

**JOINT STOCK COMPANY
“RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA”**

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

**CONSOLIDATED ANNUAL REPORT
FOR 6 MONTHS OF THE YEAR 2018
(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	from 22.07.16.
Vice-Chairperson of the Council	Kirills Nužins	from 11.11.15.
Council Members	Andrey Sarkisov Natalia Sarkisova Sergey Bolysov Maksim Gordyukov	from 15.07.15. from 15.07.15. from 20.06.17. until 02.05.17.
The parent Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Aleksandrs Popadins Ilja Šestakovs Grigorijs Kapustins Olga Pētersone	from 08.11.13. from 30.01.15. from 18.10.16. until 12.10.17.
The quantity of shares which belong to the members of Council and to the members of Board (%)	Owns no shares	
Accounting period	1 January 2018 – 30 June 2018	
Subsidiary (daughter) companies	AS „Latvo”, reģ. Nr. 40003184975 Ganību dambis 53, Riga, the Republic of Latvia Shares – 98.7 %	
Auditor	SIA "Grant Thornton Baltic", licence Nr.155 Blaumaņa iela 22, Riga, LV-1011, Latvija Certified auditor Silvija Gulbe Certified auditor's certificate No. 142	

MANAGEMENT REPORT

Business activities of the Group during the first half of 2018

Basic business activities of the Group 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.

Net Volume - Group's turnover in the first half of 2018 amounted to 15.58 mil. EUR, which is 1.15 mils. EUR or 7.97% more than in the first half of 2017. The amount of gross income amounted to 2.31 mil. EUR, which is 0.43 mils. EUR or 15.69% less than in the first half of 2017.

Profit Amount before interest, taxes, depreciation and amortization (EBITDA) amounted to 2.85 mil in the first half of 2018. EUR, which reached to 5.5 mil. EUR in the first half of 2017 is 1.93 times less and the net profit of the Group for 6 months of the year 2018 amounted to 0.80 mil. EUR compared to 1.15 mil. EUR profit in the first half of 2017.

The share of equity in the Group's total assets of 63.94% to 62.75% in the corresponding period of the previous year, and the ratio of current assets to current liabilities ratio of 1.19 to 1.39 in the corresponding period of the previous year. The ratio of net debt to EBITDA (Lavarage) is 2.36, and the ratio of EBITDA to current liabilities on borrowings (DSCR) of 1.31.

In the first six months of 2018 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.

Other indicators

In the first half of 2018 the average number of employees was 671 people, the average monthly salary was EUR 933.

Risk factors related to the business activities of the Group

Financial risks have been characterized on page 15 in notes to financial statements of the consolidated annual report for 6 months of the year 2018.

Significant events during the first half of 2018

JSC "Rīgas elektromašīnbūves rūpnīca" (RER) has received notification on the acquisition of substantial participation, according to which the shareholder MEASURESTEP ENTERPRISES LIMITED (Cyprus) directly owns 33.04% stocks, had indirectly gained 64.19% of RER voting rights stocks.

Further development of the Group

In the second half of 2018, the Group plans to provide increase in the net - the turnover in relation to the achieved in the first half of 2018 and continue to work with the growing profits, improving financial - economic stability of the Group.

Development Measures

The joint-stock company "Rīgas elektromašīnbūves rūpnīca" (RER) plans to implement the project called "Integrated Solutions for Increasing Energy Efficiency of Riga Electric Machinery Factory. Phase 2."

Within the project, we have announced procurement for "Simplified Restoration of Three Production Facilities." The estimated procurement price of the construction work is EUR 450,000.

RER expects to receive co-financing from the Cohesion Fund (CF) for the purpose specified in paragraph 4.1.1 of the European Union Structural Funds support program, i.e., "To promote the efficient energy use by lowering energy consumption, and the transition to renewable sources of energy in the manufacturing industry." Estimated project related costs – about EUR 2.15 million. Co-financing from CF is 30%. The project implementation timeframe is from 1 January 2019 to 31 December 2020.

