

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 9 month period ended 30 September 2014

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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 - Chairwoman 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 9 month period in 2014 the consolidated net sales of the Group amounted to 17,4 million EUR (15,9% decrease in respect of net sales in the respective period in 2013).

The Group completed the 9 month period in 2014 with a loss of 150,9 thousand EUR. During the period the Group exported its products to 8 countries, the total export volume amounted to 15,5 million EUR (in similar period in 2013 - 19,0 million EUR). The main directions of export in reporting period were EU countries: Estonia, and the third countries: Russia, Belarus.

In the 9 month period in 2014 the Company has invested 4,3 million 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
Chairwoman of the Board

Daugavpils, 19 November 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 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 30 September 2014 and the results of its operations for the 9 months period ended 30 September 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
Chairwoman of the Board

Daugavpils, 19 November 2014

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2014- 30.09.2014	01.01.2013- 30.09.2013
		EUR	EUR
Net sales	(1)	17 372 149	20 694 656
Cost of sales	(2)	(15 996 420)	(18 814 055)
Gross profit (loss)		<u>1 375 729</u>	<u>1 880 601</u>
Distribution expenses	(2)	(213 183)	(363 989)
Administrative expenses	(2)	(1 395 940)	(1 477 483)
Other income		137 676	113 776
Other expenses		(21 077)	(38 344)
Net finance income and loss		(28 336)	(97 199)
Profit (loss) before tax		<u>(145 131)</u>	<u>17 362</u>
Corporate income tax		(5 748)	-
Net profit (loss)		<u>(150 879)</u>	<u>17 362</u>
Attributable to:			
Equity holders of a parent company		(150 879)	17 362
Minority interest		-	-
Earnings per share (in cents)			
Basic		(0,02)	0
Diluted		(0,02)	0
Total comprehensive income (expense)		<u>(150 879)</u>	<u>17 362</u>
Attributable to:			
Equity holders of a parent company		(150 879)	17 362
Minority interest		-	-

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

Natālija Petrova
Chairwoman of the Board

Daugavpils, 19 November 2014

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STATEMENT OF FINANCIAL POSITION

		30.09.2014. EUR	31.12.2013. EUR
<u>ASSETS</u>	Notes		
Non-current assets			
Intangible assets	(3)	20 115	17 960
Property, plant and equipment	(3)	15 564 480	13 019 221
Total non-current assets:		15 584 595	13 037 181
Current assets			
Inventories	(4)	4 000 354	4 548 174
Trade receivables		2 716 414	1 490 984
Accrued income	(5)	2 493 961	3 456 025
Corporate income tax overpaid		61 536	101 055
Other current assets		2 474 779	623 306
Cash and cash equivalents		113 903	216 880
Total current assets:		11 860 947	10 436 424
<u>Total assets</u>		<u>27 445 542</u>	<u>23 473 605</u>
		30.09.2014. 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)		(150 879)	(242 076)
Total equity:		9 730 071	9 880 950
Liabilities:			
Non-current liabilities:			
Borrowings	(6)	3 670 333	2 249 228
Deferred income tax liabilities		664 795	659 045
Other liabilities	(8)	711 018	640 556
Total non-current liabilities:		5 046 146	3 548 829
Current liabilities:			
Borrowings	(6)	4 966 083	2 614 528
Trade payables		3 998 064	3 276 289
Corporate income tax payables	(7)	176 583	255 041
Provisions	(8)	3 528 595	3 897 968
Total current liabilities:		12 669 325	10 043 826
Total liabilities:		17 715 471	13 592 655
<u>Total equity and liabilities:</u>		<u>27 445 542</u>	<u>23 473 605</u>

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Natālija Petrova
Chairwoman of the Board

Daugavpils, 19 November 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	-	(150 879)	(150 879)
Total comprehensive income	-	(150 879)	(150 879)
30.06.2014.	11 801 610	(2 071 539)	9 730 071

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CASH FLOW STATEMENT

	01.01.2014- 30.09.2014 EUR	01.01.2013- 30.09.2013 EUR
Cash flow from operating activities		
Profit or losses before income tax	(145 131)	17 362
<u>Adjustments for:</u>		
depreciation and amortization	704 974	583 493
changes in provisions	(78 458)	(156 802)
interest expenses	80 077	(14 222)
Cash flow prior to changes in current assets	561 462	429 831
Inventory (increase)/decrease	547 820	(884 345)
Account receivable (increase)/decrease	(2 114 839)	779 913
Account payable increase/(decrease)	261 859	1 827 959
Gross cash flow generated from operating activities	(743 698)	2 153 358
Corporate income tax paid	93 855	(48 157)
Net cash flow generated from operating activities	(649 843)	2 105 201
 Cash flow from investing activities		
Acquisition of tangible assets	(3 252 388)	(2 133 556)
Net cash flow generated from investing activities	(3 252 388)	(2 133 556)
 Cash flow from financing activities		
Proceeds from borrowings	4 547 418	1 319 812
Loans repaid	(748 164)	(641 909)
Net cash flow generated from financing activities	3 799 254	677 903
 Net increase / (decrease) in cash and cash equivalents	(102 977)	649 548
 Cash and cash equivalents at the beginning of the financial year	216 880	41 157
 Cash and Cash equivalents at the end of the financial year	113 903	690 705

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

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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 its 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 September 2014.

