

JOINT STOCK COMPANY
“RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA”

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

CONSOLIDATED NON-FINANCIAL REPORT 2017

Prepared under Section 56.4 of the Financial Instrument Market Law

Rīga

2018

CONTENT

BRIEF DESCRIPTION OF THE GROUP'S BUSINESS MODEL	3
CONSOLIDATED CORPORATE SOCIAL RESPONSIBILITY REPORT 2017	5
- Human rights	5
Staff health and safety	5
Hours, wages and leave	5
- Labour	6
Trade unions	6
Prohibition of discrimination	7
- Environment impact	8
- Anti-corruption	9

BRIEF DESCRIPTION OF THE GROUP'S BUSINESS MODEL

This Consolidated non-financial report of JSC "Rīgas elektromašīnbūves rūpnīca" concerns the group's operation in 2017.

Structure of the Group

Group include parent company JSC "Rīgas elektromašīnbūves rūpnīca" (hereinafter referred to as JSC "RER") and its subsidiary company JSC "Latvo":

JSC "Rīgas elektromašīnbūves rūpnīca"

Place of registration	Riga, Latvia
Registration number	40003042006
Address	Ganību dambis 53, Rīga, Latvija, LV-1005
Website	www.rer.lv

JSC "Latvo"

Place of registration	Riga, Latvia
Registration number	40003184975
Address	Ganību dambis 53, Rīga, Latvija, LV-1005

Operating segments and geographical markets

Concern is the largest machine-building enterprise in the Baltic States for the production of traction electrical equipment.

Concern's activity is directed at the production of electrical equipments for:

- electric trains
- passenger carriages
- subway carriages
- mining dump trucks
- public transport (including electric buses and low-floor trolleybuses)
- the mining industry.

Currently Concern is focused on the number of the following strategic targets:

- releasing of wide variety of products actual and competitive in the international market;
- development of an effective management structure with competences, assets and resources which are necessary for production chain control, logistics and product quality control;
- provision of competitive ability of production processes according to a good international practices.

The major buyers of Concern's products in 2017 were machine-building companies from Russia, Uzbekistan, Slovakia, Belorussia and Ukraine.

The net-turnover of the Concern increased by 43.48% in year 2017 over the previous year 2016. It's grew up from 20.2 million Euro to 29,04 million Euro. Increasing in sales volumes was achieved due to the development of new markets, strengthening of positions in existing sales markets, as well as as a result of individual work with potential customers directly and through sales representatives.)

Relying on almost the century-old tradition of development of electrical equipment, Concern emphasises the development using the extension and implementation of new innovative products. The company is focused on providing customers with new ideas and decisions in order they could be more competitive, effective and efficient in their work.

Also, the strategy of Concern is switching to development and production of new modern products. Such as like sets of electrical equipment for electric trains and metro cars on asynchronous traction. Today, the Concern offers constructive innovations for the production of energy-saving electric trains, which will ensure the Company's competitive advantage in the sales markets.

For the last 3 years the technological infrastructure of Concern has been expanded by 60%. Has purchased and put into operation the modern automated equipment that does not require extra hands. This will allow the enterprise to reduce the cost price and offer the products manufactured at more favorable conditions and competitive prices.

The quality control system introduced at the company is applied successfully. The Management system of Concern is estimated and its conformity to requirements of ISO 9001:2015 standards has been acknowledged. Concern strictly observes the company policy that ranks first the quality of production and high standards of services provided for its customers.

The main competitive advantages of Concern, which help to keep the market, are a wide range of products, many years of experience in the manufacture of products and high quality.)

In the future, Concern will continue to work on the development and implementation of new innovative products. For effective promotion of products, various marketing activities are foreseen: promotion of products manufactured through Internet resources, development of brand network, cooperation with chambers of commerce and industry in various regions, with LIAA, advertising in print and other media, participation in international exhibitions and much more.

For more detailed information on the group's business performance please refer to the Audited consolidated and separate Annual reports 2017 of JSC "Rīgas elektromašīnbūves rūpnīca" in the Management report section.