On behalf of the Group,
Chairperson of the Board

Nikolajs Erohovs

29 August 2018

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR 6 MONTHS OF THE YEAR 2018

Items	Note	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Net turnover	1	15 579 543	14 433 215
Production costs of the goods sold	2	(13 269 325)	(11 690 438)
Gross profit or loss		2 310 218	2 742 777
Selling expenses	3	(285 766)	(347 281)
Administration expenses	4	(1 154 224)	(1 131 870)
Other operating income	5	200 864	257 006
Other operating expenses	6	(85 175)	(150 425)
Other interest income and similar income		1	2
Other interest payments and similar expenses	7	(168 369)	(221 917)
Profit or loss before corporate income tax		817 549	1 148 292
Corporate income tax		(13 607)	-
Profit or loss of the accounting period		803 942	1 148 292

Earnings per share	0.138	0.198
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Attributable to:		
Equity holders of a parent company	803 942	1 148 292

Other comprehensive income / loss

Long-term investment revaluation reserve decrease		(2 919)	(1 435)
Total other comprehensive income / loss		(2 919)	(1 435)

Total comprehensive income		801 023	1 146 857
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Attributable to:		
Equity holders of a parent company	801 023	1 146 857

Notes on pages 11 to 24 form are integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2018

A S S E T S	Note	30.06.18. EUR	31.12.17. EUR
LONG-TERM INVESTMENTS			
Intangible investments	8		
Development costs		1 390 033	1 581 122
Concessions, patents, licences and similar rights		369 407	327 352
Other intangible investments		23 085	24 470
Prepayments for intangible investments		-	3 625
Total intangible assets		1 782 525	1 936 569
Fixed assets	8		
Real estate (land, buildings and structures)		15 019 255	15 266 356
Technology devices and equipment		5 920 367	6 088 719
Other fixed assets and inventory		233 961	257 612
Expense of tangible assets and construction in progress		902 182	901 770
Advance payments for fixed assets		438 805	177 139
Total fixed assets		22 514 570	22 691 596
Long-term financial investments			
Own shares		14 551	14 551
Other securities and investments		570	-
Other long-term debtors	9	6 835 781	6 835 781
Total long-term financial investments		6 850 902	6 850 332
TOTAL LONG-TERM INVESTMENTS		31 147 997	31 478 497
CURRENT ASSETS			
Inventories			
Raw materials, direct materials and auxiliary materials	10	3 834 104	3 677 582
Work in progress		2 665 817	2 019 058
Finished products and goods for sale	11	360 135	755 409
Advance payments for inventories	12	4 540 178	3 400 671
Total inventories		11 400 234	9 852 720
Receivables			
Trade receivables	13	1 189 170	505 753
Other receivables	14	423 340	297 420
Prepaid expenses	15	23 840	4 888
Total receivables		1 636 350	808 061
Short-term financial investments	16		
Other securities and interest in capital		-	90 000
Total short-term financial investments		-	90 000
Cash	17	822 493	715 764
TOTAL CURRENT ASSETS		13 859 077	11 466 545
TOTAL ASSETS		45 007 074	42 945 042

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2018

LIABILITIES	Note	30.06.18. EUR	31.12.17. EUR
EQUITY CAPITAL			
Share capital (equity capital)	18	8 118 607	8 118 607
Long-term investment revaluation reserve	19	13 688 839	13 691 758
Reserves:	20	407 137	407 137
a) other reserves			
Retained earnings or uncovered losses of previous years		5 590 381	5 070 363
Profit or loss of the reporting year		803 942	520 018
TOTAL EQUITY CAPITAL		28 608 906	27 807 883
PROVISIONS			
Other provisions	21	169 396	169 396
TOTAL PROVISIONS		169 396	169 396
CREDITORS			
Long-term liabilities			
Borrowings from credit institutions	22	3 202 067	3 202 067
Deferred income	23	1 408 163	1 306 115
Total long-term liabilities		4 610 230	4 508 182
Short-term liabilities			
Borrowings from credit institutions	22	3 521 217	3 128 330
Advance payments from customers	24	4 572 126	4 541 164
Trade payables	25	2 155 566	1 475 130
Taxes and mandatory state social insurance contributions	26	515 920	497 531
Other liabilities	27	515 433	445 146
Deferred income	23	11 333	45 333
Accrued liabilities	28	326 947	326 947
Total short-term liabilities		11 618 542	10 459 581
TOTAL CREDITORS		16 228 772	14 967 763
TOTAL LIABILITIES		45 007 074	42 945 042

