

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

Consolidated Interim Financial Statements

for the 6 month period ended 30 June 2015

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2015

CONTENTS

Management	3
Report of the Management	4
Statement of the management responsibility	5
Financial statements	
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Cash flow statement	9
Notes to the financial statements	10 - 16

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2015

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

Natālija Petrova - Member of the Board

Vladimirs Kirsanovs - Member of the Board

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 2015 the consolidated net sales of the Group amounted to 6,2 million EUR (55,3 % decrease in respect of net sales in the respective period in 2014).

The Group completed the 6 month period in 2015 with a loss of 1,3 million EUR. During the period the Group exported its products to 9 countries, the total export volume amounted to 4,7 million EUR (in similar period in 2014 - 10,2 million EUR). The main directions of export in reporting period were EU countries: Estonia, Poland and Lithuania, and the third countries: Russia, Belarus.

In 2 of March 2015 the company implemented the ERAF project; the new equipment is placed in service and handed over the final report of LIAA. On 30 July 2015 the company has received EU funds financing and partly extinguished the debt to the bank. Big losses are related first of all to the conclusion of project in Russian rubles, as well as the reason was that the company was not provided with orders to full capacity, therefore, to increase the company's operations economic efficiency, the proceedings reorganization, proceedings processes optimization and the reduce of current spending were carried out. To reduce spending the company plans : to increase sales outside the Russian market part, including the purpose to avoid currency risks; to increase turnover part, which is not related to diesel locomotives repair; to receive EU financing and partly to discharge a debt to the bank with the aim of reducing of credit spending. Today the company is actively working to increase turnover by issuing and service provision of metalworking on the new equipment bought under the European project.

Natālija Petrova
Member of the Board

Daugavpils, 26 August 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 30 June 2015 and the results of its operations for the 6 months period ended 30 June 2015 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, 26 August 2015

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2015

STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2015 - 30.06.2015	01.01.2014 - 30.06.2014
		EUR	EUR
Net sales	(1)	6 212 223	11 237 284
Cost of sales	(2)	(6 095 433)	(9 430 021)
Gross profit (loss)		116 790	1 807 263
Distribution expenses	(2)	(114 609)	(144 677)
Administrative expenses	(2)	(1 290 210)	(1 503 955)
Other income		80 938	232 340
Other expenses		(19 373)	(50 327)
Net finance income and loss		(102 135)	(71 554)
Profit (loss) before tax		(1 328 599)	269 090
Corporate income tax			(5 748)
Net profit (loss)		(1 328 599)	263 342
Attributable to:			
Equity holders of a parent company		(1 328 599)	263 342
Minority interest		-	-
Earnings per share (in cents)			
Basic		(0,16)	0,03
Diluted		(0,16)	0,03
Total comprehensive income (expense)		(1 328 599)	263 342
Attributable to:			
Equity holders of a parent company		(1 328 599)	263 342
Minority interest		-	-

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

Natālija Petrova
Member of the Board

Daugavpils, 26 August 2015

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2015

STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2015. EUR	31.12.2014. EUR
<u>ASSETS</u>			
Non-current assets			
Intangible assets	(3)	23 010	22 212
Property, plant and equipment	(3)	15 387 487	16 024 673
Total non-current assets:		15 410 497	16 046 885
Current assets			
Inventories	(4)	5 120 804	3 763 521
Trade receivables		2 260 643	2 610 649
Accrued income	(5)	1 792 616	2 359 509
Corporate income tax overpaid		12 984	71 584
Other current assets		2 691 136	2 407 864
Cash and cash equivalents		24 081	27 811
Total current assets:		11 902 264	11 240 938
<u>Total assets</u>		<u>27 312 761</u>	<u>27 287 823</u>
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital		11 801 610	11 801 610
Retained losses of the previous years		(3 163 985)	(1 920 660)
Current year profit (losses)		(1 328 599)	(1 243 325)
Total equity:		7 309 026	8 637 625
Liabilities:			
Non-current liabilities:			
Borrowings	(6)	3 978 269	3 520 256
Deferred income tax liabilities		660 101	660 101
Deferred income		641 248	572 688
Other liabilities	(8)	122 834	122 834
Total non-current liabilities:		5 402 452	4 875 879
Current liabilities:			
Borrowings	(6)	5 186 599	5 601 224
Trade payables		2 157 979	3 852 075
Deferred income		46 484	37 742
Corporate income tax payables	(7)	178 221	200 178
Provisions	(8)	7 032 000	4 083 100
Total current liabilities:		14 601 283	13 774 319
Total liabilities:		20 003 735	18 650 198
<u>Total equity and liabilities:</u>		<u>27 312 761</u>	<u>27 287 823</u>

