

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

Consolidated Interim Financial Statements

for the 12 month period ended 31 December 2014

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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

Aivar Keskula - Member of the Council (till 20.01.2015)

Roman Zahharov - Member of the Council (from 21.01.2015)

Names and positions of the Board members

Natālija Petrova - Chairwoman of the Board (till 02.02.2015)

Aivar Keskula - Chairmen of the Board (from 03.02.2015)

Aleksejs Kolpakovs - Member of the Board (till 02.02.2015)

Eduards Krukovskis - Member of the Board (till 02.02.2015)

Natālija Petrova - Member of the Board (from 03.02.2015)

Vladimirs Kirsanovs - Member of the Board (from 03.02.2015)

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 2014 the consolidated net sales of the Group amounted to 20,2 million EUR (21,4% decrease in respect of net sales in the respective period in 2013).

The Group completed the 12 month period in 2014 with a loss of 1,1 million EUR. During the period the Group exported its products to 9 countries, the total export volume amounted to 18,0 million EUR (in similar period in 2013 - 23,2 million EUR). The main directions of export in reporting period were EU countries: Estonia, and the third countries: Russia, Belarus.

In the 12 month period in 2014 the Company has invested 5,5 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
Member of the Board

Daugavpils, 25 February 2015

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 2014 and the results of its operations for the 12 months period ended 31 December 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
Member of the Board

Daugavpils, 25 February 2015

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	2014 EUR	2013 EUR
Net sales	(1)	20 150 863	25 632 291
Cost of sales	(2)	(19 037 967)	(23 402 166)
Gross profit (loss)		<u>1 112 896</u>	<u>2 230 125</u>
Distribution expenses	(2)	(224 594)	(491 435)
Administrative expenses	(2)	(1 863 562)	(1 935 435)
Other income		203 113	46 025
Other expenses		(27 226)	(48 425)
Net finance income and loss		(276 253)	(99 139)
Profit (loss) before tax		<u>(1 075 626)</u>	<u>(298 284)</u>
Corporate income tax		(5 748)	56 208
Net profit (loss)		<u>(1 081 374)</u>	<u>(242 076)</u>
Attributable to:			
Equity holders of a parent company		(1 081 374)	(242 076)
Minority interest		-	-
Earnings per share (in cents)			
Basic		(0,13)	0
Diluted		(0,13)	0
Total comprehensive income (expense)		<u>(1 081 374)</u>	<u>(242 076)</u>
Attributable to:			
Equity holders of a parent company		(1 081 374)	(242 076)
Minority interest		-	-

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

Natālija Petrova
Member of the Board

Daugavpils, 25 February 2015

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STATEMENT OF FINANCIAL POSITION

		31.12.2014. EUR	31.12.2013. EUR
<u>ASSETS</u>	Notes		
Non-current assets			
Intangible assets	(3)	22 212	17 960
Property, plant and equipment	(3)	16 087 900	13 019 221
Total non-current assets:		16 110 112	13 037 181
Current assets			
Inventories	(4)	3 750 532	4 548 174
Trade receivables		2 708 878	1 490 984
Accrued income	(5)	2 258 386	3 456 025
Corporate income tax overpaid		71 582	101 055
Other current assets		2 570 649	623 306
Cash and cash equivalents		27 812	216 880
Total current assets:		11 387 839	10 436 424
<u>Total assets</u>		<u>27 497 951</u>	<u>23 473 605</u>
		31.12.2014. 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)		(1 081 374)	(242 076)
Total equity:		8 799 576	9 880 950
Liabilities:			
Non-current liabilities:			
Borrowings	(6)	6 430 603	2 249 228
Deferred income tax liabilities		664 795	659 045
Other liabilities	(8)	684 781	640 556
Total non-current liabilities:		7 780 179	3 548 829
Current liabilities:			
Borrowings	(6)	2 472 652	2 614 528
Trade payables		3 852 067	3 276 289
Corporate income tax payables	(7)	200 177	255 041
Provisions	(8)	4 393 300	3 897 968
Total current liabilities:		10 918 196	10 043 826
Total liabilities:		18 698 375	13 592 655
<u>Total equity and liabilities:</u>		<u>27 497 951</u>	<u>23 473 605</u>

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

Natālija Petrova
Member of the Board

Daugavpils, 25 February 2015

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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	-	(1 081 374)	(1 081 374)
Total comprehensive income	-	(1 081 374)	(1 081 374)
31.12.2014.	11 801 610	(3 002 034)	8 799 576

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CASH FLOW STATEMENT

	2014	2013
	EUR	EUR
Cash flow from operating activities		
Profit or losses before income tax	(1 075 626)	(298 284)
<u>Adjustments for:</u>		
depreciation and amortization	992 949	786 628
changes in provisions	(54 864)	31 078
(gains) or losses from exchange rate fluctuations	124 318	(23 650)
interest expenses	93 873	70 802
Cash flow prior to changes in current assets	80 650	566 574
Inventory (increase)/decrease	797 642	(1 553 459)
Account receivable (increase)/decrease	(654 800)	3 003 830
Account payable increase/(decrease)	1 135 404	110 342
Gross cash flow generated from operating activities	1 358 896	2 127 287
Interest paid	(58 062)	(74 726)
Corporate income tax paid	(66 424)	(147 226)
Net cash flow generated from operating activities	1 234 410	1 905 335
 Cash flow from investing activities		
Acquisition of tangible assets	(5 450 257)	(2 758 046)
Net cash flow generated from investing activities	(5 450 257)	(2 758 046)
 Cash flow from financing activities		
Proceeds from borrowings	5 046 324	2 313 003
Loans repaid	(1 019 545)	(1 284 569)
Net cash flow generated from financing activities	4 026 779	1 028 434
 Net increase / (decrease) in cash and cash equivalents	(189 068)	175 723
 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	27 812	216 880

