

**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 2017  
(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 Andrey Petrov	from 22.07.16. until 22.07.16.
Vice-Chairperson of the Council	Kirills Nužins	from 11.11.15.
Council Members	Andrey Sarkisov Natalia Sarkisova Sergey Bolysov Maksim Gordyukov Ivgeny Sokolsky	from 15.07.15. from 15.07.15. from 20.06.17. from 22.07.16. until 22.07.16.
The parent Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Aleksandrs Popadins Ilja Šestakovs Grigorijs Kapustins Olga Pētersone Nikolajs Čudinovs	from 08.11.13. from 30.01.15. from 18.10.16. until 12.10.17. 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 20, 2017.	
Annual report drawn up by	Chief Accountant Svetlana Statina	
Accounting period	1 January 2017 – 31 December 2017	
Subsidiary (daughter) companies	AS „Latvo”, reģ. Nr. 40003184975 Ganību dambis 53, Riga, the Republic of Latvia Shares – 98.7 %	
Auditor	SIA "Grant Thornton Baltic", licence Nr.155 Blaumaņa iela 22, Riga, LV-1011, Latvija Certified auditor Ingrīda Latimira Certified auditor's certificate No. 47	

## MANAGEMENT REPORT

### Business activities of the Group in 2017

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 2017 amounted to 29.04 mil. EUR, which is 8.80 mils. EUR or 43.48% more than in the previous 2016. In its turn, the amount of gross income amounted to 4.67 mil. EUR, which is an increase of 1.49 times to the level of gross profit in 2016.

Profit Amount before interest, taxes, depreciation and amortization (EBITDA) amounted to 3.8 mil for the year 2017. EUR, which reached to 2016 4.0 mil. EUR 1.05 times less and the net profit of the Group for 2017 amounted to 0.52 mil. EUR to 0.47 mil. EUR profit in 2016.

In 2017, the Group's financial situation was stable. The share of equity in the Group's total assets of 65.14% to 58.86% in 2016, and the ratio of current assets to current liabilities ratio of 1.1 to 1.2 in 2016. The ratio of net debt to EBITDA (Lavarage) is 1.68, and the ratio of EBITDA to current liabilities on borrowings (DSCR) of 1.24.

### *Other indicators*

In 2017 the average number of employees was 608 people, the average monthly salary was EUR 958.

The Group 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 Group

Financial risks have been characterized on pages 16 and 17 in notes to financial statements of the annual report 2017.

### Significant events in 2017

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.

In December of 2017 the shareholder CROWNING FINANCE CYPRUS LIMITED acquired 45,975 closed issue shares of JSC "Rīgas elektromašīnbūves rūpnīca". Currently mentioned shareholder owns 1,054,969 shares (including 1,008,994 public issue shares), or 18,19% of the share capital.

### Further development of the Group

In 2018, the Group plans to provide a significant increase in the net - the turnover in relation to the achieved in 2017 and continue to work with the growing profits, improving financial - economic stability of the Holding Company.

#### Development Measures

AS „Rīgas elektromašīnbūves rūpnīca” on January 29, 2018 signed an agreement with Central Finance and Contracting Agency (CFCA) about project “Complex solutions for increasing of energy efficiency in AS Rīgas Elektromašīnbūves Rūpnīca” implementation, funding and supervision.

The goal of the project is to promote the efficient use of energy resources and to reduce energy consumption in AS RER.

Within the project, 11 production equipment / equipment sets will be purchased, set-up and put into operation. 5 production buildings will be renovated.

#### Events after the balance sheet date

Participation of JSC „Rīgas elektromašīnbūves rūpnīca” in the equity capital of the subsidiary company «RER-Termināls» Ltd, reg. Number 40203010535, had finished 19th of January 2018. Second participant «BSCT» now holds 11400 shares of «RER-Termināls» Ltd, or 100%.

Chairperson of the Board

Nikolajs Erohovs

Board Members

Aleksandrs Popadins

Ilja Šestakovs

Grigorijs Kapustins

27 April 2018

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE YEAR 2017

Items	Note	31.12.17. EUR	31.12.16. EUR
Net turnover	1	29 036 417	20 242 760
Production costs of the goods sold	2	(24 370 635)	(17 101 020)
<b>Gross profit or loss</b>		<b>4 665 782</b>	<b>3 141 740</b>
Selling expenses	3	(675 541)	(479 489)
Administration expenses	4	(2 429 238)	(2 282 423)
Other operating income	5	491 634	674 874
Other operating expenses	6	(1 496 531)	(241 680)
Other interest income and similar income		2	-
Adjustments of decrease in value of long-term and short-term financial investments	7	(5 675)	(40 480)
Other interest payments and similar expenses	8	(390 360)	(401 512)
Profit or loss before corporate income tax		160 073	371 030
Corporate income tax		-	(41 900)
Profit or loss after calculating the corporate income tax		160 073	329 130
Retained corporate income tax	9	359 945	138 786
Profit or loss of the accounting period		<b>520 018</b>	<b>467 916</b>

Earnings per share	0.090	0.080
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Attributable to:

Equity holders of a parent company	520 018	467 916
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### Other comprehensive income / loss

Long-term investment revaluation reserve decrease		(198 977)	(40 897)
Long-term investment revaluation reserve increase - effect of deferred enterprise income tax		2 089 161	-
<b>Total other comprehensive income / loss</b>		<b>1 890 184</b>	<b>(40 897)</b>

<b>Total comprehensive income</b>		<b>2 410 202</b>	<b>427 019</b>
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Attributable to:

Equity holders of a parent company	2 410 202	427 019
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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 2017**

