

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

Consolidated Interim Financial Statements

for the 6 month period ended 30 June 2014

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
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for the 6 month period ended 30 June 20124

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MANAGEMENT

Names and positions of the Council members

Oleg Ossinovski - Chairman of the Council

Aivar Keskula - Vice Chairman of the Council

Sergei Jakovlev - Member of the Council

Lauri Reinhold - Member of the Council (from 19.02.2014)

Mihhail Terentjev - Member of the Council (from 19.02.2014)

Natalja Kumar - Member of the Council (till 19.02.2014)

Tomas Petraitis - Member of the Council (till 19.02.2014)

Names and positions of the Board members

Natālija Petrova - Chairman of the Board

Eduards Krukovskis - Member of the Board

Aleksejs Kolpakovs - Member of the Board

Mihails Mamonovs - Member of the Board (till 19.02.2014)

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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 6 month period in 2014 the consolidated net sales of the Group amounted to 11,2 million EUR (18,4% decrease in respect of net sales in the respective period in 2013).

The Group completed the 6 month period in 2014 with a profit of 263,3 thousand EUR. During the period the Group exported its products to 8 countries, the total export volume amounted to 10,2 million EUR (in similar period in 2013 - 12,6 million EUR). The main directions of export in reporting period were EU countries: Estonia, and the third countries: Russia, Belarus.

In the 6 month period in 2014 the Company has invested 569 thousand EUR into non-current assets. In January 2014 the jointly controlled entity DMU vilcieni was registered with the partners AS "Daugavpils Lokomotīvu Remonta Rūpnīca", AS VRC "ZASULAUKS", AS "RĪGAS VAGONBŪVES RŪPNĪCA". The entity was established with the purpose of participating in the open tender (tender identification No. AS "PV"-2013/21 KF) of AS "Pasažieru vilciens" for DR1A diesel locomotives passenger car modernisation. It is estimated that the Company's part in the contract will amount to 9,4 million EUR. As of this date the project is ongoing.

Natālija Petrova
chairmen of the board

Daugavpils, 28 August 2014

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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 5 to 16 are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Group as of 30 June 2014 and the results of its operations for the 6 months period ended 30 June 2014 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
chairmen of the board

Daugavpils, 28 August 2014

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2014- 30.06.2014 EUR	01.01.2013- 30.06.2013 EUR
Net sales	(1)	11 237 284	13 763 786
Cost of sales	(2)	(9 430 021)	(11 948 016)
Gross profit (loss)		<u>1 807 263</u>	<u>1 815 770</u>
Distribution expenses	(2)	(144 677)	(283 778)
Administrative expenses	(2)	(1 503 955)	(1 479 698)
Other income		232 340	73 555
Other expenses		(50 327)	(29 150)
Net finance income and loss		(71 554)	(94 798)
Profit (loss) before tax		<u>269 090</u>	<u>1 902</u>
Corporate income tax		(5 748)	-
Net profit (loss)		<u><u>263 342</u></u>	<u><u>1 902</u></u>
Attributable to:			
Equity holders of a parent company		(263 342)	1 902
Minority interest		-	-
Earnings per share (in cents)			
Basic		0,03	0,00
Diluted		0,03	0,00
Total comprehensive income (expense)		<u><u>263 342</u></u>	<u><u>1 902</u></u>
Attributable to:			
Equity holders of a parent company		263 342	1 902
Minority interest		-	-

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

Natālija Petrova
chairmen of the board

Daugavpils, 28 August 2014

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STATEMENT OF FINANCIAL POSITION

		30.06.2014. EUR	31.12.2013. EUR
<u>ASSETS</u>	Notes		
Non-current assets			
Intangible assets	(3)	22 897	17 960
Property, plant and equipment	(3)	14 872 698	13 019 221
Total non-current assets:		14 895 595	13 037 181
Current assets			
Inventories	(4)	4 329 567	4 548 174
Trade receivables		1 605 279	1 490 984
Accrued income	(5)	2 609 237	3 456 025
Corporate income tax overpaid		55 781	101 055
Other current assets		2 827 441	623 306
Cash and cash equivalents		246 771	216 880
Total current assets:		11 674 076	10 436 424
<u>Total assets</u>		<u>26 569 671</u>	<u>23 473 605</u>
		30.06.2014. EUR	31.12.2013. EUR
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital		11 801 610	11 801 610
Retained losses of the previous years		(1 920 660)	(1 678 584)
Current year profit (losses)		263 342	(242 076)
Total equity:		10 144 292	9 880 950
Liabilities:			
Non-current liabilities:			
Borrowings	(6)	3 532 055	2 249 228
Deferred income tax liabilities		664 795	659 045
Other liabilities	(8)	711 018	640 556
Total non-current liabilities:		4 907 868	3 548 829
Current liabilities:			
Borrowings	(6)	5 275 844	2 614 528
Trade payables		3 479 028	3 276 289
Corporate income tax payables	(7)	189 889	255 041
Provisions	(8)	2 572 750	3 897 968
Total current liabilities:		11 517 511	10 043 826
Total liabilities:		16 425 379	13 592 655
<u>Total equity and liabilities:</u>		<u>26 569 671</u>	<u>23 473 605</u>

