

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

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

**CONSOLIDATED ANNUAL REPORT
FOR 6 MONTHS OF THE YEAR 2019
(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	Mikhail Barbarovich Stanislav Vodolazskii	from 28.03.19. until 27.03.19.
Vice-Chairperson of the Council	Stanislav Vodolazskii Kirill Nuzhyn	from 28.03.19. until 27.03.19.
Council Members	Liubov Akimova Alexey Kostennikov Alexey Shestakov Andrey Sarkisov Natalia Sarkisova Sergey Bolysov	from 28.03.19. from 28.03.19. from 28.03.19. until 27.03.19. until 27.03.19. until 27.03.19.
The parent Company Board:		
Chairperson of the Board	Mikalai Yerokhau	from 15.03.11.
Board Members	Aleksandrs Popadins Ilja Šestakovs Tamāra Rogova Armantas Jasaitis Grigorijs Kapustins	from 08.11.13. from 30.01.15. from 17.01.19. from 17.01.19. until 17.01.19.
The quantity of shares which belong to the members of Council and to the members of Board (%)	Owns no shares	
Accounting period	1 January 2019 – 30 June 2019	
Subsidiary (daughter) companies	AS „Latvo”, reģ. Nr. 40003184975 Ganību dambis 53, Riga, the Republic of Latvia Shares – 98.7 %	
Auditor	SIA "Grant Thornton Baltic Audit", licence Nr.183 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 2019

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 2019 amounted to 35.54 mil. EUR, which is 19.96 mil. EUR or 128.11% more than in the first half of 2018 (p. 6, Comprehensive income statement).

The amount of gross income amounted to 5.95 mil. EUR, which is 3.64 mil. EUR or 157.57% more than in the first half of 2018. The net profit of the Group for 6 months of the year 2019 was 4.05 mil. EUR, which is 3.25 million EUR more than in the first half of 2018 (p. 6, Comprehensive income statement).

The share of equity in the Group's total assets of 67.41% to 63.56% in the corresponding period of the previous year, and the ratio of current assets to current liabilities ratio (overall liquidity ratio) was 3.26 against 1.19 in the corresponding period of the previous year (p.p. 7-8, Statement of financial position).

In the first six months of 2019 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 2019 the average number of employees was 723 people, the average monthly salary was EUR 1 050.

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 2019.

Significant events during the first half of 2019

On 27 March 2019, a trilateral agreement was signed by VTB Bank (Europe) SE (Germany), the creditor DANSKE BANK, AS (Latvia), and JSC "Rīgas elektromašīnbūves rūpnīca" on refinancing of the loan contracts with regard to the loans extended to the latter. On 01 April 2019, a loan contract was signed by JSC "Rīgas elektromašīnbūves rūpnīca" and VTB Bank (Europe) SE (Germany) regarding a loan of EUR 10 000 000 maturing in 5 years.

In March 2019, JSC "Rīgas elektromašīnbūves rūpnīca" (JSC RER) completed the project Nr. 4.1.1.0/17/A/019 "Complex Solutions for Implementation of Energy Efficiency of JSC Rīgas elektromašīnbūves rūpnīca".

Within the project, a high frequency soldering soldering system for soldering the winding ends of electric machines, two air compressors, a composite joint for cutting stator sheet blanks, a multipurpose welding machine MMA + MIG / MAG + TIG with pulse and two-pulse welding modes, press with a set of nozzles for assembly of nozzles, vertical milling machining center with CPV, drying oven, abrasive scrubber for surface cleaning prior to painting, hydro-abrasive cutting equipment and 800 LED lighting devices, as well as simplified renovation of five production buildings.

JSC RER has achieved all the goals planned in the Project, as well as implemented the Project in full for two months faster than initially planned. The project has significantly increased the energy efficiency of the plant.

The implementation of the project is co-financed by the Cohesion Fund. The project is being implemented in cooperation with the Central Finance and Contracting Agency.

Further development of the Group

In the second half of 2019, the Group plans to continue to work with the growing profits, improving financial - economic stability of the Group.

Development Measures

JSC „Rīgas elektromašīnbūves rūpnīca” signed on 07.02.2019 an agreement with Central Finance and Contracting Agency (CFCA) about project Nr. 4.1.1.0/18/A/030 “Complex solutions for increasing of energy efficiency in AS Rīgas Elektromašīnbūves Rūpnīca, stage 2” implementation, funding and supervision.

