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INDEPENDENT AUDITORS' REPORT

To the Shareholders of AS Daugavpils Lokomotīvu Remonta Rūpnīca

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of AS Daugavpils Lokomotīvu Remonta Rūpnīca (the Company) set out on pages 7 to 35 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December, 2016,
- the profit and loss statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia (the Law On the Annual Reports and Consolidated Annual Reports).

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia (the Law on Audit Services) we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to the Note 12 to the financial statements. At the end of 2016 the carrying value of tangible assets is EUR 10,9m, including carrying value of real estate of EUR 4,8m and production equipment of EUR 6m. The management has performed the impairment test by value in use method estimating the present value of future cash flows and has satisfied itself that no impairment of assets incurred. In the Note 39 to the financial statements, the Company discloses information on sharp decrease of customers' orders and revenues at the end of 2015 and in 2016 mostly caused by the economic sanctions towards Russia and its response by the way of trade restrictions. We pay attention to these negative external factors, and therefore, significant level of uncertainty related to the future cash flows that could have a material impact on the calculation of recoverable value of assets. Our opinion is not modified in respect of this matter.



Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in the Emphasis of Matter section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters	How our audit addressed the key audit matters
<p><i>Impairment assessment of receivables from subsidiaries</i></p> <p>As disclosed in the Note 17 to the financial statements at 31 December 2016 the Company recorded gross amount of receivables from subsidiaries of EUR 2,8m gross amount and impairment provision of EUR 2,1m.</p> <p>In the financial statements for the year ended 31 December 2015 the management's assessment of the impairment of the aforementioned assets involved judgmental estimates of subsidiaries' future cash flows. In the current year most of the subsidiaries incurred significant losses, three subsidiaries have been disposed and for one the insolvency procedure has been started. As disclosed on Note 39 to the financial statements external factors could have a material impact to the Company's future cash flow.</p> <p>Taking into account the matters described above, the impairment assessment of receivables from subsidiaries was determined as a key audit matter.</p>	<p>We assessed the assumptions and methods historically used by the management in their impairment test of receivables from subsidiaries. We concluded that negative financial results of 2016, material impact of external factors to future financial results, as well as transactions for disposal of subsidiaries significantly increase the level of judgement of the subsidiaries future cash flows.</p> <p>We have discussed our conclusion with the management, as a result the management has decided to use more conservative approach recognizing impairment provisions of each subsidiary's debts in the amount of its negative equity.</p> <p>We have obtained impairment calculations prepared by the management. Our procedures included review of subsidiaries net assets as at 31 December 2016, the accuracy and methodology of impairment calculations as well as adequacy of disclosures in the financial statements to the requirements of the Law On the Annual Reports and Consolidated Annual Reports.</p>
<p><i>Impairment assessment of inventories' balances</i></p> <p>As at 31 December 2016 inventories' balances, less impairment losses, are EUR 2,8m. As disclosed in the Notes 14 and 15 to the financial statements the inventories comprises mostly materials and finished goods. Part of the inventories' items have slow moving ratios.</p> <p>Management's assessment of the impairment of the aforementioned assets involves judgmental estimates. Inventories are grouped by the types (models) of serviced or sold rolling stocks and future volume of its use in the course of production or its potential selling value is estimated. These assumptions are driven by the general economic environment and conditions in the key markets the Company is operating.</p> <p>The abovementioned balances are material to the financial statements and therefore our audit</p>	<p>We assessed the assumptions and methods used by the management in their impairment test, in particular assumptions related to the forecasted sales orders and potential selling value.</p> <p>We reviewed whether the management impairment calculations prepared based on financial accounting data. We discussed with the management the assumptions for the volume of forecasted sales orders and its correlation with historical data. For individually significant items the management estimated the potential selling value. With professional criticism, we have assessed the management estimates and built our own estimates of significant assumptions and its impact to the total value of impairment.</p> <p>We examined whether the adequate disclosures made in the financial statements, including the impairment methods used, met the requirements set out in the Law On the</p>



