

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

**Unaudited Consolidated Interim Financial
Statements**

for the 12 month period ended 31 December 2016

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MANAGEMENT

Names and positions of the Council members	Oleg Ossinovski - Chairman of the Council
	Sergei Jakovlev - Member of the Council
	Lauri Reinhold - Member of the Council
	Mihhail Terentjev - Member of the Council
	Roman Zahharov - Member of the Council
Names and positions of the Board members	Aivar Keskula - Chairmen of the Board (till 06.12.2016)
	Margus Mals - Chairmen of the Board (from 06.12.2016)
	Margus Mals - Member of the Board (till 06.12.2016)
	Natālija Petrova - Member of the Board
	Vladimirs Kirsanovs - Member of the Board
	Gatis Kamarūts - Member of the Board (from 06.12.2016)
Shareholders	AS Skinest Rail (Estonia) - 47,97%
	AS Spacecom (Estonia) - 25,27%
	SWEDBANK AS CLIENTS ACCOUNT -9,24%
	LLC LOKOMOTIV IVESTEERINGSUUD - 6,09%
	Other shareholders - 11,43%

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 a repair services of all types of railway rolling stock - diesel - electric locomotives and electric trains.

Performance of the Group during the financial year

During the 12 month period in 2016 the consolidated net turnover of the Group amounted to 13,2 million EUR (31,3 % decrease in comparison with net turnover in the relevant period in 2015).

The Group completed the 12 month period in 2016 with a loss of 2,7 million EUR. During the accounting period the Group exported its products to 8 countries, the total export volume amounted to 7,5 million EUR (in the similar period of 12 months in 2015 – 12,0 million EUR). The main directions of an export in reporting period were EU countries: Estonia, Poland and Lithuania, and the third countries: Russia, Uzbekistan, Belarus.

In the third quarter, the all DR1 trains were transferred to the customer AS Pasažieru vilciens. The customer applied 10% penalty for violation modernization project implementation 's terms. These losses were represented in the company's financial report.

During the reporting period took place the company's reorganization: cost optimization, staff reduction and rejection of not bringing profit activities. Big losses in the reporting year are related with Company's inoccupation in the reporting year, as well as 10% penalty for DMU application. According to the forecast, in 2017 the company will be provided with repair facilities more then in accounting period.

In the 1st quarter of 2017, the company's workload is much higher than in the same period of 2016. Contracts have been concluded with the Polish company PKP Linia Hutnicza Szerokotorowa SPOLKA z o.o. r about repair of locomotives, as well as other significant transactions.

Natālija Petrova
Member of the Board

Daugavpils, 23 February 2017

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Board of Directors of AS "Daugavpils Lokomotīvu Remonta Rūpnīca" is responsible for the preparation of the consolidated financial statements of the Group.

The consolidated interim financial statements on pages 6 to 16 are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Group as of 31 December 2016 and the results of its operations for the 12 months period ended 31 December 2016 and cash flows for the period then ended.

The condensed consolidated interim financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted in the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Board of Directors in the preparation of the condensed consolidated interim financial statements.

The Board of Directors of AS "Daugavpils Lokomotīvu Remonta Rūpnīca" is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. The Board of Directors is also responsible for operating the Group in compliance with the legislation of the Republic of Latvia.

Natālija Petrova
Member of the Board

Daugavpils, 23 February 2017

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
		EUR	EUR
Net sales	(1)	13 192 327	19 213 652
Cost of sales	(2)	(14 947 644)	(20 049 053)
Gross profit (loss)		<u>(1 755 317)</u>	<u>(835 401)</u>
Distribution expenses	(2)	(288 365)	(229 717)
Administrative expenses	(2)	(1 342 936)	(1 761 571)
Other income		1 630 436	1 167 107
Other expenses		(327 818)	(369 050)
Net finance income and loss		(658 767)	(608 392)
Profit (loss) before tax		<u>(2 742 767)</u>	<u>(2 637 024)</u>
Corporate income tax		(300)	(109 131)
		<u>0</u>	<u>0</u>
Net profit (loss)		<u><u>(2 743 067)</u></u>	<u><u>(2 746 155)</u></u>
Attributable to:			
Equity holders of a parent company		(2 743 067)	(2 746 155)
Minority interest		-	-
Earnings per share (in cents)			
Basic		(33.07)	(33.11)
Diluted		(33.07)	(33.11)
Total comprehensive income (expense)		<u><u>(2 743 067)</u></u>	<u><u>(2 746 155)</u></u>
Attributable to:			
Equity holders of a parent company		(2 743 067)	(2 746 155)
Minority interest		-	-

Notes on pages 10 to 16 are an integral part of these financial statements.

