598 331)	109 131
	(596 129)	**109 131**

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 EUR	2015 EUR
Profit or loss before corporate income tax	(2 875 231)	(2 637 024)
Theoretically calculated tax at 15% tax rate	**(431 285)**	**(395 554)**
Tax effects on:		
Permanent differences	55 129	69 264
Tax allowance on the purchase of new technological equipment	(57 143)	(70 996)
Tax discounts	76 665	86 303
Changes in unrecognized deferred tax asset	(239 495)	420 114
Total corporate income tax expenses	**(596 129)**	**109 131**

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	769 232	660 101
Deferred tax charged to the income statement	(598 331)	109 131
Deferred tax liabilities (asset) at the end of the financial year	**170 901**	**769 232**

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. EUR	31.12.2015. EUR
Temporary difference on depreciation of fixed and intangible assets	884 540	899 789
Gross deferred tax liabilities	**884 540**	**899 789**
Temporary difference on accruals for expected losses	(50)	(1 806)
Temporary difference on provisions for warranties	(15 604)	(22 831)
Temporary difference on provisions for impairment of inventories and receivables	(584 363)	(34 906)
Tax losses carried forward	(502 204)	(699 091)
Unrecognized deferred tax asset	388 582	628 077
Gross deferred tax assets	**(713 639)**	**(130 557)**
Net deferred tax liability (assets)	**170 901**	**769 232**

The Group offsets the deferred tax assets and the deferred tax liabilities only when there is a legally enforceable right to offset

Deferred tax assets:		
deferred tax asset to be recovered within a year	(600 017)	(59 543)
deferred tax asset to be recovered within more than a year	(113 622)	(71 014)
	(713 639)	(130 557)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	41 403	97 732
deferred tax liabilities to be recovered after more than a year	843 137	802 057
	884 540	899 789
Net deferred tax liabilities (assets)	**170 901**	**769 232**

On 31 December 2016 total accrued tax losses are EUR 3 348 016 (2015: EUR 4 660 606), of which EUR 1 545 272 (2015: EUR 870 606) are from subsidiaries, which are not active since 2015 or subsidiaries, that could not be able to use them in the future. It is not expected that the Group will be able to use this tax losses in the future and, therefore, they are not recognized as deferred tax assets. The remaining tax losses carried forward of EUR 1 802 744 (2015: EUR 3 790 000) have no expiration date.

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 of PPE	**Accruals for expected losses**	**Impairments of inventories and receivables**	**Provisions for warranty obligations**	**Tax losses carried forward**	**Unrecognized deferred tax assets**	**Total**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
31.12.2014.	959 278	(1 281)	(26 189)	(30 027)	(449 643)	207 963	**660 101**
Included in income statement	(59 489)	(525)	(8 717)	7 196	(249 448)	420 114	**109 131**
31.12.2015.	**899 789**	**(1 806)**	**(34 906)**	**(22 831)**	**(699 091)**	**628 077**	**769 232**
Included in income statement	(15 249)	1 756	(549 457)	7 227	196 887	(239 495)	**(598 331)**
31.12.2016.	**884 540**	**(50)**	**(584 363)**	**(15 604)**	**(502 204)**	**388 582**	**170 901**

(11) 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.

	2016	**2015**
Profit/(loss) attributed to shareholders of the Group (EUR)	(2 279 102)	(2 746 155)
Average annual number of shares	8 294 219	8 294 219
Earnings/(loss) per share (expressed in cents)	**(27.48)**	**(33.11)**

(12) Intangible assets and property, plant and equipment

	Land plots, buildings and engineering structures	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	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)	-	-	(9 492)
Reclassification between fixed 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**
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**
Opening book value	19 229	6 991 049	7 067 453	94 729	94 541	14 247 772
Acquired	-	-	-	-	55 154	55 154
Reclassified	32 564	9 504	43 399	4 539	(90 006)	(32 564)
Disposed	-	-	(5 291)	-	-	(5 291)
Amortized	(11 009)	(239 904)	(1 154 356)	(29 618)	-	(1 423 878)
Closing book value	**40 784**	**6 760 649**	**5 951 205**	**69 650**	**59 689**	**12 841 193**
Initial cost	98 137	9 667 825	15 860 605	883 310	59 689	26 471 429
Accumulated depreciation	(57 353)	(2 907 176)	(9 909 400)	(813 660)	-	(13 630 236)
Net book value	**40 784**	**6 760 649**	**5 951 205**	**69 650**	**59 689**	**12 841 193**

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, 2009 and 2015 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, in 2009 for EUR 410 947 and in 2015 EUR 458 391.