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

Natālija Petrova
Member of the Board

Daugavpils, 26 August 2015

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 Consolidated Interim Financial Statements
 for the 6 month period ended 30 June 2015

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
Loss of the reporting period	-	(242 076)	(242 076)
Total comprehensive income	-	(242 076)	(242 076)
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	-	(1 328 599)	(1 328 599)
Total comprehensive income	-	(1 328 599)	(1 328 599)
31.03.2015.	11 801 610	(4 492 584)	7 309 026

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

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2015

CASH FLOW STATEMENT

	01.01.2015 - 30.06.2015 EUR	01.01.2014 - 30.06.2014 EUR
Cash flow from operating activities		
Profit or losses before income tax	(1 328 599)	269 090
<u>Adjustments for:</u>		
depreciation and amortization	764 787	469 604
changes in provisions	(21 957)	(65 152)
interest expenses	60 798	71 554
Cash flow prior to changes in current assets	(524 971)	745 096
Inventory (increase)/decrease	(1 357 283)	624 286
Account receivable (increase)/decrease	1 486 992	(1 877 321)
Account payable increase/(decrease)	1 624 318	(1 125 029)
Gross cash flow generated from operating activities	1 229 056	(1 632 968)
Corporate income tax paid	-	73 596
Net cash flow generated from operating activities	1 229 056	(1 559 372)
 Cash flow from investing activities		
Acquisition of tangible assets	(981 764)	(501 934)
Net cash flow generated from investing activities	(981 764)	(501 934)
 Cash flow from financing activities		
Proceeds from borrowings	1 002 402	2 501 240
Loans repaid	(1 253 424)	(410 043)
Net cash flow generated from financing activities	(251 022)	2 091 197
 Net increase / (decrease) in cash and cash equivalents	(3 730)	29 891
 Cash and cash equivalents at the beginning of the financial year	27 811	216 880
 Cash and Cash equivalents at the end of the financial year	24 081	246 771

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 2015 till 31 December 2015, these consolidated interim financial statements cover the period from 1 January 2015 till 30 June 2015.

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.

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:

	30.06.2015.	31.12.2014.
	EUR	EUR
1 USD	0,898	0,824
1 RUB	0,0162	0,0138

(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:

	01.01.2015 - 30.06.2015	01.01.2014 - 30.06.2014
	EUR	EUR
Russia	2 249 441	5 159 214
Other ES countries	2 120 090	4 335 763
Latvia	1 506 872	1 006 562
Belarus	243 381	362 800
Other countries	8 898	227 064
Uzbekistan	83 541	145 881
	<u>6 212 223</u>	<u>11 237 284</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	1 737 829	3 647 426
Customer Nr.2	1 392 587	2 561 167
Customer Nr.3	836 494	1 986 300
Customer Nr.4	471 897	1 065 430
Other clients	1 773 416	1 976 961
	<u>6 212 223</u>	<u>11 237 284</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	6 087 471	11 001 848
Other income	124 752	235 436
	<u>6 212 223</u>	<u>11 237 284</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 Consolidated Interim Financial Statements
 for the 6 month period ended 30 June 2015

