

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

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

**ANNUAL REPORT  
FOR THE YEAR 2016  
(AUDITED)**

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## INFORMATION ABOUT THE 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 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	Kirills Nužins	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 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.
	Ilja Šestakovs	from 30.01.15.
	Grigorijs Kapustins	from 18.10.16.
	Aleksandrs Suvorkins	until 30.01.15.
	Maxim Savenkov	until 30.01.15.
	Nikolajs Čudinovs	until 06.09.16.
Revision Committee of the Company	Obligations of the Revision Committee are performed by the Company Council according to Minutes No.1 of ordinary meeting of shareholders dated June 19, 2015.	
Annual report drawn up by	Chief Accountant Svetlana Statina	
Accounting period	1 January 2016 – 31 December 2016	
Subsidiary companies	AS „LATVO”, reģ. Nr. 40003184975 Ganību dambis 53, Riga, the Republic of Latvia Shares – 98.7 %  SIA „RER-Termināls”, reģ. Nr. 40203010535 Ganību dambis 53, Riga, the Republic of Latvia Shares – 82.46 %	
Auditor	SIA "Grant Thornton Baltic", licence Nr.155 Blaumaņa iela 22, Riga, LV-1011, Latvija Certified auditor Kaspars Rutkis Certified auditor's certificate No. 171	

## MANAGEMENT REPORT

### Business activities of the Company in 2016

Basic business activities of JSC "Rīgas elektromašīnbūves rūpnīca" (hereinafter – RER) 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 - Company's turnover in 2016 amounted to 20.05 mil. EUR, which is 7.07 mils. EUR or 54.46% more than in the previous 2015. In its turn, the amount of gross income amounted to 3.0 mil. EUR, which is an increase of 5.14 times to the level of gross profit in 2015.

Profit Amount before interest, taxes, depreciation and amortization (EBITDA) amounted to 3.8 mil for the year 2016. EUR, which reached to 2015 2.62 mil. EUR 1.5 times higher and the net profit of the Company for 2016 amounted to 0.26 mil. EUR to 0.23 mil. EUR loss in 2015.

In 2016, the Company's financial situation has stabilized considerably. The share of equity in the Group's total assets of 56.69% to 53.96% in 2015, and the ratio of current assets to current liabilities ratio of 1.06 to 1.04 in 2015. The ratio of net debt to EBITDA (Lavarage) is 2.71, and the ratio of EBITDA to current liabilities on borrowings (DSCR) of 2.47.

### *Other indicators*

In 2016 the average number of employees was 548 people, the average monthly salary was EUR 791.

RER 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 Company

Financial risks have been characterized on page 15 in notes to financial statements of the annual report 2016.

### Significant events in 2016

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 Company

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

### Development Measures

JSC "Riga Electric Machine Building Works" (JSC "Rīgas elektromašīnbūves rūpnīca") is planning to implement the project "Complex solutions in Riga Electric Machine Building Works for improvement of energy efficiency".

The project will be implemented within the specific objective "Promoting the efficient use of energy resources, reducing energy consumption and transition to RES in the manufacturing sector" of the EU Structural Funds support programme 4.1.1.

### Events after the balance sheet date

3rd of March 2017 in the Register of Enterprises registered a decrease in the participation of JSC "Riga Electric Machine Building Works" in the equity capital of the subsidiary OOO «RER-Termināls», reg. Number 40203010535, up 29.82%.

The second participant «BSCT» Company purchased additional 6,000 shares of the capital «RER-Termināls» Ltd., after which it was owned 8,000 shares, or 70.18%.

The resulting sale of shares of the capital sum of money EUR 600 000 is directed to repay the loan liabilities of REZ to AS "Meridian Trade Bank".

21 of April 2017 JSC "Rīgas elektromašīnbūves rūpnīca" has received a filled-in standard form for the notification regarding significant amount of capital shares possession from company's share holder AAS "Baltijskij Bank". According to received form AAS "Baltijskij Bank" had sold all the shares of JSC "Rīgas elektromašīnbūves rūpnīca" previously owned by it (17.40% from shares with voting rights).

In turn, 21 of April 2017 JSC "Rīgas elektromašīnbūves rūpnīca" has received from CROWNING FINANCE CYPRUS LIMITED a filled-in standard form for the notification regarding the acquisition of a significant amount of capital shares, according to which shareholder CROWNING FINANCE CYPRUS LIMITED purchased 1 008 994 shares of JSC "Rīgas elektromašīnbūves rūpnīca", which is 17.40% from shares with voting rights.

### Distribution of profit

The shareholders of JSC "Rīgas elektromašīnbūves rūpnīca" are offered to redirect company's profit of 2016 in the amount of EUR 259 033 to development of the Company.