CONSOLIDATED CORPORATE SOCIAL RESPONSIBILITY REPORT 2017

Corporate Social Responsibility Report is the first report of the Group and is prepared in accordance with the guidelines laid down by the legislation of the Republic of Latvia.

Human rights

Staff health and safety

JSC „RER” and JSC „Latvo” fully comply with the regulatory framework of Latvia and the European Union which meets high standards of human rights. The companies do not in any way get involved in the abuse of human rights and are committed to show an active stance in this regard to customers, partners and employees as well.

The Latvian regulatory framework of labour safety is essentially designed to be directly applied within organisations, and JSC „RER” both and JSC „Latvo” fully meet these requirements. The companies provides its employees with a safe and harmless working environment, a proper equipment and training, and involves employees in the performance of health and safety measures.

Risks

The possible accidents pose a substantial risk to both the employees’ health and the company’s operation.

Measures

There is a labour protection system in place, and there have been responsible persons designated for specific duties in labour protection, fire safety and civil protection. Employees are instructed on labour protection and fire safety pursuant to a schedule depending on work specifics and acquainted with civil protection measure plans.

Accidents at work are constantly registered and analysed. Employees undergo mandatory health checks pursuant to a schedule depending on work specifics. In daily work employees are provided with the necessary collective and individual safety equipment. The work equipment and machinery is regularly inspected and serviced in line with the manufacturer requirements. The company organises medical examinations prescribed by the legislation and provides medical care in the company.

In 2017 there have been no complaints over labour safety received from employees.

Hours, wages and leave

JSC „RER” and JSC „Latvo” operate in compliance with the Latvian regulatory framework. All the social protection measures set out in the Labour Law are implemented.

Employees predominantly have 40 working hours per week. Where necessary, there is work in shifts. The number of overtime hours is limited, employees are given appropriate break and rest time.

Employees receive paid annual leave in addition to the holidays laid down by the national legislation: paid holidays for employees with children, work in special operational conditions, weddings and funerals, etc. are provided. Employees who continue to work while studying in an educational establishment related to the company's field of operation are provided paid education leave. Under the Latvian laws, employees are allowed incapacity absence, including one related to pregnancy and birth, and a maternity leave. All employees have written employment contracts signed and issued and all taxes related to the employment relationship paid.

Risks

The recruitment policy is implemented so as to avoid the risk of the lack of qualified specialists jeopardising compliance with the industry standards in respect of operational continuity. A fully recruited staff ensures a balanced regime of work and rest, which results in an improved overall performance.

Measures

The personnel management function is entrusted to professional structural units, with a centralised management of this function, review of and advising on employment relationship matters.

In 2017 there have been no complaints received over violations of working hours, wages or leave of absence that would qualify as infringement of human rights.

Key indicators

Average number of employees: 608 people

Average age: 54 years

Average monthly salary: 958 EUR

The average wage exceeds the minimum wage multiple times.

Labour

JSC „RER” and JSC „Latvo” fully observe the employees’ rights in terms of freedom of association and non-discrimination.

Trade unions

Employees are enabled and encouraged to join trade unions and collectively discuss collective agreements.

Risks

No substantial risks are seen in this field.

Measures

There are collective agreement discussion meetings held, attended by representatives of the company’s management, employees and trade unions. Once per year there is a

joint report made on the performance of the obligations due under the Collective Agreement.

Premises are made available for holding trade union meetings, as are permanent premises and means of communication for the head of the trade union. At the trade union's request, the required information about the company's operation is provided.

In 2017 there were no cases of any disagreements whose resolution necessitated the involvement of a trade union.

Prohibition of discrimination

The prohibition of discrimination is observed. No specific groups of people are obstructed. The current staff has been recruited by balancing the required professional competences against supply on the labour market. It is made sure that decisions in respect of employees be based on appropriate and objective criteria.

Risks

No substantial risks are seen in this field.

