

**JOINT STOCK COMPANY
“RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA”
(RIGA ELECTRIC MACHINERY FACTORY)**

Reg. No. 40003042006
Ganību dambis 53, Rīga, LV-1005

**CONSOLIDATED ANNUAL REPORT
FOR 6 MONTHS OF THE YEAR 2017
(NON-AUDITED)**

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS ADOPTED BY THE EUROPEAN UNION

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INFORMATION ABOUT THE PARENT COMPANY

Name of the Company	AS (Joint Stock Company) "Rīgas elektromašīnbūves rūpnīca" (AS "RER")	
Legal status of the Company	Joint Stock Company	
Registration No. in the Register of Enterprises, date and place of registration	No. 000304200, Riga, 29 November 1991	
Unified Registration No. in the Commercial Register, date and place of registration	No. 40003042006, Riga, 29 September 2004	
Registered office	Ganību dambis 53, Riga, LV-1005, the Republic of Latvia	
Institution in charge of the Company	General meeting of shareholders	
The parent Company Council : Chairperson of the Council	Stanislav Vodolazskii Andrey Petrov	from 22.07.16. until 22.07.16.
Vice-Chairperson of the Council	Kirills Nužins	from 11.11.15.
Council Members	Andrey Sarkisov Natalia Sarkisova Sergey Bolysov Maksim Gordyukov Ivgeny Sokolsky	from 15.07.15. from 15.07.15. from 20.06.17. until 02.05.17. until 22.07.16.
The parent Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Olga Pētersone Aleksandrs Popadins Ilja Šestakovs Grigorijs Kapustins Nikolajs Čudinovs	from 27.06.12. from 08.11.13. from 30.01.15. from 18.10.16. until 06.09.16.
Accounting period	1 January 2017 – 30 June 2017	
Subsidiary (daughter) companies	AS „Latvo”, reģ. Nr. 40003184975 Ganību dambis 53, Riga, the Republic of Latvia Shares – 98.7 %	
Associated companies	SIA „RER-Termināls”, reģ. Nr. 40203010535 Ganību dambis 53, Riga, the Republic of Latvia Shares – 29,82 %	
Auditor	SIA "Grant Thornton Baltic", licence Nr.155 Blaumaņa iela 22, Riga, LV-1011, Latvija Certified auditor Kaspars Rutkis Certified auditor's certificate No. 171	

MANAGEMENT REPORT

Business activities of the Group during the first half of 2017

Basic business activities of the Holding Company are manufacturing of electric machines and machinery (NACE code 2711). The main types of products are as follows:

- Electrical equipment for electric trains;
- Electric equipment for passenger cars;
- Electric equipment for metro cars;
- Cast products.

In the first half of 2017 the Group's financial situation had improved considerably.

Net Volume - Group's turnover in the first half of 2017 amounted to 14.43 mil. EUR, which is 5.60 mil. EUR or 63.42% more than in the first half of 2016. In its turn, the amount of gross income amounted to 2.74 mil. EUR, which is an increase of 2.7 times to the level of gross profit in the first half of 2016.

Profit Amount before interest, taxes, depreciation and amortization (EBITDA) amounted to 5.5 mil. EUR in the first half of 2017, which reached 3.03 mil. EUR in the first half of 2016 is 1.8 times higher and the net profit of the Group for 6 months of the year 2017 amounted to 1.15 mil. EUR to 0.20 mil. EUR loss in the first half of 2016.

The share of equity in the Group's total assets of 62.75% to 55.70% in the corresponding period of the previous year, and the ratio of current assets to current liabilities ratio of 1.39 to 1.25 in the corresponding period of the previous year. The ratio of net debt to EBITDA (Lavarage) is 1.56, and the ratio of EBITDA to current liabilities on borrowings (DSCR) of 1.88.

In the first six months of 2017 there are no major events that have affected the financial statement, as well as no significant risks that the company might be confronted with and which could have an impact on its financial position and financial performance.

Risk factors related to the business activities of the Group

Financial risks have been characterized on pages 14 and 15 in notes to financial statements of the annual report for 6 months of the year 2017.

Significant events in first half of 2017

In april 2017 share holder AAS "Baltijskij Bank" had sold all the shares of JSC "Rīgas elektromašīnbūves rūpnīca" previously owned by it (17.40% from shares with voting rights). In turn, in april 2017 company CROWNING FINANCE CYPRUS LIMITED purchased 1 008 994 shares of JSC "Rīgas elektromašīnbūves rūpnīca", which is 17.40% from shares with voting rights.

Further development of the Group

In second half of 2017, the Group will continue to provide a significant increase in the net - the turnover in relation to the achieved in 2016 and to work with the growing profits, improving financial - economic stability of the Group.

