

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

Consolidated Interim Financial Statements

for the 3 month period ended 31 March 2016

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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

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

Margus Mals - 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 3 month period in 2016 the consolidated net turnover of the Group amounted to 2.3 million EUR (37 % decrease in comparison with net turnover in the relevant period in 2015).

The Group completed the 3 month period in 2016 with a loss of 1 million EUR. During the accounting period the Group exported its products to 8 countries, the total export volume amounted to 1.8 million EUR (in the similar period in 2015 – 2.7 million EUR). The main directions of an export in reporting period were EU countries: Estonia, Poland and Lithuania, and the third countries: Russia, Uzbekistan, Belarus.

Big losses are related that the company was not provided with orders to full capacity.

That is why in the first quarter took place the Group's costs optimization, reduction in the number of employees and rejection of unprofitable activities. According to preliminary forecast, the Group will have sufficient project load during 3.-4. Quarter 2016 taking into account the costs optimization.

Natālija Petrova
Member of the Board

Daugavpils, 25 May 2016

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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 31 March 2016 and the results of its operations for the 3 months period ended 31 March 2016 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 May 2016

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2016 - 31.03.2016	01.01.2015 - 31.03.2015
		EUR	EUR
Net sales	(1)	2 275 600	3 609 914
Cost of sales	(2)	(2 729 139)	(3 808 058)
Gross profit (loss)		(453 539)	(198 144)
Distribution expenses	(2)	(54 152)	(56 169)
Administrative expenses	(2)	(399 646)	(617 468)
Other income		48 683	30 068
Other expenses		(56 568)	(19 704)
Net finance income and loss		(48 670)	(61 251)
Profit (loss) before tax		(963 892)	(922 668)
Net profit (loss)		(963 892)	(922 668)
Attributable to:			
Equity holders of a parent company		(963 892)	(922 668)
Minority interest		-	-
Earnings per share (in cents)			
Basic		(0,12)	(0,11)
Diluted		(0,12)	(0,11)
Total comprehensive income (expense)		(963 892)	(922 668)
Attributable to:			
Equity holders of a parent company		(963 892)	(922 668)
Minority interest		-	-

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

Natālija Petrova
Member of the Board

Daugavpils, 25 May 2016

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STATEMENT OF FINANCIAL POSITION

		31.03.2016. EUR	31.12.2015. EUR
<u>ASSETS</u>	Notes		
Non-current assets			
Intangible assets	(3)	18 472	19 229
Property, plant and equipment	(3)	13 888 134	14 247 772
Investments in associates		500	500
Total non-current assets:		13 907 106	14 267 501
Current assets			
Inventories	(4)	3 298 566	3 437 020
Available for sale non-current assets		112 748	112 748
Trade receivables		2 047 701	2 721 407
Accrued income	(5)	7 099 344	6 734 500
Corporate income tax overpaid		11 390	11 448
Other current assets		2 529 694	2 684 220
Cash and cash equivalents		39 457	890 649
Total current assets:		15 138 900	16 591 992
<u>Total assets</u>		<u>29 046 006</u>	<u>30 859 493</u>
		31.03.2016. EUR	31.12.2015. EUR
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital		11 801 610	11 801 610
Retained losses of the previous years		(5 910 140)	(3 163 985)
Current year profit (losses)		(963 892)	(2 746 155)
Total equity:		4 927 578	5 891 470
Liabilities:			
Non-current liabilities:			
Deferred income tax liabilities		769 232	769 232
Deferred income		1 554 663	1 554 663
Other liabilities	(8)	131 061	131 061
Total non-current liabilities:		2 454 956	2 454 956
Current liabilities:			
Borrowings	(6)	7 707 169	7 673 964
Trade payables		5 665 516	6 084 591
Deferred income		292 671	292 671
Corporate income tax payables	(7)	152 121	152 205
Provisions	(8)	7 845 995	8 309 636
Total current liabilities:		21 663 472	22 513 067
Total liabilities:		24 118 428	24 968 023
<u>Total equity and liabilities:</u>		<u>29 046 006</u>	<u>30 859 493</u>