<b>ASSETS</b>	<b>Note</b>	<b>31.12.17. EUR</b>	<b>31.12.16. EUR</b>
<b>LONG-TERM INVESTMENTS</b>			
<b>Intangible investments</b>	10		
Development costs		1 581 122	1 758 126
Concessions, patents, licences and similar rights		327 352	271 976
Other intangible investments		24 470	55 787
Prepayments for intangible investments		3 625	13 200
<b>Total intangible assets</b>		<b>1 936 569</b>	<b>2 099 089</b>
<b>Fixed assets</b>	10		
Real estate (land, buildings and structures)		15 266 356	15 473 398
Technology devices and equipment		6 088 719	7 009 406
Other fixed assets and inventory		257 612	214 848
Expense of tangible assets and construction in progress		901 770	847 697
Advance payments for fixed assets		177 139	90 979
<b>Total fixed assets</b>		<b>22 691 596</b>	<b>23 636 328</b>
<b>Long-term financial investments</b>			
Own shares		14 551	14 551
Other long-term debtors	11	6 835 781	7 789 428
<b>Total long-term financial investments</b>		<b>6 850 332</b>	<b>7 803 979</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>31 478 497</b>	<b>33 539 396</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Raw materials, direct materials and auxiliary materials	12	3 677 582	3 095 221
Work in progress		2 019 058	2 419 467
Finished products and goods for sale	13	755 409	814 752
Advance payments for inventories	14	3 400 671	146 848
<b>Total inventories</b>		<b>9 852 720</b>	<b>6 476 288</b>
<b>Receivables</b>			
Trade receivables	15	505 753	1 900 484
Other receivables	16	297 420	193 190
Prepaid expenses	17	4 888	8 835
<b>Total receivables</b>		<b>808 061</b>	<b>2 102 509</b>
<b>Short-term financial investments</b>	18		
Shareholding in the capital of subsidiary companies		-	940 000
Other securities and interest in capital		90 000	-
<b>Total short-term financial investments</b>		<b>90 000</b>	<b>940 000</b>
<b>Cash</b>	19	715 764	88 409
<b>TOTAL CURRENT ASSETS</b>		<b>11 466 545</b>	<b>9 607 206</b>
<b>TOTAL ASSETS</b>		<b>42 945 042</b>	<b>43 146 602</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR  
ENDED 31 DECEMBER 2017**

<b>LIABILITIES</b>	<b>Note</b>	<b>31.12.17. EUR</b>	<b>31.12.16. EUR</b>
<b>EQUITY CAPITAL</b>			
Share capital (equity capital)	20	8 118 607	8 118 607
Long-term investment revaluation reserve	21	13 691 758	11 801 574
Reserves:	22	407 137	407 137
a) other reserves			
Retained earnings or uncovered losses of previous years		5 070 363	4 602 447
Profit or loss of the reporting year		520 018	467 916
<b>TOTAL EQUITY CAPITAL</b>		<b>27 807 883</b>	<b>25 397 681</b>
<b>PROVISIONS</b>			
Other provisions	23	169 396	6 312
<b>TOTAL PROVISIONS</b>		<b>169 396</b>	<b>6 312</b>
<b>CREDITORS</b>			
<b>Long-term liabilities</b>			
Borrowings from credit institutions	24	3 202 067	5 552 067
Trade payables	25	-	184 647
Deferred income tax liability		-	2 449 107
Deferred income	26	1 306 115	1 518 712
<b>Total long-term liabilities</b>		<b>4 508 182</b>	<b>9 704 533</b>
<b>Short-term liabilities</b>			
Borrowings from credit institutions	24	3 128 330	4 759 279
Advance payments from customers	27	4 541 164	39 603
Trade payables	25	1 475 130	1 834 519
Taxes and mandatory state social insurance contributions	28	497 531	767 746
Other liabilities	29	445 146	387 610
Deferred income	26	45 333	-
Accrued liabilities	30	326 947	249 319
<b>Total short-term liabilities</b>		<b>10 459 581</b>	<b>8 038 076</b>
<b>TOTAL CREDITORS</b>		<b>14 967 763</b>	<b>17 742 609</b>
<b>TOTAL LIABILITIES</b>		<b>42 945 042</b>	<b>43 146 602</b>

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



## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR 2017 (prepared by indirect method)

### Cash flow from operating activities

Items	31.12.17. EUR	31.12.16. EUR
Profit or loss before corporate income tax	160 073	371 030
<b>ADJUSTMENTS</b>		
Adjustments of decrease in value of equity capital	2 448 143	2 433 949
Amortization of intangible assets	771 827	729 833
Income from sales of fixed assets	(5 630)	(7 140)
Provisions	163 084	1 767
Unrealized profit from fluctuations of currency exchange rate	902 772	(301 375)
Amounts written off fixed assets	7 149	2 242
Reserve for revaluation of long-term investments	(198 977)	(47 669)
Other operating income	-	(3 812)
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	<b>4 248 444</b>	<b>3 178 825</b>
<b>ADJUSTMENTS FOR</b>		
Increase (-)/ decrease (+) in trade and other receivables	(1 149 924)	558 665
Increase (-)/ decrease (+) in inventories	(122 609)	(1 032 926)
Increase (+)/ decrease (-) in trade and other payables	3 719 077	(1 079 513)
<b>Gross cash flow from operating activities</b>	<b>6 694 988</b>	<b>1 625 051</b>
Expenses for company tax payments	-	(41 900)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>6 694 988</b>	<b>1 583 151</b>

### Cash flow from investing activities

Items	31.12.17. EUR	31.12.16. EUR
Proceeds from investment properties	850 000	200 000
Purchase of non-current assets	(2 043 285)	(971 876)
Proceeds from sale of fixed and intangible assets	5 630	7 140
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(1 187 655)</b>	<b>(764 736)</b>

### Cash flow from financing activities

Items	31.12.17. EUR	31.12.16. EUR
Loans from credit institutions received	65 000	1 585 237
Loans from credit institutions repaid	(4 045 949)	(2 365 737)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(3 980 949)</b>	<b>(780 500)</b>

