

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

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

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

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

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## INFORMATION ABOUT THE PARENT COMPANY

Name of the Company	AS (Joint Stock Company) "Rīgas elektromašīnbūves rūpnīca" (AS "RER")	
Legal status of the Company	Joint Stock Company	
Registration No. in the Register of Enterprises, date and place of registration	No. 000304200, Riga, 29 November 1991	
Unified Registration No. in the Commercial Register, date and place of registration	No. 40003042006, Riga, 29 September 2004	
Registered office	Ganību dambis 53, Riga, LV-1005, the Republic of Latvia	
Institution in charge of the Company	General meeting of shareholders	
The parent Company Council : Chairperson of the Council	Stanislav Vodolazskii	from 22.07.16.
	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 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.
	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 (daughter) 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 Group in 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.

Net Volume - Group's turnover in 2016 amounted to 20.24 mil. EUR, which is 7.14 mils. EUR or 54.5% more than in the previous 2015. In its turn, the amount of gross income amounted to 3.14 mil. EUR, which is an increase of 4.8 times to the level of gross profit in 2015.

Profit Amount before interest, taxes, depreciation and amortization (EBITDA) amounted to 4.0 mil for the year 2016. EUR, which reached to 2015 2.78 mil. EUR 1.4 times higher and the net profit of the Group for 2016 amounted to 0.47 mil. EUR to 0.16 mil. EUR loss in 2015.

In 2016, the Group's financial situation has stabilized considerably. The share of equity in the Group's total assets of 58.86% to 55.42% in 2015, and the ratio of current assets to current liabilities ratio of 1.2 to 1.03 in 2015. The ratio of net debt to EBITDA (Lavarage) is 2.57, and the ratio of EBITDA to current liabilities on borrowings (DSCR) of 2.61.

### *Other indicators*

In 2016 the average number of employees was 554 people, the average monthly salary was EUR 795.

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 16 and 17 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 Holding Company

In 2017, the Holding 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 Holding 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.

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Ilja Šestakovs

Grigorijs Kapustins

27 April 2017

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE YEAR 2016

Items	Note	31.12.16. EUR	31.12.15. EUR
Net turnover	1	20 242 760	13 096 167
Production costs of the goods sold	2	(17 101 020)	(12 447 440)
<b>Gross profit or loss</b>		<b>3 141 740</b>	<b>648 727</b>
Selling expenses	3	(479 489)	(365 087)
Administration expenses	4	(2 282 423)	(2 004 936)
Other operating income	5	674 874	3 109 593
Other operating expenses	6	(241 680)	(977 377)
Other interest income and similar income		-	44
Adjustments of decrease in value of long-term and short-term financial investments	7	(40 480)	-
Other interest payments and similar expenses	8	(401 512)	(442 889)
Profit or loss before corporate income tax		371 030	(31 925)
Corporate income tax		(41 900)	(98 904)
Profit or loss after calculating the corporate income tax		329 130	(130 829)
Retained corporate income tax	9	138 786	(32 545)
Profit or loss of the accounting period		<b>467 916</b>	<b>(163 374)</b>

Earnings per share	0.080	(0.028)
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Attributable to:

Equity holders of a parent company	467 916	(163 374)
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### Other comprehensive income / loss

Long-term investment revaluation reserve decrease		(40 897)	(280 389)
Long-term investment revaluation reserve increase - revaluation	21	-	6 280 140
Calculation of deferred enterprise income tax – revaluation effect	21	-	(945 163)
<b>Total other comprehensive income / loss</b>		<b>(40 897)</b>	<b>5 054 588</b>

<b>Total comprehensive income</b>		<b>427 019</b>	<b>4 891 214</b>
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Attributable to:

Equity holders of a parent company	427 019	4 891 214
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Notes on pages 11 to 29 form are integral part of these financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR  
ENDED 31 DECEMBER 2016**