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Iļja Šestakovs

Grigorijs Kapustins

27 April 2017

### INCOME STATEMENT

Items	Note	31.12.16. EUR	31.12.15. EUR
Net turnover	1		
a) from other main activity types		20 054 718	12 983 559
Production cost of goods sold, acquisition cost of goods sold or services provided	2	(17 054 148)	(12 399 549)
<b>Gross profit or loss</b>		<b>3 000 570</b>	<b>584 010</b>
Selling expenses	3	(443 410)	(332 152)
Administration expenses	4	(2 200 364)	(1 918 745)
Other operating income	5	400 899	2 326 166
Other operating expenses	6	(235 936)	(1 041 609)
Income from participation in: a) the capital of subsidiary companies	7	-	619 905
Other interest income and similar income: a) from other persons		-	44
Interest payments and similar expenses: a) to other persons	8	(401 512)	(442 889)
Profit or loss before the corporate income tax		120 247	(205 270)
Corporate income tax for the reporting year		-	-
Profit or loss after calculating the corporate income tax		120 247	(205 270)
Income or expenditure from changes to deferred tax assets or liabilities	9	138 786	(30 162)
Profit or loss of the reporting year		<b>259 033</b>	<b>(235 432)</b>

Earnings per share	0,044	(0,04)
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Notes on pages 11 to 25 form are integral part of these financial statements.

## BALANCE SHEET

<b>A S S E T S</b>	<b>Note number</b>	<b>31.12.15. EUR</b>	<b>31.12.14. EUR</b>
<b>LONG-TERM INVESTMENTS</b>			
<b>Intangible assets</b>	10		
Development expenses		1 758 126	2 142 069
Concessions, patents, licences and similar rights		271 976	398 780
Other intangible assets		55 787	14 318
Advance payments for intangible assets		13 200	
<b>Total intangible assets</b>		<b>2 099 089</b>	<b>2 555 167</b>
<b>Fixed assets</b>	11		
Real estate:			
a) land, buildings and structures		15 473 398	17 661 671
Technology devices and equipment		7 009 406	7 919 805
Other fixed assets and inventory		214 495	180 291
Expense of tangible assets and construction in progress		847 697	643 332
Advance payments for fixed assets		90 979	
<b>Total fixed assets</b>		<b>23 635 975</b>	<b>26 405 099</b>
<b>Long-term financial investments</b>			
Shareholding in the capital of subsidiary companies	12	6 439 400	5 499 400
<b>Total long-term financial investments</b>		<b>6 439 400</b>	<b>5 499 400</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>32 174 464</b>	<b>34 459 666</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Raw materials, direct materials and auxiliary materials	13	3 095 221	2 743 620
Work in progress		2 419 467	2 188 999
Finished products and goods for sale	14	814 752	363 895
Advance payments for inventories		146 848	373 679
<b>Total inventories</b>		<b>6 476 288</b>	<b>5 670 193</b>
<b>Receivables</b>			
Trade receivables	15	1 816 016	1 581 491
Amounts owed by related companies	16	166 573	21 393
Other receivables	17	134 593	764 864
Prepaid expenses	18	7 062	12 672
<b>Total receivables</b>		<b>2 124 244</b>	<b>2 380 420</b>
<b>Cash</b>	19	73 106	214
<b>TOTAL CURRENT ASSETS</b>		<b>8 673 638</b>	<b>8 050 827</b>
<b>TOTAL ASSETS</b>		<b>40 848 102</b>	<b>42 510 493</b>

### BALANCE SHEET

LIABILITIES	Note number	31.12.16. EUR	31.12.15. EUR
<b>EQUITY CAPITAL</b>			
Share capital (equity capital)	20	8 118 607	8 118 607
Long-term investment revaluation reserve	21	11 801 574	11 842 471
Reserves:			
a) other reserves		407 137	407 137
Retained earnings or uncovered losses of previous years		2 568 422	2 803 854
Profit or loss of the reporting year		259 033	(235 432)
<b>TOTAL EQUITY CAPITAL</b>		<b>23 154 773</b>	<b>22 936 637</b>
<b>CREDITORS</b>			
<b>Long-term liabilities</b>			
Borrowings from credit institutions	22	5 552 067	7 278 769
Trade payables	23	184 647	519 534
Deferred income tax liability		2 449 107	2 594 665
Deferred income	24	1 518 712	1 428 575
<b>Total long-term liabilities</b>		<b>9 704 533</b>	<b>11 821 543</b>
<b>Short-term liabilities</b>			
Borrowings from credit institutions	22	4 759 279	3 813 077
Advance payments from customers	25	37 678	12 959
Trade payables	23	1 817 873	1 981 078
Taxes and mandatory state social insurance contributions	26	761 742	1 451 492
Other liabilities	27	381 458	326 908
Accrued liabilities	28	230 766	166 799
<b>Total short-term liabilities</b>		<b>7 988 796</b>	<b>7 752 313</b>
<b>TOTAL CREDITORS</b>		<b>17 693 329</b>	<b>19 573 856</b>
<b>TOTAL LIABILITIES</b>		<b>40 848 102</b>	<b>42 510 493</b>

Notes on pages 11 to 25 form are integral part of these financial statements.