The total cost of the project is EUR 2 243 308.81. The total eligible costs of the project are EUR 1 986 023.30. The total cost of the project is EUR 595,806.99 for Cohesion Funding for the project.

The overall objective of the project is to promote the efficient use of energy resources and the reduction of energy consumption in the RER plant. The specific objective of the project is to purchase, install and put into operation 12 new energy-efficient production facilities (replacing existing installations), replace inefficient lighting devices with 1551 efficient lighting devices and make 3 production buildings simpler with the aim of increasing the energy performance of buildings.

Project implementation is expected to be completed by the end of 2020. The project is co-financed by the Central Finance and Contracting Agency and the Cohesion Fund.

JSC “Rīgas elektromašīnbūves rūpnīca” is implementing the project No 1.2.1.4/18/A/051 “Electrical equipment fo 25kV AC electric train with asynchronous drives”. The project is being implemented in cooperation with the Central Finance and Contract Agency within the second round of the Support Program “1.2.1.4. Support for the introduction of new products into production”. The project is scheduled to be completed by 31 December 2020. The total cost of the project is approximately EUR 2 million, 35% of which will be covered by ERDF (European Regional Development Fund).

Joint Stock Company “Rīgas elektromašīnbūves rūpnīca” (JSC RER) on 4th of April 2019 had signed an agreement with the Central Finance and Contracting Agency for ERDF co-financed project no. 1.1.1.1/18/A/055 "Developing a New Generation Synchronous Relay Engine". The planned project implementation period is 18 months. Total eligible costs of the project EUR 990'353,61 excluding VAT.

The aim of the project is to support research of JSC RER, which contributes to achieving goals in accordance to Latvian Smart Specialization Strategy, since and technology development with human capital and creation of new knowledge base to improve the competitiveness of state economy.

The specific objective of the project is the development of a new energy efficient electricity driven traction based on synchronous relativity engine, as well as gaining new collective competence in the development and testing of a new type of complete electrical equipment. As a result of the project, a new product is to be developed: a synchronous releasing electric engine.

Joint Stock Company “Rīgas elektromašīnbūves rūpnīca” on March 27, 2019 had signed an agreement with Competence Center of Energy and Transport (Competence Center) on the implementation of the research “Design and development of traction drive systems with supercapacitors for the metro” within the framework of the Competence Center of Energy and Transport program. Project number – Nr.1.2.1.1/18/A/001.

The area of intellectual specialization chosen by Competence Center is intellectual energy, which includes three main trends:

- General issues of intellectual energy;
- Solutions for intellectual engineering systems and energy production;
- Intellectual energy and transport.

Project implementation period from 01.04.2019 till 31.12.2021. The total project amount funding from the ERAF is 4 708 111.50 EUR.

The aim of the research is to develop a traction drive with energy storage by means of supercapacitors for the needs of the rolling stock of the subway. Electrical equipment set is provided for installation in metro trains moving in tunnels and in open sections of the track with a maximum speed of 90 km/h.

Scope of research support 419 999.98 EUR. Period of research from 01.04.2019 till 31.03.2021.

On behalf of the Group,
Chairperson of the Board

Mikalai Yerokhau

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR 6 MONTHS OF THE YEAR 2019

Items	Note	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Net turnover	1	35 541 383	15 579 543
Production costs of the goods sold	2	(29 590 650)	(13 269 325)
Gross profit or loss		5 950 733	2 310 218
Selling expenses	3	(472 190)	(285 766)
Administration expenses	4	(1 281 798)	(1 154 224)
Other operating income	5	352 197	200 864
Other operating expenses	6	(366 709)	(85 175)
Other interest income and similar income		-	1
Other interest payments and similar expenses	7	(84 301)	(168 369)
Profit or loss before corporate income tax		4 097 932	817 549
Corporate income tax		(46 391)	(13 607)
Profit or loss of the accounting period		4 051 541	803 942

Attributable to:			
Non-controlling interest		87	-
Equity holders of a parent company		4 051 454	803 942
Earnings per share		0,698	0,138

Other comprehensive income / loss

Long-term investment revaluation reserve decrease		(4 701)	(2 919)
Total other comprehensive income / loss		(4 701)	(2 919)

Total comprehensive income		4 046 840	801 023
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Attributable to:			
Non-controlling interest		87	-
Equity holders of a parent company		4 046 753	801 023