### Summary of cash inflow and outflow

Items	31.12.17. EUR	31.12.16. EUR
Net cash flow from operating activities	6 694 988	1 583 151
Net cash flow from investing activities	(1 187 655)	(764 736)
Net cash flow from financing activities	(3 980 949)	(780 500)
Result of fluctuations of currency exchange rates	(899 029)	50 055
<b>Net increase/decrease in cash and cash equivalents</b>	<b>627 355</b>	<b>87 970</b>
<b>Cash and its equivalents in the beginning of the accounting period</b>	<b>88 409</b>	<b>439</b>
<b>Cash and its equivalents at the end of the accounting period</b>	<b>715 764</b>	<b>88 409</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2017, EUR**

Izmaiņu veids	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Total equity
<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>	-	(40 897)	-	467 916	427 019
<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>
Profit or loss for the financial year	-	-	-	520 018	520 018
Other comprehensive income	-	1 890 184	-	-	1 890 184
<i>Total comprehensive income</i>	-	1 890 184	-	520 018	2 410 202
<b>As at 31.12.17.</b>	<b>8 118 607</b>	<b>13 691 758</b>	<b>407 137</b>	<b>5 590 381</b>	<b>27 807 883</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### GENERAL INFORMATION

Consolidated financial reports include the balance data of both (the Holding) JSC "Riga Electric Machine Building Works" (hereinafter referred to as JSC "RER") and its subsidiary company of "Latvo" JSC. These financial statements were authorised for issue by the Board of Directors of the Company on 27 April 2018.

Subsidiary (daughter) companies:

Name	Addres	Type of operations	Share capital, EUR	Participation Interest, %
AS „Latvo”	Ganību dambis 53, Rīga	Realisation of electrical equipment and technical (constructor) support	5 495 420	98.7

### ACCOUNTING POLICY

#### Principles of preparing the financial statement

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

#### *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 IAS 12 "Income Taxes" - Recognition of deferred taxes for unrealised losses" (effective for annual periods beginning on January 1, 2017, or after).

Amendments to IAS 7 "Statement of cash flows" – about the initiative of provision of information to be disclosed (effective for annual periods beginning on January 1, 2017, or after).

Several new standards and interpretations have been published, and become effective for financial periods beginning on January 1, 2018, or after, or they are not approved for use in the European Union:

IFRS 9 "Financial Instruments" (effective for annual periods beginning on January 1, 2018, or after).

IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on January 1, 2018, or after). A new standard introduces the recognition of revenue together with the delivery of goods or services to the buyer, according to the transaction price. When individual goods and services are combined into offer bundles, the sale of each individual item or service is recognised as an individual transaction and any contractual discounts should normally be attributed to each element of the transaction. For transactions with variable remuneration, a minimum amount, that is not subject to a substantial cancellation risk, should be recognised. The costs, associated with the conclusion of customer contracts, are capitalised and can be amortised over the life of the contract.

Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Associated companies and joint ventures – Transactions of sales or transfer of assets between the investor and its associate or joint venture (the effective date has not yet been set and the standards are not yet accepted by the EU).

IFRS 16 "Leases" (effective for annual periods beginning on January 1, 2019, or after). The new standard defines the principles for recognition, evaluation and disclosure of lease agreements. All leases provide the lessee with the right to use the asset and, if the lease payments are made within a specified time period, also

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

includes the financing component. Accordingly, IFRS 16 excludes the possibility of classifying leases as operating or finance leases, as previously defined in IAS 17. Instead, IFRS 16 introduces a single lessee accounting model. In its accounting the lessee recognises: (a) assets and liabilities from all lease agreements with a lease term of more than 12 months, except for lease contracts for low value assets; and (b) the depreciation cost of leased assets, separately from interest expense on lease obligations. Accounting of leaseholders according to IFRS 16 is largely similar to the requirements of the IAS 17. Accordingly, leaseholders continue to classify lease contracts as operating or finance leases, and maintain a different accounting according to the classification.

Amendments to IFRS 2 "Share Payment" (effective for annual periods beginning on or after January 1, 2018, not yet accepted in the EU).

Amendments to IFRS 4 "Insurance Contracts" - application of IFRS 9 "Financial Instruments" to IFRS 4 "Insurance Contracts" (effective for annual periods beginning on January 1, 2018, or after).

Annual improvements to IFRS in 2016. These amendments include changes to three standards: IFRS 12 "Disclosures on Participation in Other Entities" (effective for annual periods beginning on January 1, 2017 or after) are not yet adopted by the EU.

IFRS 1 "First-time Adoption of IFRS" (effective for annual periods beginning on or after January 1, 2018, not yet accepted in the EU).

IAS 28 "Associates and joint ventures" (effective for annual periods beginning on January 1, 2018, or after, not yet accepted in the EU).

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on January 1, 2018, or after, have not yet been adopted by the EU).

IFRS 17 "Insurance contracts" (effective for annual periods beginning on January 1, 2021, or after, not yet accepted in the EU).

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on January 1, 2019, or after, not yet accepted in the EU).

Amendments to IAS 40 "Investment Property" (effective for annual periods beginning on January 1, 2018, or after, not yet accepted in the EU).

Amendments to IFRS 9 "Financial Instruments" – Prepaid instruments with negative compensation (effective for annual periods beginning on January 1, 2019, or after, not yet accepted in the EU).

Amendments to IAS 28 "Associates and joint ventures" – Long-term investments in associates and joint ventures (effective for annual periods beginning on January 1, 2019, or after, not yet accepted in the EU).

Annual IFRS improvements in 2017 (effective for annual periods beginning on January 1, 2019, or after, not yet accepted in the EU). These amendments include changes to four standards:

IFRS 3 - "Business Combinations".

