

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

Consolidated Interim Financial Statements

for the 3 month period ended 31 March 2015

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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

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 2015 the consolidated net sales of the Group amounted to 3,6 million EUR (52,3 % decrease in respect of net sales in the respective period in 2014).

The Group completed the 3 month period in 2015 with a loss of 0,9 million EUR. During the period the Group exported its products to 9 countries, the total export volume amounted to 2,7 million EUR (in similar period in 2014 - 7,1 million EUR). The main directions of export in reporting period were EU countries: Estonia, Poland and Lithuania, and the third countries: Russia, Uzbekistan.

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. 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.

Natālija Petrova
Member of the Board

Daugavpils, 25 May 2015

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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 2015 and the results of its operations for the 3 months period ended 31 March 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 May 2015

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2015 - 31.03.2015	01.01.2014 - 31.03.2014
		EUR	EUR
Net sales	(1)	3 609 914	7 652 230
Cost of sales	(2)	(3 808 058)	(6 596 251)
Gross profit (loss)		<u>(198 144)</u>	<u>1 055 979</u>
Distribution expenses	(2)	(56 169)	(63 175)
Administrative expenses	(2)	(617 468)	(748 432)
Other income		30 068	3 260
Other expenses		(19 704)	(4 409)
Net finance income and loss		(61 251)	35 678
Profit (loss) before tax		<u>(922 668)</u>	<u>278 901</u>
Net profit (loss)		<u>(922 668)</u>	<u>278 901</u>
Attributable to:			
Equity holders of a parent company		(922 668)	278 901
Minority interest		-	-
Earnings per share (in cents)			
Basic		(0,11)	0,03
Diluted		(0,11)	0,03
Total comprehensive income (expense)		<u>(922 668)</u>	<u>278 901</u>
Attributable to:			
Equity holders of a parent company		(922 668)	278 901
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 2015

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STATEMENT OF FINANCIAL POSITION

		31.03.2015. EUR	31.12.2014. EUR
<u>ASSETS</u>	Notes		
Non-current assets			
Intangible assets	(3)	24 902	22 212
Property, plant and equipment	(3)	15 730 002	16 024 673
Total non-current assets:		15 754 904	16 046 885
Current assets			
Inventories	(4)	4 200 999	3 763 521
Trade receivables		2 507 207	2 610 649
Accrued income	(5)	1 615 330	2 359 509
Corporate income tax overpaid		80 168	71 584
Other current assets		2 952 503	2 407 864
Cash and cash equivalents		23 587	27 811
Total current assets:		11 379 794	11 240 938
<u>Total assets</u>		<u>27 134 698</u>	<u>27 287 823</u>
		31.03.2015. EUR	31.12.2014. EUR
<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)		(922 668)	(1 243 325)
Total equity:		7 714 957	8 637 625
Liabilities:			
Non-current liabilities:			
Borrowings	(6)	4 093 040	3 520 256
Deferred income tax liabilities		660 101	660 101
Deferred income		572 688	572 688
Other liabilities	(8)	122 834	122 834
Total non-current liabilities:		5 448 663	4 875 879
Current liabilities:			
Borrowings	(6)	5 601 579	5 601 224
Trade payables		3 138 240	3 852 075
Deferred income		37 742	37 742
Corporate income tax payables	(7)	194 267	200 178
Provisions	(8)	4 999 250	4 083 100
Total current liabilities:		13 971 078	13 774 319
Total liabilities:		19 419 741	18 650 198
<u>Total equity and liabilities:</u>		<u>27 134 698</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 May 2015

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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	-	(922 668)	(922 668)
Total comprehensive income	-	(922 668)	(922 668)
31.03.2015.	11 801 610	(4 086 653)	7 714 957

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

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CASH FLOW STATEMENT

	01.01.2015 - 31.03.2015 EUR	01.01.2014 - 31.03.2014 EUR
Cash flow from operating activities		
Profit or losses before income tax	(922 668)	278 901
<u>Adjustments for:</u>		
depreciation and amortization	373 491	235 943
changes in provisions	(5 911)	(56 984)
(gains) or losses from exchange rate fluctuations	62 011	68 033
interest expenses	32 478	14 361
Cash flow prior to changes in current assets	(460 599)	540 254
Inventory (increase)/decrease	(437 478)	390 495
Account receivable (increase)/decrease	1 190 898	(576 496)
Account payable increase/(decrease)	189 674	(1 595 767)
Gross cash flow generated from operating activities	482 495	(1 241 514)
Interest paid	51 658	27 303
Corporate income tax paid	-	(24 887)
Net cash flow generated from operating activities	534 153	(1 239 098)
 Cash flow from investing activities		
Acquisition of tangible assets	(969 426)	(137 559)
Net cash flow generated from investing activities	(969 426)	(137 559)
 Cash flow from financing activities		
Proceeds from borrowings	1 003 912	1 356 762
Loans repaid	(572 863)	(157 024)
Net cash flow generated from financing activities	431 049	1 199 738
 Net increase / (decrease) in cash and cash equivalents	(4 224)	(176 919)
 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	23 587	39 961

