

**AS "Daugavpils Lokomotīvu Remonta Rūpnīca"**

**Unaudited Consolidated Interim Financial  
Statements**

**for the 9 month period ended 30 September 2016**

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"  
Unaudited Consolidated Interim Financial Statements  
for the 9 month period ended 30 September 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 9 month period in 2016 the consolidated net turnover of the Group amounted to 11.2 million EUR (9,4 % increase in comparison with net turnover in the relevant period in 2015).

The Group completed the 9 month period in 2016 with a loss of 2,5 million EUR. During the accounting period the Group exported its products to 8 countries, the total export volume amounted to 6,1 million EUR (in the similar period in 2015 – 8,1 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 third quarter, the all 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. The large losses by the results of 9 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 with in the DMU.

Natālija Petrova  
Member of the Board

Daugavpils, 23 November 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 September 2016 and the results of its operations for the 9 months period ended 30 September 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.

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Natālija Petrova  
Member of the Board

Daugavpils, 23 November 2016

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**STATEMENT OF COMPREHENSIVE INCOME**

	Notes	01.01.2016 - 30.09.2016	01.01.2015 - 30.09.2015
		EUR	EUR
Net sales	(1)	11 195 324	10 237 053
Cost of sales	(2)	(11 772 243)	(10 649 057)
<b>Gross profit (loss)</b>		<b><u>(576 919)</u></b>	<b><u>(412 004)</u></b>
Distribution expenses	(2)	(214 911)	(168 458)
Administrative expenses	(2)	(1 000 696)	(1 489 179)
Other income		324 198	402 551
Other expenses		(500 917)	(29 124)
Net finance income and loss		(522 229)	86 049
<b>Profit (loss) before tax</b>		<b><u>(2 491 474)</u></b>	<b><u>(1 610 165)</u></b>
<b>Net profit (loss)</b>		<b><u>(2 491 474)</u></b>	<b><u>(1 610 165)</u></b>
<b>Attributable to:</b>			
Equity holders of a parent company		(2 491 474)	(1 610 165)
Minority interest		-	-
<b>Earnings per share (in cents)</b>			
Basic		(0.30)	(0.19)
Diluted		(0.30)	(0.19)
<b>Total comprehensive income (expense)</b>		<b><u>(2 491 474)</u></b>	<b><u>(1 610 165)</u></b>
<b>Attributable to:</b>			
Equity holders of a parent company		(2 491 474)	(1 610 165)
Minority interest		-	-

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

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Natālija Petrova  
Member of the Board

Daugavpils, 23 November 2016

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**STATEMENT OF FINANCIAL POSITION**

		30.09.2016. EUR	31.12.2015. EUR
<b><u>ASSETS</u></b>	<b>Notes</b>		
<b>Non-current assets</b>			
Intangible assets	(3)	14 915	19 229
Property, plant and equipment	(3)	12 891 122	14 247 772
Investments in associates		-	500
<b>Total non-current assets:</b>		<b>12 906 037</b>	<b>14 267 501</b>
<b>Current assets</b>			
Inventories	(4)	3 569 439	3 437 020
Available for sale non-current assets		22 748	112 748
Trade receivables		4 281 517	2 721 407
Accrued income	(5)	700 928	6 734 500
Corporate income tax overpaid		-	11 448
Other current assets		493 065	2 684 220
Cash and cash equivalents		17 675	890 649
<b>Total current assets:</b>		<b>9 085 372</b>	<b>16 591 992</b>
<b><u>Total assets</u></b>		<b><u>21 991 409</u></b>	<b><u>30 859 493</u></b>
<b><u>EQUITY AND LIABILITIES</u></b>		<b>30.09.2016. EUR</b>	<b>31.12.2015. EUR</b>
<b>Equity</b>			
Share capital		11 611 907	11 801 610
Other reserves		189 698	-
Retained losses of the previous years		(5 910 140)	(3 163 985)
Current year profit (losses)		(2 491 474)	(2 746 155)
<b>Total equity:</b>		<b>3 399 991</b>	<b>5 891 470</b>
<b>Liabilities:</b>			
<b>Non-current liabilities:</b>			
Deferred income tax liabilities		769 232	769 232
Deferred income		1 408 327	1 554 663
Other liabilities	(8)	101 670	131 061
<b>Total non-current liabilities:</b>		<b>2 279 229</b>	<b>2 454 956</b>
<b>Current liabilities:</b>			
Borrowings	(6)	6 928 391	7 673 964
Trade payables		6 047 130	6 084 591
Deferred income		292 671	292 671
Corporate income tax payables	(7)	132 894	152 205
Provisions	(8)	2 911 103	8 309 636
<b>Total current liabilities:</b>		<b>16 312 189</b>	<b>22 513 067</b>
<b>Total liabilities:</b>		<b>18 591 418</b>	<b>24 968 023</b>
<b><u>Total equity and liabilities:</u></b>		<b><u>21 991 409</u></b>	<b><u>30 859 493</u></b>

