AS "Daugavpils Lokomotīvju Remonta Rūpnīca"

Consolidated Interim Financial Statements

for the 9 month period ended 30 September 2017

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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	Vladimirs Kononovs - Chairman of the Board (from 05 October 2017)
	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 9 months of 2017 amounted 16,2 million. EUR (144,6 % increase compared with net turnover in the relevant period of 2016).

The Group completed 9 months period of 2017 with a loss of 2,0 million EUR. During the accounting period, the Group exported its products to 8 countries, the total export volume amounted 14,7 million EUR (compared with 9 months of 2016 – 6,1 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. For today the Company is operating at full load.

On 23 October 2017 the shareholder of DLRR OÜ Lokomotiiv Investeeringud has made the mandatory share redemption offer (hereinafter - the Offer) on the shares of DLRR. The Offer has been made in accordance with decision No 168 of 17 October 2017 of the Financial and Capital Market Commission. The price per one share under the Offer is EUR 0.44.

The Offer made by OÜ Lokomotiiv Investeeringud will not have any impact on the employment policy of DLRR, the employees of DLRR will maintain their work places in accordance with the concluded employment agreements. Moreover, this Offer will not have any impact on the business strategy of DLRR, as well as the fulfilment of the future plans. There are no decisions to change the business profile or the location of the company.

Natālija Petrova
Member of the Board

Daugavpils, 22 November 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, 22 November 2017

STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2017 - 30.09.2017	01.01.2016 - 30.09.2016
		EUR	EUR
Net sales	(1)	16 208 069	11 195 324
Cost of sales	(2)	(17 156 260)	(11 772 243)
Gross profit (loss)		**(948 191)**	**(576 919)**
Distribution expenses	(2)	(223 414)	(214 911)
Administrative expenses	(2)	(778 451)	(1 000 696)
Other income		342 066	324 198
Other expenses		(103 012)	(500 917)
Net finance income and loss		(332 301)	(522 229)
Profit (loss) before tax		**(2 043 303)**	**(2 491 474)**
Net profit (loss)		**(2 043 303)**	**(2 491 474)**
Attributable to:			
Equity holders of a parent company		(2 043 303)	(2 491 474)
Minority interest		-	-
Earnings per share (in cents)			
Basic		(0,25)	(0,30)
Diluted		(0,25)	(0,30)
Total comprehensive income (expense)		**(2 043 303)**	**(2 491 474)**
Attributable to:			
Equity holders of a parent company		(2 043 303)	(2 491 474)
Minority interest		-	-

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

Natālija Petrova
Member of the Board

Daugavpils, 22 November 2017

STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	30.09.2017. EUR	31.12.2016. EUR
Non-current assets			
Intangible assets	(3)	31 505	40 784
Property, plant and equipment	(3)	11 862 738	12 841 193
Investments in associates		-	500
Total non-current assets:		**11 894 243**	**12 882 477**
Current assets			
Inventories	(4)	9 417 793	3 583 820
Trade receivables		2 543 373	1 102 280
Accrued income	(5)	1 709 199	433 635
Other current assets		179 009	122 187
Cash and cash equivalents		785 440	785 912
Total current assets:		**14 634 814**	**6 027 834**
Total assets		**26 529 057**	**18 910 311**

EQUITY AND LIABILITIES		30.09.2017. EUR	31.12.2016. EUR
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)		(2 043 303)	(2 279 102)
Total equity:		**1 569 060**	**3 612 363**
Liabilities:			
Non-current liabilities:			
Borrowings	(6)	7 346 859	-
Deferred income tax liabilities		170 901	170 901
Deferred income		1 042 488	1 261 992
Other liabilities	(8)	101 335	101 335
Total non-current liabilities:		**8 661 583**	**1 534 228**
Current liabilities:			
Borrowings	(6)	1 001 220	7 142 947
Trade payables		6 380 534	4 497 117
Provisions		61 893	104 033
Deferred income		292 671	292 671
Corporate income tax payables	(7)	-	2 002
Other liabilities	(8)	2 562 096	1 724 950
Total current liabilities:		**10 298 414**	**13 763 720**
Total liabilities:		**18 959 997**	**15 297 948**
Total equity and liabilities:		**20 529 057**	**18 910 311**

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

Natālija Petrova
Member of the Board

Daugavpils, 22 November 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)**	**3 612 363**
Loss of the reporting period	-		(2 043 303)	(2 043 303)
Total comprehensive income	-		(2 043 303)	(2 043 303)
30.09.2017.	**11 611 907**	**189 698**	**(10 232 545)**	**1 569 060**

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

CASH FLOW STATEMENT

	01.01.2017 - 30.09.2017 EUR	01.01.2016 - 30.09.2016 EUR
Cash flow from operating activities		
Profit or losses before income tax	**(2 043 303)**	**(2 491 474)**
Adjustments for:		
depreciation and amortization	998 923	1 090 117
changes in provisions	(42 140)	(19 311)
(gains) or losses from exchange rate fluctuations	(5 484)	53 598
denomination of share capital	-	(189 703)
interest expenses	79 360	114 232
Cash flow prior to changes in current assets	**(1 012 644)**	**(1 442 541)**
Inventory (increase)/decrease	166 027	287 871
Account receivable (increase)/decrease	(2 781 499)	6 663 776
Account payable increase/(decrease)	2 428 075	(4 274 097)
Gross cash flow generated from operating activities	**(1 200 041)**	**1 235 009**
Interest paid	(53 546)	(407 998)
Net cash flow generated from operating activities	**(1 253 587)**	**827 011**
Cash flow from investing activities		
Acquisition of tangible assets	(11 189)	(58 102)
Proceeds from sales of property, plant and equipment	8 520	-
Net cash flow generated from investing activities	**(2 669)**	**(58 102)**
Cash flow from financing activities		
Proceeds from borrowings	3 515 278	1 957 000
Loans repaid	(2 259 494)	(3 598 883)
Net cash flow generated from financing activities	**1 255 784**	**(1 641 883)**
Net increase / (decrease) in cash and cash equivalents	**(472)**	**(872 974)**
Cash and cash equivalents at the beginning of the financial year	**785 912**	**890 649**
Cash and Cash equivalents at the end of the financial year	**785 440**	**17 675**

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 it's 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 September 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 Zasulauks" 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. SIA SPZČ and SIA Remenergo was liquidated till 30 September 2017.

