

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

Consolidated Interim Financial Statements

for the 6 month period ended 30 June 2017

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2017

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 2017

MANAGEMENT

Names and positions of the Council members

Roman Zahharov - Chairman of the Council

Sergei Jakovlev - Member of the Council

Semi Henrik Roiha - Member of the Council

Siarhei Psiola - Member of the Council

Pavel Prikhodko - Member of the Council

Names and positions of the Board members

Kazimirs Steļmačenoks - Member of the Board (from 02 August 2017)

Gatis Kamarūts - Member of the Board (from 20 February 2017)

Natālija Petrova - 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

The consolidated net turnover of the Group of the 6 months of 2017 amounted 11,1 million. EUR (179,3 % increase compared with net turnover in the relevant period of 2016).

The Group completed 6 months period of 2017 with a loss of 1,35 million EUR. During the accounting period, the Group exported its products to 8 countries, the total export volume amounted 10.1 million EUR (compared with 6 months of 2016 – 4.5 million EUR). The main directions of export in reporting period were EU countries: Estonia, Lithuania, Poland and Finland, and the third countries: Russia, Belarus, Kazakhstan and Uzbekistan.

Losses are related with historical non-workload of first quarter. At the second quarter Company had loads, but could not realize objects due to the large delays of components deliveries from suppliers. Moreover, the results were influenced by fluctuations of the RF ruble, which did not allow to reach the planned financial leases from rental of rolling stock.

Natālija Petrova
Member of the Board

Daugavpils, 23 August 2017

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements of the Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements give a true and fair view of the financial position of the Group at the end of the reporting period, and the results of its operations and cash flow for the period then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 6 to page 16 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the Group's assets and preventing and detecting of fraud and other irregularities in the Group. It is also responsible for operating the Group in compliance with the legislation of the Republic of Latvia.

Natālija Petrova
Member of the Board

Daugavpils, 23 August 2017

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2017

STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2017 - 30.06.2017 EUR	01.01.2016 - 30.06.2016 EUR
Net sales	(1)	11 059 641	6 168 516
Cost of sales	(2)	(11 679 986)	(6 499 220)
Gross profit (loss)		<u>(620 345)</u>	<u>(330 704)</u>
Distribution expenses	(2)	(168 594)	(144 198)
Administrative expenses	(2)	(528 020)	(682 758)
Other income		208 100	103 053
Other expenses		(33 857)	(54 711)
Net finance income and loss		(210 498)	(349 194)
Profit (loss) before tax		<u>(1 353 214)</u>	<u>(1 458 512)</u>
Net profit (loss)		<u>(1 353 214)</u>	<u>(1 458 512)</u>
Attributable to:			
Equity holders of a parent company		(1 353 214)	(1 458 512)
Minority interest		-	-
Earnings per share (in cents)			
Basic		(0,16)	(0,18)
Diluted		(0,16)	(0,18)
Total comprehensive income (expense)		<u>(1 353 214)</u>	<u>(1 458 512)</u>
Attributable to:			
Equity holders of a parent company		(1 353 214)	(1 458 512)
Minority interest		-	-

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

Natālija Petrova
Member of the Board

Daugavpils, 23 August 2017

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2017

STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2017. EUR	31.12.2016. EUR
<u>ASSETS</u>			
Non-current assets			
Intangible assets	(3)	34 553	40 784
Property, plant and equipment	(3)	12 179 157	12 841 193
Investments in associates		-	500
Total non-current assets:		12 213 710	12 882 477
Current assets			
Inventories	(4)	3 314 332	3 583 820
Trade receivables		2 525 161	1 102 280
Accrued income	(5)	1 045 684	433 635
Other current assets		453 353	122 187
Cash and cash equivalents		731 784	785 912
Total current assets:		8 070 314	6 027 834
<u>Total assets</u>		<u>20 284 024</u>	<u>18 910 311</u>
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital		11 611 907	11 611 907
Reserves		189 698	189 698
Retained losses of the previous years		(8 189 242)	(5 910 140)
Current year profit (losses)		(1 353 214)	(2 279 102)
Total equity:		2 259 149	3 612 363
Liabilities:			
Non-current liabilities:			
Borrowings	(6)	5 062 055	-
Deferred income tax liabilities		170 901	170 901
Deferred income		1 115 656	1 261 992
Other liabilities	(8)	101 335	101 335
Total non-current liabilities:		6 449 947	1 534 228
Current liabilities:			
Borrowings	(6)	2 219 018	7 142 947
Trade payables		6 929 637	4 497 117
Provisions		86 258	104 033
Deferred income		292 671	292 671
Corporate income tax payables	(7)	-	2 002
Other liabilities	(8)	2 047 344	1 724 950
Total current liabilities:		11 574 928	13 763 720
Total liabilities:		18 024 875	15 297 948
<u>Total equity and liabilities:</u>		<u>20 284 024</u>	<u>18 910 311</u>