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:

	30.09.2014.	30.09.2013.
	EUR	EUR
1 EUR/LVL	-	0,702804
1 USD	0,795	0,741
1 RUB	0,0201	0,0229

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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- 30.09.2014	01.01.2013- 30.09.2013
	EUR	EUR
Russia	8 611 933	13 026 172
Other EU countries	5 647 339	4 468 004
Latvia	1 702 227	1 651 112
Belarus	571 624	1 108 524
Uzbekistan	443 487	301 679
Other countries	395 539	139 165
	<u>17 372 149</u>	<u>20 694 656</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	3 845 105	5 206 185
Customer Nr.2	3 494 257	4 522 188
Customer Nr.3	2 559 735	3 846 989
Customer Nr.4	1 374 011	3 203 193
Other clients	6 099 041	3 862 101
	<u>17 372 149</u>	<u>20 640 656</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	17 155 213	20 502 214
Other income	216 936	192 442
	<u>17 372 149</u>	<u>20 694 656</u>

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(2) **Expenses by Nature**

	01.01.2014- 30.09.2014 EUR	01.01.2013- 30.09.2013 EUR
Costs of raw materials and consumables	8 928 413	10 841 750
Salary expenses	5 039 591	5 201 129
Utility costs	1 188 229	1 425 935
Mandatory state social insurance contributions	1 023 668	1 240 566
Other expenses	511 950	985 733
Depreciation of PPE and intangible assets	696 044	537 982
Brokerage costs	14 791	138 966
Transportation expenses	88 607	79 207
Office expenses	114 250	204 259
	<u>17 605 543</u>	<u>20 655 527</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
9 month period 2014						
Acquisition cost	17 960	7 340 208	3 847 186	82 367	1 749 460	13 019 221
Acquired	-	-	-	-	4 427 572	4 427 572
Reclassified	9 923	71 370	2 167 737	24 925	(3 449 139)	(1 185 107)
Amortized	(7 768)	(226 538)	(442 479)	(28 189)	-	(697 206)
Closing book value	20 115	7 185 040	5 572 444	79 103	2 727 893	15 564 480
30.09.2014.						
Initial cost	55 649	9 456 937	13 297 418	871 699	2 727 893	26 353 947
Accumulated depreciation	(35 534)	(2 271 897)	(7 724 974)	(792 596)	-	(10 789 467)
Net book value	20 115	7 185 040	5 572 444	79 103	2 727 893	15 564 480

(4) Inventories

	30.09.2014. EUR	31.12.2013. EUR
Raw materials	2 898 072	3 522 242
Work-in-progress	269 917	267 511
Finished goods	1 018 707	944 763
(Provisions for impairment of inventories)	(186 342)	(186 342)
	4 000 354	4 548 174

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(5) Accrued income

	30.09.2014.	31.12.2013.
	EUR	EUR
Accrued income for repair and modernization contracts	2 493 961	3 574 796
Expected losses	-	(118 771)
Gross amount of work-in-progress	<u>2 493 961</u>	<u>3 456 025</u>
where:		
Amount due from customers	<u>2 493 961</u>	<u>3 456 025</u>
	<u>2 493 961</u>	<u>3 456 025</u>

(6) Borrowings

In 2014 the Company received additional loans from AS Skinest Rail in the amount of EUR 762 240 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.

	30.09.2014.	31.12.2013.
	EUR	EUR
At beginning of the year	255 041	246 120
Used during the year	(78 458)	(172 549)
Additional provisions		181 470
At the end of the year	<u>176 583</u>	<u>255 041</u>

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(8) Other liabilities

	30.09.2014.	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	1 448 992	2 343 949
Other liabilities	551 673	483 072
Payroll liabilities	368 687	394 820
Accrued liabilities for unused annual leave	339 735	339 735
Mandatory State social contributions liabilities	472 430	204 000
Personnel income tax liabilities	289 730	99 383
Grant received for the purchase of non-current assets (current part)	30 870	23 998
Other deferred income	19 680	2 213
Accrued liabilities for post-employment benefits (current part)	6 798	6 798
	<u>3 528 595</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.

a) claims and liabilities

	30.09.2014.		31.12.2013.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	642 248	1 275 623	57 591	1 919 031
Borrowings	-	2 751 240	-	250 000
<i>Jointly Controlled Entities:</i>				
Other current assets / liabilities	1 739 005	827 991	-	-
	<u>2 381 253</u>	<u>4 854 854</u>	<u>57 591</u>	<u>2 169 031</u>

b) transactions

	01.01.2014- 30.09.2014	2013
	EUR	EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	7 158 469	9 452 921
Purchase of raw materials	3 126 859	7 269 471
Sale of other goods	604 488	2 751 346
Services received	284 905	409 306
	<u>11 174 721</u>	<u>19 883 044</u>