(2) **Expenses by Nature**

	01.01.2015 - 30.06.2015 EUR	01.01.2014 - 30.06.2014 EUR
Costs of raw materials and consumables	3 104 334	5 060 810
Salary expenses	2 154 138	3 476 957
Utility costs	532 083	909 551
Mandatory state social insurance contributions	503 943	774 388
Other expenses	336 904	322 464
Depreciation of PPE and intangible assets	764 787	412 320
Transportation expenses	59 758	60 827
Office expenses	44 305	61 336
	<u>7 500 252</u>	<u>11 078 653</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2015

(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
01.01.2014.						
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	-	-	-	-	4 032 689	4 032 689
Reclassified	14 886	672 963	4 069 623	32 947	(4 790 419)	(14 886)
Amortized	(10 634)	(303 021)	(673 720)	(35 610)	0	(1 012 351)
Closing book value	22 212	7 710 150	7 243 089	79 704	991 730	16 024 673
31.12.2014.						
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						
Acquisition cost	22 212	7 710 150	7 243 089	79 704	991 730	16 024 673
Acquired	-	-	-	-	169 115	169 115
Reclassified	4 962		971 125	5 677	(1 005 978)	(29 176)
Written off		(12 065)	(273)			(12 338)
Amortized	(4 164)	(155 895)	(593 278)	(15 614)	-	(764 787)
Closing book value	23 010	7 542 190	7 620 663	69 767	154 867	15 387 487
30.06.2015.						
Initial cost	65 574	10 046 465	16 149 190	879 350	154 867	27 229 872
Accumulated depreciation	(42 564)	(2 504 275)	(8 528 527)	(809 583)	-	(11 842 385)
Net book value	23 010	7 542 190	7 620 663	69 767	154 867	15 387 487

(4) Inventories

	30.06.2015. EUR	31.12.2014. EUR
Raw materials	4 255 810	2 845 554
Work-in-progress	332 949	156 355
Finished goods	683 758	936 203
(Provisions for impairment of inventories)	(151 713)	(174 591)
	5 120 804	3 763 521

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2015

(5) Accrued income

	30.06.2015.	31.12.2014.
	EUR	EUR
Accrued income for repair and modernization contracts	1 792 616	2 368 047
Expected losses		(8 538)
Gross amount of work-in-progress	<u>1 792 616</u>	<u>2 359 509</u>
where:		
Amount due from customers	<u>1 792 616</u>	<u>2 359 509</u>
	<u>1 792 616</u>	<u>2 359 509</u>

(6) Borrowings

In 2015 the Company received additional loans from related company in the amount of EUR 668 000. **Loan amount paid amounted to EUR 397 000.** Loans are with interest rate 12% 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.

	30.06.2015.	31.12.2014.
	EUR	EUR
At beginning of the year	255 041	255 041
Used during the year	(76 820)	(88 635)
Additional provisions		33 772
At the end of the year	<u>178 221</u>	<u>200 178</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2015

(8) Other liabilities

	30.06.2015.	31.12.2014.
	EUR	EUR
Non-current		
Accrued liabilities to post-employment benefits (non-current part)	122 834	122 834
	<u>122 834</u>	<u>122 834</u>
Current		
Advances received	4 847 027	2 260 761
Other liabilities	61 420	286 322
Payroll liabilities	348 469	276 181
Accrued liabilities for unused annual leave	272 213	272 213
Mandatory State social contributions liabilities	798 445	512 480
Personnel income tax liabilities	576 135	465 534
Value-added tax	44 977	-
Other deferred income	76 516	2 811
Accrued liabilities for post-employment benefits (current part)	6 798	6 798
	<u>7 032 000</u>	<u>4 083 100</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

	30.06.2015.		31.12.2014.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	1 078 170	1 087 544	641 760	2 502 683
Borrowings	-	3 320 543	-	2 969 465
	<u>1 078 170</u>	<u>4 408 087</u>	<u>641 760</u>	<u>5 472 148</u>

b) transactions

	01.01.2015 -	01.01.2014 -
	30.06.2015	30.06.2014
	EUR	EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	3 572 384	5 084 479
Purchase of raw materials	763 696	2 248 600
Sale of other goods	149 083	557 892
Services received	111 207	173 443
	<u>4 596 370</u>	<u>8 064 414</u>