Notes on pages 11 to 24 form are integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR 6 MONTHS OF THE YEAR 2018

(prepared by indirect method)

Cash flow from operating activities

Items	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Profit or loss before corporate income tax	817 549	1 148 292
ADJUSTMENTS		
Adjustments of decrease in value of equity capital	891 455	1 223 519
Amortization of intangible assets	304 803	377 605
Income from sales of fixed assets	(2 220)	(2 410)
Unrealized profit from fluctuations of currency exchange rate	17 045	(14 883)
Amounts written off fixed assets	1 793	692
Reserve for revaluation of long-term investments	(2 918)	(1 435)
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	2 027 507	2 731 380
ADJUSTMENTS FOR		
Increase (-)/ decrease (+) in trade and other receivables	(2 225 229)	(606 908)
Increase (-)/ decrease (+) in inventories	(408 007)	(114 112)
Increase (+)/ decrease (-) in trade and other payables	867 830	(179 420)
Gross cash flow from operating activities	262 101	1 830 940
Expenses for company tax payments	(13 607)	-
NET CASH FLOW FROM OPERATING ACTIVITIES	248 494	1 830 940

Cash flow from investing activities

Items	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Acquisition of an affiliate	(570)	-
Proceeds from investment properties	90 000	600 000
Purchase of non-current assets	(608 940)	(622 234)
Proceeds from sale of fixed and intangible assets	2 220	2 410
NET CASH FLOW FROM INVESTING ACTIVITIES	(517 290)	(19 824)

Cash flow from financing activities

Items	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Loans from credit institutions received	1 192 888	65 000
Loans from credit institutions repaid	(800 000)	(1 822 846)
NET CASH FLOW FROM FINANCING ACTIVITIES	392 888	(1 757 846)

Summary of cash inflow and outflow

Items	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Net cash flow from operating activities	248 494	1 830 940
Net cash flow from investing activities	(517 290)	(19 824)
Net cash flow from financing activities	392 888	(1 757 846)
Result of fluctuations of currency exchange rates	(17 363)	19 629
Net increase/decrease in cash and cash equivalents	106 729	72 899
Cash and its equivalents in the beginning of the accounting period	715 764	88 409
Cash and its equivalents at the end of the accounting period	822 493	161 308

Notes on pages 11 to 24 form are integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 6 MONTHS OF THE YEAR 2018, EUR

Izmaiņu veids	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Total equity
As at 01.01.17.	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>	-	(1 435)	-	1 148 292	1 146 857
As at 30.06.17.	8 118 607	11 800 139	407 137	6 218 655	26 544 538
As at 01.01.18.	8 118 607	13 691 758	407 137	5 590 381	27 807 883
Profit or loss for the financial year	-	-	-	803 942	803 942
Other comprehensive income	-	(2 919)	-	-	(2 919)
<i>Total comprehensive income</i>	-	(2 919)	-	803 942	801 023
As at 30.06.18.	8 118 607	13 688 839	407 137	6 394 323	28 608 906

Notes on pages 11 to 24 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 Holding) 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	Realisation of electrical equipment and technical (constructor) support	5 495 420	98.7

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 Holding's financial principles.

Principles of consolidation

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

In the course of consolidation all both mutual transactions and residual values that are in the frames of the Holding 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.)

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".

Capital assets and intangible assets have been reflected on the balance sheet in their purchase prices, excluding depreciation.

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.)

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. Remaining amounts of receivables have been audited at the annual inventory.

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 euro (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 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.