IFRS 11 - "Cooperation Agreement".

IAS 12 - "Income Taxes".

IAS 23 - "Borrowing Costs".

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 financial report are identical. Processing the financial report the subsidiary company of the Holding applies the same accounting methods and other regulations of valuation as the parent company of the Holding does.

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

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

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

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

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.

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.

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

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

Unfinished construction and costs of capital asset creation

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

Financial leasing

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

Receivables

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

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

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

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

Debts of debtors

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

Currency unit and recalculation of foreign currency

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

	31.12.17., 1 EUR	31.12.16., 1 EUR
USD	1.1993	1.0541
RUB	69.392	64.300

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.

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

Long-term investment revaluation reserve

Long-term investments revaluation reserve is reduced when the revalued item of property to be seized, liquidated or appreciation is no longer justified. The revaluation reserve includes a reduction in the income statement as revenue in the reporting year in which the reductions are made. In 2017 the Group changed the accounting policy for the fixed asset revaluation reserve and began to calculate the depreciation of revaluation reserve so that the costs of depreciation of fixed assets in the profit or loss statement correspond to changes in the revaluation reserve.

Provisions

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

*Provisions for warranty repairs.* A warranty period of the Company's basic products is 2-3 years. In 2017 warranty repair costs is of no high importance, provisions for warranty repairs are not created.

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

Accrued liabilities

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

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

Government grants

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

Deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is accordingly recognised in other comprehensive income or directly in equity. Income tax is assessed for the period in accordance with Latvian tax legislation that has been enacted or substantively enacted by the balance sheet date.

Up until December 31, 2016, deferred tax was calculated using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences mostly occurred due to different rates of depreciation of fixed assets and due to accrued liabilities to be deducted from taxable income in subsequent taxation periods.

On July 28, 2017 there was a new Corporate Income Tax Law adopted whereby from January 1, 2018 onwards profit gained after 2017 shall be taxed if being distributed. The new law no longer contains provisions that cause temporary differences between the carrying amounts of assets and liabilities in financial accounting and their tax base. Under the transitional provisions of the law, taxpayers will be able to use tax losses, accrued but not used by December 31, 2017, over the subsequent 5 taxation years, reducing the tax payable for the distributed profit by up to 50% each year, and to use accruals made until December 31, 2017, for which the taxable income has been increased in the respective taxation periods, to reduce the taxable profit by the amount of their decrease. Such amounts, if any, do not generate deferred tax assets as at December 31, 2017 and onwards – where the tax rates differ between the distributed and retained earnings, deferred tax is calculated using the rate applicable to retained earnings, i.e., 0%. Thus, on December 31, 2017 there is no longer any reason for deferred tax assets or liabilities to exist, and on December 31, 2016 the deferred tax liabilities recognised by the

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

Company and the Group were reduced to zero and their reduction was included under income in the 2017 profit or loss statement, except the tax which had been recognised outside profit or loss and whose amount is transferred to the same equity item that it was attributed to upon recognition. Starting from the taxation year 2018, the corporate income tax will be calculated for distributed profits (20/80 from the net amount payable to shareholders). The tax on the distributed profit will be recognised when the Company's shareholders decide upon distribution.

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 22 691 596 (31.12.2016. - EUR 23 636 328).

*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 808 061 (31.12.2016. - EUR 2 102 509).

*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 9 852 720 (31.12.2016. - EUR 6 476 288).

*The recoverable amount of long-term loans*

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

The total carrying amount of long-term loan at the end of the reporting period is EUR 6 835 781 (31.12.2016. – EUR 7 789 428 ).

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.



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

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 2017 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.

The Group's significant open currency position is :

	31.12.17.	31.12.16.
Financial assets, USD	12 590	1 357 199
Financial liabilities, USD	(122 489)	(119 496)
Open position USD, net	(109 899)	1 237 703
Open position USD calculated in euro, net	(91 636)	1 184 065
Financial assets, RUB	57 002 378	8 148 398
Financial liabilities, RUB	(1 614 137)	(27 897 437)
Open position RUB, net	55 388 241	(19 749 039)
Open position RUB calculated in euro, net	798 193	(312 211)

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 :

	31.12.17.		31.12.16.	
	Change in exchange rates	Effect on equity, EUR	Change in exchange rates	Effect on equity, EUR
USD	+10 %	3 943	+10 %	15 242
	-10 %	(3 943)	-10 %	(15 242)
RUB	+10 %	2 169	+10 %	87 098
	-10 %	(2 169)	-10 %	(87 098)

*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 (24)), 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 2017 the Group's liabilities with floating interest rates decreased.

	31.12.17.	31.12.16.
Financial liabilities with variable interest rate, EUR	6 130 397	9 011 346

*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 2017 ratio of current assets to current liabilities ratio of 1.1 to 1.2 in 2016. At the end of the reporting period the Group had unused credit line resources EUR 1 322 251 (31.12.2016. - EUR 40 721).

*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.

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

Group's management controls the external debt (borrowings) to total capital (gearing ratio). During the reporting year this figure has decreased by 23,38%. The share of equity in the Group's total assets of 65.14% to 58.86% in 2016.