<p>procedures on the impairment tests are one of key audit matters.</p>	<p>Annual Reports and Consolidated Annual Reports.</p>
<p><i>The measurement of receivables from General partnership DMU vilcieni and contingent liabilities</i></p> <p>As disclosed in the Notes 18 and 38 to the financial statements the Company, as a member of Partnership DMU vilcieni (“the Partnership), has performed the part of EUR 22m contract for modernization of diesel trains (“the Contract”). As at 31 December 2016 the Company accounts gross amount of receivables from the Partnerships of EUR 1,4 and impairment provisions of EUR 0,9m.</p> <p>Our audit report on the Company’s financial statements for the year ended 31 December 2015 was modified in respect of audit scope limitation for the measurement of receivables from Partnership and unrecorded provisions in case of Partnership’s default due to a breach of contract.</p> <p>Partnership has incurred significant losses and as at 31 December 2016 the Contract’s 2-year warranty period is in force.</p> <p>Taking into account the matters described above, the measurement of receivables from Partnership and contingent liabilities is a key audit matter.</p>	<p>We assessed and discussed with the Company’s management the outcome of the Contract, warranty obligations and other significant terms of the Contract as well as terms of agreement between the members of the Partnership for the split of work, obligations, liabilities and financial results. We have obtained the opinion of the Partnership’s legal adviser on these issues.</p> <p>Based on unaudited Partnership’s financial statements, future cash flow estimates and split of financial results between the members, the management prepared the impairment test of receivables from the Partnership. We performed procedures to obtain the sufficient evidence on the Partnership’s financial results and position as at 31 December 2016. We reviewed the principles and methods used by the management on the split of financial results between the members. We assessed management’s estimates of the warranty liabilities of the remained warranty period, acquiring and analyzing information on the actual warranty costs and discussing the reasonableness of assumptions used. We examined whether the disclosure made in the financial statements met the requirements set out in the Law On the Annual Reports and Consolidated Annual Reports.</p>
<p><i>Use of going concern assumption</i></p> <p>As disclosed in the Note 41 the Company has finished the year ended 31 December 2016 with losses of EUR 4m. At this date the Company’s current liabilities exceed current assets by EUR 7.7m.</p> <p>As of 31 December 2016 the Company’s major creditors are the largest shareholder’s AS Skinest Rail group companies (8.2 mil. EUR) and AS Swedbank with loans outstanding (2.6 mil. EUR). The Company does not comply with financial covenants in AS Swedbank loan agreements. The Company received a comfort letter from its shareholder AS Skinest Rail that it will support the Company to continue as a going concern in 2017.</p> <p>As the result of audit we concluded that no material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern at least in 2017. Nevertheless, the audit procedures on identified risk events and conditions, its mitigating factors and conclusions reached has been determined as one of the audit key matters.</p>	<p>We have concluded that estimates of future cash flows, the extension of repayment terms of bank’s loan and the support from shareholders are the main aspects to consider for going concern issue.</p> <p>We have discussed with the management material assumptions and risks related to these uncertainties and management plans to mitigate them. We have obtained and assessed the budget for 2017 prepared by the management, and also reviewed contracts, historical information and ratios that supports management assumptions of projected level of revenues and expenses.</p> <p>We have assessed the terms of AS Swedbank loan agreements and discussed with the Company’s and AS Skinest Rail management the actions taken to restructure bank loans. In respect of support letter from AS Skinest Rail we have assessed historical relationship between the the Company and AS Skinest Rail and financial resources provided. We have obtained the interim and audited financial statements and analyzed, whether the AS Skinest Rail has sufficient resources to provide such support.</p> <p>We examined the disclosure of information in financial statements on the management’s conclusion of the use of going concern assumption.</p>



Reporting on Other Information

The Company management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 4 to 5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report,
- the Statement of Corporate Governance, as published on the Company's homepage www.dlrr.lv.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

In addition, in accordance with the Law on Audit Services with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports.

In accordance with the Law on Audit Services with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Law On the Annual Reports and Consolidated Annual Reports and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

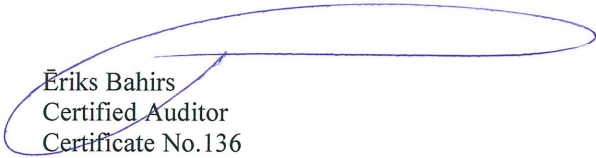
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The responsible certified auditor on the audit resulting in this independent auditors' report is Ēriks Bahirs.

Baker Tilly Baltics SIA
Licence No. 80


Ēriks Bahirs
Certified Auditor
Certificate No.136
Chairman of the Board

Riga, 2 May 2017