**CASH FLOW STATEMENT**  
(indirect method)

**Cash flow from operating activities**

Items	31.12.16. EUR	31.12.15. EUR
Profit or loss before taxation	120 247	(205 270)
<b>ADJUSTMENTS</b>		
Adjustments of decrease in value of equity capital	2 432 995	1 823 551
Amortization of intangible assets	729 833	424 367
Income from sales of fixed assets	(7 140)	(561 749)
Unrealized profit from fluctuations of currency exchange rate	(24 556)	64 468
Proceeds from investment in an affiliate and associate	-	(619 905)
Amounts written off fixed assets	2 242	777 445
Reserve for revaluation of long-term investments	(47 669)	(327 589)
Other operating income	(3 812)	-
<b>Cash Flow before adjustments on changes in current assets and liabilities</b>	<b>3 202 140</b>	<b>1 375 318</b>
<b>ADJUSTMENTS FOR</b>		
Increase (-)/ decrease (+) in trade and other receivables	(119 104)	1 843 611
Increase (-)/ decrease (+) in inventories	(1 032 926)	857 779
Increase (+)/ decrease (-) in trade and other payables	(977 545)	(165 068)
<b>Gross cash flow from operating activities</b>	<b>1 072 565</b>	<b>3 911 640</b>
Corporate tax paid	-	(133 900)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1 072 565</b>	<b>3 777 740</b>

**Cash flow from investing activities**

Items	31.12.16. EUR	31.12.15. EUR
Proceeds from investment properties	200 000	-
Purchase of non-current assets	(971 876)	(4 249 318)
Proceeds from sale of fixed and intangible assets	7 140	561 749
Dividends received	536 905	83 000
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(227 831)</b>	<b>(3 604 569)</b>

**Cash flow from financing activities**

Items	31.12.16. EUR	31.12.15. EUR
Loans from credit institutions received	1 585 237	1 818 370
Loans from credit institutions repaid	(2 365 737)	(1 892 053)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(780 500)</b>	<b>(73 683)</b>

**Summary of cash inflow and outflow**

Items	31.12.16. EUR	31.12.15. EUR
Net cash flow from operating activities	1 072 565	3 777 740
Net cash flow from investing activities	(227 831)	(3 604 569)
Net cash flow from financing activities	(780 500)	(73 683)
Result of fluctuations of currency exchange rates	8 658	(99 602)
<b>Net increase/decrease in cash and cash equivalents</b>	<b>72 892</b>	<b>(114)</b>
<b>Cash and its equivalents in the beginning of the accounting period</b>	<b>214</b>	<b>328</b>
<b>Cash and its equivalents at the end of the accounting period</b>	<b>73 106</b>	<b>214</b>

Notes on pages 11 to 25 form are integral part of these financial statements.

#### STATEMENT OF CHANGES IN EQUITY, EUR

Kind of changes	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Total equity
<b>As at 31.12.2014</b>	<b>8 118 607</b>	<b>6 787 883</b>	<b>407 137</b>	<b>2 803 854</b>	<b>18 117 481</b>
Long-term investment revaluation reserve decrease		(327 589)			(327 589)
Long-term investment revaluation reserve increase – effect of deferred enterprise income tax		47 200			47 200
Long-term investment revaluation reserve increase - revaluation		6 280 140			6 280 140
Calculation of deferred enterprise income tax – revaluation effect		(945 163)			(945 163)
Profit or loss for the financial year				(235 432)	(235 432)
<b>As at 31.12.2015</b>	<b>8 118 607</b>	<b>11 842 471</b>	<b>407 137</b>	<b>2 568 422</b>	<b>22 936 637</b>
Long-term investment revaluation reserve decrease		(40 897)			(40 897)
Profit or loss for the financial year				259 033	259 033
<b>As at 31.12.2016</b>	<b>8 118 607</b>	<b>11 801 574</b>	<b>407 137</b>	<b>2 827 455</b>	<b>23 154 773</b>

Notes on pages 11 to 25 form are integral part of these financial statements.

## NOTES

### ACCOUNTING POLICY

#### Basis for report preparation

Annual report has been prepared in accordance with the Laws of the Republic of Latvia "On Accounting", the Annual Accounts and consolidated annual accounts of the law and "Annual report Law enforcement regulations", regulations of the Cabinet of Ministers Nr 775.

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. Deferred tax liabilities are recognized, measured and presented in the financial statements in accordance with international accounting standards NO 12 "Income Taxes".

#### 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.

#### Capital assets and intangible assets

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

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

Intangible assets:

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

Capital assets:

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

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

Notes (cont.)

Accounting policy (cont.)

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.