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

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Natālija Petrova  
Member of the Board

Daugavpils, 23 November 2016

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**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Other reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR
<b>31.12.2013.</b>	<b>11 801 610</b>		<b>(1 920 660)</b>	<b>9 880 950</b>
Loss of the reporting period	-		(1 243 325)	(1 243 325)
Total comprehensive income	-		(1 243 325)	(1 243 325)
<b>31.12.2014.</b>	<b>11 801 610</b>		<b>(3 163 985)</b>	<b>8 637 625</b>
Loss of the reporting period	-		(2 746 155)	(2 746 155)
Total comprehensive income	-		(2 746 155)	(2 746 155)
<b>31.12.2015.</b>	<b>11 801 610</b>		<b>(5 910 140)</b>	<b>5 891 470</b>
Loss of the reporting period	-		(2 491 474)	(2 491 474)
Total comprehensive income	-		(2 491 474)	(2 491 474)
Denomination of share capital	(189 703)			(189 703)
Reserve reclassification		189 698		189 698
<b>30.09.2016.</b>	<b>11 611 907</b>	<b>189 698</b>	<b>(8 401 614)</b>	<b>3 399 991</b>

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



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**CASH FLOW STATEMENT**

	<b>01.01.2016 - 30.09.2016 EUR</b>	<b>01.01.2015 - 30.09.2015 EUR</b>
<b>Cash flow from operating activities</b>		
Profit or losses before income tax	<b>(2 491 474)</b>	<b>(1 610 165)</b>
<u>Adjustments for:</u>		
depreciation and amortization	1 090 117	1 173 609
changes in provisions	(19 311)	(44 258)
(gains) or losses from exchange rate fluctuations	53 598	-
denomination of share capital	(189 703)	-
interest expenses	114 232	91 134
<b>Cash flow prior to changes in current assets</b>	<b>(1 442 541)</b>	<b>(389 680)</b>
Inventory (increase)/decrease	287 871	(591 303)
Account receivable (increase)/decrease	6 663 776	(108 519)
Account payable increase/(decrease)	(4 274 097)	3 298 400
<b>Gross cash flow generated from operating activities</b>	<b>1 235 009</b>	<b>2 208 898</b>
Interest paid	(407 998)	-
<b>Net cash flow generated from operating activities</b>	<b>827 011</b>	<b>2 208 898</b>
 <b>Cash flow from investing activities</b>		
Acquisition of tangible assets	(58 102)	(1 013 839)
<b>Net cash flow generated from investing activities</b>	<b>(58 102)</b>	<b>(1 013 839)</b>
 <b>Cash flow from financing activities</b>		
Proceeds from borrowings	1 957 000	1 820 403
Loans repaid	(3 598 883)	(3 025 239)
<b>Net cash flow generated from financing activities</b>	<b>(1 641 883)</b>	<b>(1 204 836)</b>
 <b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(872 974)</b>	<b>(9 777)</b>
 <b>Cash and cash equivalents at the beginning of the financial year</b>	<b>890 649</b>	<b>27 811</b>
 <b>Cash and Cash equivalents at the end of the financial year</b>	<b>17 675</b>	<b>18 034</b>

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 September 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:

	<b>30.09.2016.</b>	<b>31.12.2015.</b>
	<b>EUR</b>	<b>EUR</b>
1 USD	0.8912	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 - 30.09.2016 EUR	01.01.2015 - 30.09.2015 EUR
Russia	1 638 175	2 397 589
Other EU countries	1 899 358	3 845 542
Latvia	5 119 550	2 163 751
Belarus	430 218	449 726
Canada	1 688 416	1 232 986
Other countries	62 813	63 918
Uzbekistan	356 794	83 541
	<b><u>11 195 324</u></b>	<b><u>10 237 053</u></b>

##### (c) Major customers

Split of the net sales among the customers amount to 10 percent or more of total revenues are:

Customer Nr.1	5 872 759	2 936 356
Customer Nr.2	1 681 679	2 227 286
Customer Nr.3	1 020 654	1 232 986
Customer Nr.4	536 537	536 038
Other clients	2 083 695	3 304 387
	<b><u>11 195 324</u></b>	<b><u>10 237 053</u></b>

##### (d) Revenue by types

Income from railway rolling stock repair and upgrade services	7 721 860	9 991 840
Income from the sale of railway rolling stock	-	82 380
Other income	3 473 464	162 833
	<b><u>11 195 324</u></b>	<b><u>10 237 053</u></b>