On behalf of the Group,
Chairperson of the Board

Nikolajs Erohovs

30 August 2017

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR 6 MONTHS OF THE YEAR 2017

Items	Note	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Net turnover	1	14 433 215	8 827 215
Production costs of the goods sold	2	(11 690 438)	(7 816 987)
Gross profit or loss		2 742 777	1 010 228
Selling expenses	3	(347 281)	(231 797)
Administration expenses	4	(1 131 870)	(967 530)
Other operating income	5	257 006	274 893
Other operating expenses	6	(150 425)	(84 123)
Other interest income and similar income		2	-
Other interest payments and similar expenses	7	(221 917)	(202 268)
Profit or loss before corporate income tax		1 148 292	(200 597)
Profit or loss after calculating the corporate income tax		1 148 292	(200 597)
Profit or loss of the accounting period		1 148 292	(200 597)

Earnings per share	0.198	(0.034)
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Attributable to:
Equity holders of a parent company

	1 148 292	(200 597)
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Other comprehensive income / loss

Long-term investment revaluation reserve decrease		(1 435)	(3 053)
Total other comprehensive income / loss		(1 435)	(3 053)

Total comprehensive income		1 146 857	(203 650)
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Attributable to:
Equity holders of a parent company

	1 146 857	(203 650)
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Notes on pages 10 to 23 form are integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2017

A S S E T S	Note	30.06.17. EUR	31.12.16. EUR
LONG-TERM INVESTMENTS			
Intangible investments	8		
Development costs		1 686 610	1 758 126
Concessions, patents, licences and similar rights		208 574	271 976
Other intangible investments		39 817	55 787
Prepayments for intangible investments		128 355	13 200
Total intangible assets		2 063 356	2 099 089
Fixed assets	9		
Real estate (land, buildings and structures)		14 873 056	15 473 398
Technology devices and equipment		6 421 856	7 009 406
Other fixed assets and inventory		228 955	214 848
Expense of tangible assets and construction in progress		1 192 787	847 697
Advance payments for fixed assets		46 149	90 979
Total fixed assets		22 762 803	23 636 328
Long-term financial investments			
Own shares		14 551	14 551
Other long-term debtors	10	7 789 428	7 789 428
Total long-term financial investments		7 803 979	7 803 979
TOTAL LONG-TERM INVESTMENTS		32 630 138	33 539 396
CURRENT ASSETS			
Inventories			
Raw materials, direct materials and auxiliary materials	11	3 347 456	3 095 221
Work in progress		2 845 204	2 419 467
Finished products and goods for sale	12	250 892	814 752
Advance payments for inventories		570 164	146 848
Total inventories		7 013 716	6 476 288
Receivables			
Trade receivables	13	1 926 807	1 900 484
Amounts owed by associated companies		1 790	-
Other receivables	14	232 967	193 190
Prepaid expenses	15	5 396	8 835
Total receivables		2 166 960	2 102 509
Short-term financial investments	16		
Shareholding in the capital of subsidiary companies		-	940 000
Other securities and interest in capital		340 000	-
Total short-term financial investments		340 000	940 000
Cash	17	161 308	88 409
TOTAL CURRENT ASSETS		9 681 984	9 607 206
TOTAL ASSETS		42 312 122	43 146 602

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2017

LIABILITIES	Note	30.06.17. EUR	31.12.16. EUR
EQUITY CAPITAL			
Share capital (equity capital)	18	8 118 607	8 118 607
Long-term investment revaluation reserve	19	11 800 139	11 801 574
Reserves:	20	407 137	407 137
a) other reserves			
Retained earnings or uncovered losses of previous years		5 070 363	4 602 447
Profit or loss of the reporting year		1 148 292	467 916
TOTAL EQUITY CAPITAL		26 544 538	25 397 681
PROVISIONS			
Other provisions	21	6 312	6 312
TOTAL PROVISIONS		6 312	6 312
CREDITORS			
Long-term liabilities			
Borrowings from credit institutions	22	5 052 067	5 552 067
Trade payables	23	-	184 647
Deferred income tax liability		2 449 107	2 449 107
Deferred income	24	1 306 115	1 518 712
Total long-term liabilities		8 807 289	9 704 533
Short-term liabilities			
Borrowings from credit institutions	22	3 501 433	4 759 279
Advance payments from customers	25	478 093	39 603
Trade payables	23	1 997 963	1 834 519
Taxes and mandatory state social insurance contributions	26	294 571	767 746
Other liabilities	27	432 604	387 610
Accrued liabilities	28	249 319	249 319
Total short-term liabilities		6 953 983	8 038 076
TOTAL CREDITORS		15 761 272	17 742 609
TOTAL LIABILITIES		42 312 122	43 146 602

Notes on pages 10 to 23 form are integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR 6 MONTHS OF THE YEAR 2017
(prepared by indirect method)

Cash flow from operating activities

Items	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Profit or loss before corporate income tax	1 148 292	(200 597)
ADJUSTMENTS		
Adjustments of decrease in value of equity capital	1 223 519	1 221 275
Amortization of intangible assets	377 605	341 568
Income from sales of fixed assets	(2 410)	(2 176)
Unrealized profit from fluctuations of currency exchange rate	(14 883)	9 869
Amounts written off fixed assets	692	761
Decrease in reserve for revaluation of long-term investments	(1 435)	(3 171)
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	2 731 380	1 367 529
ADJUSTMENTS FOR		
Increase (-)/ decrease (+) in trade and other receivables	(606 908)	(271 439)
Increase (-)/ decrease (+) in inventories	(114 112)	(609 068)
Increase (+)/ decrease (-) in trade and other payables	(179 420)	115 788
Gross cash flow from operating activities	1 830 940	602 810
Expenses for company tax payments	-	(98 904)
NET CASH FLOW FROM OPERATING ACTIVITIES	1 830 940	503 906