#### 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 2017**

#### **Note No. 1 – Net turnover**

Type of company's activity	NACE code	31.12.17. EUR	31.12.16. EUR
Manufacturing of electric machines and machinery	2711	29 036 417	20 242 760

#### **Note No. 1 – Net turnover**

Country	31.12.17. EUR	31.12.16. EUR
Latvia	199 851	236 072
Russia	24 528 104	16 081 694
Ukraine	162 620	135 720
Belarus	299 912	131 734
Slovakia	363 954	545 741
Kazakhstan	-	12 795
Georgia	-	11 422
Uzbekistan	3 474 705	3 085 983
Other	7 271	1 599
<b>Total</b>	<b>29 036 417</b>	<b>20 242 760</b>

#### **Major customers**

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

Pircējs	31.12.17. EUR	31.12.16. EUR
AO Krona Grup, Russia	24 481 510	14 864 581
TVSRZ, Uzbekistan	3 474 705	3 085 137
<b>Kopā</b>	<b>27 956 215</b>	<b>17 949 718</b>

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

Indicators	31.12.17. EUR	31.12.16. EUR
Salaries	5 261 009	3 508 819
Social insurance contributions	1 208 054	799 864
Costs of materials	12 524 168	8 496 148
Energy resources	1 129 763	1 168 899
Depreciation of capital assets and intangible assets, write-off off intangible investments value	2 751 293	2 463 479
Business trip costs	76 011	79 213
Repair costs and remuneration for works from outside	693 217	397 247
Costs of production quality control	473 183	-
Losses due to rejects	61 751	34 519
Environmental protection costs	32 426	23 090
Other costs	159 760	129 742
<b>Total</b>	<b>24 370 635</b>	<b>17 101 020</b>

Notes to consolidated comprehensive income statement (cont.)

The development costs of the company in 2017 were 430 420 EUR. These costs were capitalised and presented in the balance sheet as intangible investments.

**Note No. 3 – Selling costs**

Indicators	31.12.17. EUR	31.12.16. EUR
Packing material and package	84 675	49 220
Transportation expenses	411 651	256 623
Salaries	110 259	85 770
Social insurance contributions	25 635	19 879
Other selling costs	43 321	67 997
<b>Total</b>	<b>675 541</b>	<b>479 489</b>

**Note No. 4 – Administrative costs**

Indicators	31.12.17. EUR	31.12.16. EUR
Communications costs	21 593	20 687
Reimbursement for legal services	-	1 786
Annual report and auditing services	15 000	15 000
Cash circulation and expense and extra costs	64 980	42 956
Transportation expenses	24 684	25 894
Representation expenses	8 245	9 829
Salaries	1 265 710	1 141 751
Social insurance contributions	289 745	254 819
Energy resources	71 016	66 311
Depreciation of capital assets	433 923	427 113
Business trip costs	30 346	25 458
Real estate tax	96 922	119 395
Other administrative costs	107 074	131 424
<b>Total</b>	<b>2 429 238</b>	<b>2 282 423</b>

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

Indicators	31.12.17. EUR	31.12.16. EUR
Profit gained as a result of other sales (materials, lease, other)	72 961	100 390
Sale of capital assets	5 630	7 140
Decrease in revaluation reserve of capital assets	198 977	47 669
Income from fluctuations of exchange rates	-	301 375
Decrease in deferred income (Eurofound)	212 597	208 926
Other income	1 469	9 374
<b>Total</b>	<b>491 634</b>	<b>674 874</b>

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

Indicators	31.12.17. EUR	31.12.16. EUR
Penalty and contractual penalties	26 244	47 082
Costs related to maintenance of social sphere	28 945	28 334
Costs not related to operating activities of the Company	72 148	73 041
Loss from fluctuations of exchange rates	902 772	-
Removal of capital assets	7 149	2 242
Write-off of bad debtors	5 813	20 528
Write-off of inventories	18 113	-
Increase in provisions for stocks of slow-turnover	80 755	-
Increase in provisions for doubtful debtors	112 629	-
Provisions for benefits for damages to health	161 524	-
Increase in holiday provision	77 628	67 279
Other costs	2 811	3 174
<b>Total</b>	<b>1 496 531</b>	<b>241 680</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	161	5 630	0.00	5 630	5 469

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

Rādītāji	31.12.17. EUR	31.12.16. EUR
Adjustments of decrease in value of long-term loan (subsidiary (daughter) company)	5 675	40 480
<b>Kopā</b>	<b>5 675</b>	<b>40 480</b>

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

Indicator	31.12.17. EUR	31.12.16. EUR
Loan agreements	278 494	309 765
Credit line agreements	111 866	91 747
<b>Total</b>	<b>390 360</b>	<b>401 512</b>

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

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

Indicators	31.12.17. EUR	31.12.16. EUR
Deferred corporate income tax at the beginning of year	2 449 107	2 594 665
Increase/decrease of deferred corporate income tax for reporting period	(2 449 107)	(145 558)
Deferred corporate income tax at the end of year	-	2 449 107

Rādītāji	31.12.17. EUR	31.12.16. EUR
<b>Liabilities</b>		
Long-term investment revaluation effect	-	2 089 162
Fixed assets depreciation temporary difference effect	-	399 736
<b>Total liabilities</b>	-	<b>2 488 898</b>
<b>Assets</b>		
Accumulated leave costs temporary difference effect	-	(34 614)
Temporary difference on provision for doubtful receivables	-	-
Temporary difference on provision for impaired materials	-	(5 177)
<b>Total assets</b>	-	<b>(39 791)</b>
<b>Deferred enterprise income tax displayed in the balance statement</b>	-	<b>2 449 107</b>

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

Rādītāji	31.12.17. EUR	31.12.16. EUR
Deferred tax expenditure in profit and loss account of accounting year	(359 945)	(138 786)

Notes to the consolidated financial statements (cont.)

The parent Company partially deferred tax liabilities is transferred to the same equity item that it was attributed to upon recognition and partially writes down in the profit or loss statement, recognising them as income (Note (21)).