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(2) Expenses by Nature	01.01.2016 - 30.09.2016 EUR	01.01.2015 - 30.09.2015 EUR
Costs of raw materials and consumables	7 126 695	5 898 597
Salary expenses	2 800 727	3 101 358
Utility costs	762 057	888 379
Mandatory state social insurance contributions	652 194	726 034
Other expenses	411 402	270 354
Depreciation of PPE and intangible assets	1 090 117	1 173 609
Brokerage costs	20 000	29 108
Transportation expenses	71 086	100 302
Office expenses	53 572	118 953
	<u><b>12 987 850</b></u>	<u><b>12 306 694</b></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
<b>01.01.2015.</b>						
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)
<b>Net book value</b>	<b>22 212</b>	<b>7 710 150</b>	<b>7 243 089</b>	<b>79 704</b>	<b>991 730</b>	<b>16 024 673</b>
<b>2015</b>						
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)
<b>Closing book value</b>	<b>19 229</b>	<b>6 991 049</b>	<b>7 067 453</b>	<b>94 729</b>	<b>94 541</b>	<b>14 247 772</b>
<b>31.12.2015.</b>						
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)
<b>Net book value</b>	<b>19 229</b>	<b>6 991 049</b>	<b>7 067 453</b>	<b>94 729</b>	<b>94 541</b>	<b>14 247 772</b>
<b>2016</b>						
Acquisition cost	19 229	6 991 050	7 067 453	94 729	94 541	14 247 773
Acquired	-	-	-	-	51 717	51 717
Reclassified	1 053	6 385	17 719	1 122	(19 894)	5 332
Written off		(323 659)	(5 291)			(328 950)
Amortized	(5 367)	(179 889)	(882 078)	(22 783)	-	(1 084 750)
<b>Closing book value</b>	<b>14 915</b>	<b>6 493 887</b>	<b>6 197 803</b>	<b>73 068</b>	<b>126 364</b>	<b>12 891 122</b>
<b>30.09.2016.</b>						
Initial cost	66 626	9 344 553	16 212 670	921 866	126 364	26 605 453
Accumulated depreciation	(51 711)	(2 850 666)	(10 014 867)	(848 798)	-	(13 714 331)
<b>Net book value</b>	<b>14 915</b>	<b>6 493 887</b>	<b>6 197 803</b>	<b>73 068</b>	<b>126 364</b>	<b>12 891 122</b>

(4) Inventories

	30.09.2016. EUR	31.12.2015. EUR
Raw materials	3 083 571	2 678 441
Work-in-progress	91 341	344 999
Finished goods	627 234	646 287
(Provisions for impairment of inventories)	(232 707)	(232 707)
	<b>3 569 439</b>	<b>3 437 020</b>

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**(5) Accrued income**

	<b>30.09.2016.</b>	<b>31.12.2015.</b>
	<b>EUR</b>	<b>EUR</b>
Accrued income for repair and modernization contracts	700 928	6 746 534
Expected losses		(12 034)
Gross amount of work-in-progress	<u><b>700 928</b></u>	<u><b>6 734 500</b></u>
where:		
Amount due from customers	<u>700 928</u>	<u>6 734 500</u>
	<u><b>700 928</b></u>	<u><b>6 734 500</b></u>

**(6) Borrowings**

In 2016 the Company received additional loans from related company in the amount of EUR 1 957 000. Part of the loan in the amount of EUR 2 783 000 was repaid, interest - EUR 474 383. Loans are with interest rate 12%.

**(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.

	<b>30.09.2016.</b>	<b>31.12.2015.</b>
	<b>EUR</b>	<b>EUR</b>
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><b>132 894</b></u>	<u><b>152 205</b></u>

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**(8) Other liabilities**

	30.09.2016. EUR	31.12.2015. EUR
<b>Non-current</b>		
Accrued liabilities to post-employment benefits (non-current part)	101 670	101 670
Mandatory State social contributions liabilities	-	13 390
Personnel income tax liabilities	-	16 001
	<b>101 670</b>	<b>131 061</b>
<b>Current</b>		
Advances received	532 599	6 263 606
Other liabilities	112 009	222 709
Payroll liabilities	195 652	224 502
Accrued liabilities for unused annual leave	280 459	280 459
Mandatory State social contributions liabilities	900 182	476 475
Personnel income tax liabilities	587 553	325 077
Value-added tax	274 084	509 410
Other deferred income	22 874	1 707
Accrued liabilities for post-employment benefits (current part)	5 691	5 691
	<b>2 911 103</b>	<b>8 309 636</b>

**(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**

	30.09.2016.		31.12.2015.	
	Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	307 684	3 588 587	1 219 090	5 396 519
Borrowings	-	4 528 038	-	5 462 937
	<b>307 684</b>	<b>8 116 625</b>	<b>1 219 090</b>	<b>10 859 456</b>

**b) transactions**

	01.01.2016 - 30.09.2016 EUR	01.01.2015 - 30.09.2015 EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	2 358 218	6 145 053
Purchase of raw materials	873 683	1 242 363
Sale of other goods	120 405	248 109
Services received	103 621	340 551
	<b>3 455 927</b>	<b>7 976 076</b>