In 2017 the Group changed the accounting policy for the fixed asset revaluation reserve and began to calculate the depreciation of revaluation reserve so that the costs of depreciation of fixed assets in the profit or loss statement correspond to changes in the revaluation reserve.

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. In 2017 warranty repair costs is of no high importance, provisions for warranty repairs are not created.

Provisions for benefits for damages to health. Benefits are paid in accordance with Regulations No. 378 of the Cabinet of Ministers of the Republic of Latvia, Procedure for Calculation, Financing and Payment for Benefits for Damage Caused in the Work. On 31.12.2017, the amount of provisions was calculated according to an actuarial valuation.

Notes to the consolidated financial statements (cont.)

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.

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.

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. During the reporting year and previous year the Groups has not identified factors that indicate a need to change the useful life period of the Group's property, plant and equipment. Total carrying amount of property, plant and equipment on 30 June 2018 is EUR 22 514 570 (31.12.2017. - EUR 22 691 596).

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 2018 is EUR 1 636 350 (31.12.2017. - EUR 808 061).

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 2018 is EUR 11 400 234 (31.12.2017. - EUR 9 852 720).

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.)

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 2018 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.

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.

	30.06.18.	31.12.17.
Financial liabilities with variable interest rate, EUR	6 723 284	6 130 397

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)). On 30 June 2018 Group had unused credit line resources EUR 129 364 (31.12.2017. - EUR 1 322 251).

Credit risk

The Group is at the credit risk due to its debts of customers and clients. It is characteristic of the Group that credit risk concentrates on a separate business partner (Note (30)).

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 (cont.)

NOTES TO CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR 6 MONTHS OF THE YEAR 2018

Note No. 1 – Net turnover

Type of company's activity	NACE code	30.06.18., EUR	30.06.17., EUR
Manufacturing of electric machines and machinery	2711	15 579 543	14 433 215

Note No. 1 – Net turnover

Country	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Latvia	157 264	89 092
Russia	15 079 608	11 636 614
Ukraine	118 290	52 200
Belarus	2 104	151 546
Slovakia	3 208	40 308
Uzbekistan	219 069	2 456 184
Other	-	7 271
Total	15 579 543	14 433 215

Major customers

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

Pircējs	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
AO Krona Grup, Russia	15 058 394	11 600 702
TVSRZ, Uzbekistan	219 069	2 456 184
Kopā	15 277 463	14 056 886

Note No. 2 – Production costs of products sold

Indicators	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Salaries	2 884 436	2 373 711
Social insurance contributions	677 048	545 123
Costs of materials	6 992 377	6 167 136
Energy resources	679 495	617 883
Depreciation of capital assets and intangible assets, write-off of intangible investments value	1 081 714	1 374 867
Business trip costs	35 497	40 078
Repair costs and remuneration for works from outside	783 096	461 088
Losses due to rejects	33 623	26 489
Environmental protection costs	20 963	17 888
Other costs	81 076	66 175
Total	13 269 325	11 690 438

Note No. 3 – Selling costs

Indicators	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Packing material and package	45 946	40 622
Transportation expenses	159 109	205 253
Salaries	60 660	51 218
Social insurance contributions	14 380	11 888
Other selling costs	5 671	38 300
Total	285 766	347 281

Notes to consolidated comprehensive income statement (cont.)

Note No. 4 – Administrative costs

Indicators	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Communications costs	8 648	9 011
Cash circulation and expense and extra costs	10 975	26 640
Transportation expenses	5 880	11 935
Salaries	697 791	564 117
Social insurance contributions	161 818	131 686
Energy resources	36 566	38 312
Depreciation of capital assets	88 715	217 617
Business trip costs	18 170	16 040
Real estate tax	46 899	48 215
Other administrative costs	78 762	68 297
Total	1 154 224	1 131 870

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

Indicators	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Profit gained as a result of other sales (materials, lease, other)	86 623	24 955
Sale of capital assets	2 220	2 410
Decrease in revaluation reserve of capital assets	2 918	1 435
Income from fluctuations of exchange rates	-	14 883
Decrease in deferred income (Eurofound)	106 298	212 597
Other income	2 805	726
Total	200 864	257 006