<b>A S S E T S</b>	<b>Note</b>	<b>31.12.16. EUR</b>	<b>31.12.15. EUR</b>
<b>LONG-TERM INVESTMENTS</b>			
<b>Intangible investments</b>	10		
Development costs		1 758 126	2 142 069
Concessions, patents, licences and similar rights		271 976	398 780
Other intangible investments		55 787	14 318
Prepayments for intangible investments		13 200	-
<b>Total intangible assets</b>		<b>2 099 089</b>	<b>2 555 167</b>
<b>Fixed assets</b>	11		
Real estate (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		214 848	181 598
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>23 636 328</b>	<b>26 406 406</b>
<b>Long-term financial investments</b>			
Own shares		14 551	14 551
Other long-term debtors	12	7 789 428	7 554 006
<b>Total long-term financial investments</b>		<b>7 803 979</b>	<b>7 568 557</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>33 539 396</b>	<b>36 530 130</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	1 900 484	2 245 094
Other receivables	16	193 190	237 824
Prepaid expenses	17	8 835	15 364
<b>Total receivables</b>		<b>2 102 509</b>	<b>2 498 282</b>
<b>Short-term financial investments</b>			
Shareholding in the capital of subsidiary companies	18	940 000	-
<b>Total short-term financial investments</b>		<b>940 000</b>	<b>-</b>
<b>Cash</b>	19	88 409	439
<b>TOTAL CURRENT ASSETS</b>		<b>9 607 206</b>	<b>8 168 914</b>
<b>TOTAL ASSETS</b>		<b>43 146 602</b>	<b>44 699 044</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR  
ENDED 31 DECEMBER 2016**

<b>LIABILITIES</b>	<b>Note</b>	<b>31.12.16. EUR</b>	<b>31.12.15. EUR</b>
<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:	22	407 137	407 137
a) other reserves			
Retained earnings or uncovered losses of previous years		4 602 447	4 765 821
Profit or loss of the reporting year		467 916	(163 374)
<b>TOTAL EQUITY CAPITAL</b>		<b>25 397 681</b>	<b>24 970 662</b>
<b>PROVISIONS</b>			
Other provisions	23	6 312	4 545
<b>TOTAL PROVISIONS</b>		<b>6 312</b>	<b>4 545</b>
<b>CREDITORS</b>			
<b>Long-term liabilities</b>			
Borrowings from credit institutions	24	5 552 067	7 278 769
Trade payables	25	184 647	519 534
Deferred income tax liability		2 449 107	2 594 665
Deferred income	26	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	24	4 759 279	3 813 077
Advance payments from customers	27	39 603	20 959
Trade payables	25	1 834 519	1 996 759
Taxes and mandatory state social insurance contributions	28	767 746	1 551 456
Other liabilities	29	387 610	338 003
Accrued liabilities	30	249 319	182 040
<b>Total short-term liabilities</b>		<b>8 038 076</b>	<b>7 902 294</b>
<b>TOTAL CREDITORS</b>		<b>17 742 609</b>	<b>19 723 837</b>
<b>TOTAL LIABILITIES</b>		<b>43 146 602</b>	<b>44 699 044</b>

Notes on pages 11 to 29 form are integral part of these financial statements.



**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR 2016** (prepared by indirect method)

**Cash flow from operating activities**

Items	31.12.16. EUR	31.12.15. EUR
Profit or loss before corporate income tax	371 030	(31 925)
<b>ADJUSTMENTS</b>		
Adjustments of decrease in value of equity capital	2 433 949	1 824 661
Amortization of intangible assets	729 833	424 367
Income from sales of fixed assets	(7 140)	(561 749)
Provisions	1 767	-
Unrealized profit from fluctuations of currency exchange rate	(301 375)	(786 266)
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)	-
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	<b>3 178 825</b>	<b>1 318 944</b>
<b>ADJUSTMENTS FOR</b>		
Increase (-)/ decrease (+) in trade and other receivables	558 665	1 657 287
Increase (-)/ decrease (+) in inventories	(1 032 926)	857 779
Increase (+)/ decrease (-) in trade and other payables	(1 079 513)	(377 821)
<b>Gross cash flow from operating activities</b>	<b>1 625 051</b>	<b>3 456 189</b>
Expenses for company tax payments	(41 900)	(232 804)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1 583 151</b>	<b>3 223 385</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)	(4 249 736)
Proceeds from sale of fixed and intangible assets	7 140	561 749
Income from repayment of loans	-	562 531
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(764 736)</b>	<b>(3 125 456)</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	1 583 151	3 223 385
Net cash flow from investing activities	(764 736)	(3 125 456)
Net cash flow from financing activities	(780 500)	(73 683)
Result of fluctuations of currency exchange rates	50 055	(59 676)
<b>Net increase/decrease in cash and cash equivalents</b>	<b>87 970</b>	<b>(35 430)</b>
<b>Cash and its equivalents in the beginning of the accounting period</b>	<b>439</b>	<b>35 869</b>
<b>Cash and its equivalents at the end of the accounting period</b>	<b>88 409</b>	<b>439</b>

