

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

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

**CONSOLIDATED ANNUAL REPORT FOR 6 MONTHS
OF THE YEAR 2016
(NON-AUDITED)**

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

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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.
	Andrey Petrov	until 22.07.16.
	Oleg Domskiy	until 11.11.15.
Vice-Chairperson of the Council	Kirill Nuzhin	from 11.11.15.
	Andrey Petrov	until 11.11.15.
Council Members	Andrey Sarkisov	from 15.07.15.
	Natalia Sarkisova	from 15.07.15.
	Maksim Gordyukov	from 22.07.16.
	Ivgeny Sokolsky	until 22.07.16.
	Andrey Isaev	until 15.07.15.
	Ekaterina Chamkina	until 15.07.15.
	Sergey Goncharov	until 15.07.15.
The parent Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Olga Pētersone	from 27.06.12.
	Aleksandrs Popadins	from 08.11.13.
	Nikolajs Čudinovs	from 30.01.15.
	Iļja Šestakovs	from 30.01.15.
	Aleksandrs Suvorkins	until 30.01.15.
	Maxim Savenkov	until 30.01.15.
The quantity of shares which belong to the members of Council and to the members of Board (%)	Nikolajs Čudinovs	0,09%
Accounting period	1 January 2016 – 30 June 2016	
Auditor	SIA "Grant Thornton Baltic", licence No. 155 Blaumaņa Street 22, Riga, LV-1011, Latvia Certified auditor Kaspars Rutkis Certified auditor's certificate No. 171	
Subsidiary (daughter) companies	AS „Latvo”, reģ. Nr. 40003184975 Ganību dambis 53, Riga, the Republic of Latvia Fixed capital 5 495 420 EUR Shares – 98.7 %	
	SIA „RER-Termināls”, reģ. Nr. 40203010535 Ganību dambis 53, Riga, the Republic of Latvia Fixed capital 1 140 000 EUR Shares – 100.0 %	

MANAGEMENT REPORT

Business activities of the Holding Company during the first half of 2016

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

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

The volume of net turnover of the Concern in the first half of the year 2016 was EUR 8 827 215, that is 33.9% greater than in the same period of the last year. At the same time the volume of gross profit was 1 mln. EUR that is 3,6 times greater than in the first half of 2015.

Taking into consideration the great volume of investments, which was equal to 5,4 mln. EUR in 2015, in 2016 the significant increase of volume of wear of fixed assets is expected, as a result in the first half of 2016 the amount of profit before interests, taxes, ware and tare (EBITDA) was 3 mln. EUR, that is 2,1 times greater than the volume of EBITDA which was equal to 1,4 mln. EUR in the first half of 2015. At the same time the net finance result is 0,2 mln. EUR of losses contrary to negligible net profit which was equal to 0,01 mln. EUR in the first half of 2015.

In the first half of 2016 the financial situation of the Concern became significantly more stable. The relative share of shareholders' equity of the Concern in an aggregate number of assets is 55,7% contrary to 49,5% in the same period of the last year, but the ratio of current assets to short-term liabilities is 1,25 contrary to 1,13 in the same period of the last year. The total assets in the first half of 2016 increased by 10%.

The management of JSC "RER" considers that the activity results of the Concern within the whole 2016 keep the noticeable growth tendency and the financial situation will keep improving.

Other indicators

The Holding Company has to fulfill environmental protection requirements while carrying out its operating activities. In order to comply with the said requirements the Company conducts the relevant activities on a regular basis, yet proportion of costs related to those activities is not significant in the total production cost price.

Risk factors related to the business activities of the Holding Company

Financial risks have been characterized on pages 12 and 13 in notes to financial statements of the annual report for 6 months of the year 2016.

Important events

5th of August 2016 Company Register of Republic of Latvia registered a subsidiary company of JSC «Riga electric machine building works» - «RER-Terminals» LTD, registration Nr. 40203010535, with share capital of 1 140 000 EUR and main business activity – materials and raw materials purchase and sale.