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

Indicators	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Penalty and contractual penalties	12 491	20 846
Costs related to maintenance of social sphere	16 658	13 734
Costs not related to operating activities of the Company	32 569	34 384
Loss from fluctuations of exchange rates	17 045	-
Provisions for receivables	-	72 000
Other costs	6 412	9 461
Total	85 175	150 425

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	2 220	0.00	2 220	2 220

Note No. 7 – Other interest payments and similar costs

Indicator	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Loan agreements	118 612	160 726
Credit line agreements	49 757	61 191
Total	168 369	221 917

Notes to the consolidated financial statements (cont.)

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2018

Note No. 8 – Intangible assets and fixed assets, EUR

Intangible assets

	Research and development costs	Concessions, patents, licenses, trade marks and similar rights	Other intangible assets	Advances for intangible assets	Total intangible assets
Acquisition value 01.01.18.	2 234 885	822 909	142 847	3 625	3 204 266
Additions	29 696	112 851	11 837	13 159	167 543
Disposal	-	-	-	(16 784)	(16 784)
Acquisition value 30.06.18.	2 264 581	935 760	154 684	-	3 355 025
Accumulated amortization 01.01.18.	653 763	495 557	118 377	-	1 267 697
Amortization charge	220 785	70 796	13 222	-	304 803
Amortization of disposals	-	-	-	-	-
Accumulated amortization 30.06.18.	874 548	566 353	131 599	-	1 572 500
Net book value 01.01.18.	1 581 122	327 352	24 470	3 625	1 936 569
Net book value 30.06.18.	1 390 033	369 407	23 085	-	1 782 525

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.

Development costs include the research costs that are being spent to create and scientifically justify the production of a new product.

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

Fixed assets

	Real estate*	Machinery and equipment	Other fixed assets and inventory	Fixed assets under construction	Advances for fixed assets	Total fixed assets
Acquisition value 01.01.18.	17 671 576	14 526 736	817 555	901 770	177 139	34 094 776
Additions	8 504	436 424	9 216	454 556	370 954	1 279 654
Disposal	-	(33 053)	(6 301)	(454 144)	(109 288)	(602 786)
Acquisition value 30.06.18.	17 680 080	14 930 107	820 470	902 182	438 805	34 771 644
Accumulated amortization 01.01.18.	2 405 220	8 438 017	559 943	-	-	11 403 180
Amortization charge	255 605	602 983	32 867	-	-	891 455
Amortization of disposals	-	(31 260)	(6 301)	-	-	(37 561)
Accumulated amortization 30.06.18.	2 660 825	9 009 740	586 509	-	-	12 257 074
Net book value 01.01.18.	15 266 356	6 088 719	257 612	901 770	177 139	22 691 596
Net book value 30.06.18.	15 019 255	5 920 367	233 961	902 182	438 805	22 514 570

*In 2018 assessed value of the premises accounted EUR 4 925 183, assessed value of the plot accounted for EUR 1 328 026.

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

Notes to the consolidated financial statements (cont.)

Note No. 9 – Other long-term debtors

Indicators	30.06.18. EUR	31.12.17. EUR
Long-term loan of the subsidiary (daughter) company (until 01.01.2019)	6 881 936	6 881 936
Provisions for long-term loan	(46 155)	(46 155)
Total	6 835 781	6 835 781

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. 10 – Raw materials, direct materials and auxiliary materials

Indicators	30.06.18. EUR	31.12.17. EUR
Raw materials, direct materials and auxiliary materials	3 949 372	3 792 850
Provisions for stocks of slow-turnover	(115 268)	(115 268)
Total	3 834 104	3 677 582

Note No. 11 – Finished goods and goods for sale

Indicators	30.06.18. EUR	31.12.17. EUR
Electrical equipment for electric trains and for metro cars	360 135	755 409
Total	360 135	755 409