Cash flow from investing activities

Items	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Proceeds from investment properties	600 000	-
Purchase of non-current assets	(622 234)	(459 112)
Proceeds from sale of fixed and intangible assets	2 410	2 176
NET CASH FLOW FROM INVESTING ACTIVITIES	(19 824)	(456 936)

Cash flow from financing activities

Items	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Loans from credit institutions received	65 000	1 500 000
Loans from credit institutions repaid	(1 822 846)	(1 542 610)
NET CASH FLOW FROM FINANCING ACTIVITIES	(1 757 846)	(42 610)

Summary of cash inflow and outflow

Items	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Net cash flow from operating activities	1 830 940	503 906
Net cash flow from investing activities	(19 824)	(456 936)
Net cash flow from financing activities	(1 757 846)	(42 610)
Result of fluctuations of currency exchange rates	19 629	(4 018)
Net increase/decrease in cash and cash equivalents	72 899	342
Cash and its equivalents in the beginning of the accounting period	88 409	439
Cash and its equivalents at the end of the accounting period	161 308	781

Notes on pages 10 to 23 form are integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 6 MONTHS OF THE YEAR 2017, EUR

Izmaiņu veids	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Total equity
As at 01.01.2016	8 118 607	11 842 471	407 137	4 602 447	24 970 662
Profit or loss for the financial year				(200 597)	(200 597)
Other comprehensive income		(3 053)			(3 053)
<i>Total comprehensive income</i>		<i>(3 053)</i>		<i>(200 597)</i>	<i>(203 650)</i>
As at 30.06.2016	8 118 607	11 839 418	407 137	4 401 850	24 767 012
As at 01.01.2017	8 118 607	11 801 574	407 137	5 070 363	25 397 681
Profit or loss for the financial year				1 148 292	1 148 292
Other comprehensive income		(1 435)			(1 435)
<i>Total comprehensive income</i>		<i>(1 435)</i>		<i>1 148 292</i>	<i>1 146 857</i>
As at 30.06.2017	8 118 607	11 800 139	407 137	6 218 655	26 544 538

Notes on pages 10 to 23 form are integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

Consolidated financial reports include the balance data of both (the Group) JSC "Riga Electric Machine Building Works (hereinafter referred to as JSC "RER") and its subsidiary company of "Latvo" JSC. Subsidiary (daughter) companies:

Name	Address	Type of operations	Share capital, EUR	Participation interest, %
AS „Latvo”	Ganību dambis 53, Rīga	Implementation of electrical equipment and technical (constructor) support	5 495 420	98.7

The main activities of the holding company are electric machinery and equipment manufacturing.

ACCOUNTING POLICY

Principles of preparing the financial statement

The holding company's financial statement was prepared in compliance with the International Financial Reporting Standards (IFRS). To apply these standards there were not made any significant changes in the Group's financial principles.

Principles of consolidation

The balance data of the consolidated financial report of the Group, the parent company's financial report and the subsidiary company's financial reports are identical. Processing the financial report the subsidiary company of the Group applies the same accounting methods and other regulations of valuation as the parent company of the Group does.

In the course of consolidation all both mutual transactions and residual values that are in the frames of the Group have been excluded.

The share of JSC 'RER' in the own capital of the subsidiary company as well as the investment of JSC 'RER' into the subsidiary company's capital have been mutually excluded. The negative equity arisen out from that mutual exclusion is included into the calculations of consolidated profit or of loss.

The share belonging to the minority group of shareholders of subsidiary company JSC 'Latvo' is not separately displayed because such shareholders of the minority group are shareholders of the parent company.

Profit and loss account has been prepared according per function of expenditure method. Cash flow statement has been prepared in accordance with the indirect method.

Accounting principles applied

Annual report items have been assessed according to the following accounting principles:

- Assuming the Company will continue its activities;
- The same valuation methods as previous year have also been used this year;
- The annual report includes the profit made to the date of balance sheet only;
- All losses made over the accounting year or previous years have been taken into account;
- All depreciation amounts have been calculated and taken into account, regardless of whether the accounting year was ended with profit or loss;
- All costs and income pertaining to the accounting year have been taken into account, irrespective of the date of payment, as well as the date when invoice has been received or issued. The costs and income over the reporting period have been coordinated.

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

Income recognition and net turnover

Net turnover is a total amount of the value of products sold and services rendered over the year without discounts and value added tax. Income from the sale of products is recognized as soon as the most significant title is conferred on the customer and risks to the products and remuneration can be assessed properly. Income from service rendering is recognized as soon as the service is rendered. Other types of income are recognized as follows:

- Income from rent – at the moment it is generated;
- Income from penalty and delay payments – at the moment they are received;
- Dividends – at the moment legal rights to the dividends are established.

Capital assets and intangible assets

Capital assets and intangible assets have been reflected on the balance sheet in their purchase prices or revalued acquisition cost, excluding depreciation. Real estate revalued in the balance sheet net of accumulated depreciation. Value resulting from revaluation gains are recognized in equity under "Long-term investments revaluation reserve".