The sole founder of the newly established subsidiary company - JSC «Riga electric machine building works» made property investment in the share capital of «RER-Terminals» LTD, which consisted from the land plot and buildings located on it, including production unit buildings which were no longer used in production process.

Market value of property invested is 1 140 000 EUR. Establishment of the subsidiary company will not have any influence on commercial activity and financial results of JSC «Riga electric machine building works»

Further development of the Holding Company

The Concern plans to provide remarkable growth of production and sales in the second half of 2016, also to continue redirecting to production of electrical trains, metro trains, automobile equipment with asynchronous drive.

On behalf of the Holding Company,
Chairperson of the Board

Nikolajs Erohovs

30 August 2016

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR 6 MONTHS OF THE YEAR 2016

No.	Items	Note	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
1	Net turnover	1	8 827 215	6 593 710
2	Production costs of the goods sold	2	(7 816 987)	(6 316 626)
3	Gross profit or loss		1 010 228	277 084
4	Selling expenses	3	(231 797)	(177 143)
5	Administration expenses	4	(936 682)	(914 933)
6	Other operating income	5	274 893	1 203 783
7	Other operating expenses	6	(84 123)	(99 645)
8	Other interest income and similar income			41
9	Other interest payments and similar expenses	7	(202 268)	(210 915)
10	Profit or loss before extraordinary items and taxes		(169 749)	78 272
11	Profit or loss before tax		(169 749)	78 272
12	Other taxes	8	(30 848)	(66 003)
13	Profit or loss of the accounting period		(200 597)	12 269

Earnings per share	(0,034)	0.002
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2016

A S S E T S	Note	30.06.16. EUR	30.06.15. EUR
1. LONG-TERM INVESTMENTS			
I. Intangible investments	9		
1. Development costs		2 142 262	2 269 721
2. Concessions, licences and similar rights		335 378	462 182
3. Other intangible investments		10 583	10 957
I. Total		2 488 223	2 742 860
II. Fixed assets	9		
1. Land plots, buildings, constructions		17 052 966	12 334 605
2. Equipment and machinery		7 354 555	4 850 690
3. Other fixed assets and inventory		163 652	208 041
4. Creation of fixed assets		797 685	1 774 238
5. Prepayments for fixed assets			1 057 583
II. Total		25 368 858	20 225 157
III. Long-term financial investments			
1. Own shares		14 551	14 551
2. Other long-term debtors	10	7 558 156	8 098 237
III. Total		7 572 707	8 112 788
I. PART TOTAL AMOUNT		35 429 788	31 080 805
2. CURRENT ASSETS			
I. Stocks			
1. Raw materials, direct materials and auxiliary materials		2 878 463	2 657 421
2. Unfinished products		2 625 262	2 417 924
3. Finished products and goods for sale		401 857	498 798
4. Prepayments for goods		264 657	72 359
I. Total		6 170 239	5 646 502
II. Debtors			
1. Debts of buyers and customers	11	2 676 809	3 608 252
2. Other debtors	12	177 572	220 675
3. Deferred expenses	13	9 787	21 805
II. Total		2 864 168	3 850 732
IV. Cash	14	781	192
II. PART TOTAL AMOUNT		9 035 188	9 497 426
B A L A N C E		44 464 976	40 578 231