Note No. 12 – Advance payments for inventories

Indicators	30.06.18. EUR	31.12.17. EUR
Local customers	66 478	4 086
Foreign customers	4 473 700	3 396 585
Total	4 540 178	3 400 671

Note No. 13 – Trade receivables

Indicators	30.06.18. EUR	31.12.17. EUR
Debts of customers and clients	1 229 799	546 382
Provisions for doubtful debtors	(40 629)	(40 629)
Total	1 189 170	505 753

Note No. 14 – Other receivables

Indicators	30.06.18. EUR	31.12.17. EUR
Taxes paid in advance	115 110	96 676
Overpaid taxes	183 227	165 813
Processing of goods	76 497	12 710
Advance payments for services	16 503	16 723
Financial support for the project (European Union Structural Funds support programme)	28 000	-
Other	4 003	5 498
Total	423 340	297 420

Notes to the consolidated financial statements (cont.)

Note No. 15 – Prepaid expenses

Indicators	30.06.18. EUR	31.12.17. EUR
Insurance	2 022	2 027
Service	20 000	-
Certification	482	900
Other	1 336	1 961
Total	23 840	4 888

Note No.16 – Short-term financial investments

Rādītāji	30.06.18. EUR	31.12.17. EUR
Shareholding in the capital of SIA „RER-Termināls”	-	90 000

On August 5, 2016, the subsidiary company of the JSC Rīgas elektromašīnbūves rūpnīca was registered in the Register of Enterprises of the Republic of Latvia, LTD RER-Termināls, Reg. No. 40203010535, with a share capital of EUR 1,140,000.

On 31.12.2017 Participation of JSC Rīgas elektromašīnbūves rūpnīca in the share capital of the subsidiary company LTD RER-Termināls, Reg. No. 40203010535, has fallen from 100% to 7.89%.

On January 19, 2018, participation of JSC Rīgas elektromašīnbūves rūpnīca in the share capital of the subsidiary LTD *RER-Termināls*, Reg. No. 40203010535, has expired, the second participant - LTD *BSCT* owns 11 400 shares of the share capital of LTD RER-Termināls, or 100%.

Note No. 17 – Cash

Indicators	30.06.18. EUR	31.12.17. EUR
Current accounts in banks	822 493	715 764

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	30.06.18. EUR	31.12.17. EUR
Residents, including	208 220	199 171
- physical entities	172 935	162 627
- legal entities	35 285	36 544
Non-residents, including	7 910 387	7 919 436
- Russia	3 737 405	3 737 405
- Canada	7 167	7 167
- British Virgin Islands	-	814 829
- Belize	-	1 867 279
- Lithuania	546	9 848
- Estonia	5 132	5 951
- Cyprus	4 160 137	1 476 957
Total	8 118 607	8 118 607

Company shareholders (over 5%) as of 30.06.2018.

Name	Ownership interest (%)
AO Krona Grup, Russia	46
Measurestep Enterprises Limited, Cyprus	33.04
CROWNING FINANCE CYPRUS LIMITED, Cyprus	18.19

Notes to the consolidated financial statements (cont.)

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

Immovable property was evaluated according to its market value. Evaluation was carried out by independent evaluator. 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, that was included into equity capital position 'Long-term investment revaluation reserve'.

Note No. 20 – Other reserves

Indicators	30.06.18. EUR	31.12.17. 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	30.06.18. EUR	31.12.17. EUR
Provision for warranty repairs of the subsidiary (daughter) company	7 872	7 872
Provisions for benefits for damages to health of the parent company	161 524	161 524
Total	169 396	169 396

Provision is calculated at 0.004 of the net turnover of the subsidiary in the reporting period.

Provisions for benefits for damages to health was calculated according to an independent actuarial valuation.

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

Indicators	30.06.18. EUR	31.12.17. EUR
Latvian credit institutions, loan agreement, including	4 352 648	5 152 648
Long-term debt	3 202 067	3 202 067
Short-term debt	1 150 581	1 950 581
Latvian credit institutions, credit line, including	2 370 636	1 177 749
Short-term debt	2 370 636	1 177 749

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 2018 is EUR 43 678 038 (31.12.2017. - EUR 41 557 275);
- (iii) guarantees from related parties.