Depreciation of capital assets and intangible assets has been calculated according to the straight-line method. No depreciation of land has been calculated. In order to calculate depreciation of capital assets and intangible assets the following depreciation norms (% a year) approved by the Management has been used:

Intangible assets:

- Development costs	33.3% - 20%
- Licences	20%
- Software	50%

Capital assets:

- Premises, buildings	1.1 – 1.9 %
- Equipment and machinery	2 – 20 %
- Other capital assets and inventory	10 – 50 %

Repair or maintenance costs of capital assets have been included in the profit and loss account of the period during which they have been incurred. Repair (renovation) and modernization costs that increase value of the capital assets or prolong period of using them have been capitalized and written off during the period they were used effectively.

Borrowing costs (interest), which is directly related to the acquisition or creation, are not capitalized to the acquisition or the creation of value.

An intangible asset arising from a particular development project is recognized only if the company can prove that completing the intangible asset is technically feasible so that it can be sold, as well as their commitment to complete the intangible asset and the ability to use or sell, and if the company can demonstrate that the asset will generate future economic benefits, as well as the completion of the asset during the development costs. Any capitalized costs are amortized over the period of expected future sales from the related project assets.

Unfinished construction and costs of capital asset creation

Unfinished construction reflects costs of construction objects. The unfinished construction has been given in its initial value. The initial value includes construction costs and other direct costs. Depreciation of the unfinished construction has not been calculated, since the relevant assets have not been finished and put into operation.

Financial leasing

In cases capital assets have been acquired on conditions of financial leasing, leasing interest payments and payments considered as such have been included in the profit and loss account of the period they were incurred.

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

Receivables

Evaluation of the remaining amounts of materials and primary materials has been carried out by employing the FIFO method.

Inventory of low value has been recorded on the basis of purchase cost price written off 100% after having been put into operation.

Remaining amounts of finished products and unfinished products have been assessed according to their cost prices.

Provisions for stocks of slow-turnover are individually made for every type of stocks.

Debts of debtors

Debts of debtors have been reflected on the balance sheet in their net values subtracting special provisions for doubtful debtors. Special provisions for doubtful debtors are created for those cases when the Management believes that the debtors are not likely to repay their debts.

Currency unit and recalculation of foreign currency

Indicators reflected in the annual report have been given in eiro (EUR). All transactions carried out in foreign currencies have been recalculated in euros according to the exchange rate of the European Central Bank set on day when the relevant transaction is takes place. Profit made or loss incurred as a result of fluctuations of exchange rates has been reflected in the profit and loss account of the corresponding period.

Long-term and short-term items

Long-term items comprise amounts whose terms of receipt, payment or write-off fall due later than after the end of the corresponding accounting year. Amounts to be received, paid or written off in a year are given in the short-term items.

Other securities

Short-term investments in securities not quoted in stock exchange have been given in their purchase values.

Long-term investment revaluation reserve

Long-term investments revaluation reserve is reduced when the revalued item of property to be seized, liquidated or appreciation is no longer justified. The revaluation reserve includes a reduction in the income statement as revenue in the reporting year in which the reductions are made.

Provisions

Provisions are recognized if the Company has liabilities due to some event in the past and there is a possibility that in order to meet those liabilities resources promising economic gains could be diverted from the Company and if amount of liabilities can be assessed properly.

Provisions for warranty repairs. A warranty period of the Company's basic products is 2-3 years. Warranty repair costs is of no high importance, provisions for warranty repairs are not created.

Accrued liabilities

Caption "Accrued liabilities" indicates clearly known liabilities to suppliers and contractors for the reporting year received the goods or services for which the supply, purchase, or the company's contract terms and conditions or other reasons the balance sheet date has not yet received a relevant payment document (invoice), as well as unused vacations. These liabilities are calculated based on the relevant contract price and the actual goods or provision of services, supporting documents.

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

Due to the new "annual report and consolidated annual report of the Law" came into force, the estimated liabilities to employees for the reporting year of unused vacation days have been reclassified from Accruals on the balance sheet item "Accrued liabilities".

Provisions for unused vacation compensation are calculated by multiplying the average earnings of an employee by the average number of holidays not taken by an employee.

Government grants

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Deferred tax

Deferred corporate income tax have been calculated according to the liability method regarding all temporary differences between values of assets and liabilities reflected in the annual report and their values for tax calculation. Deferred tax has been calculated by using the tax rate of 15% laid down the Law. The said temporary differences have mainly occurred because of using different rates when calculating depreciation of capital assets in financial accounting and tax calculation, as well as due to holiday provisions.

Application of assumptions

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management shall make an estimates and judgements applying the accounting policies adopted by the Group.

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities shown in the financial statements, and disclosures in the notes at the date of the balance sheet as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates.

Property, plant and equipment useful life

The Group's management determines the useful life of property, plant and equipment based on historical information, technical inspections, assessing the current state of the active and external evaluations. Total carrying amount of property, plant and equipment on 30 June 2017 is EUR 22 762 803 (31.12.2016 – EUR 23 636 328).

Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. The total carrying amount of receivables on 30 June 2017 is EUR 2 166 960 (31.12.2016 - EUR 2 102 509).

Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realisation probability and net selling value of the inventories shall be considered. The total carrying amount of inventory on 30 June 2017 is EUR 7 013 716 (31.12.2016 – EUR 6 476 288).

The recoverable amount of long-term loans

The calculation of recoverable value is assessed for every loan individually. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Changes in provisions are included in the income statement.

