

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"

Consolidated Interim Financial Statements

for the 3 month period ended 31 March 2017

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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

Margus - Mals - Member of the Board (from 21 March 2016), Chairman
of the Board (from 20 February 2017)

Aivar Keskuela - Chairman of the Board (till 20 February 2017)

Natālija Petrova - Member of the Board

Vladimirs Kirsanovs - Member of the Board

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

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 of 2017 the consolidated net turnover of the Group amounted to 5.2 million EUR (127,3 % increase compared with net turnover in the relevant period of 2016).

The Group completed the 3-month period of 2017 with a loss of 0,4 million EUR. During the accounting period the Group exported its products to 7 countries, the total export volume amounted 4.7 million EUR (in the similar period of 2016 – 1.8 million EUR). The main directions of export in reporting period were EU countries: Estonia, Poland, Finland and Lithuania, and the third countries: Russia, Belarus. Losses related to historical insufficient workload and large energy costs.

On February 2017, company received the first of three TEM2 (SM48) locomotives which is planned to be repaired after the Polish company PKP Linia Hutnicza Szerokotorowa spółka z o.o. order.

In order to create energy management system, in the first quarter of 2017 company carried out an energy audit and on April 2017 has gained international Energy Management System Certificate ISO 50001: 2011 that provides cost savings, addition competitiveness and also reduce impact on the external environment.

Natālija Petrova
Member of the Board

Daugavpils, 24 May 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, 24 May 2017

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2017 - 31.03.2017 EUR	01.01.2016 - 31.03.2016 EUR
Net sales	(1)	5 171 909	2 275 600
Cost of sales	(2)	(5 081 648)	(2 729 139)
Gross profit (loss)		90 261	(453 539)
Distribution expenses	(2)	(81 890)	(54 152)
Administrative expenses	(2)	(353 041)	(399 646)
Other income		103 767	48 683
Other expenses		(12 051)	(83 339)
Net finance income and loss		(103 169)	(21 899)
Profit (loss) before tax		(356 123)	(963 892)
Net profit (loss)		(356 123)	(963 892)
Attributable to:			
Equity holders of a parent company		(356 123)	(963 892)
Minority interest		-	-
Earnings per share (in cents)			
Basic		(0.04)	(0.12)
Diluted		(0.04)	(0.12)
Total comprehensive income (expense)		(356 123)	(963 892)
Attributable to:			
Equity holders of a parent company		(356 123)	(963 892)
Minority interest		-	-

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

Natālija Petrova
Member of the Board

Daugavpils, 24 May 2017

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STATEMENT OF FINANCIAL POSITION

		31.03.2017. EUR	31.12.2016. EUR
<u>ASSETS</u>	Notes		
Non-current assets			
Intangible assets	(3)	37 660	40 784
Property, plant and equipment	(3)	12 506 171	12 841 193
Investments in associates		500	500
Total non-current assets:		12 544 331	12 882 477
Current assets			
Inventories	(4)	3 977 435	3 583 820
Trade receivables		2 229 547	1 102 280
Accrued income	(5)	832 848	433 635
Other current assets		433 157	122 187
Cash and cash equivalents		752 207	785 912
Total current assets:		8 225 194	6 027 834
<u>Total assets</u>		<u>20 769 525</u>	<u>18 910 311</u>
		31.03.2017. EUR	31.12.2016. EUR
<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)		(356 123)	(2 279 102)
Total equity:		3 256 240	3 612 363
Liabilities:			
Non-current liabilities:			
Deferred income tax liabilities		170 901	170 901
Deferred income		1 188 824	1 261 992
Other liabilities	(8)	101 335	101 335
Total non-current liabilities:		1 461 060	1 534 228
Current liabilities:			
Borrowings	(6)	7 078 020	7 142 947
Trade payables		6 100 786	4 497 117
Provisions		92 346	104 033
Deferred income		292 671	292 671
Corporate income tax payables	(7)	2 002	2 002
Other liabilities	(8)	2 486 400	1 724 950
Total current liabilities:		16 052 225	13 763 720
Total liabilities:		17 513 285	15 297 948
<u>Total equity and liabilities:</u>		<u>20 769 525</u>	<u>18 910 311</u>

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Natālija Petrova
Member of the Board

Daugavpils, 24 May 2017

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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	-	(356 123)	(356 123)
Total comprehensive income	-	(356 123)	(356 123)
31.03.2017.	11 611 907	189 698	(8 545 365)

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

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CASH FLOW STATEMENT

	01.01.2017 - 31.03.2017 EUR	01.01.2016 - 31.03.2016 EUR
Cash flow from operating activities		
Profit or losses before income tax	(356 123)	(963 892)
<u>Adjustments for:</u>		
depreciation and amortization	338 146	367 113
changes in provisions	(10 687)	(84)
(gains) or losses from exchange rate fluctuations	9 439	54 945
interest expenses	9 196	20 841
Cash flow prior to changes in current assets	<u>(10 029)</u>	<u>(521 077)</u>
Inventory (increase)/decrease	(393 615)	375 254
Account receivable (increase)/decrease	(1 783 928)	231 732
Account payable increase/(decrease)	2 136 828	(882 712)
Gross cash flow generated from operating activities	<u>(50 744)</u>	<u>(796 803)</u>
Interest paid	0	(20 841)
Net cash flow generated from operating activities	<u>(50 744)</u>	<u>(817 644)</u>
 Cash flow from investing activities		
Acquisition of tangible assets	(59 689)	(11 808)
Proceeds from sales of property, plant and equipment	6 167	0
Net cash flow generated from investing activities	<u>(53 522)</u>	<u>(11 808)</u>
 Cash flow from financing activities		
Proceeds from borrowings	80 000	2 536 344
Loans repaid	0	(2 503 139)
Net cash flow generated from financing activities	<u>80 000</u>	<u>33 205</u>
 Net foreign exchange gains/losses	<u>(9 439)</u>	<u>(54 945)</u>
 Net increase / (decrease) in cash and cash equivalents	<u>(33 705)</u>	<u>(851 192)</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>752 207</u></u>	<u><u>39 457</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 31 March 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 established 11 subsidiary companies holding 100% shares in each. Subsidiary companies commenced active operations from January 2007.

