

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

**Unaudited Consolidated Interim Financial
Statements**

for the 6 month period ended 30 July 2016

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
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for the 6 month period ended 30 June 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

Shareholders

AS Skinest Rail (Estonia) - 47,97%

AS Spacecom (Estonia) - 25,27%

SWEDBANK AS CLIENTS ACCOUNT -9,24%

LLC LOKOMOTIV IVESTEERINGUUD - 6,09%

Other shareholders - 11,43%

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 2016 the consolidated net turnover of the Group amounted to 6.2 million EUR (1 % decrease in comparison with net turnover in the relevant period in 2015).

The Group completed the 6 month period in 2016 with a loss of 1,46 million EUR. During the accounting period the Group exported its products to 8 countries, the total export volume amounted to 4.5 million EUR (in the similar period in 2015 – 4.7 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.

In the second quarter, the first 3 trains DR1 were delivered to the customer AS Pasažieru vilciens. The customer applied 10% penalty for violation of terms of modernization project implementation. These losses were represented in the company's financial report.

In the 1st quarter, Company's costs optimization was performed, as well as decrease of number of employees and refusal from non-profitable types of activity. In the second quarter, the company continued to optimize costs. The large losses by the results of six months are connected with large losses in the first quarter of the reporting year due to lack of objects, as well as due to application of 10% penalty within the DMU. According to provisory marketing prognoses, the Company will be loaded with work in quarters 3 and 4 in 2016, taking the costs optimization into account.

Natālija Petrova
Member of the Board

Daugavpils, 24 August 2016

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 2016 and the results of its operations for the 6 months period ended 30 June 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, 24 August 2016

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2016 - 30.06.2016 EUR	01.01.2015 - 30.06.2015 EUR
Net sales	(1)	6 168 516	6 212 223
Cost of sales	(2)	(6 499 220)	(6 095 433)
Gross profit (loss)		<u>(330 704)</u>	<u>116 790</u>
Distribution expenses	(2)	(144 198)	(114 609)
Administrative expenses	(2)	(682 758)	(1 290 210)
Other income		103 053	80 938
Other expenses		(54 711)	(19 373)
Net finance income and loss		(349 194)	(102 135)
Profit (loss) before tax		<u>(1 458 512)</u>	<u>(1 328 599)</u>
Net profit (loss)		<u>(1 458 512)</u>	<u>(1 328 599)</u>
Attributable to:			
Equity holders of a parent company		(1 458 512)	(1 328 599)
Minority interest		-	-
Earnings per share (in cents)			
Basic		(0.18)	(0.16)
Diluted		(0.18)	(0.16)
Total comprehensive income (expense)		<u>(1 458 512)</u>	<u>(1 328 599)</u>
Attributable to:			
Equity holders of a parent company		(1 458 512)	(1 328 599)
Minority interest		-	-

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

Natālija Petrova
Member of the Board

Daugavpils, 24 August 2016

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STATEMENT OF FINANCIAL POSITION

		30.06.2016.	31.12.2015.
		EUR	EUR
<u>ASSETS</u>	Notes		
Non-current assets			
Intangible assets	(3)	16 643	19 229
Property, plant and equipment	(3)	13 536 660	14 247 772
Investments in associates		-	500
Total non-current assets:		13 553 303	14 267 501
Current assets			
Inventories	(4)	3 735 807	3 437 020
Available for sale non-current assets		22 748	112 748
Trade receivables		1 400 739	2 721 407
Accrued income	(5)	3 304 483	6 734 500
Corporate income tax overpaid		12	11 448
Other current assets		2 089 126	2 684 220
Cash and cash equivalents		17 675	890 649
Total current assets:		10 570 590	16 591 992
<u>Total assets</u>		24 123 893	30 859 493
		30.06.2016.	31.12.2015.
		EUR	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)		(1 458 512)	(2 746 155)
Total equity:		4 432 958	5 891 470
Liabilities:			
Non-current liabilities:			
Deferred income tax liabilities		769 232	769 232
Deferred income		1 408 327	1 554 663
Other liabilities	(8)	131 061	131 061
Total non-current liabilities:		2 308 620	2 454 956
Current liabilities:			
Borrowings	(6)	7 858 953	7 673 964
Trade payables		4 856 522	6 084 591
Deferred income		292 671	292 671
Corporate income tax payables	(7)	132 894	152 205
Provisions	(8)	4 241 275	8 309 636
Total current liabilities:		17 382 315	22 513 067
Total liabilities:		19 690 935	24 968 023
<u>Total equity and liabilities:</u>		24 123 893	30 859 493

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Natālija Petrova
Member of the Board

Daugavpils, 24 August 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	-	(1 458 512)	(1 458 512)
Total comprehensive income	-	(1 458 512)	(1 458 512)
30.06.2016.	11 801 610	(7 368 652)	4 432 958