	<b>31.12.16. EUR</b>	<b>31.12.15. EUR</b>
Unfinished construction objects	-	23 329
Costs of capital asset creation	847 697	620 003
<b>Total</b>	<b>847 697</b>	<b>643 332</b>

Financial investments

Investments into related companies (including companies with over 50% of capital assets owned by the Company) and into the capital of associated companies are calculated according with the cost of acquisition. After initial recognition, investments into related companies and associated companies are calculated according with their initial cost with the deduction of decrease in value loss. In case any developments or change of circumstances show that balance value of investments into related companies cannot be refunded, the cost of correspondent investment into related company is reconsidered in order to define its decrease. Dividends received from subsidiary companies are recognized as revenue at the moment when legal right to dividends appears.

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. 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.

Notes (cont.)

Accounting policy (cont.)

#### Currency unit and recalculation of foreign currency

Indicators reflected in the annual report have been given in the 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.

	31.12.16., 1 EUR	31.12.15., 1 EUR
USD	1.0541	1.0926
RUB	64.300	79.754

#### Long-term and short-term items

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

#### Other securities

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

#### Long-term investment revaluation reserve

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

#### Provisions

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

*Provisions for warranty repairs.* A warranty period of the Company's basic products is 2 - 3 years. In 2016 warranty repair costs is of no high importance, provisions for warranty repairs are not created.

#### Accrued liabilities

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

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

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

#### Government grants

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

Notes (cont.)  
Accounting policy (cont.)

#### Deferred tax

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

#### Application of assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as income and expenses. The management has assessed its income statement and concluded that the financial statements give a true and fair view of the financial position of the Company, based on all the information currently available.

#### Reclassification

Certain items in the financial report for 2015 reclassified to conform to the shape of the reflection in the financial report for the year.

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

Article of financial statements	2015 before reclassification EUR	Reclassification EUR	2015 after reclassification EUR
<u>Comprehensive income statement</u>			
Administrative expenses	(1 786 740)	(132 005)	(1 918 745)
Profit or loss before corporate income tax	(73 265)	(132 005)	(205 270)
Other taxes	(132 005)	132 005	-
<u>Statement of financial position</u>			
Other provisions	166 799	(166 799)	-
Accrued liabilities	-	166 799	166 799
<u>Cash flow statement</u>			
Profit or loss before corporate income tax	(73 265)	(132 005)	(205 270)
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	1 507 323	(132 005)	1 375 318
Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	49 507	(214 575)	(165 068)
Increase or decrease of accruals	(214 575)	214 575	-
Expenses for tax payments	(132 005)	132 005	-

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

Notes (cont.)

Accounting policy (cont.)

### Risk management

Risk management is an integral part of management process of the Company. Risk management in the Company is controlled by the Council and the Board of the Company. In its activities AS RER 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 AS RER is exposed to in the course of commercial activities, are financial risks.

#### *Financial risk*

##### *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 2016 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 Company is at the interest rate risk due to its short-term and long-term loans and financial leasing transactions.

##### *Liquidity risk*

The 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 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.

### Earnings per share

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

## **NOTES TO INCOME STATEMENT FOR THE YEAR 2016**

### **Note No. 1 – Net turnover**

Type of company's activity	NACE code	31.12.16. EUR	31.12.15. EUR
Manufacturing of electric machines and machinery	2711	20 054 718	12 983 559

Notes (cont.)

**Net sales by geographical markets**

Country	31.12.16. EUR	31.12.15. EUR
Latvia	1 630 505	1 450 969
Russia	14 906 694	9 619 312
Belarus	130 604	83 314
Slovakia	276 841	72 918
Poland	-	91 697
Uzbekistan	3 085 983	1 643 383
Kazakhstan	11 070	-
Georgia	11 422	-
Other	1 599	21 966
<b>Total</b>	<b>20 054 718</b>	<b>12 983 559</b>

**Note No. 2 – Production cost of goods sold, acquisition cost of goods sold or services provided**

Indicators	31.12.16. EUR	31.12.15. EUR
Salaries	3 498 363	2 709 797
Social insurance contributions	797 397	617 563
Costs of materials	8 495 304	6 070 519
Energy resources	1 168 899	778 199
Depreciation of capital assets and intangible assets	2 463 479	1 729 963
Business trip costs	74 570	51 657
Repair costs and remuneration for works from outside	369 829	178 521
Costs of production quality control	-	146 418
Losses due to rejects	34 519	9 129
Environmental protection costs	23 090	9 937
Other costs	128 698	97 846
<b>Total</b>	<b>17 054 148</b>	<b>12 399 549</b>

**Note No. 3 – Selling expenses**

Indicators	31.12.16. EUR	31.12.15. EUR
Packing material and package	49 220	46 709
Transportation expenses	237 843	194 033
Salaries	73 770	69 297
Social insurance contributions	17 047	15 962
Other selling costs	65 530	6 151
<b>Total</b>	<b>443 410</b>	<b>332 152</b>