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

Natālija Petrova
Member of the Board

Daugavpils, 25 May 2016

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	EUR	EUR	EUR
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	-	(2 746 155)	(2 746 155)
Total comprehensive income	-	(2 746 155)	(2 746 155)
31.12.2015.	11 801 610	(5 910 140)	5 891 470
Loss of the reporting period	-	(963 892)	(963 892)
Total comprehensive income	-	(963 892)	(963 892)
31.03.2016.	11 801 610	(6 874 032)	4 927 578

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

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CASH FLOW STATEMENT

	01.01.2016 - 31.03.2016 EUR	01.01.2015 - 31.03.2015 EUR
Cash flow from operating activities		
Profit or losses before income tax	(963 892)	(922 668)
<u>Adjustments for:</u>		
depreciation and amortization	367 113	373 491
changes in provisions	(84)	(5 911)
(gains) or losses from exchange rate fluctuations	54 945	62 011
interest expenses	20 841	32 478
Cash flow prior to changes in current assets	(521 077)	(460 599)
Inventory (increase)/decrease	375 254	(437 478)
Account receivable (increase)/decrease	231 732	1 190 898
Account payable increase/(decrease)	(882 712)	189 674
Gross cash flow generated from operating activities	(796 803)	482 495
Interest paid	(20 841)	51 658
Net cash flow generated from operating activities	(817 644)	534 153
 Cash flow from investing activities		
Acquisition of tangible assets	(11 808)	(969 426)
Net cash flow generated from investing activities	(11 808)	(969 426)
 Cash flow from financing activities		
Proceeds from borrowings	2 536 344	1 003 912
Loans repaid	(2 503 139)	(572 863)
Net cash flow generated from financing activities	33 205	431 049
 Net foreign exchange gains/losses	(54 945)	0
 Net increase / (decrease) in cash and cash equivalents	(851 192)	(4 224)
 Cash and cash equivalents at the beginning of the financial year	890 649	27 811
 Cash and Cash equivalents at the end of the financial year	39 457	23 587

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 2016 till 31 December 2016, these consolidated interim financial statements cover the period from 1 January 2016 till 31 March 2016.

These financial statements are consolidated financial statements of the Company. The Company is the parent company of the Group. At the end of reporting year the Company has investments in 9 subsidiaries, as well as due to participation in A/S "Pasažieru vilciens" open tender, the Company together with AS "Rīgas Vagonbūves Rūpnīca" and AS "VRC Zasulauks" founded the general partnership "DMU vilcieni", in which the Company owns 50% of the voting rights.

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:

	31.03.2016.	31.12.2015.
	EUR	EUR
1 USD	0,8831	0,9185
1 RUB	0,0130	0,0124

(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:

	01.01.2016 - 31.03.2016	01.01.2015 - 31.03.2015
	EUR	EUR
Russia	1 035 317	1 371 986
Estonia	101 861	922 329
Latvia	505 905	917 317
Belarus	36 254	49 264
Lietuva	167 571	167 314
Other countries	49 570	25 432
Uzbekistan	180 539	83 541
Poland	198 583	72 731
	<u>2 275 600</u>	<u>3 609 914</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	621 378	918 437
Customer Nr.2	339 589	896 603
Customer Nr.3	199 825	376 773
Customer Nr.4	194 098	258 516
Other clients	920 710	1 159 885
	<u>2 275 600</u>	<u>3 610 214</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	1 046 171	2 669 953
Other income	1 229 429	939 961
	<u>2 275 600</u>	<u>3 609 914</u>