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 2019

A S S E T S	Note	30.06.19. EUR	31.12.18. EUR
LONG-TERM INVESTMENTS			
Intangible investments	8		
Development costs		931 126	1 159 885
Concessions, patents, licences and similar rights		245 327	301 516
Other intangible investments		24 778	11 485
Total intangible assets		1 201 231	1 472 886
Fixed assets	8		
Real estate (land, buildings and structures)		16 037 003	16 136 712
Technology devices and equipment		5 986 216	5 980 824
Other fixed assets and inventory		265 402	234 743
Expense of tangible assets and construction in progress		744 147	549 972
Advance payments for fixed assets		655 206	529 665
Total fixed assets		23 687 974	23 431 916
Long-term financial investments			
Own shares		10 289	10 289
Other securities and investments		570	570
Total long-term financial investments		10 859	10 859
TOTAL LONG-TERM INVESTMENTS		24 900 064	24 915 661
CURRENT ASSETS			
Inventories			
Raw materials, direct materials and auxiliary materials	9	4 145 252	4 309 973
Work in progress		2 578 426	2 587 995
Finished products and goods for sale	10	1 119 715	2 309 442
Advance payments for inventories	11	1 843 857	2 475 566
Total inventories		9 687 250	11 682 976
Receivables			
Trade receivables	12	7 217 173	2 583 814
Other receivables	13	6 981 851	7 108 120
Prepaid expenses	14	24 185	44 264
Total receivables		14 223 209	9 736 198
Cash	15	3 512 561	1 262 638
TOTAL CURRENT ASSETS		27 423 020	22 681 812
TOTAL ASSETS		52 323 084	47 597 473

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2019

LIABILITIES	Note	30.06.19. EUR	31.12.18. EUR
EQUITY CAPITAL			
Share capital (equity capital)	16	8 118 607	8 118 607
Long-term investment revaluation reserve	17	13 490 992	13 495 693
Reserves:	18	407 137	407 137
a) other reserves			
Retained earnings or uncovered losses of previous years		9 115 523	5 502 092
Profit or loss of the reporting year		4 051 454	3 613 431
Participatory share of minority stockholders		85 005	84 918
TOTAL EQUITY CAPITAL		35 268 718	31 221 878
PROVISIONS			
Other provisions	19	158 247	158 247
TOTAL PROVISIONS		158 247	158 247
CREDITORS			
Long-term liabilities			
Borrowings from credit institutions	20	6 937 500	-
Deferred income	25	1 550 195	1 373 945
Total long-term liabilities		8 487 695	1 373 945
Short-term liabilities			
Borrowings from credit institutions	20	3 062 500	5 683 067
Advance payments from customers	21	729 614	2 939 838
Trade payables	22	3 243 494	4 812 994
Taxes and mandatory state social insurance contributions	23	382 102	421 187
Other liabilities	24	592 061	553 664
Deferred income	25	11 333	45 333
Accrued liabilities	26	387 320	387 320
Total short-term liabilities		8 408 424	14 843 403
TOTAL CREDITORS		16 896 119	16 217 348
TOTAL LIABILITIES		52 323 084	47 597 473

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

CONSOLIDATED CASH FLOW STATEMENT FOR 6 MONTHS OF THE YEAR 2019

(prepared by indirect method)

Cash flow from operating activities

Items	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Profit or loss before corporate income tax	4 097 932	817 549
ADJUSTMENTS		
Adjustments of decrease in value of equity capital	768 466	891 455
Amortization of intangible assets	290 708	304 803
Income from sales of fixed assets	(1 350)	(2 220)
Unrealized profit from fluctuations of currency exchange rate	30 382	17 045
Amounts written off fixed assets	2 813	1 793
Reserve for revaluation of long-term investments	(4 701)	(2 918)
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	5 184 250	2 027 507
ADJUSTMENTS FOR		
Increase (-)/ decrease (+) in trade and other receivables	(3 951 279)	(2 225 229)
Increase (-)/ decrease (+) in inventories	1 364 017	(408 007)
Increase (+)/ decrease (-) in trade and other payables	(3 686 925)	867 830
Gross cash flow from operating activities	(1 089 937)	262 101
Expenses for company tax payments	(46 391)	(13 607)
NET CASH FLOW FROM OPERATING ACTIVITIES	(1 136 328)	248 494

