

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

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

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

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

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## INFORMATION ABOUT THE PARENT COMPANY

Name of the Company	AS (Joint Stock Company) "Rīgas elektromašīnbūves rūpnīca" (AS "RER")	
Legal status of the Company	Joint Stock Company	
Registration No. in the Register of Enterprises, date and place of registration	No. 000304200, Riga, 29 November 1991	
Unified Registration No. in the Commercial Register, date and place of registration	No. 40003042006, Riga, 29 September 2004	
Registered office	Ganību dambis 53, Riga, LV-1005, the Republic of Latvia	
Institution in charge of the Company	General meeting of shareholders	
The parent Company Council :		
Chairperson of the Council	Stanislav Vodolazskii	from 22.07.16.
	Andrey Petrov	until 22.07.16.
	Oleg Domskiy	until 11.11.15.
Vice-Chairperson of the Council	Kirills Nužins	from 11.11.15.
	Andrey Petrov	until 11.11.15.
Council Members	Andrey Sarkisov	from 15.07.15.
	Natalia Sarkisova	from 15.07.15.
	Maksim Gordyukov	from 22.07.16.
	Ivgeny Sokolsky	until 22.07.16.
	Andrey Isaev	until 15.07.15.
	Ekaterina Chamkina	until 15.07.15.
	Sergey Goncharov	until 15.07.15.
The parent Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Olga Pētersone	from 27.06.12.
	Aleksandrs Popadins	from 08.11.13.
	Iļja Šestakovs	from 30.01.15.
	Grigorijs Kapustins	from 18.10.16.
	Aleksandrs Suvorkins	until 30.01.15.
	Maxim Savenkov	until 30.01.15.
	Nikolajs Čudinovs	until 06.09.16.
Revision Committee of the Company	Obligations of the Revision Committee are performed by the Company Council according to Minutes No.1 of ordinary meeting of shareholders dated June 19, 2015.	
Accounting period	1 January 2016 – 31 December 2016	
Auditor	SIA "Grant Thornton Baltic", licence Nr.155 Blaumaņa iela 22, Rīga, LV-1011, Latvija Certified auditor Kaspars Rutkis Certified auditor's certificate No. 171	
Subsidiary (daughter) companies	AS „Latvo”, reģ. Nr. 40003184975 Ganību dambis 53, Riga, the Republic of Latvia Fixed capital 5 495 420 EUR Shares – 98.7 %  SIA „RER-Termināls”, reģ. Nr. 40203010535 Ganību dambis 53, Riga, the Republic of Latvia Fixed capital 1 140 000 EUR Shares – 82.46 %	

## MANAGEMENT REPORT

### Business activities of the Holding Company in 2016

Basic business activities of the Holding Company are manufacturing of electric machines and machinery (NACE code 2711). The main types of products are as follows:

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

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

Profit Amount before interest, taxes, depreciation and amortization (EBITDA) amounted to 4.1 mil for the year 2016. EUR, which reached to 2015 2.78 mil. EUR 1.5 times higher and the net profit of the Group for 2016 amounted to 0.33 mil. EUR to 0.16 mil. EUR loss in 2015.

In 2016, the Group's financial situation has stabilized considerably. The share of equity in the Group's total assets of 58.69% to 55.86% in 2015, and the ratio of current assets to current liabilities ratio of 1.07 to 1.03 in 2015. The ratio of net debt to EBITDA (Lavarage) is 2.52, and the ratio of EBITDA to current liabilities on borrowings (DSCR) of 2.66.

### *Other indicators*

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

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

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

Financial risks have been characterized on pages 13 and 14 in notes to financial statements of the annual report 2016.

### Significant events in 2016

5th of August 2016 Company Register of Republic of Latvia registered a subsidiary company of JSC «Riga electric machine building works» - «RER-Terminals» LTD, registration Nr. 40203010535, with share capital of 1 140 000 EUR and main business activity – materials and raw materials purchase and sale.

The sole founder of the newly established subsidiary company - JSC «Riga electric machine building works» made property investment in the share capital of «RER-Terminals» LTD, which consisted from the land plot and buildings located on it, including production unit buildings which were no longer used in production process.