Notes on pages 11 to 29 form are integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2016, EUR**

<b>Izmaiņu veids</b>	<b>Share capital</b>	<b>Revaluation reserve of long-term investments</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>As at 31.12.2014</b>	<b>8 118 607</b>	<b>6 787 883</b>	<b>407 137</b>	<b>4 765 821</b>	<b>20 079 448</b>
Profit or loss for the financial year				(163 374)	(163 374)
Other comprehensive income		5 054 588			5 054 588
<i>Total comprehensive income</i>		<i>5 054 588</i>		<i>(163 374)</i>	<i>4 891 214</i>
<b>As at 31.12.15.</b>	<b>8 118 607</b>	<b>11 842 471</b>	<b>407 137</b>	<b>4 602 447</b>	<b>24 970 662</b>
Profit or loss for the financial year				467 916	467 916
Other comprehensive income		(40 897)			(40 897)
<i>Total comprehensive income</i>		<i>(40 897)</i>		<i>467 916</i>	<i>427 019</i>
<b>As at 31.12.16.</b>	<b>8 118 607</b>	<b>11 801 574</b>	<b>407 137</b>	<b>5 070 363</b>	<b>25 397 681</b>

Notes on pages 11 to 29 form are integral part of these financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### GENERAL INFORMATION

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. 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. Market value of property invested is 1 140 000 EUR.

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.

These financial statements were authorised for issue by the Board of Directors of the Company on 27 April 2017.

Subsidiary (daughter) companies:

Name	Addres	Type of operations	Share capital, EUR	Participation Interest, %
AS „Latvo”	Ganību dambis 53, Rīga	Elektroierīču realizācija un tehniskais (konstruktoru) atbalsts	5 495 420	98.7
SIA „RER-Termināls”	Ganību dambis 53, Rīga	Materials and raw materials purchase and sale	1 140 000	82.46

On 31/12/16 subsidiary company SIA „RER-Termināls” was not included in consolidation due to the majority of the sale in March 2017 and the significant impact of the loss.

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.

#### *Standards and Interpretations effective in the current period*

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Group's accounting policies or financial statements.

#### Principles of consolidation

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

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

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

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

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

#### Accounting principles applied

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

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

#### 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 or revalued acquisition cost, excluding depreciation. Real estate revalued in the balance sheet net of accumulated depreciation. Value resulting from revaluation gains are recognized in equity under "Long-term investments revaluation reserve".

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

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

Intangible assets:

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

Capital assets:

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

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

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

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

Unfinished construction and costs of capital asset creation

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

	31.12.16. EUR	31.12.15. EUR
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 leasing

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

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

Receivables

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

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

Remaining amounts of finished products and unfinished products have been assessed according to their cost prices. Remaining amounts of receivables have been audited at the annual inventory.

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

Debts of debtors

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

Currency unit and recalculation of foreign currency

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

	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.

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

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

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

Government grants

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

Deferred tax

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

Application of assumptions

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

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

*Property, plant and equipment useful life*

The Group's management determines the useful life of property, plant and equipment based on historical information, technical inspections, assessing the current state of the active and external evaluations. During the reporting year and previous year the Groups has not identified factors that indicate a need to change the useful life period of the Group's property, plant and equipment. Total carrying amount of property, plant and equipment at the end of the year is EUR 23 636 328 (31.12.2015. - EUR 26 406 406).

*Recoverable receivables*

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. The total carrying amount of receivables at the end of the reporting period is EUR 2 102 509 (31.12.2015. - EUR 2 498 282).