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CASH FLOW STATEMENT

	01.01.2016 - 30.06.2016 EUR	01.01.2015 - 30.06.2015 EUR
Cash flow from operating activities		
Profit or losses before income tax	(1 458 512)	(1 328 599)
<u>Adjustments for:</u>		
depreciation and amortization	724 838	764 787
changes in provisions	(19 311)	(21 957)
(gains) or losses from exchange rate fluctuations	(4 929)	-
interest expenses	77 917	60 798
Cash flow prior to changes in current assets	(679 997)	(524 971)
Inventory (increase)/decrease	3 063 433	(1 357 283)
Account receivable (increase)/decrease	2 082 813	1 486 992
Account payable increase/(decrease)	(3 750 771)	1 543 602
Gross cash flow generated from operating activities	715 478	1 148 340
Interest paid	(515 036)	80 716
Net cash flow generated from operating activities	200 442	1 229 056
 Cash flow from investing activities		
Acquisition of tangible assets	(19 894)	(981 764)
Net cash flow generated from investing activities	(19 894)	(981 764)
 Cash flow from financing activities		
Proceeds from borrowings	1 557 000	1 002 402
Loans repaid	(2 610 522)	(1 253 424)
Net cash flow generated from financing activities	(1 053 522)	(251 022)
 Net increase / (decrease) in cash and cash equivalents	(872 974)	(3 730)
 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	17 675	24 081

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 Riga, Secondary list, Latvia. The Board and Council members do not have shares of the Company on the end of the reporting period.

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 30 June 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 Zaslauks" 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:

	30.06.2016.	31.12.2015.
	EUR	EUR
1 USD	0.9017	0.9185
1 RUB	0.0141	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 - 30.06.2016	01.01.2015 - 30.06.2015
	EUR	EUR
Russia	2 638 253	2 249 441
Other EU countries	1 450 001	2 120 090
Latvia	1 652 382	1 506 872
Belarus	225 329	243 381
Other countries	22 012	8 898
Uzbekistan	180 539	83 541
	<u>6 168 516</u>	<u>6 212 223</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	1 624 681	1 737 829
Customer Nr.2	1 420 133	1 392 587
Customer Nr.3	655 962	836 494
Customer Nr.4	361 418	471 897
Other clients	2 106 322	1 773 416
	<u>6 168 516</u>	<u>6 212 223</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	3 707 589	6 087 471
Other income	2 460 927	124 752
	<u>6 168 516</u>	<u>6 212 223</u>

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(2) **Expenses by Nature**

	01.01.2016 - 30.06.2016 EUR	01.01.2015 - 30.06.2015 EUR
Costs of raw materials and consumables	3 216 057	3 104 334
Salary expenses	1 989 312	2 154 138
Utility costs	520 189	532 083
Mandatory state social insurance contributions	457 797	503 943
Other expenses	344 475	336 904
Depreciation of PPE and intangible assets	724 838	764 787
Transportation expenses	49 577	59 758
Office expenses	23 931	44 305
	<u>7 326 176</u>	<u>7 500 252</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	-	-	-	-	19 922	19 922
Reclassified	1 053	6 385	11 334	1 122	(19 894)	(1 053)
Written off			(5 143)			(5 143)
Amortized	(3 639)	(119 922)	(589 293)	(15 623)	-	(724 838)
Closing book value	16 643	6 877 512	6 484 351	80 228	94 569	13 536 660
30.06.2016.						
Initial cost	66 626	9 668 212	16 206 433	921 866	94 569	26 891 080
Accumulated depreciation	(49 983)	(2 790 700)	(9 722 082)	(841 638)	-	(13 354 420)
Net book value	16 643	6 877 512	6 484 351	80 228	94 569	13 536 660

(4) Inventories

	30.06.2016. EUR	31.12.2015. EUR
Raw materials	3 001 929	2 678 441
Work-in-progress	283 982	344 999
Finished goods	682 603	646 287
(Provisions for impairment of inventories)	(232 707)	(232 707)
	<u>3 735 807</u>	<u>3 437 020</u>

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(5) Accrued income

	30.06.2016.	31.12.2015.
	EUR	EUR
Accrued income for repair and modernization contracts	3 304 483	6 746 534
Expected losses		(12 034)
Gross amount of work-in-progress	<u>3 304 483</u>	<u>6 734 500</u>
where:		
Amount due from customers	<u>3 304 483</u>	<u>6 734 500</u>
	<u>3 304 483</u>	<u>6 734 500</u>

(6) Borrowings

In 2016 the Company received additional loans from related company in the amount of EUR 1 557 000. Part of the loan in the amount of EUR 2 073 000 was repaid, interest - EUR 474 383. Loans are with interest rate 12% respectively.

(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.

	30.06.2016.	31.12.2015.
	EUR	EUR
At beginning of the year	152 205	200 178
Used during the year	(19 311)	(231 293)
Additional provisions		183 320
At the end of the year	<u>132 894</u>	<u>152 205</u>

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(8) Other liabilities

	30.06.2016.	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	2 481 841	6 263 606
Other liabilities	66 531	222 709
Payroll liabilities	194 942	224 502
Accrued liabilities for unused annual leave	280 459	280 459
Mandatory State social contributions liabilities	671 259	476 475
Personnel income tax liabilities	498 912	325 077
Value-added tax	32 223	509 410
Other deferred income	9 417	1 707
Accrued liabilities for post-employment benefits (current part)	5 691	5 691
	<u>4 241 275</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

	30.06.2016.		31.12.2015.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	577 536	4 053 547	1 219 090	5 396 519
Borrowings	-	4 720 112	-	5 462 937
	<u>577 536</u>	<u>8 773 659</u>	<u>1 219 090</u>	<u>10 859 456</u>

b) transactions

	01.01.2016 -	01.01.2015 -
	30.06.2016	30.06.2015
	EUR	EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	1 676 562	3 572 384
Purchase of raw materials	598 828	763 696
Sale of other goods	64 456	149 083
Services received	69 815	111 207
	<u>2 409 661</u>	<u>4 596 370</u>