Market value of property invested is 1 140 000 EUR. Establishment of the subsidiary company will not have any influence on commercial activity and financial results of JSC «Riga electric machine building works»

### Further development of the Holding Company

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

On behalf of the Holding Company,

Chairperson of the Board  
of JSC «Riga electric machine building works

Nikolajs Erohovs

28 February 2017

**CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE YEAR 2016**

No.	Items	Note	31.12.16. EUR	31.12.15. EUR
1	Net turnover	1	20 242 760	13 096 167
2	Production costs of the goods sold	2	(17 101 020)	(12 447 440)
3	<b>Gross profit or loss</b>		<b>3 141 740</b>	<b>648 727</b>
4	Selling expenses	3	(478 309)	(365 087)
5	Administration expenses	4	(2 282 423)	(2 004 936)
6	Other operating income	5	674 874	3 109 593
7	Other operating expenses	6	(241 680)	(977 377)
8	Other interest income and similar income			44
9	Other interest payments and similar expenses	7	(401 512)	(442 889)
10	Profit or loss before corporate income tax		412 690	(31 925)
11	Corporate income tax		(218 674)	(98 904)
12	Retained corporate income tax		138 786	(32 545)
13	Profit or loss of the accounting period		<b>332 802</b>	<b>(163 374)</b>

Earnings per share	0.057	(0.028)
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR  
 ENDED 31 DECEMBER 2016**

<b>A S S E T S</b>	<b>Note</b>	<b>31.12.16. EUR</b>	<b>31.12.15. EUR</b>
<b>1. LONG-TERM INVESTMENTS</b>			
<b>I. Intangible investments</b>	8		
1. Development costs		1 758 126	2 142 069
2. Concessions, patents, licences and similar rights		271 976	398 780
3. Other intangible investments		55 787	14 318
4. Prepayments for intangible investments		13 200	
I. Total		<b>2 099 089</b>	<b>2 555 167</b>
<b>II. Fixed assets</b>	8		
1. Land plots, buildings, constructions		16 613 398	17 661 671
2. Equipment and machinery		7 009 406	7 919 805
3. Other fixed assets and inventory		214 848	181 598
4. Creation of fixed assets		847 697	643 332
II. Total		<b>24 685 349</b>	<b>26 406 406</b>
<b>III. Long-term financial investments</b>			
1. Own shares		14 551	14 551
2. Other long-term debtors	9	7 829 908	7 554 006
III. Total		<b>7 844 459</b>	<b>7 568 557</b>
<b>I. PART TOTAL AMOUNT</b>		<b>34 628 897</b>	<b>36 530 130</b>
<b>2. CURRENT ASSETS</b>			
<b>I. Stocks</b>			
1. Raw materials, direct materials and auxiliary materials	10	3 095 221	2 743 620
2. Unfinished products		2 419 467	2 188 999
3. Finished products and goods for sale		814 752	363 895
4. Prepayments for goods		259 557	373 679
I. Total		<b>6 588 997</b>	<b>5 670 193</b>
<b>II. Debtors</b>			
1. Debts of buyers and customers	11	1 900 484	2 245 094
2. Other debtors	12	168 510	237 824
3. Deferred expenses	13	8 835	15 364
II. Total		<b>2 077 829</b>	<b>2 498 282</b>
<b>IV. Cash</b>	14	88 409	439
<b>II. PART TOTAL AMOUNT</b>		<b>8 755 235</b>	<b>8 168 914</b>
<b>B A L A N C E</b>		<b>43 384 132</b>	<b>44 699 044</b>