Natālija Petrova
Member of the Board

Daugavpils, 23 February 2017

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STATEMENT OF FINANCIAL POSITION

		31.12.2016. EUR	31.12.2015. EUR
<u>ASSETS</u>	Notes		
Non-current assets			
Intangible assets	(3)	40 784	19 229
Property, plant and equipment	(3)	12 523 730	14 247 772
Investments in associates		-	500
Total non-current assets:		12 564 514	14 267 501
Current assets			
Inventories	(4)	3 598 974	3 437 020
Available for sale non-current assets		22 748	112 748
Trade receivables		1 904 842	2 721 407
Accrued income	(5)	614 400	6 734 500
Corporate income tax overpaid		-	11 448
Other current assets		124 541	2 684 220
Cash and cash equivalents		123 869	890 649
Total current assets:		6 389 374	16 591 992
<u>Total assets</u>		18 953 888	30 859 493
		31.12.2016. EUR	31.12.2015. EUR
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital		11 611 907	11 801 610
Other reserves		189 698	-
Retained losses of the previous years		(5 910 140)	(3 163 985)
Current year profit (losses)		(2 743 067)	(2 746 155)
Total equity:		3 148 398	5 891 470
Liabilities:			
Non-current liabilities:			
Deferred income tax liabilities		769 232	769 232
Deferred income		1 261 992	1 554 663
Other liabilities	(8)	101 670	131 061
Total non-current liabilities:		2 132 894	2 454 956
Current liabilities:			
Borrowings	(6)	7 142 947	7 673 964
Trade payables		4 454 930	6 084 591
Deferred income		506 428	292 671
Corporate income tax payables	(7)	123 495	152 205
Provisions	(8)	1 444 796	8 309 636
Total current liabilities:		13 672 596	22 513 067
Total liabilities:		15 805 490	24 968 023
<u>Total equity and liabilities:</u>		18 953 888	30 859 493

Notes on pages 10 to 16 are an integral part of these financial statements.

Natālija Petrova
Member of the Board

Daugavpils, 23 February 2017

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR
31.12.2013.	11 801 610		(1 920 660)	9 880 950
Loss of the reporting period	-		(1 243 325)	(1 243 325)
Total comprehensive income	-		(1 243 325)	(1 243 325)
31.12.2014.	11 801 610		(3 163 985)	8 637 625
Loss of the reporting period	-		(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
Loss of the reporting period	-		(2 743 067)	(2 743 067)
Total comprehensive income	-		(2 743 067)	(2 743 067)
Denomination of share capital	(189 703)			(189 703)
Reserve reclassification		189 698		189 698
31.12.2016.	11 611 907	189 698	(8 653 207)	3 148 398

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CASH FLOW STATEMENT

	01.01.2016 - 31.12.2016 EUR	01.01.2015 - 31.12.2015 EUR
Cash flow from operating activities		
Profit or losses before income tax	(2 742 767)	(2 637 024)
<u>Adjustments for:</u>		
depreciation and amortization	1 434 887	1 550 436
profit from sales of property, plant and equipment	-	(2 200)
profit on disposal of investment	(28 710)	10 143
changes in provisions	5 261	55 449
denomination of share capital	(189 703)	-
interest expenses	116 753	488 043
Cash flow prior to changes in current assets	(1 404 279)	(535 153)
Inventory (increase)/decrease	166 995	2 589 550
Account receivable (increase)/decrease	9 212 007	(6 412 812)
Account payable increase/(decrease)	(10 157 164)	6 151 407
Gross cash flow generated from operating activities	(2 182 441)	1 792 992
Interest paid	(659 703)	(126 898)
Net cash flow generated from operating activities	(2 842 144)	1 666 094
 Cash flow from investing activities		
Acquisition of property, plant and equipment	(61 349)	(221 057)
Proceeds from sales of property, plant and equipment	97 729	6 243
Loans granted	-	(277 108)
Issued in repayment of the loan	277 108	-
Net cash flow generated from investing activities	313 488	(491 922)
 Cash flow from financing activities		
Grants received	-	1 529 574
Loans repaid	(1 957 000)	(4 999 144)
Loans received	3 718 876	3 158 236
Net cash flow generated from financing activities	1 761 876	(311 334)
 Net increase / (decrease) in cash and cash equivalents	(766 780)	862 838
 Cash and cash equivalents at the beginning of the financial year	890 649	27 811
 Cash and Cash equivalents at the end of the financial year	123 869	890 649