As a result land and buildings balance value in the Company's individual financial statements as of 31 December 2016 EUR 4 827 279 (31.12.2015: EUR 5 030 730).

b) Capital commitment

In 2015 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 (22)). 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 2016, as at 31 December 2016 the Group has performed impairment test on fixed assets.

All Group'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 Group 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%	47%	3%	21%
Expected average EBITDA/revenue ratio	5%	2%	4%	3%
Expected terminal value		EBITDA (2021) / discount rate		
Discount rate		7.7%		

Expected average growth in revenue represents cumulative average growth rate (CAGR) of the Group'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.

	Factors	31.12.2015 Increase EUR	31.12..2015. Decrease EUR
Expected average growth in revenue	changes by 1%	126 849	(126 849)
Expected average EBITDA/sales ratio	changes by 1%	3 816 848	(3 807 125)
Discount rate	changes by 1%	(1 510 266)	1 964 814

c) Other notes

In the current year the acquired assets value has been increased by capitalized borrowing costs of EUR 0 (2015: EUR 6 237), 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 took place during 2016 in 2015 financial statements 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 (21)).

The total initial value of the fully depreciated property, plant and equipment at the end of the year amounted to EUR 8 126 166 (31.12.2015. - EUR 7 288 837).

(13) Participation in the capital

The Group in cooperation with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zasulauks" as an association of persons won AS "Pasažieru vilciens" open tender for modernization of diesel wagons and on January 31, 2014 entered into a contract with AS "Pasažieru vilciens". To comply with this agreement, the Group together with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zasulauks" founded the general partnership "DMU vilcieni", in which the Group owns 50% of the voting rights. General partnership does not have separate capital. Group does not have controlling influence in general partnership "DMU vilcieni" activities. See also Note (29) for financial results of Partnership "DMU vilcieni" and Group's contingent liabilities.

The Group has assessed its joint arrangement in Partnership as joint operation and recognizes the joint operation’s assets, liabilities, income and expense in its consolidated financial statements. See also Note (29) for financial results of Partnership "DMU vilcieni" and Group's contingent liabilities.

Assets and liabilities of Partnership DMU vilcieni before the consolidation adjustments	**PS DMU Vilcieni 31.12.2016 EUR**	**Group joint operation 31.12.2016 EUR**
Trade receivables	197 020	54 429
Cash and cash equivalents	1 796 039	695 893
Trade payables	(3 707 112)	(1 591 987)
Provisions for warranty repairs	(130 000)	(61 893)
Net assets	**(1 844 053)**	**(903 558)**
Retained losses	**(1 844 053)**	**(903 558)**

(14) Inventories	**31.12.2016. EUR**	**31.12.2015. EUR**
Raw materials	2 483 906	2 678 441
Work-in-progress	92 594	344 999
Finished goods	780 147	646 287
Railway rolling stock for sale	500 000	-
(Accruals for damaged and obsolete stock)	(272 827)	(232 707)
	3 583 820	**3 437 020**

All inventories of the Group are pledged in accordance with terms of Commercial pledge agreements as security for loans from banks (see Note (21)).

Opening balances of provisions	232 707	174 591
Changes in provisions in the financial year	40 120	58 116
Closing balances	**272 827**	**232 707**

(15) Financial instruments by category	**31.12.2016. EUR**	**31.12.2015. EUR**
Financial assets - Loans and receivables		
Trade receivables	1 102 280	2 721 407
Accrued income	433 635	6 734 500
Other current assets	73 417	464 039
Cash and cash equivalents	785 912	890 649
	2 395 244	**10 810 595**
Financial liabilities - Other financial liabilities at amortised cost		
Borrowings	7 142 947	7 673 964
Trade payables	4 497 117	6 084 591
Provisions	104 033	152 205
Other liabilities	778 383	835 031
	12 522 480	**14 745 791**

(16) Trade receivables	**31.12.2016. EUR**	**31.12.2015. EUR**
Book value of trade receivables	3 829 836	4 430 178
(Provisions for bad and doubtful debts)	(2 727 556)	(1 708 771)
	1 102 280	**2 721 407**

For information on the Group's credit risk management and disclosure of information about structure of customers and movement of provisions see Note (30).