## NOTES TO BALANCE SHEET FOR THE YEAR 2017

### Note No. 10 – Intangible assets and fixed assets, EUR

#### Intangible assets

	Research and development costs	Concessions, patents, licenses, trade marks and similar rights	Other intangible assets	Advances for intangible assets	Total intangible assets
Acquisition value 01.01.17.	2 079 214	634 447	142 847	13 200	2 869 708
Additions	430 420	188 462	-	223 724	842 606
Disposal	(274 749)	-	-	(233 299)	(508 048)
Acquisition value 31.12.17.	2 234 885	822 909	142 847	3 625	3 204 266
Accumulated amortization 01.01.17.	321 088	362 471	87 060	-	770 619
Amortization charge	332 675	133 086	31 317	-	497 078
Amortization of disposals	-	-	-	-	-
Accumulated amortization 31.12.17.	653 763	495 557	118 377	-	1 267 697
Net book value 01.01.17.	1 758 126	271 976	55 787	13 200	2 099 089
Net book value 31.12.17.	1 581 122	327 352	24 470	3 625	1 936 569

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

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

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

#### Fixed assets

	Real estate*	Machinery and equipment	Other fixed assets and inventory	Fixed assets under construction	Advances for fixed assets	Total fixed assets
Acquisition value 01.01.17.	16 673 057	14 300 390	740 903	847 697	90 979	32 653 026
Additions	1 004 931	256 184	109 215	1 420 654	430 255	3 221 239
Disposal	(6 412)	(29 838)	(32 563)	(1 366 581)	(344 095)	(1 779 489)
Acquisition value 31.12.17.	17 671 576	14 526 736	817 555	901 770	177 139	34 094 776
Accumulated amortization 01.01.17.	1 199 659	7 290 984	526 055	-	-	9 016 698
Amortization charge	1 205 859	1 175 901	66 386	-	-	2 448 146
Amortization of disposals	(298)	(28 868)	(32 498)	-	-	(61 664)
Accumulated amortization 31.12.17.	2 405 220	8 438 017	559 943	-	-	11 403 180
Net book value 01.01.17.	15 473 398	7 009 406	214 848	847 697	90 979	23 636 328
Net book value 31.12.17.	15 266 356	6 088 719	257 612	901 770	177 139	22 691 596

Notes to the consolidated financial statements (cont.)

\*In 2017 assessed value of the premises accounted EUR 5 135 013, assessed value of the plot accounted for EUR 1 298 125.

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

**Note No. 11 – Other long-term debtors**

Indicators	31.12.17. EUR	31.12.16. EUR
Long-term loan of the subsidiary (daughter) company (until 01.01.2019)	6 881 936	7 829 908
Provisions for long-term loan	(46 155)	(40 480)
<b>Total</b>	<b>6 835 781</b>	<b>7 789 428</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.

**Changes in provisions for long-term loan**

Indicators	31.12.17. EUR	31.12.16. EUR
Provisions at the beginning of the year	40 480	-
Decrease / increase	5 675	40 480
Provisions at the end of the year	46 155	40 480

**Note No. 12 – Raw materials, direct materials and auxiliary materials**

Indicators	31.12.17. EUR	31.12.16. EUR
Raw materials, direct materials and auxiliary materials	3 792 850	3 129 733
Provisions for stocks of slow-turnover	(115 268)	(34 512)
<b>Total</b>	<b>3 677 582</b>	<b>3 095 221</b>

**Changes in provisions**

Indicators	31.12.17. EUR	31.12.16. EUR
Provisions at the beginning of the year	34 512	36 970
Decrease / increase	80 756	(2 458)
Provisions at the end of the year	115 268	34 512

**Note No. 13 – Finished goods and goods for sale**

Indicators	31.12.17. EUR	31.12.16. EUR
Electrical equipment for electric trains and for metro cars	755 409	814 752
<b>Total</b>	<b>755 409</b>	<b>814 752</b>

**Note No. 14 – Advance payments for inventories**

Indicators	31.12.17. EUR	31.12.16. EUR
Local customers	4 086	3 709
Foreign customers	3 396 585	143 139
<b>Total</b>	<b>3 400 671</b>	<b>146 848</b>

Notes to the consolidated financial statements (cont.)

**Note No. 15 – Trade receivables**

Indicators	31.12.17. EUR	31.12.16. EUR
Debts of customers and clients	546 382	1 900 484
Provisions for doubtful debtors	(40 629)	-
<b>Total</b>	<b>505 753</b>	<b>1 900 484</b>

**Changes in provisions for doubtful debtors**

Indicators	31.12.17. EUR	31.12.16. EUR
Provisions at the beginning of the year	-	10 494
Decrease (repaid debts)	40 629	-
Loss of receivables	-	( 10 494)
Provisions at the end of the year	40 629	-

**Note No. 16 – Other receivables**

Indicators	31.12.17. EUR	31.12.16. EUR
Taxes paid in advance	96 676	66 597
Overpaid taxes	165 813	90 385
Processing of goods	12 710	9 426
Advance payments for services	16 723	21 730
Other	5 498	5 052
<b>Total</b>	<b>297 420</b>	<b>193 190</b>

**Note No. 17 – Prepaid expenses**

Indicators	31.12.17. EUR	31.12.16. EUR
Insurance	2 027	1 893
Payment for use of design documentation	-	728
Certification	900	1 773
Computer's network service	-	2 250
Other	1 961	2 191
<b>Total</b>	<b>4 888</b>	<b>8 835</b>

**Note No.18 – Short-term financial investments**

Rādītāji	31.12.17. EUR	31.12.16. EUR
Shareholding in the capital of SIA „RER-Termināls”	90 000	940 000

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

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

On January 19, 2018, participation of JSC Rīgas elektromašīnbūves rūpnīca in the share capital of the subsidiary LTD RER-Termināls, Reg. No. 40203010535, has expired, the second participant - LTD BSC7 owns 11 400 shares of the share capital of LTD RER-Termināls, or 100%.

**Note No. 19 – Cash**

Indicators	31.12.17. EUR	31.12.16. EUR
Current accounts in banks	715 764	88 409

Notes to the consolidated financial statements (cont.)

