

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

Reg. No. 40003042006  
Ganību dambis 31, Rīga, LV-1005

**ANNUAL REPORT  
FOR THE YEAR 2015  
(AUDITED)**

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Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"  
Audited Annual Report for the year 2015

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**INFORMATION ABOUT THE COMPANY**

Name of the Company	AS (Joint Stock Company) "Rīgas elektromašīnbūves rūpnīca" (AS "RER")	
Legal status of the Company	Joint Stock Company	
Registration No. in the Register of Enterprises, date and place of registration	No. 000304200, Riga, 29 November 1991	
Unified Registration No. in the Commercial Register, date and place of registration	No. 40003042006, Riga, 29 September 2004	
Registered office	Ganību dambis 31, Riga, LV-1005, the Republic of Latvia	
Institution in charge of the Company	General meeting of shareholders	
The Company Council :		
Chairperson of the Council	Andrey Petrov Oleg Domskiy	from 11.11.15. until 11.11.15.
Vice-Chairperson of the Council	Andrey Petrov Kirills Nužins	until 11.11.15. from 11.11.15.
Council Members	Andrey Isaev Ekaterina Chamkina Sergey Goncharov Andrey Sarkisov Natalia Sarkisova Ivgeny Sokolsky	until 15.07.15. until 15.07.15. until 15.07.15. from 15.07.15. from 15.07.15. from 15.07.15.
The Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Olga Pētersone Aleksandrs Popadins Nikolajs Čudinovs Ilja Šestakovs Aleksandrs Suvorkins Maxim Savenkov	from 27.06.12. from 08.11.13. from 30.01.15. from 30.01.15. until 30.01.15. until 30.01.15.
Revision Committee of the Company	Obligations of the Revision Committee are performed by the Company Council according to Minutes No.1 of ordinary meeting of shareholders dated June 19, 2015.	
Accounting period	1 January 2015 – 31 December 2015	
Auditor	SIA "Rīgas audits", licence No. 103 Skolas iela 11-501, Riga, LV-1010, Latvia Certified auditor J. Mežiels, Certified auditor's certificate No. 127	
Subsidiary companies	AS „LATVO”, reģ. Nr. 40003184975 Ganību dambis 31, Riga, the Republic of Latvia Fixed capital 5 495 420 EUR Shares – 98.7 %	

## AS "Rīgas elektromašīnbūves rūpnīca"

### MANAGEMENT REPORT

#### Business activities of the Company in 2015

Basic business activities of JSC "Rīgas elektromašīnbūves rūpnīca" (hereinafter – RER) are manufacturing of electric machines and machinery (NACE code 2711). The main types of products are as follows:

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

In 2015 the net turnover of the Company accounted for EUR 12 983 559.

The Company has concluded the financial year 2015 with loss amounting to EUR 73 265 before tax and loss amounting to EUR 235 432 after tax.

Taking into account negative effect of the fall of Russian rouble exchange rate (RUB/EUR) on Company's performance in 2014, the Company's Board was providing changes in realisation agreements to euro currency with buyers from Russian market in first quarter of 2015 year. In conjunction with this, starting with 2015, Company has not had any RUB/EUR exchange risks, which had been the most significant financial risks before.

At the same time, the devaluation of Russian rouble is being continued, that influences negatively on Company's competitiveness due to price definition in Euro, and as a result – sale volume ratio of Company products has decreased in Russian market.

In order to ensure Company's financial stability, JSC «Rīgas elektromašīnbūves rūpnīca» board has approved the plan of activities for optimization of all types of expenses in 2015. The plan of activities provided decrease of all types of expenses, including decrease of number of personnel.

Compensatory payments to the workers, who were laid off, had made negative influence on the Company financial results in the first quarter of 2015 year, but this negative influence was reduced during 2015 with the cost price expenses economy.