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

Reclassification

Certain items in the financial report for 6 months of the year 2016 reclassified to conform to the shape of the reflection in the financial report for the year.

- 1) Holiday reserves, which were previously taken into account in the balance sheet in "Other provisions" are reclassified in the caption "Accrued liabilities".
- 2) The tax on immovable property is reclassified from the article "Other taxes" calculation of profit or loss in the caption "Administrative expenses" profit or loss calculation.

Article of financial statements	01.01.16.- 30.06.16. before reclassification EUR	Reclassification EUR	01.01.16.- 30.06.16. after reclassification EUR
<u>Consolidated comprehensive income statement</u>			
Administrative expenses	(936 682)	(30 848)	(967 530)
Profit or loss before corporate income tax	(169 749)	(30 848)	(200 597)
Other taxes	(30 848)	30 848	-
<u>Consolidated cash flow statement</u>			
Profit or loss before corporate income tax	(169 749)	(30 848)	(200 597)
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	1 398 377	(30 848)	1 367 529
Expenses for tax payments	(30 848)	30 848	-

Compared with the previous reporting year, the company applied methods of accounting and valuation have not changed.

Risk management

Risk management is an integral part of management process of the holding companies. Risk management in the holding companies is controlled by the Council and the Board of the parent company. In its activities holding companies follows the general principles of risk management listed below:

- The Company undertakes no major and uncontrollable risks regardless of related asset yield;
- Risk management methods applied by the Company are cautious, compliant with types and specifics of commercial activity of the Company and ensure efficient reduction of overall risk;
- Risk management is based upon awareness of all employees of the company about transactions and related risks being under their competence;
- The Company constantly enforces internal control after processes of commercial activities aimed to prevent risks related to compliance and consequence of financial and operative information, possibility of assets fraudulence and protection, efficiency of actions and information system and their compliance with regulatory documents, procedures and agreements.

The most substantial risks holding companies is exposed to in the course of commercial activities, are financial risks:

Currency risk

The Company's financial assets and liabilities that are at the foreign currency risk include cash, debts of customers and clients, debts to suppliers and contractors and short-term and long-term loans. In the first half of 2017 a significant part of the Group's income was in euro and USA dollar, major part of its costs was in euro. All received loans were in euro.

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

Interest rate risk

The Group is at the interest rate risk due to its short-term and long-term. The Group is exposed to interest rate risk as the most liabilities are interest-bearing with the floating interest rate (Note (22)), while the main part of the Group's financial assets are interest-free receivables, therefore the Group is exposed to floating interest rate risk.

	30.06.2017	31.12.2016
Financial liabilities with variable interest rate, EUR	8 053 500	9 011 346

Liquidity risk

The Group has control over its liquidity risk by ensuring the appropriate financing with the help of a credit line granted by a Latvian credit institution (Note (22)). At the end of the reporting period the Group had unused credit line resources EUR 149 148 (31.12.2016 - EUR 40 721).

Credit risk

The Group is at the credit risk due to its debts of customers and clients. It is characteristic of the Company that credit risk concentrates on a separate business partner (Note (29)).

Capital management

According to the Latvian Commercial Law requirements if the equity of the Company falls below 50% of the share capital, the Board is required to address shareholders to make decisions on Company's going concern. Equity of the Company meets the Latvian legal requirements. Company's management manages the capital structure on going concern basis. During the reporting period there were no changes in capital management objectives, policies or processes.

Earnings per share

Earnings per share are determined by dividing the net profit or loss by the number of shares.

NOTES TO CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR 6 MONTHS OF THE YEAR 2017

Note No. 1 – Net turnover

Type of company's activity	NACE code	30.06.17. EUR	30.06.16. EUR
Manufacturing of electric machines and machinery	2711	14 433 215	8 827 215

Note No. 1 – Net turnover

Country	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Latvia	89 092	89 035
Russia	11 636 614	8 090 083
Ukraine	52 200	46 980
Belarus	151 546	4 594
Slovakia	40 308	331 513
Georgia	-	11 422
Uzbekistan	2 456 184	250 401
Other	7 271	3 187
Total	14 433 215	8 827 215

Notes to the consolidated financial statements (cont.)

Major customers

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

Pircējs	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
AS Krona Grup, Krievija	11 600 702	7 378 592
TVSRZ, Uzbekistāna	2 456 184	250 401
Kopā	14 056 886	7 628 993

Note No. 2 – Production costs of products sold

Indicators	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Salaries	2 373 711	1 519 680
Social insurance contributions	545 123	344 461
Costs of materials	6 167 136	3 889 458
Energy resources	617 883	509 402
Depreciation of capital assets and intangible assets, write-off of intangible investments value	1 374 867	1 243 596
Business trip costs	40 078	37 724
Repair costs and remuneration for works from outside	461 088	178 950
Losses due to rejects	26 489	13 230
Environmental protection costs	17 888	16 045
Other costs	66 175	64 441
Total	11 690 438	7 816 987

Note No. 3 – Selling costs

Indicators	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Packing material and package	40 622	25 727
Transportation expenses	205 253	114 815
Salaries	51 218	39 208
Social insurance contributions	11 888	9 026
Other selling costs	38 300	43 021
Total	347 281	231 797

Note No. 4 – Administrative costs

Indicators	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Communications costs	9 011	9 899
Cash circulation and expense and extra costs	26 640	14 384
Transportation expenses	11 935	12 084
Salaries	564 117	484 218
Social insurance contributions	131 686	107 422
Energy resources	38 312	21 494
Depreciation of capital assets	217 617	212 626
Business trip costs	16 040	13 374
Real estate tax	48 215	30 848
Other administrative costs	68 297	61 181
Total	1 131 870	967 530

Notes to the consolidated financial statements (cont.)

