

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

Consolidated Interim Financial Statements

for the 9 month period ended 30 September 2015

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 9 month period ended 30 September 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 9 month period ended 30 September 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 9 month period in 2015 the consolidated net sales of the Group amounted to 10,2 million EUR (58,9 % decrease in respect of net sales in the respective period in 2014).

The Group completed the 9 month period in 2015 with a loss of 1,6 million EUR. During the period the Group exported its products to 9 countries, the total export volume amounted to 8,1 million EUR (in similar period in 2014 - 15,5 million EUR). The main directions of export in reporting period were EU countries: Estonia, Poland and Lithuania, and the third countries: Russia, Belarus, Kazakhstan

On 2nd of March 2015 the company implemented the ERAF project; the new equipment is placed in service and the final report of LIAA is handed over. 30th of June 2015 the company received ES funds and a partial debt reimbursement to the bank.

Big losses are related first of all to the closure 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 companies has a reorganization, proceedings processes optimization and the reduce of current spending were being carried out. In the meanwhile, the Company has been actively participating in a variety of marketing events such as thematic fairs, conferences and mass media advertising. These events have been done to learn new technological practices and to approach clients. As of now, the company has acquired the first orders that have been processed and sent out to an orderer. Even though we are now fully occupied by work it is still not enough to subsidise the Russian trade scope. Our purpose - to increase scope of production (sales) outside the Russian market to avoid currency risk; to continue elaborating company's efficiency and keep production optimisation in balance.

Natālija Petrova
Member of the Board

Daugavpils, 25 November 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 September 2015 and the results of its operations for the 9 months period ended 30 September 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, 25 November 2015

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 9 month period ended 30 September 2015

STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2015 - 30.09.2015	01.01.2014 - 30.09.2014
		EUR	EUR
Net sales	(1)	10 237 053	17 372 149
Cost of sales	(2)	(10 649 057)	(15 996 420)
Gross profit (loss)		(412 004)	1 375 729
Distribution expenses	(2)	(168 458)	(213 183)
Administrative expenses	(2)	(1 489 179)	(1 395 940)
Other income		402 551	137 676
Other expenses		(29 124)	(21 077)
Net finance income and loss		86 049	(28 336)
Profit (loss) before tax		(1 610 165)	(145 131)
Corporate income tax		<u>0</u>	<u>(5 748)</u>
Net profit (loss)		<u>(1 610 165)</u>	<u>(150 879)</u>
Attributable to:			
Equity holders of a parent company		(1 610 165)	(150 879)
Minority interest		-	-
Earnings per share (in cents)			
Basic		(0.19)	(0.02)
Diluted		(0.19)	(0.02)
Total comprehensive income (expense)		<u>(1 610 165)</u>	<u>(150 879)</u>
Attributable to:			
Equity holders of a parent company		(1 610 165)	(150 879)
Minority interest		-	-

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

Natālija Petrova
Member of the Board

Daugavpils, 25 November 2015

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 9 month period ended 30 September 2015

STATEMENT OF FINANCIAL POSITION

	Notes	30.09.2015. EUR	31.12.2014. EUR
<u>ASSETS</u>			
Non-current assets			
Intangible assets	(3)	21 120	22 212
Property, plant and equipment	(3)	15 041 373	16 024 673
Total non-current assets:		15 062 493	16 046 885
Current assets			
Inventories	(4)	4 354 824	3 763 521
Trade receivables		2 672 888	2 610 649
Accrued income	(5)	2 301 380	2 359 509
Corporate income tax overpaid		12 972	71 584
Other current assets		3 336 895	2 407 864
Cash and cash equivalents		18 034	27 811
Total current assets:		12 696 993	11 240 938
<u>Total assets</u>		<u>27 759 486</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)		(1 610 165)	(1 243 325)
Total equity:		7 027 460	8 637 625
Liabilities:			
Non-current liabilities:			
Borrowings	(6)	4 886 319	3 520 256
Deferred income tax liabilities		660 101	660 101
Deferred income		1 819 722	572 688
Other liabilities	(8)	122 834	122 834
Total non-current liabilities:		7 488 976	4 875 879
Current liabilities:			
Borrowings	(6)	3 200 319	5 601 224
Trade payables		2 485 191	3 852 075
Deferred income		27 612	37 742
Corporate income tax payables	(7)	155 920	200 178
Provisions	(8)	7 374 008	4 083 100
Total current liabilities:		13 243 050	13 774 319
Total liabilities:		20 732 026	18 650 198
<u>Total equity and liabilities:</u>		<u>27 759 486</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, 25 November 2015

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 9 month period ended 30 September 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	-	(1 610 165)	(1 610 165)
Total comprehensive income	-	(1 610 165)	(1 610 165)
30.09.2015.	11 801 610	(4 774 150)	7 027 460

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 9 month period ended 30 September 2015

CASH FLOW STATEMENT

	01.01.2015 - 30.09.2015 EUR	01.01.2014 - 30.09.2014 EUR
Cash flow from operating activities		
Profit or losses before income tax	(1 610 165)	(145 131)
<u>Adjustments for:</u>		
depreciation and amortization	1 173 609	704 974
changes in provisions	(44 258)	(78 458)
interest expenses	91 134	80 077
Cash flow prior to changes in current assets	(389 680)	561 462
Inventory (increase)/decrease	(591 303)	547 820
Account receivable (increase)/decrease	(108 519)	(2 114 839)
Account payable increase/(decrease)	3 298 400	261 859
Gross cash flow generated from operating activities	2 208 898	(743 698)
Corporate income tax paid	-	93 855
Net cash flow generated from operating activities	2 208 898	(649 843)
 Cash flow from investing activities		
Acquisition of tangible assets	(1 013 839)	(3 252 388)
Net cash flow generated from investing activities	(1 013 839)	(3 252 388)
 Cash flow from financing activities		
Proceeds from borrowings	1 820 403	4 547 418
Loans repaid	(3 025 239)	(748 164)
Net cash flow generated from financing activities	(1 204 836)	3 799 254
 Net increase / (decrease) in cash and cash equivalents	(9 777)	(102 977)
 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	18 034	113 903

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 September 2015.