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2016

LIABILITIES	Note	30.06.16. EUR	30.06.15. EUR
1. SHAREHOLDERS' EQUITY			
1. Share capital (capital stock)	15	8 118 607	8 118 607
2. Reserve for revaluation of long-term investments	16	11 839 418	6 777 536
3. Other provisions		407 137	407 137
4. Undivided profit:			
a) Undivided profit of previous years		4 602 447	4 765 821
b) Undivided profit of the accounting year		(200 597)	12 269
1. PART TOTAL AMOUNT		24 767 012	20 081 370
2. PROVISIONS			
1. Other provisions	17	186 585	201 510
2. PART TOTAL AMOUNT		186 585	201 510
3. CREDITORS			
I. Long-term creditors			
1. Loans from credit institutions	18	7 627 648	7 146 161
2. Other loans	19		489 000
3. Debts to suppliers and contractors	20	519 534	519 534
4. Other creditors	21		1 104 357
5. Deferred income	22	1 518 712	962 755
6. Deferred tax liabilities		2 594 547	1 664 156
I. Total		12 260 441	11 885 963
II. Short-term creditors			
1. Loans from credit institutions	18	3 422 533	3 904 442
2. Advance payments received from buyers	23	89 978	38 407
3. Debts to suppliers and contractors	20	2 083 224	2 156 338
4. Taxes and social security payments	24	1 269 048	1 730 900
5. Other creditors	21	386 155	579 301
II. Total		7 250 938	8 409 388
3. PART TOTAL AMOUNT		19 511 379	20 295 351
BALANCE		44 464 976	40 578 231

CONSOLIDATED CASH FLOW STATEMENT FOR 6 MONTHS OF THE YEAR 2016
(prepared by indirect method)

I. Cash flow from operating activities

	Items	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
1	Profit or loss before extraordinary items and taxes	(169 749)	78 272
	ADJUSTMENTS		
	Depreciation of fixed assets	1 221 275	860 010
	Amortization of intangible investment value	341 568	211 734
	Income from sales of fixed assets	(2 176)	(5 064)
	Profit or loss from fluctuations of currency exchange rates	9 869	(908 345)
	Amounts written off fixed assets	761	11 861
	Reserve for revaluation of long-term investments	(3 171)	(10 347)
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	1 398 377	238 121
	ADJUSTMENTS		
	Increase or decrease of balance of receivables	(271 439)	(1 995 408)
	Increase or decrease of balance of inventories	(609 068)	580 150
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	115 788	1 846 710
	Increase or decrease of accruals	(30 848)	(199 807)
	Expenses for tax payments		(33 002)
3	Gross cash flow from operating activities	602 810	436 764
4	Expenses from company tax payments	(98 904)	(113 307)
5	Cash flow before extraordinary items	503 906	323 457
I	NET CASH FLOW FROM OPERATING ACTIVITIES	503 906	323 457

II. Cash flow from investing activities

	Items	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
1	Purchase of fixed assets and intangible investments	(459 112)	(1 535 870)
2	Income from sales of fixed assets and intangible investments	2 176	5 064
II	NET CASH FLOW FROM INVESTING ACTIVITIES	(456 936)	(1 530 806)

III. Cash flow from financing activities

	Items	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
1	Loans received	1 500 000	944 073
2	Expenses for repayment of loans	(1 542 610)	(570 000)
III	NET CASH FLOW FROM FINANCING ACTIVITIES	(42 610)	374 073

IV. Summary of cash inflow and outflow

	Items	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
I	Net cash flow from operating activities	503 906	323 457
II	Net cash flow from investing activities	(456 936)	(1 530 806)
III	Net cash flow from financing activities	(42 610)	374 073
	Result of fluctuations of currency exchange rates	(4 018)	797 599
	Net cash flow of the accounting period	342	(35 677)
	Cash and its equivalents in the beginning of the accounting period		35 869
		439	
	Cash and its equivalents at the end of the accounting period	781	192

**CONSOLIDATED STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 6 MONTHS OF 2016,
EUR**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 01.01.2015.	8 118 607	6 787 883	407 137	4 765 821	20 079 448
2. Long-term investment revaluation reserve decrease		(10 347)			(10 347)
3. Income or loss of the accounting period in accordance with the profit and loss account				12 269	12 269
4. Balance as of 30.06.2015.	8 118 607	6 777 536	407 137	4 778 090	20 081 370
5. Balance as of 01.01.2016.	8 118 607	11 842 471	407 137	4 602 447	24 970 662
6. Long-term investment revaluation reserve decrease		(3 053)			(3 053)
7. Income or loss of the accounting period in accordance with the profit and loss account				(200 597)	(200 597)
8. Balance as of 30.06.2016.	8 118 607	11 839 418	407 137	4 401 850	24 767 012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

In December 2012 JSC "Riga Electric Machine Building Works" acquired 98.7% shares of JSC "Latvo", reg. No. 40003184975 capitalizing debt obligations of JSC "Latvo" to JSC 'Riga Electric Machine Building Works'.