Notes on pages 10 to 16 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

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

The Company is open joint stock company and its shares are quoted in AS Nasdaq Riga, Secondary list, Latvia. The Board and Council members do not have shares of the Company on the end of the reporting period.

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 consolidated interim financial statements cover the period from 1 January 2016 till 31 December 2016.

These financial statements are consolidated financial statements of the Company. The Company is the parent company of the Group. At the end of reporting year the Company has investments in 9 subsidiaries, as well as due to participation in A/S "Pasažieru vilciens" open tender, the Company together with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zaslauks" founded the general partnership "DMU vilcieni", in which the Company owns 50% of the voting rights.

II. ACCOUNTING POLICIES

(1) Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting", which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in EU.

(2) Ārvalstu valūtu pārvērtēšana

(a) Functional and presentation currency

Items are shown 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). Financial statements are presented in euro (EUR), which is the Group's functional and presentation currency.

(b) Transactions and balances

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

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

	31.12.2016.	31.12.2015.
	EUR	EUR
1 USD	0.9487	0.9185
1 RUB	0.0156	0.0124

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

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

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

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

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

III. OTHER NOTES

(1) Segment Information

(a) Operation and reportable segment

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

(b) Geographical markets

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

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

	01.01.2016 - 31.12.2016 EUR	01.01.2015 - 31.12.2015 EUR
Russia	2 448 262	4 688 756
Other EU countries	2 431 853	4 660 116
Latvia	5 688 123	7 254 124
Belarus	494 324	573 600
Canada	1 745 370	1 888 889
Other countries	27 601	64 626
Uzbekistan	356 794	83 541
	<u>13 192 327</u>	<u>19 213 652</u>

(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 clients	3 267 029	4 808 922
	<u>13 192 327</u>	<u>19 213 652</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	9 241 142	13 651 104
Income from sales of spare parts	1 322 036	3 216 570
Income from sales of railway rolling stock	-	82 380
Rental income	196 704	120 102
Other income	2 432 445	2 143 496
	<u>13 192 327</u>	<u>19 213 652</u>

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(2) **Expenses by Nature**

	01.01.2016 - 31.12.2016 EUR	01.01.2015 - 31.12.2015 EUR
Costs of raw materials and consumables	8 380 690	12 036 693
Salary expenses	3 724 625	4 844 994
Depreciation of PPE and intangible assets	1 434 887	1 550 436
Mandatory state social insurance contributions	868 728	1 132 558
Utility costs	1 078 646	1 063 174
Other expenses	465 847	913 992
Impairment loss on fixed assets (see Note (11))	-	328 265
Increase in provisions for inventories and receivables	502 080	193 718
Increase in provisions for warranty and other contingent liabilities	-	183 320
Brokerage costs	68 208	75 046
Office expenses	38 886	41 054
Transportation expenses	14 496	34 525
Increase in provisions for expected losses	-	9 559
Representation expenses	1 852	2 057
	<u>16 578 945</u>	<u>22 409 391</u>

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(3) Intangible assets and property, plant and equipment