Note No. 5 – Other income from operating activities of the Company

Indicators	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Profit gained as a result of other sales (materials, lease, other)	24 955	58 289
Sale of capital assets	2 410	2 176
Decrease in revaluation reserve of capital assets	1 435	3171
Income from fluctuations of exchange rates	14 883	-
Decrease in deferred income (Eurofound)	212 597	208 926
Other income	726	2 331
Total	257 006	274 893

Note No. 6 – Other costs of operating activities of the Company

Indicators	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Penalty and contractual penalties	20 846	23 069
Costs related to maintenance of social sphere	13 734	13 676
Costs not related to operating activities of the Company	34 384	35 324
Loss from fluctuations of exchange rates	-	9 869
Provisions for receivables	72 000	-
Other costs	9 461	2 185
Total	150 425	84 123

Information of profit or loss from alienation of long-term investment objects

Long-term investment object	Balance value at the moment of exclusion	Alienation income	Alienation expenses	Gross income or profit	Profit or loss from the object's alienation
Equipment	0.00	2 410	0.00	2 410	2 410

Note No. 7 – Other interest payments and similar costs

Indicator	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Loan agreements	160 726	157 659
Credit line agreements	61 191	44 609
Total	221 917	202 268

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2017

Note No. 8 – Intangible assets, EUR

	Research and development costs	Concessions, patents, licenses, trade marks and similar rights	Other intangible assets	Advances for intangible assets	Total intangible assets
Acquisition value 01.01.17.	2 079 214	634 447	142 847	13 200	2 869 708
Additions	226 717	-	-	115 155	341 872
Disposal	(137 375)	-	-	-	(137 375)
Acquisition value 30.06.17.	2 168 556	634 447	142 847	128 355	3 074 205
Accumulated amortization 01.01.17.	321 088	362 471	87 060	-	770 619
Amortization charge	160 858	63 402	15 970	-	240 230
Amortization of disposals	-	-	-	-	-
Accumulated amortization 30.06.17.	481 946	425 873	103 030	-	1 010 849
Net book value 01.01.17.	1 758 126	271 976	55 787	13 200	2 099 089
Net book value 30.06.17.	1 686 610	208 574	39 817	128 355	2 063 356

Notes to the consolidated financial statements (cont.)

In 2013, JSC "Riga Electric Machine Building Works" entered into an agreement with the LLC "Center for the Competence of Transport Engineering" on the implementation of 5 projects approved by the Latvian Investment and Development Agency on the topic "Entrepreneurship and innovation", the sub-topic "Competent Centers". In 2015, the implementation of these projects was completed. The costs associated with the implementation of these projects have been capitalized and amortized over the entire period of their restoration.

All intangible assets of the Group are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from banks.

Note No. 9 – Fixed assets, EUR

	Real estate*	Machinery and equipment	Other fixed assets and inventory	Fixed assets under construction	Advances for fixed assets	Total fixed assets
Acquisition value 01.01.16.	16 673 057	14 300 390	740 903	847 697	90 979	32 653 026
Additions	-	3 424	47 003	399 258	54 519	504 204
Disposal	-	(14 363)	(2 707)	(54 168)	(99 349)	(170 587)
Acquisition value 31.12.16.	16 673 057	14 289 451	785 199	1 192 787	46 149	32 986 643
Accumulated amortization 01.01.16.	1 199 659	7 290 984	526 055	-	-	9 016 698
Amortization charge	600 342	590 347	32 830	-	-	1 223 519
Amortization of disposals	-	(13 736)	(2 641)	-	-	(16 377)
Accumulated amortization 31.12.16.	1 800 001	7 867 595	556 244	-	-	10 223 840
Net book value 01.01.16.	15 473 398	7 009 406	214 848	847 697	90 979	23 636 328
Net book value 31.12.16.	14 873 056	6 421 856	228 955	1 192 787	46 149	22 762 803

*In 2017 assessed value of the premises accounted EUR 5 135 013, assessed value of the plot accounted for EUR 1 298 125.

All fixed assets of the Group are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from banks.

Note No. 10 – Other long-term debtors

Indicators	30.06.17. EUR	31.12.16. EUR
Long-term loan of the subsidiary (daughter) company (until 01.01.2019)	7 829 908	7 829 908
Provisions for long-term loan	(40 480)	(40 480)
Total	7 789 428	7 789 428

The collateral is a natural person guarantee.

The method of profitability is used to estimate the long-term receivables at fair value. The difference between the debt book value and market value, which is calculated taking into account the individual discount rate, a provision is created.