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.

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

ACCOUNTING POLICY

Principles of preparing the financial statement

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

The balance data of the consolidated financial report of the holding company, the parent company's financial report and the subsidiary company's financial reports are identical. Processing the financial report the subsidiary companies 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 to the turnover cost 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.

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.

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

Capital assets and intangible assets

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.

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.

Items	30.06.16. EUR	30.06.15. EUR
Unfinished construction objects	23 329	252 605
Costs of capital asset creation	774 356	1 521 633
Total	797 685	1 774 238

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.

Receivables

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

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

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

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

Debts of debtors

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

Currency unit and recalculation of foreign currency

Indicators reflected in the annual report have been given in 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 is takes place.

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

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 invest revaluation reserve is reduced if the revaluated object has been removed or sold.

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.

Holiday provisions are calculated by multiplying the average earnings of an employee by the average number of holidays not taken by an employee.

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

Government grants

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

Deferred tax

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

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 asset 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:

Notes to the consolidated financial statements (cont.)

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. A significant part of the Company'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 Holding Company is at the interest rate risk due to its short-term and long-term loans and financial leasing transactions.

Liquidity risk

The Holding Company has control over its liquidity risk by ensuring the appropriate financing with the help of a credit line granted by a Latvian credit institution.

Credit risk

The Holding Company is at the credit risk due to its debts of customers and clients. It is characteristic of the Company that credit risk concentrates on a separate business partner or a group of business partners of similar type.

NOTES TO CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR 6 MONTHS OF THE YEAR 2016

Note No. 1 – Net turnover

Country	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
Latvia	89 035	210 040
Russia	8 090 083	5 793 673
Ukraine	46 980	15 660
Belarus	4 594	5 975
Slovakia	331 513	15 289
Finland		6 903
Uzbekistan	250 401	542 414
Georgia	11 422	
Other	3 187	3 756
Total	8 827 215	6 593 710

Note No. 2 – Production costs of products sold

Indicators	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
Salaries	1 519 680	1 506 887
Social insurance contributions	344 461	344 347
Costs of materials	3 889 458	2 857 886
Energy resources	509 402	474 993
Depreciation of fixed assets and intangible investments, write-off of intangible investments value	1 243 596	866 978
Business trip costs	37 724	28 407
Repair costs and remuneration for works from outside	178 950	174 180
Losses due to rejects	13 230	3 014
Environmental protection costs	16 045	5 142
Other costs	64 441	54 792
Total	7 816 987	6 316 626

Notes to consolidated comprehensive income statement (cont.)

Note No. 3 – Selling costs

Indicators	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
Packing material and package	25 727	23 539
Transportation expenses	114 815	99 486
Salaries	39 208	41 700
Social insurance contributions	9 026	9 733
Other selling costs	43 021	2 685
Total	231 797	177 143

Note No. 4 – Administrative costs

Indicators	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
Communications costs	9 899	11 332
Reimbursement for legal services		993
Cash circulation and expense and extra costs	14 384	20 441
Transportation expenses	12 084	10 948
Representation expenses		2 185
Salaries	484 218	550 582
Social insurance contributions	107 422	112 545
Energy resources	21 494	12 976
Depreciation of capital assets	212 626	140 733
Business trip costs	13 374	19 849
Security services		11 349
Other administrative costs	61 181	21 000
Total	936 682	914 933