*Valuation of inventories*

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realisation probability and net selling value of the inventories shall be considered. The total carrying amount of inventory at the end of the reporting period is EUR 6 476 288 (31.12.2015. - EUR 5 670 193).

*The recoverable amount of long-term loans*

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

The total carrying amount of long-term loan at the end of the reporting period is EUR 7 789 428 (31.12.2015. – EUR 7 554 006 ).

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

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	Pārklasifikācija EUR	2015 after reclassification EUR
<u>Consolidated comprehensive income statement</u>			
Administrative expenses	(1 872 931)	(132 005)	(2 004 936)
Profit or loss before corporate income tax	100 080	(132 005)	(31 925)
Other taxes	(132 005)	132 005	-
<u>Consolidated statement of financial position</u>			
Other provisions	186 585	(182 040)	4 545
Accrued liabilities	-	182 040	182 040
<u>Consolidated cash flow statement</u>			
Profit or loss before corporate income tax	100 080	(132 005)	(31 925)
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	1 450 949	(132 005)	1 318 944
Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	(163 246)	(214 575)	(377 821)
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.

Risk management

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

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

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

*Currency risk*

The Company's financial assets and liabilities that are at the foreign currency risk include cash, debts of customers and clients, debts to suppliers and contractors and short-term and long-term loans. In 2016 a significant part of the Holding Company's income was in euro and USA dollar, major part of its costs was in euro. All received loans were in euro.



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

The Group's significant open currency position is :

	<b>31.12.2016</b>	<b>31.12.2015</b>
Financial assets, USD	1 357 199	266 105
Financial liabilities, USD	(119 496)	(89)
Open position USD, net	1 237 703	266 016
Open position USD calculated in euro, net	1 184 065	243 471
Financial assets, RUB	8 148 398	75 996 599
Financial liabilities, RUB	(27 897 437)	(8 090 112)
Open position RUB, net	(19 749 039)	67 906 487
Open position RUB calculated in euro, net	(312 211)	851 449

The following table demonstrates the sensitivity to a reasonably possible change in currency rates on outstanding foreign currency financial assets and liabilities. With all the other variables held constant the Group's profit before tax is affected as follows :

	<b>31.12.2016</b>		<b>31.12.2015</b>	
	Change in exchange rates	Effect on equity, EUR	Change in exchange rates	Effect on equity, EUR
USD	+10 % -10 %	15 242 (15 242)	+10 % -10 %	44 595 (44 595)
RUB	+10 % -10 %	87 098 (87 098)	+10 % -10 %	41 532 (41 532)

*Interest rate risk*

The Group is at the interest rate risk due to its short-term and long-term. The Group is exposed to interest rate risk as the most liabilities are interest-bearing with the floating interest rate (Note (23)), while the main part of the Group's financial assets are interest-free receivables, therefore the Group is exposed to floating interest rate risk. In 2016 the Group's liabilities with floating interest rates decreased.

	<b>31.12.2016</b>	<b>31.12.2015</b>
Financial liabilities with variable interest rate, EUR	9 011 346	11 091 847

*Liquidity risk*

The Group has control over its liquidity risk by ensuring the appropriate financing with the help of a credit line granted by a Latvian credit institution (Note (24)). In 2016 ratio of current assets to current liabilities ratio of 1.2 to 1.03 in 2015. At the end of the reporting period the Group had unused credit line resources EUR 40 721 (31.12.2015. - EUR 3 412).

*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 (Note (33)).

Capital management

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

Group's management controls the external debt (borrowings) to total capital (gearing ratio). During the reporting year this figure has decreased by 11,56%. The share of equity in the Group's total assets of 58.86% to 55.42% in 2015.