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 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 31 December 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:

	31.12.2014.	31.12.2013.
	EUR	EUR
1 EUR/LVL	-	0,702804
1 USD	0,822	0,741
1 RUB	0,0145	0,0229

(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:

	2014	2013
	EUR	EUR
Russia	9 491 364	14 721 136
Estonia	5 096 865	5 600 395
Latvia	2 188 007	2 369 964
Belarus	808 120	1 543 900
Lietuva	1 065 017	722 335
Other countries	854 671	303 554
Uzbekistan	443 487	301 679
Poland	203 332	69 328
	<u>20 150 863</u>	<u>25 632 291</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	4 801 245	6 350 368
Customer Nr.2	4 493 969	5 300 991
Customer Nr.3	3 084 079	5 275 933
Customer Nr.4	2 559 734	4 535 138
Other clients	5 211 836	4 169 861
	<u>20 150 863</u>	<u>25 632 291</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	17 814 611	22 113 633
Income from the sale of railway rolling stock	456 201	2 567 574
Other income	1 880 051	951 084
	<u>20 150 863</u>	<u>25 632 291</u>

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(2) **Expenses by Nature**

	2014	2013
	EUR	EUR
Costs of raw materials and consumables	9 242 476	12 462 368
Salary expenses	5 422 369	6 989 080
Utility costs	1 631 933	2 220 280
Mandatory state social insurance contributions	1 265 678	1 667 225
Other expenses	989 761	1 383 323
Depreciation of PPE and intangible assets	992 949	730 885
Brokerage costs	38 097	138 966
Transportation expenses	1 452 165	135 806
Office expenses	70 734	71 546
Professional services costs	19 961	29 557
	<u>21 126 123</u>	<u>25 829 036</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
2014						
Acquisition cost	17 960	7 340 208	3 847 186	82 367	1 749 460	13 019 221
Acquired	-	-	-	-	5 614 515	5 614 515
Reclassified	14 886	675 809	4 048 657	26 899	(6 314 886)	(1 563 521)
Amortized	(10 634)	(303 021)	(649 731)	(29 563)	-	(982 315)
Closing book value	22 212	7 712 996	7 246 112	79 703	1 049 089	16 087 900
31.12.2014.						
Initial cost	60 613	10 061 376	15 178 338	873 673	1 049 089	27 162 476
Accumulated depreciation	(38 401)	(2 348 380)	(7 932 226)	(793 970)	-	(11 074 576)
Net book value	22 212	7 712 996	7 246 112	79 703	1 049 089	16 087 900

(4) Inventories

	31.12.2014. EUR	31.12.2013. EUR
Raw materials	2 742 286	3 522 242
Work-in-progress	246 634	267 511
Finished goods	936 203	944 763
(Provisions for impairment of inventories)	(174 591)	(186 342)
	3 750 532	4 548 174

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(5) Accrued income

	31.12.2014.	31.12.2013.
	EUR	EUR
Accrued income for repair and modernization contracts	2 261 261	3 574 796
Expected losses	(2 875)	(118 771)
Gross amount of work-in-progress	<u>2 258 386</u>	<u>3 456 025</u>
where:		
Amount due from customers	<u>2 258 386</u>	<u>3 456 025</u>
	<u>2 258 386</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 from 01 January 2016.

(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.

	31.12.2014.	31.12.2013.
	EUR	EUR
At beginning of the year	255 041	246 120
Used during the year	(88 635)	(172 549)
Additional provisions	33 771	181 470
At the end of the year	<u>200 177</u>	<u>255 041</u>

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(8) Other liabilities

	31.12.2014.	31.12.2013.
	EUR	EUR
Non-current		
Grant received for the purchase of non-current assets (non-current part)	571 920	527 971
Accrued liabilities to post-employment benefits (non-current part)	112 861	112 585
	<u>684 781</u>	<u>640 556</u>
Current		
Advances received	2 345 820	2 343 949
Other liabilities	473 543	483 072
Payroll liabilities	276 654	394 820
Accrued liabilities for unused annual leave	272 211	339 735
Mandatory State social contributions liabilities	512 465	204 000
Personnel income tax liabilities	465 534	99 383
Grant received for the purchase of non-current assets (current part)	37 741	23 998
Other deferred income	2 810	2 213
Accrued liabilities for post-employment benefits (current part)	6 522	6 798
	<u>4 393 300</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

	31.12.2014.		31.12.2013.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	672 670	2 400 148	57 591	1 919 031
Borrowings	-	2 751 240	-	250 000
<i>Jointly Controlled Entities:</i>				
Other current assets / liabilities	1 739 005	1 457 731	-	-
	<u>2 411 675</u>	<u>6 609 119</u>	<u>57 591</u>	<u>2 169 031</u>

b) transactions

	2014	2013
	EUR	EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	8 982 083	9 452 921
Purchase of raw materials	3 845 113	7 269 471
Sale of other goods	741 915	2 751 346
Services received	292 460	409 306
	<u>13 861 571</u>	<u>19 883 044</u>