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

Indicators	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
Profit gained as a result of other sales (lease, other)	58 289	47 654
Sale of capital assets	2 176	5 064
Income related to maintenance of social sphere		13 225
Profit from fluctuations of exchange rates		908 345
Decrease in revaluation reserve of capital assets	3 171	10 347
Decrease in holiday provision		199 807
Decrease in deferred income	208 926	
Other income	2 331	19 341
Total	274 893	1 203 783

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

Indicators	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
Penalty and contractual penalties	23 069	27 873
Costs related to maintenance of social sphere	13 676	24 272
Costs not related to operating activities of the Company	35 324	31 414
Loss from fluctuations of exchange rates	9 869	
Removal of capital assets		11 861
Other costs	2 185	4 225
Total	84 123	99 645

Notes to the consolidated financial statements (cont.)

Note No. 7 – Other interest payments and similar costs

Indicator	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
Loan agreements	157 659	159 986
Credit line agreements	44 609	44 339
Other		6 590
Total	202 268	210 915

Note No. 8 – Other taxes

Indicators	01.01.16. - 30.06.16. EUR	01.01.15. - 30.06.15. EUR
Real estate tax on premises (buildings)	24701	55 983
Real estate tax on land	6147	10 020
Total	30 848	66 003

Note No. 9 – Statement of movement of intangible assets and capital assets, EUR

	Intangible investments			Capital assets			
	Developme nt costs	Licences and similar rights	Other intangible investme nts	Land, premises, buildings*	Equipment and machinery	Other capital assets	Creation of capital assets
Initial value							
Remaining amount as at 01.01.16.	2 142 347	634 447	95 324	17 661 671	14 154 298	670 719	643 332
Purchase	274 624				21 649	8 486	184 488
Removed				(778)	(21 823)	(16 100)	(30 135)
Write-off of value	(114 479)						
Remaining amount as at 30.06.16.	2 302 492	634 447	95 324	17 660 893	14 154 124	663 105	797 685
Depreciation							
Remaining amount as at 01.01.16.	278	235 667	81 006		6 234 493	489 121	
Calculated	159 952	63 402	3 735	607 944	586 899	26 432	
Removed				(17)	(21 823)	(16 100)	
Remaining amount as at 30.06.16.	160 230	299 069	84 741	607 927	6 799 569	499 453	
Remaining value							
01.01.16.	2 142 069	398 780	14 318	17 661 671	7 919 805	181 598	643 332
30.06.16.	2 142 262	335 378	10 583	17 052 966	7 354 555	163 652	797 685

* In 2016 assessed value of the premises accounted EUR 6 373 640, assessed value of the plot accounted for EUR 1 586 075.

Note No. 10 – Other long-term debtors

Rādītāji	30.06.16. EUR	30.06.15. EUR
Long-term loan of the subsidiary (daughter) company (until 31.12.17.)	7 558 156	8 098 237
Total	7 558 156	8 098 237

Notes to the consolidated financial statements (cont.)

Note No. 11 – Debts of customers and clients

Indicators	30.06.16. EUR	30.06.15. EUR
Debts of customers and clients (for the goods and services)	2 676 809	3 608 252
Total	2 676 809	3 608 252

Note No. 12 – Other debtors

Indicators	30.06.16. EUR	30.06.15. EUR
Taxes paid in advance	6 280	984
Overpaid taxes	150 589	137 556
Rental debts	3 901	6 985
Processing of goods	9 567	70 634
Other	7 235	4 516
Total	177 572	220 675

Note No. 13 – Costs of the following periods

Indicators	30.06.16. EUR	30.06.15. EUR
Insurance	1 885	1 818
Payment for use of design documentation	5 096	13 831
Certification	2 217	3 246
Other	589	2 910
Total	9 787	21 805