**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.

Composition of shareholders according to the database of the Latvian Central Depository:

Indicators	31.12.17. EUR	31.12.16. EUR
Residents, including	199 171	270 938
- physical entities	162 627	234 394
- legal entities	36 544	36 544
Non-residents, including	7 919 436	7 847 669
- Russia	3 737 405	5 149 997
- Canada	7 167	7 167
- British Virgin Islands	814 829	814 829
- Belize	1 867 279	1 867 279
- Lithuania	9 848	2 446
- Estonia	5 951	5 951
- Cyprus	1 476 957	-
<b>Total</b>	<b>8 118 607</b>	<b>8 118 607</b>

Company shareholders (over 5%) as of 31.12.2017.

Name	Ownership interest (%)
AO Krona Grup, Russia	46
Mals Company Ltd., Belize	23
CROWNING FINANCE CYPRUS LIMITED, Cyprus	18.19
Imfelant Productions Inc., British Virgin Islands	10.05

**Note No. 21 – Reserve for revaluation of long-term investments**

Immovable property was evaluated according to its market value. Evaluation was carried out by independent evaluator. Market value of immovable property was determined by means of income method and market method. Revaluation is processed for whole group of capital assets 'Land plots, buildings and constructions'.

As result of evaluation increase of active value, that was included into equity capital position 'Long-term investment revaluation reserve'.

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	
	01.01.17.	31.12.17.			without revaluating	with revaluating
			01.01.17.	2017	31.12.17.	31.12.17.
Real estate (land, buildings and structures)	11 801 574	13 691 758	15 473 398	198 977	5 336 517	15 266 356

**Note No. 22 – Other reserves**

Indicators	31.12.17. EUR	31.12.16. 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>



Notes to the consolidated financial statements (cont.)

**Note No. 23 – Other provisions**

Indicators	31.12.17. EUR	31.12.16. EUR
Provision for warranty repairs of the subsidiary (daughter) company	7 872	6 312
Provisions for benefits for damages to health of the parent company	161 524	-
<b>Total</b>	<b>169 396</b>	<b>6 312</b>

**Changes in other provisions**

Indicators	31.12.17. EUR	31.12.16. EUR
Provisions at the beginning of the year	6 312	4 545
Decrease / increase	163 084	1 767
Provisions at the end of the year	169 396	6 312

Provision is calculated at 0.004 of the net turnover of the subsidiary in the reporting period.  
Provisions for benefits for damages to health was calculated according to an independent actuarial valuation.

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

Indicators	31.12.17. EUR	31.12.16. EUR
<b>Latvian credit institutions, loan agreement, including</b>	<b>5 152 648</b>	<b>7 352 067</b>
Long-term debt	3 202 067	5 552 067
Short-term debt	1 950 581	1 800 000
<b>Latvian credit institutions, credit line, including</b>	<b>1 177 749</b>	<b>2 959 279</b>
Short-term debt	1 177 749	2 959 279

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 2017 is EUR 41 557 275 (31.12.2016. - EUR 40 848 102);
- (iii) guarantees from related parties.

Loans and credit agreements (EUR)

Contract number	% rate for year	Date of payment	Sum, EUR 31.12.17.	Sum, EUR 31.12.16.
DB/C31-213/30	4,5% + 1mon.EURIBOR	30.12.18.	1 177 749	2 959 279
DB/C31-213/31	5,0% + 3mon.EURIBOR	30.12.18.	3 208 600	3 758 600
DB/C31-213/127	5,0% + 3mon.EURIBOR	30.12.18.	1 252 290	1 636 709
DB/C31-214/85	5,0% + 3mon.EURIBOR	30.12.18.	491 758	656 758
K-005/0216 C	3.2%	10.02.19.	200 000	1 300 000

**Note No. 25 – Trade payables**

Indicators	31.12.17. EUR	31.12.16. EUR
<b>Long-term creditors, including</b>	<b>-</b>	<b>184 647</b>
Foreign suppliers	-	184 647
<b>Short-term creditors, including</b>	<b>1 475 130</b>	<b>1 834 519</b>
Local suppliers	1 173 015	1 037 261
Foreign suppliers	302 115	797 258

Notes to the consolidated financial statements (cont.)

**Note No. 26 – Long-term and short-term deferred income**

Indicators	31.12.17. EUR	31.12.16. EUR
<b>Long-term deferred income</b>	<b>1 306 115</b>	<b>1 518 712</b>
Support for the project implementation in the frames of the Centre of Competence	217 887	290 516
Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	1 088 228	1 228 196
<b>Short-term deferred income</b>	<b>45 333</b>	<b>-</b>

Indicators	31.12.17. EUR	31.12.16. EUR
Deferred income at the beginning of the year	1 518 712	1 428 575
Changes within the reporting year	(167 264)	90 137
Deferred income at the end of the year	1 351 448	1 518 712

Explanation on the financial assistance received in the previous years

Provider of financial assistance	Year of receipt	Sum, EUR	Receipt objective	Conditions	The sum to be paid back in the reporting year if any of the conditions is not reached
Transporta mašīnbūves kompetences centrs SIA	2014 - 2016	359 473	New product development	conditions fulfilled	-
Latvijas Investīciju un Attīstības Aģentūra (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	31.12.17. EUR	31.12.16. EUR
Local customers	6 514	506
Foreign customers	4 534 650	39 097
<b>Total</b>	<b>4 541 164</b>	<b>39 603</b>

**Note No. 28 – Taxes and mandatory state social insurance contributions, EUR**

Indicators	31.12.17. EUR	31.12.16. EUR
Tax contributions and state social insurance contributions at the beginning of the year	767 746	1 551 456
Changes within the reporting year	(270 215)	(783 710)
Tax contributions and state social insurance contributions at the end of the year	497 531	767 746

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"  
Audited Consolidated Annual Report for the year 2017

Notes to the consolidated financial statements (cont.)