Earnings per share

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

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

## 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	20 242 760	13 096 167

### Note No. 1 – Net turnover

Country	31.12.16. EUR	31.12.15. EUR
Latvia	236 072	365 317
Russia	16 081 694	10 752 895
Ukraine	135 720	70 658
Belarus	131 734	83 314
Slovakia	545 741	72 918
Poland		91 697
Kazakhstan	12 795	
Georgia	11 422	
Uzbekistan	3 085 983	1 643 383
Other	1 599	15 985
<b>Total</b>	<b>20 242 760</b>	<b>13 096 167</b>

### Major customers

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

Pircējs	31.12.16. EUR	31.12.15. EUR
AS Krona Grup, Krievija	14 864 581	9 553 625
TVSRZ, Uzbekistāna	3 085 137	1 643 383
<b>Kopā</b>	<b>17 949 718</b>	<b>11 197 008</b>

### Note No. 2 – Production costs of products sold

Indicators	31.12.16. EUR	31.12.15. EUR
Salaries	3 508 819	2 721 895
Social insurance contributions	799 864	617 563
Costs of materials	8 496 148	6 070 985
Energy resources	1 168 899	778 199
Depreciation of capital assets and intangible assets, write-off off intangible investments value	2 463 479	1 729 963
Business trip costs	79 213	56 203
Repair costs and remuneration for works from outside	397 247	208 096
Costs of production quality control	-	146 418
Losses due to rejects	34 519	9 129
Environmental protection costs	23 090	9 937
Other costs	129 742	99 052
<b>Total</b>	<b>17 101 020</b>	<b>12 447 440</b>

Notes to consolidated comprehensive income statement (cont.)

**Note No. 3 – Selling costs**

Indicators	31.12.16. EUR	31.12.15. EUR
Packing material and package	49 220	46 709
Transportation expenses	256 623	207 298
Salaries	85 770	83 657
Social insurance contributions	19 879	15 962
Other selling costs	67 997	11 461
<b>Total</b>	<b>479 489</b>	<b>365 087</b>

**Note No. 4 – Administrative costs**

Indicators	31.12.16. EUR	31.12.15. EUR
Communications costs	20 687	25 746
Reimbursement for legal services	1 786	3 140
Annual report and auditing services	15 000	10 434
Cash circulation and expense and extra costs	42 956	37 382
Transportation expenses	25 894	23 394
Representation expenses	9 829	5 732
Salaries	1 141 751	1 135 401
Social insurance contributions	254 819	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	131 424	53 249
<b>Total</b>	<b>2 282 423</b>	<b>2 004 936</b>

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

Indicators	31.12.16. EUR	31.12.15. EUR
Profit gained as a result of other sales (materials, lease, other)	100 390	84 876
Sale of capital 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
Writing off unclaimed debts to suppliers and contractors	-	1 048 267
Income from fluctuations of exchange rates	301 375	786 266
Decrease in holiday provision	-	210 361
Decrease in deferred income (Eurofound)	208 926	28 108
Other income	9 374	43 832
<b>Total</b>	<b>674 874</b>	<b>3 109 593</b>

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

Indicators	31.12.16. EUR	31.12.15. EUR
Penalty and contractual penalties	47 082	66 544
Costs related to maintenance of social sphere	28 334	41 571
Costs not related to operating activities of the Company	73 041	64 500
Removal of capital assets	2 242	777 445
Write-off of bad debtors	20 528	-
Increase in holiday provision	67 279	-
Other costs	3 174	27 317
<b>Total</b>	<b>241 680</b>	<b>977 377</b>

Notes to the consolidated financial statements (cont.)

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

Long-term investment object	Balance value at the moment of exclusion	Alienation income	Alienation expenses	Gross income or profit	Profit or loss from the object's alienation
Equipment	0.00	7 140	0.00	7 140	7 140

**Note No. 7 – Adjustments of decrease in value of long-term and short-term financial investments**

Rādītāji	31.12.16. EUR	31.12.15. EUR
Adjustments of decrease in value of long-term loan (subsidiary (daughter) company)	40 480	-
<b>Kopā</b>	<b>40 480</b>	<b>-</b>

**Note No. 8 – Other interest payments and similar costs**

Indicator	31.12.16. EUR	31.12.15. 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>