#### *The economic indicators of the Company*

In 2015 the Autonomy indicator (equity / entire capital) was 0.54, in comparison with results of 2014 it is more for 8.0%. Proportion coefficient of loans and equity (loans / equity) was 0.84, which has improved by 16.83 % when compared with 2014. Total liquidity indicator (current assets / short-term liabilities) was 1.1.

#### *Other indicators*

In 2015 the average number of employees was 546 people, the average monthly salary was EUR 668.

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

#### Risk factors related to the business activities of the Company

Financial risks have been characterized on pages 13 and 14 in notes to financial statements of the annual report 2015.

#### Significant events in 2015

JSC «Rīgas elektromašīnbūves rūpnīca» has finished the realization of 5 projects in the first half-year 2015 by activity «Business and innovations» and sub activity «Centres of Competence», which were approved by Investment and Development Agency of Latvia.

In the September of 2015 JSC „Rīgas elektromašīnbūves rūpnīca” have finished implementation of the Project „The launch of production of new asynchronous traction motors”, within the support program „High value-added investments”. Total Project investment: ~2.17 million EUR. Total ERDF co-financing – 0.98 million EUR.

In the October of 2015 JSC „Rīgas elektromašīnbūves rūpnīca” has completed the implementation of machinery purchase project „Launch of new electrical engineering products”, within the support program „High value-added investments”. Total Project investment is 1.44 million EUR. Total ERDF co-financing is 0.41 million EUR.

Further development of the Company

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

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.

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Nikolajs Čudinovs

Iļja Šestakovs

08 April 2016

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**PROFIT AND LOSS ACCOUNT FOR THE 2015**

No.	Items	Note	31.12.15. EUR	31.12.14. EUR
1	Net turnover	1	12983559	33526569
2	Production costs of the goods sold	2	(12399549)	(28446160)
3	<b>Gross profit or loss</b>		<b>584010</b>	<b>5080409</b>
4	Selling expenses	3	(332152)	(794228)
5	Administration expenses	4	(1786740)	(2870590)
6	Other operating income	5	2326166	867640
7	Other operating expenses	6	(1041609)	(1611230)
8	Income from participation in capital of related and affiliated companies	7	619905	
9	Other interest income and similar income		44	28
10	Other interest payments and similar expenses	8	(442889)	(433823)
11	Profit or loss before extraordinary items and taxes		(73265)	238206
12	Profit or loss before tax		(73265)	238206
13	Deferred corporate income tax		(30162)	(59318)
14	Other taxes	9	(132005)	(136772)
15	Profit or loss of the accounting period		<b>(235432)</b>	<b>42116</b>

Earnings per share	(0.04)	0.01
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**BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2015**

A S S E T S	Note	31.12.15. EUR	31.12.14. EUR
<b>1. LONG-TERM INVESTMENTS</b>			
<b>I. Intangible investments</b>	10		
1. Development costs		2142069	1997102
2. Concessions, patents, licences and similar rights		398780	525584
3. Other intangible investments		14318	21914
I. Total		<b>2555167</b>	<b>2544600</b>
<b>II. Fixed assets</b>	10		
1. Land plots, buildings, constructions		17661671	12758456
2. Equipment and machinery		7919805	4644928
3. Other fixed assets and inventory		180291	234815
4. Creation of fixed assets		643332	1273371
5. Prepayments for fixed assets			1013049
II. Total		<b>26405099</b>	<b>19924619</b>
<b>III. Long-term financial investments</b>			
1. Participation in capital of related companies (subsidiaries)	11	5499400	5499400
III. Total		<b>5499400</b>	<b>5499400</b>
<b>I. PART TOTAL AMOUNT</b>		<b>34459666</b>	<b>27968619</b>
<b>2. CURRENT ASSETS</b>			
<b>I. Stocks</b>			
1. Raw materials, direct materials and auxiliary materials	12	2743620	3326894
2. Unfinished products		2188999	2283442
3. Finished products and goods for sale		363895	543957
4. Prepayments for goods		373679	150123
I. Total		<b>5670193</b>	<b>6304416</b>
<b>II. Debtors</b>			
1. Debts of buyers and customers	13	1581491	2331157
2. Debts of related companies (subsidiaries)	14	21393	338791
3. Other debtors	15	764864	240645
4. Deferred expenses	16	12672	2540
II. Total		<b>2380420</b>	<b>2913133</b>
<b>IV. Cash</b>	17	214	328
<b>II. PART TOTAL AMOUNT</b>		<b>8050827</b>	<b>9217877</b>
<b>B A L A N C E</b>		<b>42510493</b>	<b>37186496</b>

**BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2015**

LIABILITIES	Note	31.12.15. EUR	31.12.14. EUR
<b>1. SHAREHOLDERS' EQUITY</b>			
1. Share capital (capital stock)	18	8118607	8118607
2. Reserve for revaluation of long-term investments	19	11842471	6787883
3. Other provisions		407137	407137
4. Undivided profit:			
a) Undivided profit of previous years		2803854	2761738
b) Undivided profit of the accounting year		(235432)	42116
<b>1. PART TOTAL AMOUNT</b>		<b>22936637</b>	<b>18117481</b>
<b>2. PROVISIONS</b>			
1. Other provisions	20	166799	381374
<b>2. PART TOTAL AMOUNT</b>		<b>166799</b>	<b>381374</b>
<b>3. CREDITORS</b>			
<b>I. Long-term creditors</b>			
1. Loans from credit institutions	21	7278769	6443871
2. Other loans	22		489000
3. Debts to suppliers and contractors	23	519534	587013
4. Other creditors	24		1104316
5. Deferred income	25	1428575	333848
6. Deferred tax liabilities	26	2594665	1666539
I. Total		<b>11821543</b>	<b>10624587</b>
<b>II. Short-term creditors</b>			
1. Loans from credit institutions	21	3813077	4232659
2. Advance payments received from buyers	27	12959	838
3. Debts to suppliers and contractors	23	1981078	2676029
4. Taxes and social security payments	28	1451492	626303
5. Other creditors	24	326908	527225
II. Total		<b>7585514</b>	<b>8063054</b>
<b>3. PART TOTAL AMOUNT</b>		<b>19407057</b>	<b>18687641</b>
<b>BALANCE</b>		<b>42510493</b>	<b>37186496</b>



**CASH FLOW STATEMENT FOR THE YEAR 2015** (prepared by indirect method)

**I. Cash flow from operating activities**

	Items	31.12.15. EUR	31.12.14. EUR
1	Profit or loss before extraordinary items and taxes	(73265)	238206
	<b>ADJUSTMENTS</b>		
	Depreciation of fixed assets	1823551	1665115
	Amortization of intangible investment value	424367	97498
	Income from sales of fixed assets	(561749)	(215834)
	Profit or loss from fluctuations of currency exchange rates	64468	1230866
	Income from participation in capital of related and affiliated companies	(619905)	
	Amounts written off fixed assets	777445	4102
	Reserve for revaluation of long-term investments	(327589)	(123048)
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	<b>1507323</b>	<b>2896905</b>
	<b>ADJUSTMENTS</b>		
	Increase or decrease of balance of receivables	1843611	(1392198)
	Increase or decrease of balance of inventories	857779	667682
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	49507	1451429
	Increase or decrease of accruals	(214575)	(4651)
	Expenses for tax payments	(132005)	(136772)
3	Gross cash flow from operating activities	3911640	3482395
4	Expenses for corporate income tax payments	(133900)	(94487)
5	Cash flow before extraordinary items	3777740	3387908
I	<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>3777740</b>	<b>3387908</b>

**II. Cash flow from investing activities**

	Items	31.12.15. EUR	31.12.14. EUR
1	Purchase of fixed assets and intangible investments	(4249318)	(4222793)
2	Income from sales of fixed assets and intangible investments	561749	396686
3	Dividends received	83000	
II	<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(3604569)</b>	<b>(3826107)</b>