Note No. 11 – Raw materials, direct materials and auxiliary materials

Indicators	30.06.17. EUR	31.12.16. EUR
Raw materials, direct materials and auxiliary materials	3 381 968	3 129 733
Provisions for stocks of slow-turnover	(34 512)	(34 512)
Total	3 347 456	3 095 221

Notes to the consolidated financial statements (cont.)

Note No. 12 – Finished goods and goods for sale

Indicators	30.06.17. EUR	31.12.16. EUR
Electrical equipment for electric trains and for metro cars	250 892	814 752
Total	250 892	814 752

Note No. 13 – Trade receivables

Indicators	30.06.17. EUR	31.12.16. EUR
Debts of customers and clients (for the goods and services)	1 926 807	1 900 484
Total	1 926 807	1 900 484

Note No. 14 – Other receivables

Indicators	30.06.17. EUR	31.12.16. EUR
Taxes paid in advance	101 066	66 597
Overpaid taxes	121 715	90 385
Processing of goods	4 006	9 426
Advance payments for services	1 423	21 730
Other	4 757	5 052
Total	232 967	193 190

Note No. 15 – Prepaid expenses

Indicators	30.06.17. EUR	31.12.16. EUR
Insurance	1 824	1 893
Payment for use of design documentation	-	728
Certification	1 329	1 773
Computer's network service	900	2 250
Other	1 343	2 191
Total	5 396	8 835

Note No.16 – Short-term financial investments (interest in capital)

Rādītāji	30.06.17. EUR	31.12.16. EUR
SIA „RER-Termināls”	340 000	940 000

5th of August 2016 Company Register of Republic of Latvia registered a subsidiary company of JSC «Riga electric machine building works» - «RER-Termināls» LTD, registration Nr. 40203010535, with share capital of 1 140 000 EUR. The sole founder of the newly established subsidiary company - JSC «Riga electric machine building works» made property investment in the share capital of «RER-Termināls» LTD, which consisted from the land plot and buildings located on it, including production unit buildings. Market value of property invested is 1 140 000 EUR.

3rd of March 2017 in the Register of Enterprises registered a decrease in the participation of JSC "Riga Electric Machine Building Works" in the equity capital of the subsidiary OOO «RER-Termināls», reg. Number 40203010535, up 29.82%.The second participant «BSCT» Company purchased additional 6,000 shares of the capital «RER-Termināls» Ltd., after which it was owned 8,000 shares, or 70.18%.

Note No. 17 – Cash

Indicators	30.06.17. EUR	31.12.16. EUR
Current accounts in banks	161 308	88 409

Notes to the consolidated financial statements (cont.)

Note No. 18 – Parent Company's Stock capital (fixed capital)

Total number of stocks of AS "RER" is 5 799 005 shares. A nominal value of each share is EUR 1.40. The Company's fixed capital is EUR 8 118 607, which is split into: 5 799 005 regular voting shares. Company's shares are listed on the Stock Exchange Nasdaq Riga AS, on the Baltic Secondary List.

Composition of shareholders according to the database of the Latvian Central Depository:

Indicators	30.06.17. EUR	31.12.16. EUR
Residents, including	263 536	270 938
- physical entities	226 992	234 394
- legal entities	36 544	36 544
Non-residents, including	7 855 071	7 847 669
- Russia	3 737 405	5 149 997
- Canada	7 167	7 167
- British Virgin Islands	814 829	814 829
- Belize	1 867 279	1 867 279
- Lithuania	9 848	2 446
- Estonia	5 951	5 951
- Cyprus	1 412 592	-
Total	8 118 607	8 118 607

Company shareholders (over 5%) as of 30.06.2017

Name	Ownership interest (%)
AS Krona Grup, Russia	46
Mals Company Ltd., Belize	23
CROWNING FINANCE CYPRUS LIMITED, Cyprus	17.40
Imfelant Productions Inc., British Virgin Islands	10.05

Note No. 19 – Reserve for revaluation of long-term investments

In 2015 the parent Company carried out revaluation of immovable property. Immovable property was evaluated according to its market value. Evaluation was carried out by independent evaluator *Colliers International Advisor*. Market value of immovable property was determined by means of income method and market method. Revaluation is processed for whole group of capital assets 'Land plots, buildings and constructions'.

As result of evaluation increase of active value was ascertained at the amount of EUR 6 280 140 that was included into equity capital position 'Long-term investment revaluation reserve', from which deferred tax effect was deducted at the amount of EUR 945 163.

Note No. 20 – Other reserves

Indicators	30.06.17. EUR	31.12.16. EUR
Share denomination from lat to euro	132 634	132 634
Other	274 503	274 503
Kopā	407 137	407 137

Note No. 21 – Other provisions

Indicators	30.06.17. EUR	31.12.16. EUR
Provision for warranty repairs of the subsidiary (daughter) company	6 312	6 312
Total	6 312	6 312

Notes to the consolidated financial statements (cont.)

Provision is calculated at 0.004% of the net turnover of the subsidiary in the 2016.