**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 the consolidated financial statements (cont.)

## 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
<b>Acquisition value 01.01.16.</b>	<b>2 142 347</b>	<b>634 447</b>	<b>95 324</b>	<b>-</b>	<b>2 872 118</b>
Additions	211 616		48 939	18 640	279 195
Disposal	(274 749)		(1 416)	(5 440)	(281 605)
<b>Acquisition value 31.12.16.</b>	<b>2 079 214</b>	<b>634 447</b>	<b>142 847</b>	<b>13 200</b>	<b>2 869 708</b>
<b>Accumulated amortization 01.01.16.</b>	<b>278</b>	<b>235 667</b>	<b>81 006</b>		<b>316 951</b>
Amortization charge	320 810	126 804	7 470		455 084
Amortization of disposals			(1 416)		(1 416)
<b>Accumulated amortization 31.12.16.</b>	<b>321 088</b>	<b>362 471</b>	<b>87 060</b>		<b>770 619</b>
<b>Net book value 01.01.16.</b>	<b>2 142 069</b>	<b>398 780</b>	<b>14 318</b>	<b>-</b>	<b>2 555 167</b>
<b>Net book value 31.12.16.</b>	<b>1 758 126</b>	<b>271 976</b>	<b>55 787</b>	<b>13 200</b>	<b>2 099 089</b>

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

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

### Note No. 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
<b>Acquisition value 01.01.16.</b>	<b>17 661 671</b>	<b>14 154 298</b>	<b>670 719</b>	<b>643 332</b>	<b>-</b>	<b>33 130 020</b>
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)
<b>Acquisition value 31.12.16.</b>	<b>16 673 057</b>	<b>14 300 390</b>	<b>740 903</b>	<b>847 697</b>	<b>90 979</b>	<b>32 653 026</b>
<b>Accumulated amortization 01.01.16.</b>	<b>-</b>	<b>6 234 493</b>	<b>489 121</b>			<b>6 723 614</b>
Amortization charge	1 209 771	1 167 010	57 168			2 433 949
Amortization of disposals	(10 112)	(110 519)	(20 234)			(140 865)
<b>Accumulated amortization 31.12.16.</b>	<b>1 199 659</b>	<b>7 290 984</b>	<b>526 055</b>			<b>9 016 698</b>
<b>Net book value 01.01.16.</b>	<b>17 661 671</b>	<b>7 919 805</b>	<b>181 598</b>	<b>643 332</b>	<b>-</b>	<b>26 406 406</b>
<b>Net book value 31.12.16.</b>	<b>15 473 398</b>	<b>7 009 406</b>	<b>214 848</b>	<b>847 697</b>	<b>90 979</b>	<b>23 636 328</b>

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

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

Notes to the consolidated financial statements (cont.)

**Note No. 12 – Other long-term debtors**

Indicators	31.12.16. EUR	31.12.15. EUR
Long-term loan of the subsidiary (daughter) company (until 01.01.2019)	7 829 908	7 554 006
Provisions for long-term loan	(40 480)	-
<b>Total</b>	<b>7 789 428</b>	<b>7 554 006</b>

The collateral is a natural person guarantee.

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

**Note No. 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>

**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	1 900 484	2 255 588
Provisions for doubtful debtors	-	(10 494)
<b>Total</b>	<b>1 900 484</b>	<b>2 245 094</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

Notes to the consolidated financial statements (cont.)

**Note No. 16 – Other receivables**

Indicators	31.12.16. EUR	31.12.15. EUR
Taxes paid in advance	66 597	8 984
Overpaid taxes	90 385	70 826
Rental debts	-	5 709
Processing of goods	9 426	148 762
Advance payments for services	21 730	-
Other	5 052	3 543
<b>Total</b>	<b>193 190</b>	<b>237 824</b>

**Note No. 17 – 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
Certification	1 773	2 692
Computer's network service	2 250	-
Other	2 191	1 353
<b>Total</b>	<b>8 835</b>	<b>15 364</b>

**Note No.18 – Shareholding in the capital of subsidiary companies**

Rādītāji	31.12.16. EUR	31.12.15. EUR
SIA „RER-Termināls”	940 000	-

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. 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. Market value of property invested is 1 140 000 EUR.

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

**Note No. 19 – Cash**

Indicators	31.12.16. EUR	31.12.15. EUR
Current accounts in banks	88 409	439

**Note No. 20 – 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.

Notes to the consolidated financial statements (cont.)

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 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.