**III. Cash flow from financing activities**

	Items	31.12.15. EUR	31.12.14. EUR
1	Loans received	1818370	1917498
2	Expenses for repayment of loans	(1892053)	(1398000)
III	<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(73683)</b>	<b>519498</b>

**IV. Summary of cash inflow and outflow**

	Items	31.12.15. EUR	31.12.14. EUR
I	Net cash flow from operating activities	3777740	3387908
II	Net cash flow from investing activities	(3604569)	(3826107)
III	Net cash flow from financing activities	(73683)	519498
	Result of fluctuations of currency exchange rates	(99602)	(82061)
	Net cash flow of the accounting period	<b>(114)</b>	<b>(762)</b>
	Cash and its equivalents in the beginning of the accounting period	<b>328</b>	<b>1090</b>
	Cash and its equivalents at the end of the accounting period	<b>214</b>	<b>328</b>

**STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR THE YEAR 2015, EUR**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
<b>1. Balance as of 31.12.2013.g.</b>	<b>8251241</b>	<b>6892566</b>	<b>274503</b>	<b>2761738</b>	<b>18180048</b>
2. Long-term investment revaluation reserve decrease		(123048)			(123048)
3. Long-term investment revaluation reserve increase – effect of deferred enterprise income tax		18365			18365
4. Share denomination from lat to euro	(132634)		132634		
5. Income or loss of the accounting period in accordance with the profit and loss account				42116	42116
<b>6. Balance as of 31.12.2014.g.</b>	<b>8118607</b>	<b>6787883</b>	<b>407137</b>	<b>2803854</b>	<b>18117481</b>
7. Long-term investment revaluation reserve decrease		(327589)			(327589)
8. Long-term investment revaluation reserve increase – effect of deferred enterprise income tax		47200			47200
9. Long-term investment revaluation reserve increase - revaluation		6280140			6280140
10. Calculation of deferred enterprise income tax – revaluation effect		(945163)			(945163)
11. Income or loss of the accounting period in accordance with the profit and loss account				(235432)	(235432)
<b>12. Balance as of 31.12.2015.g.</b>	<b>8118607</b>	<b>11842471</b>	<b>407137</b>	<b>2568422</b>	<b>22936637</b>

Appendices to financial statements on pages 11 – 20 are an integral part of the financial statements.

## NOTES

### ACCOUNTING POLICY

#### Basis for report preparation

Annual report has been prepared in accordance with the Laws of the Republic of Latvia "On Accounting" and "On the Annual Accounts of Undertakings", regulations of the Cabinet of Ministers Nr 481 and Nr 488. Profit and loss account has been prepared according to the turnover cost method. Cash flow statement has been prepared in accordance with the indirect method.

#### Accounting principles applied

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

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

#### Income recognition and net turnover

Net turnover is a total amount of the value of products sold and services rendered over the year without discounts and value added tax. Income from the sale of products is recognized as soon as the most significant title is conferred on the customer and risks to the products and remuneration can be assessed properly. Income from service rendering is recognized as soon as the service is rendered. Other types of income are recognized as follows:

- Income from rent – at the moment it is generated;
- Income from penalty and delay payments – at the moment they are received;
- Dividends – at the moment legal rights to the dividends are established.

#### Capital assets and intangible assets

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

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

##### Intangible assets:

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

##### Capital assets:

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

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

Notes (cont.)  
Accounting policy (cont.)

#### Unfinished construction and costs of capital asset creation

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

	<b>31.12.15. EUR</b>	<b>31.12.14. EUR</b>
Unfinished construction objects	23329	252605
Costs of capital asset creation	620003	1020766
<b>Total</b>	<b>643332</b>	<b>1273371</b>

#### Financial investments

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

#### Financial leasing

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

#### Receivables

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

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

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

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

#### Debts of debtors

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

#### Currency unit and recalculation of foreign currency

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

Notes (cont.)  
Accounting policy (cont.)