Cash flow from investing activities

Items	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Acquisition of an affiliate	-	(570)
Proceeds from investment properties	-	90 000
Purchase of non-current assets	(920 849)	(608 940)
Proceeds from sale of fixed and intangible assets	1 350	2 220
NET CASH FLOW FROM INVESTING ACTIVITIES	(919 499)	(517 290)

Cash flow from financing activities

Items	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Loans from credit institutions received	10 000 000	1 192 888
Loans from credit institutions repaid	(5 683 067)	(800 000)
NET CASH FLOW FROM FINANCING ACTIVITIES	4 316 933	392 888

Summary of cash inflow and outflow

Items	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Net cash flow from operating activities	(1 136 328)	248 494
Net cash flow from investing activities	(919 499)	(517 290)
Net cash flow from financing activities	4 316 933	392 888
Result of fluctuations of currency exchange rates	(11 183)	(17 363)
Net increase/decrease in cash and cash equivalents	2 249 923	106 729
Cash and its equivalents in the beginning of the accounting period	1 262 638	715 764
Cash and its equivalents at the end of the accounting period	3 512 561	822 493

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 2019, EUR

Type of change	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Participatory share of minority stockholders	Total equity
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>	-	<i>(2 919)</i>	-	<i>803 942</i>	-	<i>801 023</i>
As at 30.06.18.	8 118 607	13 688 839	407 137	6 394 323	-	28 608 906
As at 01.01.19.	8 118 607	13 495 693	407 137	9 115 523	84 918	31 221 878
Profit or loss for the financial year	-	-	-	4 051 454	87	4 051 541
Other comprehensive income	-	(4 701)	-	-	-	(4 701)
<i>Total comprehensive income</i>	-	<i>(4 701)</i>	-	<i>4 051 454</i>	<i>87</i>	<i>4 046 840</i>
As at 30.06.19.	8 118 607	13 490 992	407 137	13 166 977	85 005	35 268 718

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 Group) JSC "Rīgas elektromašīnbūves rūpnīca" (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 recognized separately.

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 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.

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 2018 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. In the reporting year the amount of provisions will be revised and calculated according to the methodology developed.

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.

Corporate income tax

The corporate income tax for the reporting period consists of the calculated tax for such period. The corporate income tax is recognised in the profit or loss statement. The tax for the reporting period is calculated according to the provisions of the law "Enterprise Income Tax Law".

As of taxation year of 2018, corporate income tax is calculated for distributed profit (dividends) and conditionally distributed profit by applying the rate of 20%. Corporate income tax is recognised at the moment when the participants of the Company will make a decision on distribution of profit, or when the costs not promoting further development of the Company (conditionally distributed profit) will be recorded.

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 2019 is EUR 23 687 974 (31.12.2018. - EUR 23 431 916).

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 2019 is EUR 7 643 767 (31.12.2018. – EUR 3 156 756).

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 2019 is EUR 9 687 250 (31.12.2018. – EUR 11 682 976).

Notes to the consolidated financial statements (cont.)

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.

The total carrying amount of long-term loan at the end of the reporting period is EUR 6 579 442 (31.12.2018. – EUR 6 579 442).

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 2019 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 (20)), while the main part of the Group's financial assets are interest-free receivables, therefore the Group is exposed to floating interest rate risk.

	30.06.19.	31.12.18.
Financial liabilities with variable interest rate, EUR	10 000 000	5 683 067

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 (20)). On 30 June 2019 Group had unused credit line resources EUR 2 500 000 (31.12.2018. - EUR 194 581).

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 (28)).

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.

In the first six months of 2019 the share of equity in the Group's total assets of 67.41% to 63.56% in the corresponding period of the previous year.

Notes to consolidated comprehensive income statement (cont.)

Earnings per share

Profit per one share is calculated by dividing net profit or loss attributable to the shareholders of the parent Company by the number of shares.