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

Natālija Petrova
Member of the Board

Daugavpils, 23 August 2017

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2017

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	EUR	EUR	EUR
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
Share capital denomination to Euro	(189 703)	189 698	(5)
Loss of the reporting period	-	(2 279 102)	(2 279 102)
Total comprehensive income	-	(2 279 102)	(2 279 102)
31.12.2016.	11 611 907	189 698	(8 189 242)
Loss of the reporting period	-	(1 353 214)	(1 353 214)
Total comprehensive income	-	(1 353 214)	(1 353 214)
30.06.2017.	11 611 907	189 698	(9 542 456)

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 2017

CASH FLOW STATEMENT

	01.01.2017 - 30.06.2017 EUR	01.01.2016 - 30.06.2016 EUR
Cash flow from operating activities		
Profit or losses before income tax	(1 353 214)	(1 458 512)
<u>Adjustments for:</u>		
depreciation and amortization	672 157	724 838
changes in provisions	(17 775)	(19 311)
(gains) or losses from exchange rate fluctuations	(53 347)	(4 929)
interest expenses	21 664	77 917
Cash flow prior to changes in current assets	<u>(730 515)</u>	<u>(679 997)</u>
Inventory (increase)/decrease	71 582	3 063 433
Account receivable (increase)/decrease	(2 176 210)	2 082 813
Account payable increase/(decrease)	2 805 206	(3 750 771)
Gross cash flow generated from operating activities	<u>(29 937)</u>	<u>715 478</u>
Interest paid	0	(515 036)
Net cash flow generated from operating activities	<u>(29 937)</u>	<u>200 442</u>
 Cash flow from investing activities		
Acquisition of tangible assets	(3 890)	(19 894)
Proceeds from sales of property, plant and equipment	8 520	-
Net cash flow generated from investing activities	<u>4 630</u>	<u>(19 894)</u>
 Cash flow from financing activities		
Proceeds from borrowings	360 000	1 557 000
Loans repaid	(388 821)	(2 610 522)
Net cash flow generated from financing activities	<u>(28 821)</u>	<u>(1 053 522)</u>
 Net increase / (decrease) in cash and cash equivalents	<u>(54 128)</u>	<u>(872 974)</u>
 Cash and cash equivalents at the beginning of the financial year	<u>785 912</u>	<u>890 649</u>
 Cash and Cash equivalents at the end of the financial year	<u><u>731 784</u></u>	<u><u>17 675</u></u>

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 2017 till 31 December 2017, these consolidated interim financial statements cover the period from 1 January 2017 till 30 June 2017.

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 was established 11 subsidiary companies with 100% shares in each. Subsidiary companies commenced active operations from January 2007.

a) At the end of June 2017, the Company has investments in 6 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, see summary of accounting policies "Joint arrangements" about the details on general partnership. SIA Ritrem, SIA Krāsotājs, SIA Instruments subsidiaries are not active.

b) In September 2016 three new subsidiaries were established - SIA LokRem, SIA DL metal and SIA LogKom which have taken over the functions of SIA DL LOKOMOTĪVE, SIA DL Metalworking and SIA Loģistika..

c) In October 2016 subsidiaries SIA DL LOKOMOTĪVE, SIA DL Metalworking and SIA Loģistika were alienated as well as in October 2016 insolvency procedure of SIA Elap was started and on 25 April 2017 SIA Elap was liquidated. On April 2017 insolvency procedures of SIA SPZČ and SIA Remenergo were started and insolvency administrator was appointed.

Name of the subsidiary	Address	Type of operations	Participation interest	Participation interest
			%	%
			31.03.2017	31.12.2016
SIA "Ritrem"	Marijas 1, Daugavpils	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock	100	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dyeing of rolling stock	100	100
SIA "Instruments"	Marijas 1, Daugavpils	Dormant status	100	100
Name of the subsidiary	Address	Type of operations	Participation interest	Participation interest
			%	%
			31.03.2017	31.12.2016
SIA "LokRem"	Marijas 1, Daugavpils	Repair and producing of electromotor, generators and transformers and repair and	100	100
SIA "DL metal"	Marijas 1, Daugavpils	Metal foundry, repair and production of spare parts	100	100
SIA "LogKom"	Marijas 1, Daugavpils	Logistics services and maintenance of fixture, technical control and capital repair of	100	100

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) Transactions and balances

(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:

	30.06.2017.	31.12.2016.
	EUR	EUR
1 USD	1,1413	1,0541
1 RUB	67,3010	64,3000

(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:

	01.01.2017 - 30.06.2017 EUR	01.01.2016 - 30.06.2016 EUR
Russia	7 947 589	2 638 253
Other ES countries	1 406 676	1 450 001
Latvia	1 008 296	1 652 382
Belarus	209 486	225 329
Other countries	41 544	22 012
Uzbekistan	186 649	180 539
Kazakhstan	259 401	-
	<u>11 059 641</u>	<u>6 168 516</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	5 514 848	1 624 681
Customer Nr.2	1 252 117	1 420 133
Customer Nr.3	1 072 305	655 962
Customer Nr.4	572 177	361 418
Other clients	2 648 194	2 106 322
	<u>11 059 641</u>	<u>6 168 516</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	3 223 183	3 707 589
Other income	7 836 458	2 460 927
	<u>11 059 641</u>	<u>6 168 516</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 Consolidated Interim Financial Statements
 for the 6 month period ended 30 June 2017