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 31 March 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:

	31.03.2015.	31.12.2014.
	EUR	EUR
1 USD	0,922	0,824
1 RUB	0,0160	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 - 31.03.2015	01.01.2014 - 31.03.2014
	EUR	EUR
Russia	1 371 986	3 276 804
Estonia	922 329	3 548 173
Latvia	917 317	517 083
Belarus	49 264	13 580
Lietuva	167 314	186 262
Other countries	25 432	-
Uzbekistan	83 541	102 525
Poland	72 731	7 803
	<u>3 609 914</u>	<u>7 652 230</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	918 437	2 071 816
Customer Nr.2	896 603	1 994 997
Customer Nr.3	376 773	1 061 520
Customer Nr.4	258 516	930 433
Other clients	1 159 885	1 593 464
	<u>3 610 214</u>	<u>7 652 230</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	2 669 953	6 553 173
Income from the sale of railway rolling stock	-	456 201
Other income	939 961	642 856
	<u>3 609 914</u>	<u>7 652 230</u>

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(2) **Expenses by Nature**

	01.01.2015 - 31.03.2015 EUR	01.01.2014 - 31.03.2014 EUR
Costs of raw materials and consumables	1 793 645	3 692 000
Salary expenses	1 133 209	1 708 808
Utility costs	317 798	486 163
Mandatory state social insurance contributions	264 406	378 175
Other expenses	161 749	388 098
Depreciation of PPE and intangible assets	373 491	207 869
Transportation expenses	411 436	523 978
Office expenses	16 952	18 245
Professional services costs	9 009	4 522
	<u>4 481 695</u>	<u>7 407 858</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
01.01.2014.						
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	-	-	-	-	118 062	118 062
Reclassified	4 962		971 125	5 677	(1 005 978)	(29 176)
Written off		(12 065)	(273)			(12 338)
Amortized	(2 272)	(77 180)	(286 232)	(7 807)	-	(371 219)
Closing book value	24 902	7 620 905	7 927 709	77 574	103 814	15 730 002
31.03.2015.						
Initial cost	65 574	10 046 465	16 149 190	879 350	103 814	27 178 819
Accumulated depreciation	(40 672)	(2 425 560)	(8 221 481)	(801 776)	-	(11 448 817)
Net book value	24 902	7 620 905	7 927 709	77 574	103 814	15 730 002

(4) Inventories

	31.03.2015. EUR	31.12.2014. EUR
Raw materials	3 957 092	2 845 554
Work-in-progress	165 314	156 355
Finished goods	253 184	936 203
(Provisions for impairment of inventories)	(174 591)	(174 591)
	4 200 999	3 763 521

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(5) Accrued income

	31.03.2015.	31.12.2014.
	EUR	EUR
Accrued income for repair and modernization contracts	1 615 330	2 368 047
Expected losses		(8 538)
Gross amount of work-in-progress	<u>1 615 330</u>	<u>2 359 509</u>
where:		
Amount due from customers	<u>1 615 330</u>	<u>2 359 509</u>
	<u>1 615 330</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. 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.

	31.03.2015.	31.12.2014.
	EUR	EUR
At beginning of the year	255 041	255 041
Used during the year	(88 635)	(88 635)
Additional provisions	<u>33 772</u>	<u>33 772</u>
At the end of the year	<u>200 178</u>	<u>200 178</u>

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(8) Other liabilities

	31.03.2015.	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	2 442 670	2 260 761
Other liabilities	504 871	286 322
Payroll liabilities	271 290	276 181
Accrued liabilities for unused annual leave	272 213	272 213
Mandatory State social contributions liabilities	775 691	512 480
Personnel income tax liabilities	538 524	465 534
Value-added tax	108 759	-
Other deferred income	78 434	2 811
Accrued liabilities for post-employment benefits (current part)	6 798	6 798
	<u>4 999 250</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

	31.03.2015.		31.12.2014.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	957 585	1 945 171	641 760	2 502 683
Borrowings	-	3 512 543	-	2 969 465
	<u>957 585</u>	<u>5 457 714</u>	<u>641 760</u>	<u>5 472 148</u>

b) transactions

	01.01.2015 -	01.01.2014 -
	31.03.2015	31.03.2014
	EUR	EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	2 018 209	2 245 520
Purchase of raw materials	294 600	961 278
Sale of other goods	57 248	185 479
Services received	82 860	73 115
	<u>2 452 917</u>	<u>3 465 392</u>