Indicators	Personal income tax	Mandatory social insurance contributions	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
01.01.17. debt	375 896	387 368	-	-	4 284	-	-	198
01.01.17. overpayment	-	-	57 036	90 385	-	-	-	-
Calculated	1 351 163	2 323 528	180	1 488 874	20 166	19 846	77 076	2 621
Penalty calculated	13 866	5 334	-	-	-	-	-	-
Allocated to other taxes	-	-	-	368 904	-	-	-	-
Repaid from the budget	-	-	-	879 637	-	-	-	-
Paid	1 297 473	2 281 664	32 230	2 812 834	18 300	18 651	77 015	2 608
Penalty paid	13 866	5 334	-	-	-	-	-	-
Tax debt is settled from excess payment of other tax	166 329	202 575	-	-	-	-	-	-
31.12.17. debt	263 257	226 657	-	-	6 150	1 195	61	211
31.12.17. overpayment	-	-	89 086	165 804	-	-	-	-

\* As for 31.12.2017. the Group has no current tax debts.

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

Indicators	31.12.17. EUR	31.12.16. EUR
Short-term creditors, including	445 146	387 610
Salary debt	443 030	382 884
Other	2 116	4 726

**Note No. 30 – Accrued liabilities**

Indicators	31.12.17. EUR	31.12.16. EUR
Provisions for unused vacation compensation	326 947	249 319
Total	326 947	249 319

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

Indicators	31.12.17.	31.12.16.
Members of the Council	8	8
Members of the Board	6	6
Other employees	594	540
Average number of employees	608	554

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

Indicators	31.12.17. EUR	31.12.16. EUR
Wages to the Council Members	15 254	16 000
Wages to the Board Members	8 551	10 600
Mandatory state social insurance contributions	5 616	6 275
Total	29 421	32 875

Notes to the consolidated financial statements (cont.)

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

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

Indicators	31.12.17. EUR	31.12.16. EUR
Claims	438 041	361 730
Liabilities	-	351 251
Sale of goods	24 481 510	14 864 581
Purchase of goods	537 593	470 883

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

Indicators	31.12.17. EUR	31.12.16. EUR
Remuneration for auditing annual report and consolidated annual report (amounts given including VAT)	18 150	18 150
<b>Total</b>	<b>18 150</b>	<b>18 150</b>

**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 31.12.2017. all assets of parent Company have been pledged as security for a loan.

**Liabilities for pensions**

There are none

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

There are none

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

There are none

Notes to the consolidated financial statements (cont.)

**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

Aleksandrs Popadins

Iļja Šestakovs

Grigorijs Kapustins

Annual report drawn up by  
Chief Accountant

Svetlana Statina

27 April 2018

## MANAGEMENT CONFIRMATION REPORT

Consolidated financial statements are prepared to the best of our knowledge, in accordance with International Financial Reporting Standards adopted by the European Union. These financial statements give a true and fair view of the financial position of the Group and of its financial performance for the period ended 31 December 2017.

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

Aleksandrs Popadins

Ilja Šestakovs

Grigorijs Kapustins

27 April 2018



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Rīgas Elektromašīnbūves Rūpnīca AS

### *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 2017,
- the consolidated statement of financial position as at 31 December, 2017,
- 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 2017, 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:

Audit questions	Measures taken
<u>Revenue completeness and periodization</u>	In order to assess the risk of non-compliance with the periodization of revenues, we have conducted the following audit procedures:
<p>The core business of the group is the production of electrical machinery and apparatus. More than 95% of revenues are generated by exporting products to approximately 7 different countries globally.</p> <p>The appropriate selling conditions vary between customers, and the transfer of ownership depends on the incoterms used for each</p>	<ul style="list-style-type: none"> <li>• have met with the financial management of the Group and discussed the current market situation, revenue structure of the Group, changes during the reporting year as well as the most significant risks while ensuring revenue completeness and periodization</li> <li>• became aware of the appropriateness of income traceability methods used and</li> </ul>



<p>transaction. The duration of the transportation of products sold varies significantly depending on the location of the customer. This necessitates the introduction and maintenance of consistent accounting and control procedures for revenue recognition, which ensures a precise periodicity and completeness of said revenue recognition. Therefore, we consider the aspects of accounting and control as a significant audit issue.</p> <p>More detailed information on this issue is provided in Note 1 of Financial Statement and on page 13 of Accounting Policy (Revenue Recognition and Net Turnover).</p>	<p>assessed the appropriateness, implementation and operational efficiency of control procedures used</p> <ul style="list-style-type: none"><li>• carried out detailed analytical procedures while assessing changes in recognized revenue in relation to the previous year, analysed monthly and significant fluctuations. Additionally, have performed detailed comparison of supporting documentation with accounting data;</li><li>• conducted an individual sales transaction check-up, when the sale is performed just before or straight after the end of the reporting year. Have obtained evidence that justifies the correctness of the recognition period based on terms and conditions stated/contained in sales and delivery contracts/documents.</li><li>• Additionally, have asked for sample letters of correspondence and checked the balance of sales receivables at the balance date.</li></ul>
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#### *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.

#### *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.

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

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





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- 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.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement our responsibility is to report whether the Company has prepared the Non-financial Statement and whether the Non-financial Statement is included in the management Report or prepared as a separate element of the Annual Report or is included in the consolidated non-financial statement of the Company's parent company.

In our opinion, the non-financial information is included in the management report in pages 4 to 5 of the accompanying annual report.

#### *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 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



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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.

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

We were appointed by those charged with governance on 21 September 2017 to audit the financial statements of AS "Rīgas Elektromašīnbūves Rūpnīca" for the year ended 31 December 2017. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2016 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

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

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Silvija Gulbe  
Member of the Board

Riga, 27 April 2018

Ingrida Latimira  
Sworn auditor  
Certificate No. 47