a) At the end of reporting year the Company has investments in 8 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. Starting from April 2015 SIA Ritrem, SIA Krāsotājs, SIA SPZČ and SIA Remenergo 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 sold as well as in October 2016 insolvency procedure for SIA Elap was started and insolvency administrator was appointed. See also Note (6) on the financial effect of the sale of subsidiaries.

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 "SPZČ"	Marijas 1, Daugavpils	Repair and producing of spare parts,	100	100
SIA "Remenergo"	Marijas 1, Daugavpils	Maintenance of fixture, technical control and	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:

	31.03.2017.	31.12.2016.
	EUR	EUR
1 USD	1.0737	1.0541
1 RUB	60.3380	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 - 31.03.2017	01.01.2016 - 31.03.2016
	EUR	EUR
Russia	4 162 188	1 035 317
Estonia	237 306	101 861
Latvia	432 883	505 905
Belarus	80 271	36 254
Lietuva	97 826	167 571
Other countries	19 670	49 570
Uzbekistan	0	180 539
Poland	39 691	198 583
Finland	102 074	0
	<u>5 171 909</u>	<u>2 275 600</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	2 789 363	621 378
Customer Nr.2	657 388	339 589
Customer Nr.3	607 117	199 825
Customer Nr.4	184 799	194 098
Other clients	933 242	920 710
	<u>5 171 909</u>	<u>2 275 600</u>

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	1 771 595	1 046 171
Other income	3 400 314	1 229 429
	<u>5 171 909</u>	<u>2 275 600</u>

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(2) Expenses by Nature	01.01.2017 - 31.03.2017 EUR	01.01.2016 - 31.03.2016 EUR
Costs of raw materials and consumables	3 401 791	961 370
Salary expenses	927 518	1 122 519
Utility costs	427 960	302 245
Mandatory state social insurance contributions	218 550	263 161
Other expenses	140 699	122 728
Depreciation of PPE and intangible assets	338 146	367 113
Transportation expenses	22 016	26 733
Office expenses	15 155	9 787
Professional services costs	24 744	7 281
	<u>5 516 579</u>	<u>3 182 937</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
01.01.2016.						
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						0
Reclassified		9 447	50 242		(59 689)	0
Written off				(3 690)		(3 690)
Amortized	(3 124)	(55 609)	(273 313)	(6 100)		(335 022)
Closing book value	37 660	6 714 487	5 728 134	59 860	0	12 502 481
31.03.2017.						
Initial cost	98 137	9 677 272	15 910 847	883 310	0	26 471 429
Accumulated depreciation	(60 477)	(2 962 785)	(10 182 713)	(819 760)	0	(13 965 258)
Net book value	37 660	6 714 487	5 728 134	63 550	0	12 506 171

(4) Inventories

	31.03.2017. EUR	31.12.2016. EUR
Raw materials	3 027 310	2 483 906
Work-in-progress	90 313	92 594
Finished goods	632 639	780 147
Railway rolling stock for sale	500 000	500 000
(Provisions for impairment of inventories)	(272 827)	(272 827)
	3 977 435	3 583 820

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(5) Accrued income

	31.03.2017.	31.12.2016.
	EUR	EUR
Accrued income for repair and modernization contracts	832 848	433 966
Expected losses		(331)
Gross amount of work-in-progress	<u>832 848</u>	<u>433 635</u>
where:		
Amount due from customers	<u>832 848</u>	<u>433 635</u>
	<u>832 848</u>	<u>433 635</u>

(6) Borrowings

In 2017 the Company received additional loans from related company in the amount of EUR 80 000. Loans are with interest rate 8% respectively, and repayment from 31 December 2017.

(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.

	31.03.2017.	31.12.2016.
	EUR	EUR
At beginning of the year	104 033	152 205
Used during the year	(11 687)	(128 050)
Additional provisions	-	79 878
At the end of the year	<u>92 346</u>	<u>104 033</u>

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(8) Other liabilities

	31.03.2017.	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	1 031 469	509 933
Other liabilities	146 909	210 983
Payroll liabilities	234 994	175 730
Accrued liabilities for unused annual leave	284 644	284 644
Mandatory State social contributions liabilities	287 130	143 509
Personnel income tax liabilities	204 030	146 570
Value-added tax	217 294	246 959
Other deferred income	74 239	931
Accrued liabilities for post-employment benefits (current part)	5 691	5 691
	<u>2 486 400</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

	31.03.2017.		31.12.2016.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
<i>Related parties with significant influence</i>				
Trade receivables / payables	519 886	5 301 522	397 889	3 714 310
Borrowings	-	4 131 240	-	4 535 108
	<u>519 886</u>	<u>9 432 762</u>	<u>397 889</u>	<u>8 249 418</u>

b) transactions

	01.01.2017 -	01.01.2016 -
	31.03.2017	31.03.2016
	EUR	EUR
<i>Related parties with significant influence</i>		
Repair services of railway rolling stock	884 390	593 548
Purchase of raw materials	290 224	339 237
Sale of other goods	38 503	60 282
Services received	2 252 303	1 410
	<u>3 465 420</u>	<u>994 477</u>