These financial statements are consolidated financial statements of the Company. The Company is the parent company of the Group. Under the Group, there are 9 subsidiary companies where we hold 100% of stake in each.

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:

	30.09.2015.	31.12.2014.
	EUR	EUR
1 USD	0.893	0.824
1 RUB	0.0136	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 - 30.09.2015	01.01.2014 - 30.09.2014
	EUR	EUR
Russia	3 630 575	8 947 600
Other ES countries	3 845 542	5 647 339
Latvia	2 163 751	1 702 227
Belarus	449 726	571 624
Other countries	63 918	59 872
Uzbekistan	83 541	443 487
	<u>10 237 053</u>	<u>17 372 149</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	2 936 356	3 845 105
Customer Nr.2	2 227 286	3 494 257
Customer Nr.3	1 232 986	2 559 735
Customer Nr.4	536 038	1 374 011
Other clients	3 304 387	6 099 041
	<u>10 237 053</u>	<u>17 372 149</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	9 991 840	17 155 213
Other income	245 213	216 936
	<u>10 237 053</u>	<u>17 372 149</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 Consolidated Interim Financial Statements
 for the 9 month period ended 30 September 2015

(2) **Expenses by Nature**

	01.01.2015 - 30.09.2015 EUR	01.01.2014 - 30.09.2014 EUR
Costs of raw materials and consumables	5 947 202	8 919 483
Salary expenses	3 101 358	5 039 591
Utility costs	888 379	1 188 229
Mandatory state social insurance contributions	726 034	1 023 668
Other expenses	270 354	511 950
Depreciation of PPE and intangible assets	1 173 609	704 974
Brokerage costs	29 108	14 791
Transportation expenses	51 697	88 607
Office expenses	118 953	114 250
	<u>12 306 694</u>	<u>17 605 543</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 9 month period ended 30 September 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	-	-	-	-	213 429	213 429
Reclassified	4 962		997 914	10 963	(1 038 051)	(29 174)
Written off		(12 065)	(273)			(12 338)
Amortized	(6 054)	(234 609)	(896 806)	(23 802)	-	(1 155 217)
Closing book value	21 120	7 463 476	7 343 924	66 865	167 108	15 041 373
30.09.2015.						
Initial cost	65 574	10 046 465	16 175 979	884 636	167 108	27 274 188
Accumulated depreciation	(44 454)	(2 582 989)	(8 832 055)	(817 771)	-	(12 232 815)
Net book value	21 120	7 463 476	7 343 924	66 865	167 108	15 041 373

(4) Inventories

	30.09.2015. EUR	31.12.2014. EUR
Raw materials	3 657 366	2 845 554
Work-in-progress	295 542	156 355
Finished goods	576 507	936 203
(Provisions for impairment of inventories)	(174 591)	(174 591)
	4 354 824	3 763 521

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 Consolidated Interim Financial Statements
 for the 9 month period ended 30 September 2015

(5) Accrued income

	30.09.2015.	31.12.2014.
	EUR	EUR
Accrued income for repair and modernization contracts	2 301 380	2 368 047
Expected losses		(8 538)
Gross amount of work-in-progress	<u>2 301 380</u>	<u>2 359 509</u>
where:		
Amount due from customers	<u>2 301 380</u>	<u>2 359 509</u>
	<u>2 301 380</u>	<u>2 359 509</u>

(6) Borrowings

In 2015 the Company received additional loans from related company in the amount of EUR 1 486 000. Part of the loan in the amount of EUR 397 000 was repaid. 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.

	30.09.2015.	31.12.2014.
	EUR	EUR
At beginning of the year	255 041	255 041
Used during the year	(99 121)	(88 635)
Additional provisions	-	33 772
At the end of the year	<u>155 920</u>	<u>200 178</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 9 month period ended 30 September 2015

(8) Other liabilities

	30.09.2015.	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	5 248 752	2 260 761
Other liabilities	64 121	286 322
Payroll liabilities	293 251	276 181
Accrued liabilities for unused annual leave	272 213	272 213
Mandatory State social contributions liabilities	872 585	512 480
Personnel income tax liabilities	596 344	465 534
Other deferred income	19 944	2 811
Accrued liabilities for post-employment benefits (current part)	6 798	6 798
	<u>7 374 008</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

	30.09.2015.		31.12.2014.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	1 151 150	1 638 843	642 248	1 275 623
Borrowings	-	3 840 240	-	2 751 240
<i>Jointly Controlled Entities:</i>				
Other current assets / liabilities	2 242 459	4 538 624	1 739 005	827 991
	<u>3 393 609</u>	<u>10 017 707</u>	<u>2 381 253</u>	<u>4 854 854</u>

b) transactions

	01.01.2015 -	01.01.2014 -
	30.09.2015	30.09.2014
	EUR	EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	6 145 053	7 158 469
Purchase of raw materials	1 242 363	3 126 859
Sale of other goods	248 109	604 488
Services received	340 551	284 905
	<u>7 976 076</u>	<u>11 174 721</u>