	31.12.15., 1 EUR	31.12.14., 1 EUR
USD	1.0926	1.216
RUB	79.754	69.1345

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

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

#### Other securities

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

#### Long-term investment revaluation reserve

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

#### Provisions

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

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

*Provisions for warranty repairs.* A warranty period of the Company's basic products is 2 - 3 years. In 2015 warranty repair costs is of no high importance, provisions for warranty repairs are not created.

#### Government grants

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

#### Deferred tax

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

#### Risk management

Risk management is an integral part of management process of the Company. Risk management in the Company is controlled by the Council and the Board of the Company. In its activities AS RER follows the general principles of risk management listed below:

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

The most substantial risks AS RER is exposed to in the course of commercial activities, are financial risks.

Notes (cont.)  
Accounting policy (cont.)

*Financial risk*

*Currency risk*

The Company's financial assets and liabilities that are at the foreign currency risk include cash, debts of customers and clients, debts to suppliers and contractors and short-term and long-term loans. In 2015 a significant part of the Company's income was in euro and USA dollar, major part of its costs was in euro. All received loans were in euro.

*Interest rate risk*

The Company is at the interest rate risk due to its short-term and long-term loans and financial leasing transactions. In 2014 the average rate of the Company's loans and financial leasing transactions was 3.77%, in 2015 – 3.58%.

*Liquidity risk*

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

*Credit risk*

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

**NOTES TO PROFIT AND LOSS ACCOUNT FOR THE YEAR 2015**

**Note No. 1 – Net turnover**

Country	31.12.15. EUR	31.12.14. EUR
Latvia	1450969	2582668
Russia	9619312	30224178
Belarus	83314	130042
Slovakia	72918	141590
Azerbaijan		93355
Poland	91697	25631
Kazakhstan		18399
Uzbekistan	1643383	310434
Other	21966	272
<b>Total</b>	<b>12983559</b>	<b>33526569</b>

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

Indicators	31.12.15. EUR	31.12.14. EUR
Salaries	2709797	6591919
Social insurance contributions	617563	1520946
Costs of materials	6070519	16368978
Energy resources	778199	1484450
Depreciation of capital assets and intangible assets, write-off of intangible investments value	1729963	1416106
Business trip costs	51657	71272
Repair costs and remuneration for works from outside	178521	270205
Costs of production quality control	146418	420393
Losses due to rejects	9129	68036
Environmental protection costs	9937	19046
Other costs	97846	214809
<b>Total</b>	<b>12399549</b>	<b>28446160</b>

Notes (cont.)

**Note No. 3 – Selling costs**

Indicators	31.12.15. EUR	31.12.14. EUR
Packing material and package	46709	124924
Transportation expenses	194033	484624
Salaries	69297	149731
Social insurance contributions	15962	34823
Other selling costs	6151	126
<b>Total</b>	<b>332152</b>	<b>794228</b>

**Note No. 4 – Administrative costs**

Indicators	31.12.15. EUR	31.12.14. EUR
Communications costs	23734	27832
Reimbursement for legal services	3140	5680
Annual report and auditing services	8110	
Cash circulation and expense and extra costs	37382	42293
Transportation expenses	23394	27109
Representation expenses	5598	11428
Salaries	1055746	1649796
Social insurance contributions	207298	329068
Energy resources	26134	61814
Depreciation of capital assets	279955	303730
Business trip costs	34413	32198
Security services	11349	191152
Inspection audit services		17332
Consulting services for the projects of the European funds	19304	58901
Other administrative costs	51183	112257
<b>Total</b>	<b>1786740</b>	<b>2870590</b>

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

Indicators	31.12.15. EUR	31.12.14. EUR
Profit gained as a result of other sales (lease, other)	87872	122988
Income from sales of fixed assets	561749	396686
Income related to maintenance of social sphere	18545	31012
Decrease in revaluation reserve of capital assets	327589	123048
Writing-off accruals set up before		180999
Decrease in holiday provision	214575	4651
Decrease in deferred income	28108	
Writing off unclaimed debts to suppliers and contractors	1048267	
Other income	39461	8256
<b>Total</b>	<b>2326166</b>	<b>867640</b>

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

Indicators	31.12.15. EUR	31.12.14. EUR
Penalty and contractual penalties	66525	20539
Costs related to maintenance of social sphere	41571	72305
Costs not related to operating activities of the Company	64300	86151
Loss from fluctuations of exchange rates	64468	1230866
Removal of capital assets	777445	185652
Write-off of bad debtors		1109
Other costs	27300	14608
<b>Total</b>	<b>1041609</b>	<b>1611230</b>

Notes (cont.)