Note No. 22 – Long-term and short-term loans from credit institutions

Indicators	30.06.17. EUR	31.12.16. EUR
Latvian credit institutions, loan agreement, including	5 952 648	7 352 067
Long-term debt	5 052 067	5 552 067
Short-term debt	900 581	1 800 000
Latvian credit institutions, credit line, including	2 600 852	2 959 279
Short-term debt	2 600 852	2 959 279

The implementation of obligations of the Company are provided and strengthened by:

- (i) mortgage on all real estate belonged to the Company;
- (ii) commercial pledge of all property of the Company as a totality of belongings at the mortgage moment, including the Company's shares in subsidiaries, as well as totality of belongings for the next components. The value of parent Company's mortgaged assets on 30 June 2017 is EUR 39 968 106 (31.12.2016. – EUR 40 848 102);
- (iii) guarantees from related parties.

Loans and credit agreements (EUR)

Contract number	% rate for year	Date of payment	Sum, EUR 30.06.17.	Sum, EUR 31.12.16.
DB/C31-213/30	4,5% + 1mon.EURIBOR	30.12.17.	2 600 852	2 959 279
DB/C31-213/31	5,0% + 3mon.EURIBOR	30.12.17.	3 458 600	3 758 600
DB/C31-213/127	5,0% + 3mon.EURIBOR	30.12.17.	1 427 290	1 636 709
DB/C31-214/85	5,0% + 3mon.EURIBOR	30.12.17.	566 758	656 758
K-005/0216 C	3.2%	10.02.19.	500 000	1 300 000

Note No. 23 – Trade payables

Indicators	30.06.17. EUR	31.12.16. EUR
Long-term creditors, including	-	184 647
Foreign suppliers	-	184 647
Short-term creditors, including	1 997 963	1 834 519
Local suppliers	1 293 272	1 037 261
Foreign suppliers	704 691	797 258

Note No. 24 – Deferred income

Indicators	30.06.17. EUR	31.12.16. EUR
Support for the project implementation in the frames of the Centre of Competence	217 887	290 516
Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	1 088 228	1 228 196
Total	1 306 115	1 518 712

Notes to the consolidated financial statements (cont.)

Explanation on the financial assistance received in the previous years

Provider of financial assistance	Year of receipt	Sum, EUR	Receipt objective	Conditions	The sum to be paid back in the reporting year if any of the conditions is not reached
Transporta mašīnbūves kompetences centrs SIA	2014 - 2016	359 473	New product development	conditions fulfilled	-
Latvijas Investīciju un Attīstības Aģentūru (LIAA)	2014 - 2016	1 396 272	New technological equipment	conditions fulfilled	-

The Company has an obligation during 5 year period from the receiving of the funds to comply with the terms of grant contract is respect of use of assets in the place of Project activity and for the intended purpose, not alienating and not to transfer the assets for use by third parties, insuring the property and performing of other duties.

Note No. 25 – Advance payments from customers

Indicators	30.06.17. EUR	31.12.16. EUR
Local customers	1 146	506
Foreign customers	476 947	39 097
Total	478 093	39 603

Note No. 26 – Taxes and mandatory state social insurance contributions

Indicators	30.06.17. EUR	31.12.16. EUR
Personal income tax	107 837	375 896
Mandatory social insurance contributions	183 735	387 368
Natural resources tax	2 795	4 284
State business risk fee	204	198
Total	294 571	767 746

As for 30.06.2017 the Group has no current tax debts.

Note No. 27 – Short-term other liabilities

Indicators	30.06.17. EUR	31.12.16. EUR
Short-term creditors, including	432 604	387 610
Salary debt	430 752	382 884
Other	1 852	4 726

Note No. 28 – Accrued liabilities

Indicators	30.06.17. EUR	31.12.16. EUR
Provisions for unused vacation compensation	249 319	249 319
Total	249 319	249 319

Notes to the consolidated financial statements (cont.)

Note No. 29 - Transactions with related parties

The biggest shareholder AS Krona Grup, Russia have a significant influence in Group's policy and decision making. Disclosed below is information on transactions with these company.

Indicators	30.06.17. EUR	31.12.16. EUR
Claims	1 447 250	361 730
Liabilities	423 545	351 251

Indicators	01.01.17. - 30.06.17. EUR	01.01.16. - 30.06.16. EUR
Sale of goods	11 600 702	7 378 592
Purchase of goods	537 593	130 013

Information on issued guarantees, warranties, and other possible liabilities and pledged assets

A subsidiary company of JSC "Latvo" guarantee of the parent company received to secure the borrowings.

Information on lease and rent agreements, that have important influence on company's activity

There are none

Significant agreements

There are none

Information on pledged or otherwise encumbered assets

As on 30.06.2017 all assets of JSC "RER" have been pledged as security for a loan.

Liabilities for pensions

There are none

Potential liabilities that may arise in relation to a certain past event

There are none

Significant events not included in the balance sheet or income statement

There are none

Notes on pages 10 to 23 form are integral part of these financial statements.

On behalf of the Group,
Chairperson of the Board

Nikolajs Erohovs

30 August 2017

MANAGEMENT CONFIRMATION REPORT

Consolidated financial statements are prepared to the best of our knowledge, in accordance with International Financial Reporting Standards adopted by the European Union. These financial statements give a true and fair view of the financial position of the Group and of its financial performance for the period ended 30 June 2017.

In preparing those financial statements, management selected suitable accounting policies, made judgments and estimates that are reasonable and prudent, prepared the financial statements on the going concern basis to presume that the Group will continue in business.

The Management Board is responsible for organizing accounting, they are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Group,
Chairperson of the Board

Nikolajs Erohovs

30 August 2017