All receivables of the Group are pledged in accordance with terms of Commercial pledge agreements as security for loans from banks (see Note (21)).

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

(17) Accrued income

	31.12.2016. EUR	31.12.2015. EUR
Accrued income for repair and modernization contracts	433 966	6 746 534
Expected losses	(331)	(12 034)
Gross amount due from customers	**433 635**	**6 734 500**
Amount due from customers	433 635	6 734 500
	433 635	**6 734 500**
Corresponding amounts:		
Contract revenue recognised in statement of comprehensive income	9 897 379	13 651 104
Advances received from customers (under "Other liabilities")	509 933	6 263 606
Retentions on repair and modernization contracts (under "Other current assets")	48 771	60 464

(18) Other current assets

	31.12.2016. EUR	31.12.2015. EUR
Financial assets		
Loans	-	277 108
Other receivables	24 646	126 467
Retentions	48 771	60 464
	73 417	**464 039**
Non-financial assets		
Payables for raw materials	29 895	2 191 376
Deferred expenses	18 810	28 455
Other taxes overpaid	65	350
	48 770	**2 220 181**
	122 187	**2 684 220**

(19) Cash and cash equivalents

	31.12.2016. EUR	31.12.2015. EUR
Cash at bank on current accounts	785 912	890 649
	785 912	**890 649**

(20) Share capital

Registered and fully paid share capital of the Company is EUR 11 611 907, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is EUR 1,4. 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. During the reporting period Company's share capital was denominated to euro as of which EUR 189 698 was transferred to reserves.

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.

(21) Borrowings

		31.12.2016. EUR	31.12.2015. EUR
Loan from related company in EUR	a)	4 051 240	4 877 240
SWEDBANK AS Credit line facilities in EUR	b)	1 328 961	-
Investment credits with EU structural funds in EUR	c)	1 278 878	1 807 024
Accrued interest on loans from related company	a)	483 868	585 697
SWEDBANK AS Investment credit in USD current portion	d)	-	272 659
SWEDBANK AS Investment credit in EUR current portion	e)	-	131 344
		7 142 947	**7 673 964**

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. See also Note (32) on the use of going concern assumption.

a) In previous periods Company received several loans from related company with annual interest rate of 12%. During the reporting period the Company received additional loans of EUR 1 557 000 total, as well as made repayments of EUR 2 383 000. The remaining loan is to be repaid till 31.12.2017. Loans are not secured by a pledge of the Group's assets or otherwise.

b) 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.

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 30.06.2017. The interest rate is 1.5% + 3 month EURIBOR.

d) 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 fully covered.

e) 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 fully covered.

	2016 EUR	2015 EUR
At beginning of the year	7 637 964	9 121 480
Borrowings in the year	1 957 000	3 158 236
Repaid borrowings in the year	(2 389 915)	(4 999 144)
Currency exchange rate fluctuation results	-	55 449
Changes in accrued interest for loans	(80 102)	301 943
At the end of the year	**7 124 947**	**7 637 964**

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 2016 is EUR 18 910 311 (31.12.2015. - EUR 30 859 493).
(iii) guarantees from related parties.

(22) Deferred income

	31.12.2016. EUR	31.12.2015. EUR
Non-current		
Received ERDF grant for the acquisition of equipment	1 261 992	1 554 663
	1 261 992	**1 554 663**
Current		
Received ERDF grant for the acquisition of equipment	292 671	292 671
	292 671	**292 671**

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 1 625 778 was received in 2014 and in 2015.

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.

(23) 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.