**Note No. 7 - Writing-off long-term financial investments and short-term securities**

Indicator	31.12.15. EUR	31.12.14. EUR
Dividends from subsidiary companies	619905	

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

Indicator	31.12.15. EUR	31.12.14. EUR
Loan agreements	353699	345665
Credit line agreements	89187	85776
Other	3	2382
<b>Total</b>	<b>442889</b>	<b>433823</b>

**Note No. 9 – Other taxes**

Indicators	31.12.15. EUR	31.12.14. EUR
Real estate tax on premises (buildings)	111964	117432
Real estate tax on land	20041	19340
<b>Total</b>	<b>132005</b>	<b>136772</b>

**NOTES TO BALANCE SHEET FOR THE YEAR 2015**

**Note No. 10 – Statement of movement of intangible assets and capital assets, EUR**

	Intangible investments			Capital assets				
	Development costs	Licences and similar rights	Other intangible investments	Land, premises, buildings*	Equipment and machinery	Other capital assets	Creation of capital assets	Prepayments for capital assets
<b>Initial value</b>								
Remaining amount as at 01.01.15.	1997102	634447	80384	13779279	10200603	662836	1273371	1013049
Purchase	419994		14940		4210594	4554	3810064	1555894
Revaluation				6314628			(34488)	
Revaluation (accumulated depreciation)				(1860262)				
Removed				(571974)	(256899)	(4550)	(4405615)	(2568943)
Write-off of value	(274749)							
Remaining amount as at 31.12.15.	2142347	634447	95324	17661671	14154298	662840	643332	0.00
<b>Depreciation</b>								
Remaining amount as at 01.01.15.		108863	58470	1020823	5555675	428021		
Calculated	278	126804	22536	846815	917658	59078		
Revaluation (accumulated depreciation)				(1860262)				
Removed				(7376)	(238840)	(4550)		
Remaining amount as at 31.12.15.	278	235667	81006	0.00	6234493	482549		
<b>Remaining value</b>								
01.01.15.	1997102	525584	21914	12758456	4644928	234815	1273371	1013049
31.12.15.	2142069	398780	14318	17661671	7919805	180291	643332	0.00

\*In 2015 assessed value of the premises accounted EUR 7 464 275, assessed value of the plot accounted for EUR 2 004 062.

**Note No. 11 – Participation in capital of related companies (subsidiaries)**

Indicators	31.12.15.	31.12.14.
<b>AS „LATVO”, reģ. Nr. 40003184975, Ganību dambis 31, Rīga, the Republic of Latvia</b>		
Shares, %	98.7	98.7
Shareholders' equity, EUR	7525282	7461367
Profit or loss, EUR	691963	610266
Net turnover, EUR	1198360	2229075



Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"  
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Notes (cont.)

Indicators	31.12.15. EUR	31.12.14. EUR
AS „LATVO”	5499400	5499400
<b>Total</b>	<b>5499400</b>	<b>5499400</b>

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

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

Indicators	31.12.15. EUR	31.12.14. EUR
Raw materials, direct materials and auxiliary materials	2780590	3364247
Provisions for stocks of slow-turnover	(36970)	(37353)
<b>Total</b>	<b>2743620</b>	<b>3326894</b>

**Note No. 13 – Debts of customers and clients**

Indicators	31.12.15. EUR	31.12.14. EUR
Debts of customers and clients	1591985	2352317
Provisions for doubtful debtors	(10494)	(21160)
<b>Total</b>	<b>1581491</b>	<b>2331157</b>