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	
	01.01.16.	31.12.16.			without revaluating	with revaluating
			01.01.16.	2016	01.01.16.	31.12.16.
Real estate (land, buildings and structures)	11 842 471	11 801 574	17 661 671	40 897	4 381 019	15 473 398

#### Note No. 22 – Other reserves

Indicators	31.12.16. EUR	31.12.15. EUR
Share denomination from lat to euro	132 634	132 634
Other	274 503	274 503
<b>Kopā</b>	<b>407 137</b>	<b>407 137</b>

#### Note No. 23 – Other provisions

Indicators	31.12.16. EUR	31.12.15. EUR
Provision for warranty repairs of the subsidiary (daughter) company	6 312	4 545
<b>Total</b>	<b>6 312</b>	<b>4 545</b>



Notes to the consolidated financial statements (cont.)

**Changes in provisions**

Indicators	31.12.16. EUR	31.12.15. EUR
Provisions at the beginning of the year	4 545	8 916
Decrease / increase	1 767	(4 371)
Provisions at the end of the year	6 312	4 545

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

**Note No. 24 – Long-term and short-term loans from credit institutions**

Indicators	31.12.16. EUR	31.12.15. EUR
<b>Latvian credit institutions, loan agreement, 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 parent Company'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. 25 – 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>1 834 519</b>	<b>1 996 759</b>
Local suppliers	1 037 261	1 364 536
Foreign suppliers	797 258	632 223

**Note No. 26 – 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>

Notes to the consolidated financial statements (cont.)

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

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. 27 – Advance payments from customers**

Indicators	31.12.16. EUR	31.12.15. EUR
Local customers	506	8 609
Foreign customers	39 097	12 350
<b>Total</b>	<b>39 603</b>	<b>20 959</b>

**Note No. 28 – 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	1 551 456	628 232
Changes within the reporting year	(783 710)	923 224
Tax contributions and state social insurance contributions at the end of the year	767 746	1 551 456

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"  
Audited Consolidated Annual Report for the year 2016

Notes to the consolidated financial statements (cont.)

Indicators	Personal income tax	Mandatory social insurance contributions	Corporate income tax	Corporate income tax paid in advance	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>	641 160	808 023	98 904			3 185	-	-	184
<b>01.01.16. overpayment</b>				-	70 825				
Calculated	987 996	1 736 308	41 900		736 576	13 327	23 791	95 604	2 386
Penalty calculated	22 130	20 731						983	1
Allocated to other taxes	333			41 900	748 408				
Repaid from the budget		630			309 796				
Paid	998 970	1 662 548	98 904	98 936	1 814 007	12 228	23 791	95 604	2 372
Penalty paid	22 130	20 731						983	1
Tax debt is settled from excess payment of other tax	254 623	493 785	41 900		333				
<b>31.12.16. debt</b>	375 896	387 368	-			4 284	-	-	198
<b>31.12.16. overpayment</b>				57 036	90 385				

\* As for 31.12.2016 the Group has no current tax debts.

**Note No. 29 – Short-term other liabilities**

Indicators	31.12.16. EUR	31.12.15. EUR
<b>Short-term creditors, including</b>	<b>387 610</b>	<b>338 003</b>
Salary debt	382 884	313 092
Support payments	-	2 208
Trade union membership fee	-	583
Other	4 726	22 120

**Note No. 30 – Accrued liabilities**

Indicators	31.12.16. EUR	31.12.15. EUR
Provisions for unused vacation compensation	249 319	182 040
<b>Total</b>	<b>249 319</b>	<b>182 040</b>

**Note No. 31 – Average number of employees**

Indicators	31.12.16.	31.12.15.
Members of the Council	8	8
Members of the Board	6	6
Other employees	540	538
<b>Average number of employees</b>	<b>554</b>	<b>552</b>

**Note No. 32 – Information about remuneration to the Council and Board Members**

Indicators	31.12.16. EUR	31.12.15. EUR
Wages to the Council Members	16 000	16 171
Wages to the Board Members	10 600	8 058
Mandatory state social insurance contributions	6 275	5 716
<b>Total</b>	<b>32 875</b>	<b>29 945</b>

Notes to the consolidated financial statements (cont.)