Notes to the consolidated financial statements (cont.)

Loans and credit agreements (EUR)

Contract number	% rate for year	Date of payment	Sum, EUR 30.06.18.	Sum, EUR 31.12.17.
DB/C31-213/30	4,5% + 1mon.EURIBOR	30.12.18.	2 370 636	1 177 749
DB/C31-213/31	5,0% + 3mon.EURIBOR	30.12.18.	2 908 600	3 208 600
DB/C31-213/127	5,0% + 3mon.EURIBOR	30.12.18.	1 042 290	1 252 290
DB/C31-214/85	5,0% + 3mon.EURIBOR	30.12.18.	401 758	491 758
K-005/0216 C	3.2%	10.02.19.	-	200 000

Note No. 23 – Long-term and short-term deferred income

Indicators	30.06.18. EUR	31.12.17. EUR
Long-term deferred income	1 408 163	1 306 115
Support for the project implementation in the frames of the Centre of Competence	181 572	217 887
Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	1 018 244	1 088 228
Support for the project "Complex solutions for increasing of energy efficiency in AS Rīgas elektromašīnbūves rūpnīca" implementation	208 347	-
Short-term deferred income	11 333	45 333

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 European Union Cohesion Fund	2018	208 347	Jauno tehnoloģisko iekārtu iegāde	Izpildīti	-

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. 24 – Advance payments from customers

Indicators	30.06.18. EUR	31.12.17. EUR
Local customers	4 667	6 514
Foreign customers	4 567 459	4 534 650
Total	4 572 126	4 541 164

Note No. 25 – Trade payables

Indicators	30.06.18. EUR	31.12.17. EUR
Short-term creditors, including	2 155 566	1 475 130
Local suppliers	1 262 731	1 173 015
Foreign suppliers	892 835	302 115

Notes to the consolidated financial statements (cont.)

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

Indicators	30.06.18. EUR	31.12.17. EUR
Tax contributions and state social insurance contributions at the beginning of the year	497 531	767 746
Changes within the reporting year	18 389	(270 215)
Tax contributions and state social insurance contributions at the end of the year	515 920	497 531

Indicators	30.06.18. EUR	31.12.17. EUR
Personal income tax	208 677	263 257
Mandatory social insurance contributions	303 933	226 657
Natural resources tax	3 079	6 150
Real estate tax on land	-	1 195
Real estate tax on premises (buildings)	-	61
State business risk fee	231	211
Total	515 920	497 531

As for 30.06.2018. the Group has no current tax debts.

Note No. 27 – Short-term other liabilities

Indicators	30.06.18. EUR	31.12.17. EUR
Short-term creditors, including	515 433	445 146
Salary debt	513 721	443 030
Other	1 712	2 116

Note No. 28 – Accrued liabilities

Indicators	30.06.18. EUR	31.12.17. EUR
Provisions for unused vacation compensation	326 947	326 947
Total	326 947	326 947

Note No. 29 – Average number of employees

Indicators	30.06.18. EUR	31.12.17. EUR
Members of the Council	8	8
Members of the Board	5	6
Other employees	658	594
Average number of employees	671	608

Note No. 30 - Transactions with related parties

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

Indicators	30.06.18. EUR	31.12.17. EUR
Claims	1 144 966	438 041
Liabilities	37 299	-

Indicators	01.01.18. - 30.06.18. EUR	01.01.17. - 30.06.17. EUR
Sale of goods	15 058 394	11 600 702
Purchase of goods	151 307	537 593

Notes to the consolidated financial statements (cont.)

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 30.06.2018. all assets of parent Company 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 11 to 24 form are integral part of these financial statements.

On behalf of the Group,
Chairperson of the Board

Nikolajs Erohovs

29 August 2018

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 2018.

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

29 August 2018