	Intangible assets	Property, plant and equipment				Total property, plant and equipment
		Lands and buildings	Equipment and machinery	Other assets	Assets under construction and advances	
	EUR	EUR	EUR	EUR	EUR	EUR
01.01.2015.						
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						
Acquisition cost	22 212	7 710 150	7 243 089	79 704	991 730	16 024 673
Acquired	-	-	-	-	221 057	221 057
Disposed	-	(9 219)	(273)			(9 492)
Reclassified to a available for sale noncurrent	-	(441 013)				(441 013)
Reclassified	4 961	44 310	1 021 904	47 071	(1 118 246)	(4 961)
Amortized	(7 944)	(313 179)	(1 197 267)	(32 046)	0	(1 542 492)
Closing book value	19 229	6 991 049	7 067 453	94 729	94 541	14 247 772
31.12.2015.						
Initial cost	65 573	9 661 827	16 200 242	920 744	94 541	26 877 354
Accumulated depreciation	(46 344)	(2 670 778)	(9 132 789)	(826 015)	-	(12 629 582)
Net book value	19 229	6 991 049	7 067 453	94 729	94 541	14 247 772
2016						
Acquisition cost	19 229	6 991 050	7 067 453	94 729	94 541	14 247 773
Acquired	-	-	-	-	61 348	61 348
Reclassified	32 564	9 504	43 399	4 539	(90 005)	(32 563)
Written off		(323 659)	(5 291)			(328 950)
Amortized	(11 009)	(239 904)	(1 154 356)	(29 618)	-	(1 423 878)
Closing book value	40 784	6 436 991	5 951 205	69 650	65 884	12 523 730
31.12.2016.						
Initial cost	98 137	9 347 672	16 238 350	925 283	65 884	26 577 189
Accumulated depreciation	(57 353)	(2 910 681)	(10 287 145)	(855 633)	-	(14 053 459)
Net book value	40 784	6 436 991	5 951 205	69 650	65 884	12 523 730

(4) Inventories

	31.12.2016. EUR	31.12.2015. EUR
Raw materials	2 981 688	2 678 441
Work-in-progress	92 594	344 999
Finished goods	757 399	646 287
(Provisions for impairment of inventories)	(232 707)	(232 707)
	3 598 974	3 437 020

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(5) Accrued income

	31.12.2016.	31.12.2015.
	EUR	EUR
Accrued income for repair and modernization contracts	614 400	6 746 534
Expected losses		(12 034)
Gross amount of work-in-progress	<u>614 400</u>	<u>6 734 500</u>
where:		
Amount due from customers	<u>614 400</u>	<u>6 734 500</u>

(6) Borrowings

In 2016 the Company received additional loans from related company in the amount of EUR 1 957 000. Part of the loan in the amount of EUR 2 783 000 was repaid, interest - EUR 582 845. Loans are with interest rate 12%.

(7) Provisions

In accordance with signed agreements, the Group provides free of charge warranty repairs to customers under the general provisions of the repair. Taking into account that the rolling stock repairs actually are carried out by the subsidiaries of the Company, which estimates the provisions for warranty repairs in its individual financial statements, the provision in financial statements of the Group valued as the total amount of provisions of the Company and subsidiaries.

	31.12.2016.	31.12.2015.
	EUR	EUR
At beginning of the year	152 205	200 178
Used during the year	(28 710)	(231 293)
Additional provisions	-	183 320
At the end of the year	<u>123 495</u>	<u>152 205</u>

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(8) Other liabilities

	31.12.2016. EUR	31.12.2015. EUR
Non-current		
Accrued liabilities to post-employment benefits (non-current part)	101 670	101 670
Mandatory State social contributions liabilities	-	13 390
Personnel income tax liabilities	-	16 001
	101 670	131 061
Current		
Advances received	513 570	6 263 606
Other liabilities	164 140	222 709
Payroll liabilities	176 335	224 502
Accrued liabilities for unused annual leave	280 459	280 459
Mandatory State social contributions liabilities	143 969	476 475
Personnel income tax liabilities	158 945	325 077
Value-added tax	806	509 410
Other deferred income	881	1 707
Accrued liabilities for post-employment benefits (current part)	5 691	5 691
	1 444 796	8 309 636

(9) Transactions with related parties

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

a) claims and liabilities

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

b) transactions

	01.01.2016 - 31.12.2016 EUR	01.01.2015 - 31.12.2015 EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	3 451 284	8 513 260
Purchase of raw materials	1 184 942	2 725 043
Sale of other goods	158 770	266 460
Services received	200 901	4 408 734
	4 995 897	15 913 497