**Note No. 4 – Administrative expenses**

Indicators	31.12.16. EUR	31.12.15. EUR
Communications costs	19 323	23 734
Reimbursement for legal services	1 786	3 140
Annual report and auditing services	12 000	8 110
Cash circulation and expense and extra costs	42 956	37 382
Transportation expenses	25 894	23 394
Representation expenses	9 829	5 598
Salaries	1 080 190	1 055 746
Social insurance contributions	240 298	207 298
Energy resources	66 311	26 134
Depreciation of capital assets	427 113	279 955
Business trip costs	25 458	34 413
Security services	-	11 349
Consulting services for the projects of the European funds	-	19 304
Real estate tax	119 395	132 005
Other administrative costs	129 811	51 183
<b>Total</b>	<b>2 200 364</b>	<b>1 918 745</b>



Notes (cont.)

**Note No. 5 – Other operating income**

Indicators	31.12.16. EUR	31.12.15. EUR
Profit gained as a result of other sales (lease, other)	103 234	87 872
Income from sales of fixed assets	7 140	561 749
Income related to maintenance of social sphere	-	18 545
Decrease in revaluation reserve of capital assets	47 669	327 589
Decrease in holiday provision	-	214 575
Decrease in deferred income	208 926	28 108
Writing off unclaimed debts to suppliers and contractors	-	1 048 267
Net gains from exchange rate fluctuations	24 556	-
Other income	9 374	39 461
<b>Total</b>	<b>400 899</b>	<b>2 326 166</b>

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	7 140	0.00	7 140	7 140

**Note No. 6 – Other operating expenses**

Indicators	31.12.16. EUR	31.12.15. EUR
Penalty and contractual penalties	46 441	66 525
Costs related to maintenance of social sphere	28 334	41 571
Costs not related to operating activities of the Company	73 041	64 300
Loss from fluctuations of exchange rates	-	64 468
Removal of capital assets	2 242	777 445
Write-off of bad debtors	20 528	-
Increase in holiday provision	63 967	-
Other costs	1 383	27 300
<b>Total</b>	<b>235 936</b>	<b>1 041 609</b>

**Note No. 7 - Income from participation**

Indicator	31.12.16. EUR	31.12.15. EUR
Dividends from subsidiary companies	-	619 905

**Note No. 8 – Interest payments and similar expenses**

Indicator	31.12.15. EUR	31.12.14. EUR
Loan agreements	309 765	353 699
Credit line agreements	91 747	89 187
Other	-	3
<b>Total</b>	<b>401 512</b>	<b>442 889</b>

Notes (cont.)

**Note No. 9 – Income or expenditure from changes to deferred tax assets or liabilities**

**Deferred enterprise income tax displayed in the balance statement**

Rādītāji	31.12.16. EUR	31.12.15. EUR
<b>Liabilities</b>		
Long-term investment revaluation effect	2 089 162	2 095 934
Fixed assets depreciation temporary difference effect	399 736	530 870
Total liabilities	2 488 898	2 626 804
<b>Assets</b>		
Accumulated leave costs temporary difference effect	(34 614)	(25 020)
Temporary difference on provision for doubtful receivables	-	(1 574)
Temporary difference on provision for impaired materials	(5 177)	(5 545)
Total assets	(39 791)	(32 139)
<b>Deferred enterprise income tax displayed in the balance statement</b>	<b>2 449 107</b>	<b>2 594 665</b>

Indicators	31.12.16. EUR	31.12.15. EUR
Deferred corporate income tax at the beginning of year	2 594 665	1 666 540
Increase/decrease of deferred corporate income tax for reporting period	(145 558)	928 125
Deferred corporate income tax at the end of year	2 449 107	2 594 665

**Deferred enterprise income tax displayed in the profit or loss statement**

Rādītāji	31.12.16. EUR	31.12.15. EUR
Deferred tax expenditure in profit and loss account of accounting year	(138 786)	30 162

**NOTES TO BALANCE SHEET FOR THE YEAR 2016**

**Note No. 10 – Intangible assets, EUR**

	Research and development costs	Concessions, patents, licenses, trade marks and similar rights	Other intangible assets	Advances for intangible assets	Total intangible assets
Acquisition value 01.01.16.	2 142 347	634 447	95 324	-	2 872 118
Additions	211 616		48 939	18 640	279 195
Disposal	(274 749)		(1 416)	(5 440)	(281 605)
Acquisition value 31.12.16.	2 079 214	634 447	142 847	13 200	2 869 708
Accumulated amortization 01.01.16.	278	235 667	81 006		316 951
Amortization charge	320 810	126 804	7 470		455 084
Amortization of disposals			(1 416)		(1 416)
Accumulated amortization 31.12.16.	321 088	362 471	87 060		770 619
Net book value 01.01.16.	2 142 069	398 780	14 318	-	2 555 167
Net book value 31.12.16.	1 758 126	271 976	55 787	13 200	2 099 089

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.