(2) **Expenses by Nature**

	01.01.2017 - 30.06.2017 EUR	01.01.2016 - 30.06.2016 EUR
Costs of raw materials, consumables and services	8 449 968	3 216 057
Salary expenses	1 965 249	1 989 312
Utility costs	363 482	520 189
Mandatory state social insurance contributions	417 505	457 797
Other expenses	361 457	327 103
Depreciation of PPE and intangible assets	672 157	724 838
Transportation expenses	49 240	49 577
Office expenses	31 084	23 931
Professional services costs	66 458	17 372
	<u>12 376 600</u>	<u>7 326 176</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2017

(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
01.01.2016.						
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					55 154	55 154
Disposed			(5 291)			(5 291)
Reclassified	32 564	9 504	43 399	4 539	(90 006)	(32 564)
Amortized	(11 009)	(239 904)	(1 154 356)	(29 618)	0	(1 423 878)
Closing book value	40 784	6 760 649	5 951 205	69 650	59 689	12 841 193
31.12.2016.						
Initial cost	98 137	9 667 825	15 860 605	883 310	59 689	26 471 429
Accumulated depreciation	(57 353)	(2 907 176)	(9 909 400)	(813 660)		(13 630 236)
Net book value	40 784	6 760 649	5 951 205	69 650	59 689	12 841 193
2017						
Acquisition cost	40 784	6 760 649	5 951 205	69 650	59 689	12 841 193
Acquired					3 890	3 890
Reclassified		9 447	53 866	266	(63 579)	0
Written off						0
Amortized	(6 231)	(111 081)	(543 108)	(11 737)		(665 926)
Closing book value	34 553	6 659 015	5 461 963	58 179	0	12 179 157
30.06.2017.						
Initial cost	98 137	9 677 272	15 914 471	883 576	0	26 475 319
Accumulated depreciation	(63 584)	(3 018 257)	(10 452 508)	(825 397)	0	(14 296 162)
Net book value	34 553	6 659 015	5 461 963	58 179	0	12 179 157

(4) Inventories

	30.06.2017. EUR	31.12.2016. EUR
Raw materials	2 439 060	2 483 906
Work-in-progress	99 332	92 594
Finished goods	548 767	780 147
Railway rolling stock for sale	500 000	500 000
(Provisions for impairment of inventories)	(272 827)	(272 827)
	3 314 332	3 583 820

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2017

(5) Accrued income

	30.06.2017.	31.12.2016.
	EUR	EUR
Accrued income for repair and modernization contracts	1 045 684	433 966
Expected losses		(331)
Gross amount of work-in-progress	<u>1 045 684</u>	<u>433 635</u>
where:		
Amount due from customers	<u>1 045 684</u>	<u>433 635</u>
	<u>1 045 684</u>	<u>433 635</u>

(6) Borrowings

In 2017 the company received an additional loan in the amount of EUR 360 000 from related company. Loan has been issued with an 8% rate. Repayment of the loan is not secured by the Group's assets or otherwise.

(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.

	30.06.2017.	31.12.2016.
	EUR	EUR
At beginning of the year	104 033	152 205
Used during the year	(17 775)	(128 050)
Additional provisions	-	79 878
At the end of the year	<u>86 258</u>	<u>104 033</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
Consolidated Interim Financial Statements
for the 6 month period ended 30 June 2017

(8) Other liabilities

	30.06.2017.	31.12.2016.
	EUR	EUR
Non-current		
Accrued liabilities to post-employment benefits (non-current part)	101 335	101 335
	<u>101 335</u>	<u>101 335</u>
Current		
Advances received	966 994	509 933
Other liabilities	132 441	210 983
Payroll liabilities	232 892	175 730
Accrued liabilities for unused annual leave	284 644	284 644
Deferred income	424 682	537 969
Accrued liabilities for post-employment benefits (current part)	5 691	5 691
	<u>2 047 344</u>	<u>1 724 950</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

	30.06.2017.		31.12.2016.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	653 325	5 538 453	397 889	3 714 310
Borrowings	-	5 062 055	-	4 535 108
	<u>653 325</u>	<u>10 600 508</u>	<u>397 889</u>	<u>8 249 418</u>

b) transactions

	01.01.2017 -	01.01.2016 -
	30.06.2017	30.06.2016
	EUR	EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	2 132 379	1 676 562
Purchase of raw materials	842 752	598 828
Sale of other goods	53 309	64 456
Services received	4 607 534	69 815
	<u>7 635 974</u>	<u>2 409 661</u>