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

Natālija Petrova
chairmen of the board

Daugavpils, 28 August 2014

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	EUR	EUR	EUR
31.12.2012.	11 801 610	(1 678 584)	10 123 026
Profit of the reporting period	-	1 902	1 902
Total comprehensive income	-	1 902	1 902
30.06.2013.	11 801 610	(1 676 682)	10 124 928
Loss of the reporting period	-	(243 978)	(243 978)
Total comprehensive income	-	(1 920 660)	(1 920 660)
31.12.2013.	11 801 610	(1 920 660)	9 880 950
Profit of the reporting period	-	263 342	263 342
Total comprehensive income	-	263 342	263 342
30.06.2014.	11 801 610	(1 657 318)	10 144 292

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CASH FLOW STATEMENT

	01.01.2014- 30.06.2014 EUR	01.01.2013- 30.06.2013 EUR
Cash flow from operating activities		
Profit or losses before income tax	269 090	1 902
<u>Adjustments for:</u>		
depreciation and amortization	469 604	396 931
changes in provisions	(65 152)	-
interest expenses	71 554	-
Cash flow prior to changes in current assets	<u>745 096</u>	<u>398 833</u>
Inventory (increase)/decrease	624 286	(520 016)
Account receivable (increase)/decrease	(1 877 321)	2 312 745
Account payable increase/(decrease)	(1 125 029)	(1 005 137)
Gross cash flow generated from operating activities	<u>(1 632 968)</u>	<u>1 186 425</u>
Corporate income tax paid	73 596	(48 157)
Net cash flow generated from operating activities	<u>(1 559 372)</u>	<u>1 138 268</u>
 Cash flow from investing activities		
Acquisition of tangible assets	(501 934)	(389 140)
Net cash flow generated from investing activities	<u>(501 934)</u>	<u>(389 140)</u>
 Cash flow from financing activities		
Proceeds from borrowings	2 501 240	54 463
Loans repaid	(410 043)	(319 061)
Net cash flow generated from financing activities	<u>2 091 197</u>	<u>(264 598)</u>
 Net increase / (decrease) in cash and cash equivalents	<u>29 891</u>	<u>484 530</u>
 Cash and cash equivalents at the beginning of the financial year	<u>216 880</u>	<u>41 157</u>
 Cash and Cash equivalents at the end of the financial year	<u>246 771</u>	<u>525 687</u>

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NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

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

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

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

The Group financial year is from 1 January 2014 till 31 December 2014, these consolidated interim financial statements cover the period from 1 January 2014 till 30 June 2014.

These financial statements were authorised for issue by the Board of Directors of the Company on 28 August 2014, and Chairman of the Board 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 only in January 2007. During the reporting period there have been no changes in the Group at the end of the reporting period, the Group has investments in 11 subsidiaries.

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:

	30.06.2014.	30.06.2013.
	EUR	EUR
1 EUR	-	0,702804
1 USD	1,362	0,593
1 RUB	45,8969	0,0164

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(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.

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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:

	01.01.2014- 30.06.2014	01.01.2013- 30.06.2013
	EUR	EUR
Russia	5 159 214	7 762 009
Other EU countries	4 335 763	3 932 509
Latvia	1 006 562	1 157 954
Belarus	362 800	638 874
Uzbekistan	145 881	152 963
Other countries	227 064	119 477
	<u>11 237 284</u>	<u>13 763 786</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	3 647 426	3 601 992
Customer Nr.2	2 561 167	3 237 430
Customer Nr.3	1 986 300	2 639 820
Customer Nr.4	1 065 430	1 898 735
Other clients	1 976 961	2 385 809
	<u>11 237 284</u>	<u>13 763 786</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	11 001 848	13 645 513
Other income	235 436	118 273
	<u>11 237 284</u>	<u>13 763 786</u>