Notes (cont.)

**Note No. 11 – Fixed assets, EUR**

	Real estate*	Machinery and equipment	Other fixed assets and inventory	Fixed assets under construction	Advances for fixed assets	Total fixed assets
Acquisition value 01.01.16.	17 661 671	14 154 298	662 840	643 332	-	33 122 141
Additions	135 117	258 091	90 419	711 772	90 979	1 286 378
Disposal	(1 123 731)	(111 999)	(20 235)	(507 407)		(1 763 372)
Acquisition value 31.12.16.	16 673 057	14 300 390	733 024	847 697	90 979	32 645 147
Accumulated amortization 01.01.16.	-	6 234 493	482 549			6 717 042
Amortization charge	1 209 771	1 167 010	56 214			2 432 995
Amortization of disposals	(10 112)	(110 519)	(20 234)			(140 865)
Accumulated amortization 31.12.16.	1 199 659	7 290 984	518 529			9 009 172
Net book value 01.01.16.	17 661 671	7 919 805	180 291	643 332	-	26 405 099
Net book value 31.12.16.	15 473 398	7 009 406	214 495	847 697	90 979	23 635 975

\*In 2016 assessed value of the premises accounted EUR6 373 640, assessed value of the plot accounted for EUR 1 586 075.

**Note No. 12 – Participation in capital of related companies (subsidiaries)**

Indicators	31.12.16.	31.12.15.
<b>AS „LATVO”, reģ. Nr. 40003184975, Ganību dambis 53, Rīga, the Republic of Latvia</b>		
Shares, %	98.7	98.7
Shareholders' equity, EUR	7 734 165	7 525 282
Profit or loss, EUR	208 883	691 963
Net turnover, EUR	1 590 475	1 198 360
<b>SIA „RER-Termināls”, reģ. Nr. 40203010535 Ganību dambis 53, Rīga, the Republic of Latvia</b>		
Shares, %	82.46	-
Shareholders' equity, EUR	1 140 000	-
Profit or loss, EUR	-	-
Net turnover, EUR	-	-

Indicators	31.12.16. EUR	31.12.15. EUR
AS „LATVO”	5 499 400	5 499 400
SIA „RER-Termināls”	940 000	-
<b>Total</b>	<b>6 439 400</b>	<b>5 499 400</b>

Company management considers that the return on investments into related company covers the size of investment. Company management doesn't have any information about developments or circumstances which would lead to reconsideration of value of correspondent investment.

**Note No. 13 – Raw materials, direct materials and auxiliary materials**

Indicators	31.12.16. EUR	31.12.15. EUR
Raw materials, direct materials and auxiliary materials	3 129 733	2 780 590
Provisions for stocks of slow-turnover	(34 512)	(36 970)
<b>Total</b>	<b>3 095 221</b>	<b>2 743 620</b>

Notes (cont.)

**Changes in provisions**

Indicators	31.12.16. EUR	31.12.15. EUR
Provisions at the beginning of the year	36 970	37 353
Decrease / increase	(2 458)	(383)
Provisions at the end of the year	34 512	36 970

**Note No. 14 – Finished goods and goods for sale**

Indicators	31.12.16. EUR	31.12.15. EUR
Electrical equipment for electric trains and for metro cars	814 752	363 895
<b>Total</b>	<b>814 752</b>	<b>363 895</b>

**Note No. 15 – Trade receivables**

Indicators	31.12.16. EUR	31.12.15. EUR
Debts of customers and clients	1 816 016	1 591 985
Provisions for doubtful debtors	-	(10 494)
<b>Total</b>	<b>1 816 016</b>	<b>1 581 491</b>

**Changes in provisions**

Indicators	31.12.16. EUR	31.12.15. EUR
Provisions at the beginning of the year	10 494	21 160
Decrease (repaid debts)		(10 666)
Loss of receivables	( 10 494)	
Provisions at the end of the year	-	10 494

**Note No. 16 – Debts of related companies (subsidiaries)**

Indicators	31.12.16. EUR	31.12.15. EUR
AS „LATVO”	166 573	21 393
<b>Total</b>	<b>166 573</b>	<b>21 393</b>

Transactions with associated enterprises are in conformity with ordinary market provisions and were performed at the same prices as transactions with non-associated enterprises.

**Note No. 17 – Other receivables**

Indicators	31.12.16. EUR	31.12.15. EUR
Taxes paid in advance	9 561	8 984
Overpaid taxes	90 287	62 433
Rental debts		5 709
Processing of goods	9 426	148 762
Requirement for dividends		536 905
Advance payments for services	21 730	
Other	3 589	2 071
<b>Total</b>	<b>134 593</b>	<b>764 864</b>

**Note No. 18 – Prepaid expenses**

Indicators	31.12.16. EUR	31.12.15. EUR
Insurance	1 893	1 855
Payment for use of design documentation	728	9 464
Network's services	2 250	
Other	2 191	1 353
<b>Total</b>	<b>7 062</b>	<b>12 672</b>

Notes (cont.)