	2016 EUR	2015 EUR
At beginning of the year	152 205	200 178
Used during the year	(128 050)	(231 293)
Additional provisions	79 878	183 320
At the end of the year	**104 033**	**152 205**

(24) Other liabilities

	31.12.2016. EUR	31.12.2015. EUR
Non-current		
Accrued liabilities to post-employment benefits (non-current part)	101 335	101 670
Mandatory State social contributions liabilities	-	13 390
Personnel income tax liabilities	-	16 001
	101 335	**131 061**
Current		
Advances received	509 933	6 263 606
Accrued liabilities for unused annual leave	284 644	280 459
Value added tax liabilities	246 959	509 410
Other liabilities	210 983	222 709
Payroll liabilities	175 730	224 502
Personnel income tax liabilities	146 570	325 077
Mandatory State social contributions liabilities	143 509	476 475
Accrued liabilities for post-employment benefits (current part)	5 691	5 691
Other taxes payable	931	1 707
	1 724 950	**8 309 636**

(25) Average number of employees

	2016	2015
Average number of employees during the financial year	**553**	**868**

(26) Remuneration to personnel

	2016 EUR	2015 EUR
Salaries and mandatory state social insurance contributions for production staff	3 477 549	4 762 625
Salaries and mandatory state social insurance contributions for distribution staff	80 363	102 509
Salaries and mandatory state social insurance contributions for administration staff	815 886	1 112 418
	4 373 798	**5 977 552**
Including mandatory state social insurance contributions in the remuneration to personnel	827 062	1 132 558

(27) 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. All transactions with related parties have been done on the bases of arms' length principle.

a) claims and liabilities

		31.12.2016.		31.12.2015.	
	Notes	**Receivables EUR**	**Payables EUR**	**Receivables EUR**	**Payables EUR**
Related parties with significant influence					
Trade receivables / payables	a)	397 889	3 714 310	1 219 090	5 396 519
Borrowings	(21)	-	4 535 108	-	5 462 937
		397 889	**8 249 418**	**1 219 090**	**10 859 456**

(a) The repayment of the debts will be made in cash and it is not secured with guarantee or otherwise. In 2016 and 2015 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

	2016 EUR	2015 EUR
Related parties with significant influence		
Repair services of railway rolling stock	3 556 326	8 513 260
Purchase of raw materials	1 690 427	2 725 043
Sale of other goods	161 375	266 460
Services received	667 288	4 408 734
	6 075 416	**15 913 497**

c) key management remuneration

Remuneration to the members of the Board		
salary expenses	150 155	142 374
mandatory state social insurance contributions	35 421	33 586
	185 576	**175 960**

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

(29) 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.

(29) Operations of Partnership DMU vilcieni and contingent liabilities

As disclosed in the Notes (13c) to the financial statements the Group 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 Group and AS Rīgas Vagonu Rūpnīca.

At the end of 2016 all works are completed and delivered and 2-year warranty period is in force. Partnership has incurred significant losses and its capital is negative - EUR 1 844 053. Partnership has recognized the provisions for the warranty liabilities and plans to cover it from available financial resources (see Note 13).

The Group has assessed its joint arrangement in Partnership as joint operation and recognizes the joint operation’s assets, liabilities, including provisions for warranty liabilities in its consolidated financial statements. The Group does not recognize additional provisions if the Partnership would not been able to fulfil its obligations.

(30) Financial 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. To minimize RUB exchange risks, the Group enters into contracts for repair with 100% prepayment for base work.

The Group significant open currency positions:

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

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:

	2016		**2015**	
	Change in exchange rates	**Effect on profit before tax EUR**	**Change in exchange rates**	**Effect on profit before tax EUR**
USD	+10%	2 153	+10%	24 686
	-10%	(2 153)	-10%	(24 686)
RUB	+10%	29 343	+10%	20 262
	-10%	(29 343)	-10%	(20 262)

(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 (21)), 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 2016 the Group's liabilities with floating interest rates increased.

	31.12.2016.	**31.12.2015.**
Financial liabilities with variable interest rate, EUR	1 278 878	1 938 368
Financial liabilities with variable interest rate, USD calculated in EUR	-	272 659
Open positions, net, EUR	**1 278 878**	**2 211 027**

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		**2016**	
	Increase/ decrease in basis points	**Effect on profit before tax EUR**	**Increase/ decrease in basis points**	**Effect on profit before tax EUR**
EUR	+30	22 420	+30	35 974
	-30	(22 420)	-30	(35 974)
USD	+30	-	+30	1 217
	-30	-	-30	(1 217)

(c) Credit risk

Maximum exposure to credit risk	**31.12.2016. EUR**	**31.12.2015. EUR**
Trade receivables	1 102 280	2 721 407
Accrued income	433 635	6 734 500
Other receivables	73 417	464 039
Cash	785 912	890 649
	2 395 244	**10 810 595**

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 509 933 (31.12.2014. -EUR 6 263 606).