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(2) **Expenses by Nature**

	01.01.2016 - 31.03.2016 EUR	01.01.2015 - 31.03.2015 EUR
Costs of raw materials and consumables	961 370	1 793 645
Salary expenses	1 122 519	1 133 209
Utility costs	302 245	317 798
Mandatory state social insurance contributions	263 161	264 406
Other expenses	122 728	161 749
Depreciation of PPE and intangible assets	367 113	373 491
Transportation expenses	26 733	411 436
Office expenses	9 787	16 952
Professional services costs	7 281	9 009
	<u>3 182 937</u>	<u>4 481 695</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
01.01.2015.						
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	-	-	-	-	221 057	221 057
Disposed	-	(9 219)	(273)			(9 492)
Reclassified to a available for sale noncurrent	-	(441 013)				(441 013)
Reclassified	4 961	44 310	1 021 904	47 071	(1 118 246)	(4 961)
Amortized	(7 944)	(313 179)	(1 197 267)	(32 046)	0	(1 542 492)
Closing book value	19 229	6 991 049	7 067 453	94 729	94 541	14 247 772
31.12.2015.						
Initial cost	65 573	9 661 827	16 200 242	920 744	94 541	26 877 354
Accumulated depreciation	(46 344)	(2 670 778)	(9 132 789)	(826 015)	-	(12 629 582)
Net book value	19 229	6 991 049	7 067 453	94 729	94 541	14 247 772
2016						
Acquisition cost	19 229	6 991 049	7 067 453	94 729	94 541	14 247 772
Acquired	-	-	-	-	11 808	11 808
Reclassified	1 053	6 385	8 957	1 122	(17 464)	(1 000)
Written off			(5 143)			(5 143)
Amortized	(1 810)	(59 955)	(297 546)	(7 802)	-	(365 303)
Closing book value	18 472	6 937 479	6 773 721	88 049	88 885	13 888 134
31.03.2016.						
Initial cost	66 626	9 668 212	16 204 056	921 866	88 885	26 883 019
Accumulated depreciation	(48 154)	(2 730 733)	(9 430 335)	(833 817)	-	(12 994 885)
Net book value	18 472	6 937 479	6 773 721	88 049	88 885	13 888 134

(4) Inventories

	31.03.2016. EUR	31.12.2015. EUR
Raw materials	2 603 683	2 678 441
Work-in-progress	343 762	344 999
Finished goods	583 828	646 287
(Provisions for impairment of inventories)	(232 707)	(232 707)
	3 298 566	3 437 020

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(5) Accrued income

	31.03.2016.	31.12.2015.
	EUR	EUR
Accrued income for repair and modernization contracts	7 099 344	6 746 534
Expected losses		(12 034)
Gross amount of work-in-progress	<u>7 099 344</u>	<u>6 734 500</u>
where:		
Amount due from customers	<u>7 099 344</u>	<u>6 734 500</u>
	<u>7 099 344</u>	<u>6 734 500</u>

(6) Borrowings

In 2016 the Company received additional loans from related company in the amount of EUR 1 102 000. Part of the loan in the amount of EUR 1 751 000 was repaid. Loans are with interest rate 12% respectively, and repayment from 01 June 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.

	31.03.2016.	31.12.2015.
	EUR	EUR
At beginning of the year	152 205	200 178
Used during the year	(84)	(231 293)
Additional provisions		183 320
At the end of the year	<u>152 121</u>	<u>152 205</u>

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(8) Other liabilities

	31.03.2016.	31.12.2015.
	EUR	EUR
Non-current		
Accrued liabilities to post-employment benefits (non-current part)	101 670	101 670
Mandatory State social contributions liabilities *	13 390	13 390
Personnel income tax liabilities *	16 001	16 001
	<u>131 061</u>	<u>131 061</u>
Current		
Advances received	5 960 466	6 263 606
Other liabilities	98 931	222 709
Payroll liabilities	383 416	224 502
Accrued liabilities for unused annual leave	280 459	280 459
Mandatory State social contributions liabilities	621 149	476 475
Personnel income tax liabilities	426 137	325 077
Value-added tax	-	509 410
Other deferred income	69 746	1 707
Accrued liabilities for post-employment benefits (current part)	5 691	5 691
	<u>7 845 995</u>	<u>8 309 636</u>

* In 2015 subsidiary of the Group SIA DL Lokomotive made an agreement with States Revenue Services on extensions on the tax payment liabilities. The extended payment period was given for mandatory State social contribution (SOC) and personnel income tax (PIT) till 23. July, 2017. Respectively SOC of EUR 13 390 and PIT of EUR 16 001 are disclosed under non-current other liabilities.

(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

	31.03.2016.		31.12.2015.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	498 356	4 364 325	1 219 090	5 396 519
Borrowings	-	4 356 218	-	5 462 937
	<u>498 356</u>	<u>8 720 543</u>	<u>1 219 090</u>	<u>10 859 456</u>

b) transactions

	01.01.2016 -	01.01.2015 -
	31.03.2016	31.03.2015
	EUR	EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	593 548	2 018 209
Purchase of raw materials	339 237	294 600
Sale of other goods	60 282	57 248
Services received	1 410	82 860
	<u>994 477</u>	<u>2 452 917</u>