**Note No. 14 – Debts of related companies (subsidiaries)**

Indicators	31.12.15. EUR	31.12.14. EUR
AS „LATVO”		338791
<b>Total</b>		<b>338791</b>

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

**Note No. 15 – Other debtors**

Indicators	31.12.15. EUR	31.12.14. EUR
Taxes paid in advance	8984	94210
Overpaid taxes	62433	121395
Rental debts	5709	7476
Processing of goods	148762	16606
Requirement for dividends	536905	
Other	2071	958
<b>Total</b>	<b>764864</b>	<b>240645</b>

**Note No. 16 – Costs of the following periods**

Indicators	31.12.15. EUR	31.12.14. EUR
Insurance	1855	2154
Payment for use of design documentation	9464	
Other	1353	386
<b>Total</b>	<b>12672</b>	<b>2540</b>

**Note No. 17 – Cash**

Indicators	31.12.15. EUR	31.12.14. EUR
Current accounts in banks	214	328

Notes (cont.)

**Note No. 18 – 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.

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

Indicators	31.12.14. EUR	31.12.13. EUR
Residents, including	270938	274111
- physical entities	233135	237567
- legal entities	37803	36544
Non-residents, including	7847669	7844496
- Russia	5149997	1415438
- Canada	7167	7167
- British Virgin Islands	814829	4549388
- Belize	1867279	1867279
- Lithuania	2446	3823
- Estonia	5951	1401
<b>Total</b>	<b>8118607</b>	<b>8118607</b>

**Note No. 19 – Reserve for revaluation of long-term investments**

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

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

**Note No. 20 – Other provisions**

Indicators	31.12.15. EUR	31.12.14. EUR
Holiday provisions	166799	381374
<b>Total</b>	<b>166799</b>	<b>381374</b>

**Note No. 21 – Long-term and short-term loans from credit institutions**

Indicators	31.12.15. EUR	31.12.14. EUR
<b>Latvian credit institutions, loan agreement, including</b>	<b>8095258</b>	<b>7925360</b>
Long-term debt	7278769	6443871
Short-term debt	816489	1481489
<b>Latvian credit institutions, credit line, including</b>	<b>2996588</b>	<b>2751170</b>
Short-term debt	2996588	2751170

As on 31.12.2015 all assets of JSC "RER" have been pledged as security for a loan.

**Note No. 22 – Other loans**

Indicators	31.12.15. EUR	31.12.14. EUR
<b>Other loans, including</b>		<b>489000</b>
Long-term debt		489000

Notes (cont.)

**Note No. 23 – Debts to suppliers and contractors**

Indicators	31.12.15. EUR	31.12.14. EUR
<b>Long-term creditors, including</b>	<b>519534</b>	<b>587013</b>
Foreign suppliers	519534	587013
<b>Short-term creditors, including</b>	<b>1981078</b>	<b>2676029</b>
Local suppliers	1357248	1595401
Foreign suppliers	623830	1080628

**Note No. 24 – Long-term and short-term other creditors**

Indicators	31.12.15. EUR	31.12.14. EUR
<b>Long-term creditors, including</b>		<b>1104316</b>
Other creditors		57082
Settlement of the debts of other companies		1047234
<b>Short-term creditors, including</b>	<b>326908</b>	<b>527225</b>
Salary debt	302379	512497
Support payments	2208	4412
Trade union membership fee	583	745
Other	21738	9571

**Note No. 25 – Deferred income**

Indicators	31.12.15. EUR	31.12.14. EUR
Support for the project implementation in the frames of the Centre of Competence	261532	29357
Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	1167043	304491
<b>Total</b>	<b>1428575</b>	<b>333848</b>