### Note No. 33 - Transactions with related parties

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

Indicators	31.12.16. EUR	31.12.15. EUR
Claims	361 730	1 360 016
Liabilities	351 251	12 323
Sale of goods	14 864 581	9 553 625
Purchase of goods	470 883	199 643

### Note No. 34 – Information about remuneration for services of the commercial company of certified auditors

Indicators	31.12.16. EUR	31.12.15. EUR
Remuneration for auditing annual report and consolidated annual report (amounts given including VAT)	18 150	12 626
<b>Total</b>	<b>18 150</b>	<b>12 626</b>

### The financial results comparison to the unaudited financial statements

	2016, EUR
Net profit in unaudited financial statements	332 802
Corporate income tax adjustments*	173 284
Amount of long-term loans adjustments **	(40 480)
Other adjustments	1 770
Net profit/(loss) in audited financial statements	467 916

\*JSC "RER" in accordance with the 2013 Cabinet Order No. 649 took the supported investment project, which gives the right to apply the corporate income tax credit. On 28/02/17. still has not been made by the State Revenue Service examination in connection with the above mentioned rebate, but on 27/04/17. that review is complete.

\*\* The Group has performed additional procedures in evaluating certain assets.

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

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

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

There are none

### Significant agreements

There are none

### Information on pledged or otherwise encumbered assets

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

### Liabilities for pensions

There are none

Notes to the consolidated financial statements (cont.)

**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.

Notes on pages 11 to 29 form are integral part of these financial statements.

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Ilja Šestakovs

Grigorijs Kapustins

Annual report drawn up by  
Chief Accountant

Svetlana Statina

27 April 2017

## MANAGEMENT CONFIRMATION REPORT

Consolidated financial statements are prepared to the best of our knowledge, in accordance with International Financial Reporting Standards adopted by the European Union. These financial statements give a true and fair view of the financial position of the Group and of its financial performance for the period ended 31 December 2016.

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

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

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**

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### *Our Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of AS RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA ("the Company") and its subsidiaries ("the Group") set out on pages 6 to 29 of the accompanying consolidated annual report, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2016,
- the consolidated statement of financial position as at 31 December, 2016,
- consolidated statement of cash flows for the year then ended, and
- the consolidated statement of changes in equity for the year then ended,
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

**In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of AS RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA and its subsidiaries as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended with International Financial Reporting Standards as adopted by the European Union (IFRS).**

### *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 Group 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 consolidated 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.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



We have determined the matters described below to be the key audit matters to be communicated in our report:

Subsidiary SIA RER-Terminals	
Key audit matter	Our response
<p><i>According to the consolidated financial statements, as at 31 December 2016 investment in subsidiary SIA RER-Terminals amounted to EUR 940 thousand.</i></p> <p>At 5th of August 2016 Company Register of Republic of Latvia registered a subsidiary company of AS Rīgas elektromašīnbūves rūpnīca - SIA RER-Terminals with a share capital of 1 140 000 EUR. The sole founder of the newly established subsidiary made in-kind investment in the share capital of SIA RER-Terminals, which consisted from the land plot and buildings located on it, including production unit buildings which were no longer used in production process.</p> <p>Several times during 2016 and 2017 AS Rīgas elektromašīnbūves rūpnīca reduced its shareholding in SIA RER-Terminals.</p> <p>The Group management had to apply significant judgement and assumptions to account for all these transactions.</p>	<p>Our procedures performed included, among others:</p> <ul style="list-style-type: none"><li>• assessing the judgement and assumptions used by the Group management related to periodisation of sale of SIA RER-Terminals shares and classification of the investment in the consolidated financial statements, including, exclusion from consolidation.</li></ul>

#### Reporting on Other Information

The Group management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 4 to 5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 30 of the accompanying Annual Report,
- the Statement of Corporate Governance, as published on homepage of Nasdaq Baltic market [www.nasdaqbaltic.com](http://www.nasdaqbaltic.com) and is publicly available.

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.





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*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 consolidated financial statements are prepared is consistent with the consolidated 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.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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



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that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The responsible certified auditor on the audit resulting in this independent auditors' report is Kaspars Rutkis.

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License No. 155

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

Riga, 27 April 2017