Measures

Job advertisements set out specific requirements for employees based on the professional competences required for the company and are worded in a non-discriminatory way. During the recruitment process, no sensitive information about applicants, including their religious or political conviction, family status, sexual orientation, ethnic origin, political beliefs.

During the reporting period of 2017 there have been no complaints received over discrimination at work.

TRAINING AND QUALIFICATION ADVANCEMENT

JSC „RER” and JSC „Latvo” periodically investing resources and means for both newly-hired and permanent staff training, thus contributing to the professional and career development and growth of all levels of staff. Training is organized on a regular basis - in accordance with the individual development goals of the employees. The company realizes both internal and external training, attracting the relevant specialists.

ADDITIONAL BENEFITS FOR EMPLOYEES IN 2017:

Gifts for Christmas

Premium for long-term employment

Bonus on the occasion of the anniversary

Financial support in the event of death of a family member.

Environment impact

The Group must comply with environmental protection requirements in the course of its economic activities. In order to meet these requirements the Group regularly takes appropriate measures.

The objectives of the environmental policy of the Group are to reduce and prevent environmental pollution, to identify and manage environmental risks, and to use natural and energy resources in a sustainable manner.

The Group's economic activities are related to the use of resources, emissions in water and air, and the management of created waste.

Use of resources (water, energy and chemicals)

Water for the needs of the Group is supplied from two groundwater abstraction wells and from the Sarkandaugava Canal.

The Group's electricity supply is ensured by AS "Latvenergo" Electricity is used for operation of the production facilities, for lighting, ventilation, heating and other purposes.

For the production of heat energy appropriate combustion plants with natural gas as fuel are used.

The following basic materials in the technological process are used:

- solvents (painting, impregnation);
- acids, alkalis, heavy metal salts (electroplating);
- metals (melting, casting);
- plastics, insulation materials (electrotechnical products).

Emission to water

The emission of pollutants to water is controlled by receivers for oil and oil products in sewage system.

Emission to air

The emission of pollutants comes from natural gas combustion plants and various types of technological equipment, most of which are equipped with dust collectors.

Waste generation and management

The activities of the Group result in domestic waste and waste from industrial production. According to the concluded contracts or to order, waste is handed over to companies that have received a permit for management of the type of waste in question. A contract regarding the management of the used packaging is concluded with SIA "Zaļais Centrs".

Risks

The main types of risk are fire, and leaking of oil products, solvents, acids and alkalis into the environment.

Measures

The water abstraction point from Sarkandaugava Canal is equipped with technological equipment for cooling the compressors through water circulation. Replacement of the old compressors with new ones ensures the reduction of water consumption.

The purchase and commissioning of new metal processing equipment and the replacement of old light bulbs with modern new lamps ensures the reduction of electric power consumption.

Industrial and rainwater drains are equipped with 3 receivers of oil and oil products.

The reduction of air pollution is ensured by the operation of cyclones (dust collection equipment) and hydro filters.

Wastewater and air quality monitoring is performed periodically.

New, better available technologies and appropriate organisational measures are introduced to reduce the risks; training and information are provided to the staff.

The Group has developed an action plan for in the case of emergencies and accidents; if environmental damage occurs, appropriate measures are immediately taken.

There were no accidents in 2017.

Anti-corruption

JSC „RER” and JSC „Latvo” do not engage in corruptive activities and bribery and make a clear statement thereof to its customers, partners and employees.

As a company quoted at stock exchange, JSC „RER” is subject to and strictly observes a number of requirements in respect of transparency and openness of corporate governance⁴, circulation and disclosure of inside information.

Measures

Under the Articles of Association of JSC „RER”, the company shall be represented by the Chairman of the Board or by four Members of the Board together.

In the process of negotiation of business contracts, there are always multiple persons involved. Regular and ad-hoc procurement commissions have been set up. Open tenders are published on the respective company's website.

In 2017 there have been no complaints received over bribery at either company and no investigations launched over such activities or violations of competition law by the companies.

The Board