**Note No. 26 – Deferred tax liabilities**

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

Rādītāji	31.12.15. EUR	31.12.14. EUR
<b>Liabilities</b>		
Long-term investment revaluation effect	2095934	1197971
Fixed assets depreciation temporary difference effect	530870	534551
Total liabilities	2626804	1732522
<b>Assets</b>		
Accumulated leave costs temporary difference effect	(25020)	(57206)
Temporary difference on provision for doubtful receivables	(1574)	(3174)
Temporary difference on provision for impaired materials	(5545)	(5603)
Total assets	(32139)	(65983)
<b>Deferred enterprise income tax displayed in the balance statement</b>	<b>2594665</b>	<b>1666539</b>

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

Rādītāji	31.12.15. EUR	31.12.14. EUR
Deferred tax expenditure in profit and loss account of accounting year	30162	59318

**Note No. 27 – Advance payments received from buyers**

Indicators	31.12.15. EUR	31.12.14. EUR
Local customers	609	219
Foreign customers	12350	619
<b>Total</b>	<b>12959</b>	<b>838</b>

Notes (cont.)

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

Indicators	Personal income tax	Mandatory social insurance contributions	Corporate income tax	Corporate income tax paid in advance	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
<b>31.12.14. debt</b>	<b>271935</b>	<b>216194</b>	<b>133900</b>			<b>3956</b>			<b>318</b>
<b>31.12.14. overpayment</b>				<b>90344</b>	<b>121395</b>				
Calculated	814159	1394365			809902	10190	20041	111964	2357
Penalty calculated	34493	26017	1789				236	383	2
Allocated to other taxes			54	61406	314123				
Repaid from the budget				28938	399248				
Paid	332321	617696	56885		1464311	10961	20041	111964	2491
Penalty paid	34493	26017	1789				236	383	2
Tax debt is settled from excess payment of other tax	114940	183573	77069						
<b>31.12.15. debt</b>	<b>638833</b>	<b>809290</b>				<b>3185</b>			<b>184</b>
<b>31.12.15. overpayment</b>					<b>62433</b>				

As for 31.12.2015 the Company has no current tax debts.

**Note No. 29 – Number of the Company's employees**

Indicators	31.12.15.	31.12.14.
Average number of employees	546	927

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

Indicators	31.12.15. EUR	31.12.14. EUR
Remuneration calculated to the Council Members	10771	10600
Remuneration calculated to the Board Members	8058	9946
<b>Total</b>	<b>18829</b>	<b>20546</b>

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

Indicators	31.12.15. EUR	31.12.14. EUR
Remuneration for auditing annual report	7748	7748
Remuneration for auditing consolidated annual report	2066	2066
<b>Total</b>	<b>9814</b>	<b>9814</b>

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Nikolajs Čudinovs

Ilja Šestakovs

### **MANAGEMENT CONFIRMATION REPORT**

The Management of the Company is responsible for preparation of financial statements and confirms that the annual report give a true and fair view of the financial position of the Company and of its financial performance for the period ended 31 December 2015.

The Management of the Company confirms that during preparation of the annual report 2015 appropriate accounting methods were used and employed consistently, moreover, reasonable and careful decisions have been taken.

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

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Nikolajs Čudinovs

Ilja Šestakovs

08 April 2016



**"RĪGAS AUDITS", SIA**

Translation from Latvian\*

## INDEPENDENT AUDITORS' REPORT

### To the shareholders of Rīgas Elektromašīnbūves rūpnīca AS

#### Report on the Financial Statements

We have audited the accompanying 2015 financial statements of Rīgas Elektromašīnbūves rūpnīca AS, reg. No. 40003042006, which are set out on pages 6 through 22 of the accompanying 2015 Annual Report and which comprise the balance sheet as at 31 December 2015, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports, 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.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Rīgas Elektromašīnbūves rūpnīca AS as of 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with the Republic of Latvia Annual Accounts Law.

#### **Report on Other Legal and Regulatory Requirements**

We have read the management report for 2015 set out on pages 4. to 5 of the accompanying annual report for 2015 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2015.

"Rīgas Audits" Ltd, certificate No 103,  
Chairman of the Board, certified auditor, Janis Meziels  
Certificate No 127  
Rīga, 28 April 2016



\* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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