Name of the subsidiary	Address	Type of operations	Participation interest % 30.09.2017	Participation interest % 31.12.2016
SIA "Ritrem"	Marijas 1, Daugavpils	Dormant status	100	100
SIA "Krāsotājs"	Marijas 1, Daugavpils	Dormant status	100	100
SIA "Instruments"	Marijas 1, Daugavpils	Dormant status	100	100

Name of the subsidiary	Address	Type of operations	Participation interest % 30.09.2017	Participation interest % 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:

	30.09.2017.	**31.12.2016.**
	EUR	**EUR**
1 USD	1,1806	1,0541
1 RUB	68,2520	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 - 30.09.2017 EUR	01.01.2016 - 30.09.2016 EUR
Russia	11 243 571	1 638 175
Other ES countries	2 479 167	1 899 358
Latvia	1 520 558	5 119 550
Belarus	337 897	430 218
Kanada	53 390	1 688 416
Other countries	127 436	62 813
Uzbekistan	186 649	356 794
Kazahstan	259 401	-
	16 208 069	**11 195 324**

(c) Major customers

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

Customer Nr.1	8 050 573	5 872 759
Customer Nr.2	1 548 626	1 681 679
Customer Nr.3	1 425 529	1 020 654
Customer Nr.4	1 027 448	536 537
Other clients	4 155 893	2 083 695
	16 208 069	**11 195 324**

(d) Revenue by types

Income from railway rolling stock repair and upgrade services	5 038 338	7 721 860
Other income	11 169 731	3 473 464
	16 208 069	**11 195 324**

(2) Expenses by Nature

	01.01.2017 - 30.09.2017 EUR	01.01.2016 - 30.09.2016 EUR
Costs of row materials, consumables and services	12 231 634	7 126 695
Salary expenses	3 079 976	2 800 727
Utility costs	509 481	762 057
Mandatory state social insurance contributions	656 917	652 194
Other expenses	437 635	380 366
Depreciation of PPE and intangible assets	998 923	1 090 117
Brokerage costs	44 322	20 000
Transportation expenses	62 857	71 086
Office expenses	61 252	53 572
Professional services costs	75 128	31 036
	18 158 125	**12 987 850**

(3) Intangible assets and property, plant and equipment

	Intangible assets	Property, plant and equipment				
		Lands and buildings	Equipment and machinery	Other assets	Assets under construction and advances	Total property, plant and equipment
	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	60 128	1 303	(63 579)	7 299
Written off						0
Amortized	(6 231)	(165 884)	(806 385)	(17 375)		(989 644)
Closing book value	**34 553**	**6 604 212**	**5 204 948**	**53 578**	**0**	**11 862 738**
30.09.2017.						
Initial cost	98 137	9 677 272	15 920 733	884 613	0	26 482 618
Accumulated depreciation	(66 632)	(3 073 060)	(10 715 785)	(831 035)	0	(14 619 880)
Net book value	**31 505**	**6 604 212**	**5 204 948**	**53 578**	**0**	**11 862 738**

(4) Inventories

	30.09.2017. EUR	31.12.2016. EUR
Raw materials	2 484 782	2 483 906
Work-in-progress	144 864	92 594
Finished goods	560 974	780 147
Railway rolling stock for sale	500 000	500 000
(Provisions for impairment of inventories)	(272 827)	(272 827)
	3 417 793	**3 583 820**

(5) Accrued income

	30.09.2017. EUR	31.12.2016. EUR
Accrued income for repair and modernization contracts	1 709 199	433 966
Expected losses		(331)
Gross amount of work-in-progress	**1 709 199**	**433 635**
where:		
Amount due from customers	1 709 199	433 635
	1 709 199	**433 635**

(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.

	30.09.2017. EUR	31.12.2016. EUR
At beginning of the year	104 033	152 205
Used during the year	(42 140)	(128 050)
Additional provisions	-	79 878
At the end of the year	**61 893**	**104 033**

(8) Other liabilities

	30.09.2017. EUR	31.12.2016. EUR
Non-current		
Accrued liabilities to post-employment benefits (non-current part)	101 335	101 335
	101 335	**101 335**
Current		
Advances received	1 229 226	509 933
Other liabilities	130 229	210 983
Payroll liabilities	250 960	175 730
Accrued liabilities for unused annual leave	284 644	284 644
Deferred income	661 276	537 969
Accrued liabilities for post-employment benefits (current part)	5 691	5 691
	2 562 026	**1 724 950**

(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

	30.09.2017.		31.12.2016.	
	Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
Related parties with significant influence				
Trade receivables / payables	3 754 274	5 268 493	397 889	3 714 310
Borrowings	-	5 172 197	-	4 535 108
	3 754 274	**10 440 690**	**397 889**	**8 249 418**

b) transactions

	01.01.2017 - 30.09.2017 EUR	01.01.2016 - 30.09.2016 EUR
Related parties with significant influence		
Repair services of railway rolling stock	3 030 345	2 358 218
Purchase of raw materials	2 023 662	873 683
Sale of other goods	138 863	120 405
Services received	6 290 488	103 621
	11 483 358	**3 455 927**