NOTES TO CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR 6 MONTHS OF THE YEAR 2019

Note No. 1 – Net turnover

Type of company's activity	NACE code	30.06.19., EUR	30.06.18., EUR
Manufacturing of electric machines and machinery	2711	35 541 383	15 579 543

Note No. 1 – Net turnover

Country	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Latvia	122 110	157 264
Russia	32 092 977	15 079 608
Ukraine	28 880	118 290
Belarus	55 294	2 104
Slovakia	161 066	3 208
Uzbekistan	3 062 030	219 069
Georgia	11 730	-
Kazakhstan	6 000	-
Lithuania	1 296	-
Total	35 541 383	15 579 543

Major customers

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

Pircējs	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
AO Krona Grup, Russia	32 068 797	15 058 394

Note No. 2 – Production costs of products sold

Indicators	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Salaries	3 580 979	2 884 436
Social insurance contributions	842 592	677 048
Costs of materials	21 605 028	6 992 377
Energy resources	721 206	679 495
Depreciation of capital assets and intangible assets, write-off of intangible investments value	981 596	1 081 714
Business trip costs	55 084	35 497
Repair costs and remuneration for works from outside	1 406 053	783 096
Losses due to rejects	30 779	33 623
Environmental protection costs	16 140	20 963
Research and development costs	239 324	-
Other costs	111 869	81 076
Total	29 590 650	13 269 325

Notes to consolidated comprehensive income statement (cont.)

Note No. 3 – Selling costs

Indicators	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Packing material and package	59 110	45 946
Transportation expenses	318 508	159 109
Salaries	75 901	60 660
Social insurance contributions	17 996	14 380
Other selling costs	675	5 671
Total	472 190	285 766

Note No. 4 – Administrative costs

Indicators	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Communications costs	7 210	8 648
Cash circulation and expense and extra costs	26 273	10 975
Transportation expenses	3 098	5 880
Salaries	790 987	697 791
Social insurance contributions	183 180	161 818
Energy resources	38 197	36 566
Depreciation of capital assets	86 943	88 715
Business trip costs	13 977	18 170
Real estate tax	47 046	46 899
Other administrative costs	84 887	78 762
Total	1 281 798	1 154 224

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

Indicators	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Profit gained as a result of other sales (materials, lease, other)	82 369	86 623
Sale of capital assets	1 350	2 220
Decrease in revaluation reserve of capital assets	4 701	2 918
Decrease in deferred income (European Union Structural Funds support programme)	106 298	106 298
Financial assistance for the implementation of projects (European Union Structural Funds support programme)	156 829	-
Other income	650	2 805
Total	352 197	200 864

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

Indicators	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Penalty and contractual penalties	-	12 491
Costs related to maintenance of social sphere	16 205	16 658
Costs not related to operating activities of the Company	55 585	32 569
Loss from fluctuations of exchange rates	30 382	17 045
Refinancing expenses	110 000	-
Catering expenses for employees	114 773	-
Bond issue expenses	30 000	-
Expenditure for sustainable activities of personnel	3 500	-
Other costs	6 264	6 412
Total	366 709	85 175

Notes to the consolidated financial statements (cont.)

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	1 350	0.00	1 350	1 350

Note No. 7 – Other interest payments and similar costs

Indicator	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Loan agreements	47 741	118 612
Credit line agreements	36 560	49 757
Total	84 301	168 369

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2019

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 01.01.19.	2 264 580	935 760	158 604	-	3 358 944
Additions	-	-	19 053	17 004	36 057
Disposal	-	-	-	(17 004)	(17 004)
Acquisition value 30.06.19.	2 264 580	935 760	177 657	-	3 377 997
Accumulated amortization 01.01.19.	1 104 695	634 244	147 119	-	1 886 058
Amortization charge	228 759	56 189	5 760	-	290 708
Amortization of disposals	-	-	-	-	-
Accumulated amortization 30.06.19.	1 333 454	690 433	152 879	-	2 176 766
Net book value 01.01.19.	1 159 885	301 516	11 485	-	1 472 886
Net book value 30.06.19.	931 126	245 327	24 778	-	1 201 231

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.

Notes to the consolidated financial statements (cont.)

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 01.01.19.	18 965 283	15 510 606	835 801	549 972	529 665	36 391 327
Additions	69 574	568 850	69 197	903 625	442 584	2 053 830
Disposal	-	(88 820)	(28 362)	(709 450)	(317 043)	(1 143 675)
Acquisition value 30.06.19.	19 034 857	15 990 636	876 636	744 147	655 206	37 301 482
Accumulated amortization 01.01.19.	2 828 571	9 529 782	601 058	-	-	12 959 411
Amortization charge	169 283	560 645	38 538	-	-	768 466
Amortization of disposals	-	(86 007)	(28 362)	-	-	(114 369)
Accumulated amortization 30.06.19.	2 997 854	10 004 420	611 234	-	-	13 613 508
Net book value 01.01.19.	16 136 712	5 980 824	234 743	549 972	529 665	23 431 916
Net book value 30.06.19.	16 037 003	5 986 216	265 402	744 147	655 206	23 687 974

*In 2019 assessed value of the premises accounted EUR 4 938 781, 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.