Note No. 14 – Cash

Indicators	30.06.16. EUR	30.06.15. EUR
Current accounts in banks	781	192

Note No. 15 – 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	30.06.16. EUR	30.06.15. EUR
Residents, including	270 938	274 111
- physical entities	234 394	237 567
- legal entities	36 544	36 544
Non-residents, including	7 847 669	7 844 496
- Russia	5 149 997	1 415 438
- Canada	7 167	7 167
- British Virgin Islands	814 829	4 549 388
- Belize	1 867 279	1 867 279
- Lithuania	2 446	3 823
- Estonia	5 951	1 401
Total	8 118 607	8 118 607

Company shareholders (over 5%) as of 30.06.2016

Name	Ownership interest (%)
SAS Krona Grup, Russia	46
Mals Company Ltd., Belize	23
AAS Baltijskij Bank, Russia	17.40
Imfelant Productions Inc., British Virgin Islands	10.05

Notes to the consolidated financial statements (cont.)

Note No. 16 – Reserve for revaluation of long-term investments

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

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

Note No. 17 – Other provisions

Indicators	30.06.16. EUR	30.06.15. EUR
Holiday provisions	182 040	192 594
Other provisions	4 545	8 916
Total	186 585	201 510

Note No. 18 – Long-term and short-term loans from credit institutions

Indicators	30.06.16. EUR	30.06.15. EUR
Latvian credit institutions, loan agreement, including	8 052 648	8 057 650
Long-term debt	7 627 648	7 146 161
Short-term debt	425 000	911 489
Latvian credit institutions, credit line, including	2 997 533	2 992 953
Short-term debt	2 997 533	2 992 953

As on 30.06.2016 all assets of parent Company have been pledged as security for a loan.

Note No. 19 – Other loans

Indicators	30.06.16. EUR	30.06.15. EUR
Other loans, including		489000
Long-term debt		489000

Note No. 20 – Debts to suppliers and contractors

Indicators	30.06.16. EUR	30.06.15. EUR
Long-term creditors, including	519 534	519 534
Foreign suppliers	519 534	519 534
Short-term creditors, including	2 083 224	2 156 338
Local suppliers	1 457 584	1 343 381
Foreign suppliers	625 640	812 957

Note No. 21 – Long-term and short-term other creditors

Indicators	30.06.16. EUR	30.06.15. EUR
Long-term creditors, including		1 104 357
Other creditors		57 123
Settlement of the debts of other companies		1 047 234
Short-term creditors, including	386 155	579 301
Salary debt	366 216	466 656
Support payments		2 544
Trade union membership fee		486
Earnest		97 885
Other	19 939	11 730

Notes to the consolidated financial statements (cont.)

Note No. 22 – Deferred income

Indicators	30.06.16. EUR	30.06.15. EUR
Support of European Foundations for the project implementation in the frames of the Centre of Competence	290 516	102 712
Support of European Foundations for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	1 228 196	860 043
Total	1 518 712	962 755

Note No. 23 – Advances received from customers

Indicators	30.06.16. EUR	30.06.15. EUR
Local customers	219	8 897
Foreign customers	89 759	29 510
Total	89 978	38 407

Note No. 24 – Taxes and social insurance contributions

Indicators	30.06.16. EUR	30.06.15. EUR
Personal income tax	524 781	672 296
Mandatory social insurance contributions	735 883	1 003 235
Natural resources tax	2 061	1 578
Income tax		20 594
Real estate tax on land		5 010
Real estate tax on premises (buildings)		27 991
State business risk fee	200	196
Total	1 262 925	1 730 900

As for 30.06.2016 the Holding Company has no current tax debts.

On behalf of the Holding Company,

Chairperson of the Board

Nikolajs Erohovs

30 August 2016

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 as of 30 June 2016 and of its financial performance for the period 6 months of 2016.

In preparing consolidated financial statements for 6 months of 2016, management selected suitable accounting policies, made judgments and estimates that are reasonable and prudent.

The Management Board is responsible for organizing accounting, they are also responsible for safeguarding the assets of the Group.

On behalf of the Holding Company,

Chairperson of the Board

Nikolajs Erohovs

30 August 2016