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(2) Expenses by Nature	01.01.2014- 30.06.2014 EUR	01.01.2013- 30.06.2013 EUR
Costs of raw materials and consumables	5 060 810	7 293 830
Salary expenses	3 476 957	3 248 418
Utility costs	909 551	1 050 068
Mandatory state social insurance contributions	774 388	774 610
Other expenses	322 464	644 083
Depreciation of PPE and intangible assets	412 320	365 241
Brokerage costs	-	138 966
Transportation expenses	60 827	50 040
Office expenses	61 336	146 236
	<u>11 078 653</u>	<u>13 711 491</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
01.01.2013.						
Initial cost	37 727	8 971 052	10 470 693	1 038 065	179 582	20 659 392
Accumulated depreciation	(18 884)	(1 784 013)	(6 866 584)	(961 874)	-	(9 612 471)
Net book value	18 843	7 187 040	3 604 109	76 191	179 582	11 046 921
2013						
Acquisition cost	18 843	7 187 039	3 604 109	76 191	179 582	11 046 921
Acquired	-	-	-	-	2 758 046	2 758 046
Reclassified	7 999	414 515	731 693	33 960	(1 188 168)	(8 000)
Amortized	(8 882)	(261 346)	(488 616)	(27 784)	0	(777 746)
Closing book value	17 960	7 340 208	3 847 186	82 367	1 749 460	13 019 221
31.12.2013.						
Initial cost	45 727	9 385 567	11 129 681	846 774	1 749 460	23 111 482
Accumulated depreciation	(27 767)	(2 045 359)	(7 282 495)	(764 407)	-	(10 092 261)
Net book value	17 960	7 340 208	3 847 186	82 367	1 749 460	13 019 221
6 month period 2014						
Acquisition cost	17 960	7 340 208	3 847 186	82 367	1 749 460	13 019 221
Acquired	-	-	-	-	2 328 018	2 328 018
Reclassified	9 923	8 052	197 718	17 371	(233 064)	(9 923)
Amortized	(4 986)	(150 912)	(292 603)	(21 103)	-	(464 618)
Closing book value	22 897	7 197 348	3 752 301	78 635	3 844 414	14 872 698
30.06.2014.						
Initial cost	55 649	9 393 619	11 318 501	864 144	3 844 414	25 420 678
Accumulated depreciation	(32 752)	(2 196 271)	(7 566 200)	(785 509)	-	(10 547 980)
Net book value	22 897	7 197 348	3 752 301	78 635	3 844 414	14 872 698

(4) Inventories

	30.06.2014. EUR	31.12.2013. EUR
Raw materials	2 960 575	3 522 242
Work-in-progress	370 285	267 511
Finished goods	1 185 049	944 763
(Provisions for impairment of inventories)	(186 342)	(186 342)
	4 329 567	4 548 174

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(5) Accrued income

	30.06.2014.	31.12.2013.
	EUR	EUR
Accrued income for repair and modernization contracts	2 609 237	3 574 796
Expected losses	-	(118 771)
Gross amount of work-in-progress	<u>2 609 237</u>	<u>3 456 025</u>
where:		
Amount due from customers	<u>2 609 237</u>	<u>3 456 025</u>
Corresponding amounts:		
Contract revenue recognised in statement of comprehensive income	11 001 848	22 113 633
Advances received from customers (under "Other liabilities")	919 316	2 343 949
Retentions on repair and modernization contracts (under "Other current assets")	34 755	60 654

(6) Borrowings

In 2014 the Company received additional loans from AS Skinest Rail in the amount of EUR 312 240 and EUR 1 739 000. Loans are with interest rates 12% and 10% respectively, and repayment dates 31 May and 30 June 2015.

(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.

	30.06.2014.	31.12.2013.
	EUR	EUR
At beginning of the year	255 041	246 120
Used during the year	(65 152)	(172 549)
Additional provisions	0	181 470
At the end of the year	<u>189 889</u>	<u>255 041</u>

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(8) Other liabilities

	30.06.2014.	31.12.2013.
	EUR	EUR
Non-current		
Grant received for the purchase of non-current assets (non-current part)	598 433	527 971
Accrued liabilities to post-employment benefits (non-current part)	112 585	112 585
	<u>711 018</u>	<u>640 556</u>
Current		
Advances received	919 316	2 343 949
Other liabilities	548 893	483 072
Payroll liabilities	380 298	394 820
Accrued liabilities for unused annual leave	359 903	339 735
Mandatory State social contributions liabilities	185 904	204 000
Personnel income tax liabilities	117 849	99 383
Grant received for the purchase of non-current assets (current part)	30 870	23 998
Other deferred income	22 919	2 213
Accrued liabilities for post-employment benefits (current part)	6 798	6 798
	<u>2 572 750</u>	<u>3 897 968</u>

(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.

* In 2014 the Company jointly with AS VRC Zaslauks and AS Rīgas Vagonbūves Rūpnīca established a Jointly controlled entity DMU vilcieni. During the reporting period the Company has made and received payments to and from DMU vilcieni.

a) claims and liabilities

	30.06.2014.		31.12.2013.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	443 245	838 195	57 591	1 919 031
Borrowings	-	2 751 240	-	250 000
<i>Jointly Controlled Entities:</i>				
Other current assets / liabilities	1 561 910	286 186	-	250 000
	<u>443 245</u>	<u>3 589 435</u>	<u>57 591</u>	<u>2 169 031</u>

b) transactions

	01.01.2014-	2013
	30.06.2014	
	EUR	EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	5 084 479	9 452 921
Purchase of raw materials	2 248 600	7 269 471
Sale of other goods	557 892	2 751 346
Services received	173 443	409 306
	<u>8 064 414</u>	<u>19 883 044</u>