Note No. 9 – Raw materials, direct materials and auxiliary materials

Indicators	30.06.19. EUR	31.12.18. EUR
Raw materials, direct materials and auxiliary materials	4 334 406	4 612 897
Provisions for stocks of slow-turnover	(189 154)	(302 924)
Total	4 145 252	4 309 973

Note No. 10 – Finished goods and goods for sale

Indicators	30.06.19. EUR	31.12.18. EUR
Electrical equipment for electric trains and for metro cars	1 119 715	2 309 442

Note No. 11 – Advance payments for inventories

Indicators	30.06.19. EUR	31.12.18. EUR
Local customers	73 480	16 105
Foreign customers	1 770 377	2 459 461
Total	1 843 857	2 475 566

Note No. 12 – Trade receivables

Indicators	30.06.19. EUR	31.12.18. EUR
Debts of customers and clients	7 243 546	2 609 049
Provisions for doubtful debtors	(26 373)	(25 235)
Total	7 217 173	2 583 814

Notes to the consolidated financial statements (cont.)

Note No. 13 – Other receivables

Indicators	30.06.19. EUR	31.12.18. EUR
Taxes paid in advance	112 251	117 036
Overpaid taxes	82 887	85 496
Processing of goods	79 813	237 894
Advance payments for services	-	56 449
Financial support for the project (European Union Structural Funds support programme)	103 226	28 000
Long-term loan of the subsidiary (daughter) company *	6 625 597	6 625 597
Provisions for long-term loan *	(46 155)	(46 155)
Other	24 232	3 803
Total	6 981 851	7 108 120

* On 01 January 2019, two loan agreements with Investicionnīj Aljans, SIA expired. In January of 2019 LATVO, AS started the debt recovery proceedings. As of the date of signature of the Annual Report, no information was available as to the progress of the debt recovery proceedings.

Note No. 14 – Prepaid expenses

Indicators	30.06.19. EUR	31.12.18. EUR
Insurance	3 051	2 450
Service	20 000	40 000
Other	1 134	1 814
Total	24 185	44 264

Note No. 15 – Cash

Indicators	30.06.19. EUR	31.12.18. EUR
Current accounts in banks	3 512 561	1 262 638

Note No. 16 – 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:

Shareholder	30.06.19.		31.12.18.	
	EUR	%	EUR	%
AO Krona Grup, Russia	3 734 559	46.00	3 734 559	46.00
Measurestep Enterprises Limited, Cyprus	2 796 595	34.45	2 682 109	33.04
CROWNING FINANCE CYPRUS LIMITED, Cyprus	1 476 957	18.19	1 476 957	18.19
Other	110 496	1.36	224 982	2.77
Total	8 118 607	100.00	8 118 607	100.00

Note No. 17 – Reserve for revaluation of long-term investments

In 2015 the 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, that was included into equity capital position 'Long-term investment revaluation reserve'.

Notes to the consolidated financial statements (cont.)

Note No. 18 – Other reserves

Indicators	30.06.19. EUR	31.12.18. EUR
Share denomination from lat to euro	132 634	132 634
Other	274 503	274 503
Kopā	407 137	407 137

Note No. 19 – Other provisions

Indicators	30.06.19. EUR	31.12.18. EUR
Provision for warranty repairs of the subsidiary (daughter) company	4 750	4 750
Provisions for benefits for damages to health of the parent company	153 497	153 497
Total	158 247	158 247

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

Note No. 20 – Long-term and short-term loans from credit institutions

Indicators	30.06.19. EUR	31.12.18. EUR
Long-term debt, including	6 937 500	-
Foreign credit institutions, loan agreement	6 937 500	-
Short-term debt, including	3 062 500	5 683 067
Latvian credit institutions, loan agreement	-	3 377 648
Latvian credit institutions, credit line	-	2 305 419
Foreign credit institutions, loan agreement	562 500	-
Foreign credit institutions, credit line	2 500 000	-
Total	10 000 000	5 683 067

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 2019 is EUR 51 224 801 (31.12.2018. - EUR 46 499 005);
- (iii) guarantees from related parties.