Maturity analysis of trade receivables:

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	split as:		Past due*	
				in due term	< 90 days	90-180 days	> 180 days
31.12.2015. EUR	4 430 178	(1 478 317)	2 610 649	2 610 649	-	-	130 582
31.12.2016. EUR	3 829 836	(2 727 556)	1 102 280	1 023 891	-	-	78 389

* Group does not create provisions on trade receivables past due 180 days in amount of EUR 78 389 (2015: EUR 130 582) since the partners provides services to the Group and the balances are offset.

Movement of provisions for decrease of trade receivables	**31.12.2016. EUR**	**31.12.2015. EUR**
Provisions at the beginning of the year	1 708 771	1 478 317
Decrease of accruals for written off bad debts	(1 643 827)	-
Provisions created in the reporting period	2 662 612	230 454
Provisions at the end of the year	**2 727 556**	**1 708 771**

(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 7 735 886 (31.12.2015. - EUR 5 921 075). Liquidity ratio at the end of the reporting period is 0,44 (31.12.2015. - 0,75). The liquidity ratio decreased due to the finalisation of the DMU Vilcieni project, that significantly decreased the accrued income balance at year end. At the end of the reporting period the Group had unused credit line resources EUR 71 039 (31.12.2015. - EUR 1 500 000).

See also Note (32) on use of going concern assumption.

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, 2015	**Total EUR**	**<6 months EUR**	**6-12 months EUR**	**1-2 years EUR**	**2-5 years EUR**
Borrowings					
EUR	**1 938 368**	969 184	969 184	-	-
USD	**272 660**	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	**9 312 246**	**7 643 007**	**1 543 869**	**40 773**	**84 597**

On 31 December, 2016	Total	<6 months	6-12 months	1-2 years	2-5 years
	EUR	EUR	EUR	EUR	EUR
Borrowings					
EUR	**5 813 986**	483 868	5 330 118	-	-
Credit lines	**1 328 961**	-	1 328 961	-	-
Trade payables	**4 497 117**	4 497 117	-	-	-
Other liabilities	**882 416**	392 404	394 368	11 382	84 262
Total liabilities	**12 522 480**	**5 373 389**	**7 053 447**	**11 382**	**84 262**

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. This fact will be discussed in the next shareholders meeting. Equity of the Company meets the Latvian legal requirements. Company's management manages the capital structure on going concern basis. During the reporting period there were no changes in capital management objectives, policies or processes.

Group's management controls the external debt (borrowings) to total capital (gearing ratio). During the reporting year this figure has increased by 96%, which caused by the new loans received and the significant provisions that were created for trade receivables during the financial period. Equity to total assets at the end of the reporting year remained at 19% (31.12.2015. - 19%).
The Group foresees that the loans from related party EUR 4 535 108 will be prolonged and they are subordinated against the credit institution loans.

	31.12.2016.	31.12.2015.
	EUR	EUR
Total borrowings	7 142 947	7 673 964
Cash and its equivalents	(785 912)	(890 649)
Net loans	6 357 035	6 783 315
Equity	3 612 363	5 891 470
Total assets	18 910 311	30 859 493
Gearing ratio	176%	115%
Equity ratio on total assets	19%	19%

(31) Impact of negative external factors to the operations of the Group

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

(32) Use of going concern assumption

Due to the negative performance of recent years the Group's liquidity ratios has worsen. At the end of the reporting period Group's current liabilities exceeded current assets by 7.7 mil. EUR. On that date the Group's major creditors are the Group'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 Group 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 Group 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 Group is negotiating a bank loans' refinancing and rescheduling. Given that the existing bank borrowings are secured by the pledge of all Group's assets, as well as AS Skinest Rail financial guaranty it is reasonably confident that an agreement will be reached.

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

(33) 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.

	2016 **EUR**
Net profit in unaudited financial statements	(2 743 067)
Deferred income tax adjustments	598 331
Accrued income adjustment	(180 765)
Gain on sale of subsidiaries	46 399
Net profit/(loss) in audited financial statements	**(2 279 102)**

(34) 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 Group as at 31 December 2016.