**Note No. 19 – Cash**

Indicators	31.12.16. EUR	31.12.15. EUR
Current accounts in banks	73 106	214

**Note No. 20 – 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	31.12.16. EUR	31.12.15. EUR
Residents, including	270 938	270 938
- physical entities	234 394	233 135
- legal entities	36 544	37 803
Non-residents, including	7 847 669	7 847 669
- Russia	5 149 997	5 149 997
- Canada	7 167	7 167
- British Virgin Islands	814 829	814 829
- Belize	1 867 279	1 867 279
- Lithuania	2 446	2 446
- Estonia	5 951	5 951
<b>Total</b>	<b>8 118 607</b>	<b>8 118 607</b>

Company shareholders (over 5%) as of 31.12.2016

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

**Note No. 21 – 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 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.

According to the law "On Corporate Income Tax" Part 5 of Article 6, as measured by the corporate income tax purposes, does not take into account off-balance sheet revaluation results (excluding revaluation of assets due to foreign exchange rate changes).

Item of fixed assets	Revaluation reserve surplus, EUR		Value of the fixed asset in the beginning of the period, EUR	Decrease of revaluating reserve, EUR	Value of fixed assets at the end of the period, EUR	
					without revaluating	with revaluating
	01.01.16.	31.12.16.			01.01.16.	2016
Real estate (land, buildings and structures)	11 842 471	11 801 574	17 661 671	40 897	4 381 019	15 473 398

Notes (cont.)

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

Indicators	31.12.16. EUR	31.12.15. EUR
<b>Latvian credit institutions, loan agreement (from 1 until 5 years), including</b>	<b>7 352 067</b>	<b>8 095 258</b>
Long-term debt	5 552 067	7 278 769
Short-term debt	1 800 000	816 489
<b>Latvian credit institutions, credit line, including</b>	<b>2 959 279</b>	<b>2 996 588</b>
Short-term debt	2 959 279	2 996 588

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 Group's mortgaged assets on 31 December 2016 is EUR 40 848 102 (31.12.2015. - EUR 42 510 493);
- (iii) guarantees from related parties.

Loans and credit agreements (EUR)

Contract number	% rate for year	Date of payment	Sum, EUR 31.12.16.	Sum, EUR 31.12.15.
DB/C31-213/30	4,5% + 1mon.EURIBOR	30.12.17.	2 959 279	2 996 588
DB/C31-213/31	5,0% + 3mon.EURIBOR	30.12.17.	3 758 600	4 808 600
DB/C31-213/127	5,0% + 3mon.EURIBOR	30.12.17.	1 636 709	1 952 290
DB/C31-214/85	5,0% + 3mon.EURIBOR	30.12.17.	656 758	992 880
K-005/0216 C	3.2%	10.02.19.	1 300 000	-
K-084/0712	2.58%+6mon.EURIBOR	31.12.16.	-	341 489

**Note No. 23 – Trade payables**

Indicators	31.12.16. EUR	31.12.15. EUR
<b>Long-term creditors, including</b>	<b>184 647</b>	<b>519 534</b>
Foreign suppliers	184 647	519 534
<b>Short-term creditors, including</b>	<b>1 817 873</b>	<b>1 981 078</b>
Local suppliers	1 030 319	1 357 248
Foreign suppliers	787 554	623 830

**Note No. 24 – Deferred income**

Indicators	31.12.16. EUR	31.12.15. EUR
Support for the project implementation in the frames of the Centre of Competence	290 516	261 532
Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	1 228 196	1 167 043
<b>Total</b>	<b>1 518 712</b>	<b>1 428 575</b>

Indicators	31.12.16. EUR	31.12.15. EUR
Deferred income at the beginning of the year	1 428 575	333 848
Changes within the reporting year	90 137	1 094 727
Deferred income at the end of the year	1 518 712	1 428 575

Notes (cont.)

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	-

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

**Note No. 25 – Advance payments from customers**

Indicators	31.12.16. EUR	31.12.15. EUR
Local customers	506	609
Foreign customers	37 172	12 350
<b>Total</b>	<b>37 678</b>	<b>12 959</b>

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

Indicators	31.12.16. EUR	31.12.15. EUR
Tax contributions and state social insurance contributions at the beginning of the year	1 451 492	626 303
Changes within the reporting year	(689 750)	825 189
Tax contributions and state social insurance contributions at the end of the year	761 742	1 451 492

Indicators	Personal income tax	Mandatory social insurance contributions	Corporate income tax	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
<b>01.01.16. debt</b>	<b>638 833</b>	<b>809 290</b>	-		<b>3 185</b>	-	-	<b>184</b>
<b>01.01.16. overpayment</b>				<b>62 433</b>				
Calculated	971 279	1 707 667		736 576	13 327	23 791	95 604	2 365
Penalty calculated	22 130	20 731					983	1
Allocated to other taxes	333			748 408				
Repaid from the budget		630						
Paid	982 823	1 638 279		1 512 505	12 228	23 791	95 604	2 353
Penalty paid	22 130	20 731					983	1
Tax debt is settled from excess payment of other tax	254 623	493 785		333				
<b>31.12.16. debt</b>	<b>372 999</b>	<b>384 263</b>	-		<b>4 284</b>	-	-	<b>196</b>
<b>31.12.16. overpayment</b>				<b>90 287</b>				

As for 31.12.2016 the Company has no current tax debts.