Loans and credit agreements (EUR)

Contract number	% rate for year	Date of payment	Sum, EUR 30.06.19.	Sum, EUR 31.12.18.
DB/C31-213/30	4,5% + 1mon.EURIBOR	29.04.19.	-	2 305 419
DB/C31-213/31	5,0% + 3mon.EURIBOR	29.04.19.	-	2 233 600
DB/C31-213/127	5,0% + 3mon.EURIBOR	29.04.19.	-	832 290
DB/C31-214/85	5,0% + 3mon.EURIBOR	29.04.19.	-	311 758
Credit agreement from 01.04.19.	5,0% + 3mon.EURIBOR	31.03.24.	7 500 000	-
Credit agreement from 01.04.19. - credit line	5,0% + 3mon.EURIBOR	29.11.19.	2 500 000	-
Total			10 000 000	5 683 067

Notes to the consolidated financial statements (cont.)

Note No. 21 – Advance payments from customers

Indicators	30.06.19. EUR	31.12.18. EUR
Local customers	491	319
Foreign customers	729 123	2 939 519
Total	729 614	2 939 838

Note No. 22 – Short-term trade payables

Indicators	30.06.19. EUR	31.12.18. EUR
Local suppliers	1 195 316	1 595 061
Foreign suppliers	2 048 178	3 217 933
Total	3 243 494	4 812 994

Note No. 23 – Taxes and mandatory state social insurance contributions, EUR

Indicators	30.06.19. EUR	31.12.18. EUR
Tax contributions and state social insurance contributions at the beginning of the year	421 187	497 531
Changes within the reporting year	(39 085)	(76 344)
Tax contributions and state social insurance contributions at the end of the year	382 102	421 187

Indicators	30.06.19. EUR	31.12.18. EUR
Personal income tax	119 281	131 230
Mandatory social insurance contributions	257 923	279 830
Corporate income tax	1 674	3 794
Natural resources tax	2 972	6 089
State business risk fee	252	244
Total	382 102	421 187

As for 30.06.2019. the Group has no current tax debts.

Note No. 24 – Short-term other liabilities

Indicators	30.06.19. EUR	31.12.18. EUR
Salary debt	589 253	550 010
Other	2 808	3 654
Total	592 061	553 664

Note No. 25 – Long-term and short-term deferred income

Indicators	30.06.19. EUR	31.12.18. EUR
Long-term deferred income	1 550 195	1 373 945
Support for the project implementation in the frames of the Centre of Competence	108 944	145 258
Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	878 276	948 260
Support for the project "Complex solutions for increasing of energy efficiency in AS Rīgas elektromašīnbūves rūpnīca" implementation	324 675	280 427
Support for the project "Complex solutions for increasing of energy efficiency in AS Rīgas elektromašīnbūves rūpnīca, stage 2" implementation	238 300	-
Short-term deferred income	11 333	45 333
Total long-term and short-term deferred income	1 561 528	1 419 278

Notes to the consolidated financial statements (cont.)

Indicators	30.06.19. EUR	31.12.18. EUR
Deferred income at the beginning of the year	1 419 278	1 351 448
Changes within the reporting year	142 250	67 830
Deferred income at the end of the year	1 561 528	1 419 278

Explanation on the financial assistance received in the reporting year and 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	-
Centrālā finanšu un līgumu aģentūra (CFLA)	2018 - 2019	562 975	Increasing energy efficiency	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 in 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. 26 – Accrued liabilities

Indicators	30.06.19. EUR	31.12.18. EUR
Provisions for unused vacation compensation	387 320	387 320

Note No. 27 – Average number of employees

Indicators	30.06.19. EUR	31.12.18. EUR
Members of the Council	8	8
Members of the Board	6	5
Other employees	709	669
Average number of employees	723	682

Note No. 28 - 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	30.06.19. EUR	31.12.18. EUR
Claims	7 082 416	1 866 698
Liabilities	172 797	325 335

Indicators	01.01.19. - 30.06.19. EUR	01.01.18. - 30.06.18. EUR
Sale of goods	32 068 797	15 058 394
Purchase of goods	841 172	151 307

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 pledged or otherwise encumbered assets

As on 30.06.2019. all assets of parent Company have been pledged as security for a loan.

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

On behalf of the Group,
Chairperson of the Board

Mikalai Yerokhau

30 August 2019

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 2019.

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

Mikalai Yerokhau

30 August 2019