Notes (cont.)

**Note No. 27– Short-term other liabilities**

Indicators	31.12.15. EUR	31.12.14. EUR
Salary debt	376 839	302 379
Support payments	-	2 208
Trade union membership fee	-	583
Other	4 619	21 738
<b>Total</b>	<b>381 458</b>	<b>326 908</b>

**Note No. 28 – Accrued liabilities**

Indicators	31.12.16. EUR	31.12.15. EUR
Provisions for unused vacation compensation	230 766	166 799

**Note No. 29 – Average number of employees**

Indicators	31.12.16.	31.12.15.
Members of the Council	5	5
Members of the Board	5	5
Other employees	538	536
<b>Average number of employees</b>	<b>548</b>	<b>546</b>

**Note No. 30 – Information about remuneration to the Council and Board Members**

Indicators	31.12.16. EUR	31.12.15. EUR
Wages to the Council Members	10 600	10 771
Wages to the Board Members	10 600	8 058
Mandatory state social insurance contributions	5 001	4 442
<b>Total</b>	<b>26 201</b>	<b>23 271</b>

**Note No. 31 – Information about remuneration for services of the commercial company of certified auditors (amounts given including VAT)**

Indicators	31.12.16. EUR	31.12.15. EUR
Remuneration for auditing annual report and consolidated annual report	14 520	9 814

**Note No. 32 - Transactions with related parties**

Related party	Services rendered and goods sold	Services rendered and goods purchased	Amounts owed by related parties	Payables to related parties
	2016 EUR	2016 EUR	31.12.16. EUR	31.12.16. EUR
AS „LATVO”	1 405 277	-	166 573	-
AS Krona Grup	14 864 581	470 883	361 730	351 251

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

There are none

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

There are none



Notes (cont.)

**Significant agreements**

There are none

**Information on pledged or otherwise encumbered assets**

As on 31.12.2016 all assets of JSC "RER" have been pledged as security for a loan.

**Liabilities for pensions**

There are none

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

There are none

**Significant events not included in the balance sheet or income statement**

There are none

**Events after the balance sheet date**

There have not been any significant or extraordinary events between the last day of the reporting year and the day when the management signed the report that could essentially influence data or financial position of the company.

**Distribution of profit**

The shareholders of JSC "Rīgas elektromašīnbūves rūpnīca" are offered to redirect company's profit of 2016 in the amount of EUR 259 033 to development of the Company.

Notes on pages 11 to 25 form are integral part of these financial statements.

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Iļja Šestakovs

Grigorijs Kapustins

Annual report drawn up by  
Chief Accountant

Svetlana Statina

27 April 2017

## MANAGEMENT CONFIRMATION REPORT

The Management of the Company is responsible for preparation of financial statements and confirms that the annual report give a true and fair view of the financial position of the Company and of its financial performance for the period ended 31 December 2016.

The Management of the Company confirms that during preparation of the annual report 2016 appropriate accounting methods were used and employed consistently, moreover, reasonable and careful decisions have been taken.

The Management of the Company is responsible for organizing accounting, preserving the Company's capital, as well as for preventing deceit and other dishonest activities.

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Ilja Šestakovs

Grigorijs Kapustins

27 April 2017



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Rīgas Elektromašīnbūves Rūpnīca AS

### *Our Opinion on the Financial Statements*

We have audited the accompanying financial statements for 2016 on pages 6 to 25 of Rīgas Elektromašīnbūves Rūpnīca AS, which comprise the balance sheet as of 31 December 2016 and the income statement, statement of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

**In our opinion, the accompanying financial statements give a true and fair view of the financial position of Rīgas Elektromašīnbūves Rūpnīca AS as of 31 December 2016, and of its financial performance and of its financial performance and its cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.**

### *Basis for Opinion*

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Reporting on Other Information*

The Company management is responsible for the other information. The other information is the Management Report, as set out on pages 4. and 5. of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia*

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.



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*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

*Auditor's Responsibility for the Audit of the Financial Statements*

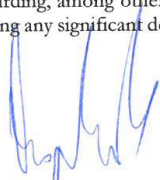
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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License No. 155

  
Kaspars Rutkis  
Sworn auditor  
Certificate No. 171  
Chairman of the Board

Riga, 27 April 2017