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

LIABILITIES	Note	31.12.16. EUR	31.12.15. EUR
<b>1. SHAREHOLDERS' EQUITY</b>			
1. Share capital (capital stock)	15	8118607	8118607
2. Reserve for revaluation of long-term investments	16	11 801 574	11 842 471
3. Other provisions		407 137	407 137
4. Undivided profit of previous years		4 602 447	4 765 821
5. Undivided profit of the accounting year		332 802	(163 374)
6. Minority stockholders		200 000	
<b>1. PART TOTAL AMOUNT</b>		<b>25 462 567</b>	<b>24 970 662</b>
<b>2. PROVISIONS</b>			
1. Other provisions	17	6 312	4 545
<b>2. PART TOTAL AMOUNT</b>		<b>6 312</b>	<b>4 545</b>
<b>3. CREDITORS</b>			
<b>I. Long-term creditors</b>			
1. Loans from credit institutions	18	5 552 067	7 278 769
2. Debts to suppliers and contractors	19	184 647	519 534
3. Deferred tax liabilities	20	2 449 107	2 594 665
4. Deferred income	21	1 518 712	1 428 575
I. Total		<b>9 704 533</b>	<b>11 821 543</b>
<b>II. Short-term creditors</b>			
1. Loans from credit institutions	18	4 759 279	3 813 077
2. Advance payments received from buyers	22	39 603	20 959
3. Debts to suppliers and contractors	19	1 833 339	1 996 759
4. Taxes and social security payments	23	941 570	1 551 456
5. Other creditors	24	387 610	338 003
6. Accrued liabilities	25	249 319	182 040
II. Total		<b>8 210 720</b>	<b>7 902 294</b>
<b>3. PART TOTAL AMOUNT</b>		<b>17 915 253</b>	<b>19 723 837</b>
<b>BALANCE</b>		<b>43 384 132</b>	<b>44 699 044</b>

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

**I. Cash flow from operating activities**

	Items	31.12.16. EUR	31.12.15. EUR
1	Profit or loss before corporate income tax	412 690	(31 925)
	<b>ADJUSTMENTS</b>		
	Depreciation of fixed assets	2 433 949	1 824 661
	Amortization of intangible investment value	729 833	424 367
	Income from sales of fixed assets	(7 140)	(561 749)
	Provisions	1 767	
	Profit or loss from fluctuations of currency exchange rates	(301 375)	(786 266)
	Amounts written off fixed assets	2 242	777 445
	Reserve for revaluation of long-term investments	(47 669)	(327 589)
	Other operating income	(3 812)	
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	<b>3 220 485</b>	<b>1 318 944</b>
	<b>ADJUSTMENTS</b>		
	Increase or decrease of balance of receivables	285 713	1 657 287
	Increase or decrease of balance of inventories	(1 032 926)	857 779
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	(906 869)	(377 821)
3	Gross cash flow from operating activities	<b>1 566 403</b>	<b>3 456 189</b>
4	Expenses for company tax payments	(218 674)	(232 804)
I	<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1 347 729</b>	<b>3 223 385</b>

**II. Cash flow from investing activities**

	Items	31.12.16. EUR	31.12.15. EUR
1	Income from expropriation of shares of subsidiary companies	200 000	
2	Purchase of fixed assets and intangible investments	(971 876)	(4 249 736)
3	Income from sales of fixed assets and intangible investments	7 140	561 749
4	Income from repayment of loans		562 531
II	<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(764 736)</b>	<b>(3 125 456)</b>

**III. Cash flow from financing activities**

	Items	31.12.16. EUR	31.12.15. EUR
1	Loans received	1 585 237	1 818 370
2	Expenses for repayment of loans	(2 365 737)	(1 892 053)
III	<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(780 500)</b>	<b>(73 683)</b>

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

	Items	31.12.16. EUR	31.12.15. EUR
I	Net cash flow from operating activities	1 347 729	3 223 385
II	Net cash flow from investing activities	(764 736)	(3 125 456)
III	Net cash flow from financing activities	(780 500)	(73 683)
	Result of fluctuations of currency exchange rates	285 477	(59 676)
	Net cash flow of the accounting period	<b>87 970</b>	<b>(35 430)</b>
	Cash and its equivalents in the beginning of the accounting period	439	35 869
	Cash and its equivalents at the end of the accounting period	<b>88 409</b>	<b>439</b>



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

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Minority stockholders	Total
<b>Balance as of 31.12.2014</b>	<b>8 118 607</b>	<b>6 787 883</b>	<b>407 137</b>	<b>4 765 821</b>		<b>20 079 448</b>
Long-term investment revaluation reserve decrease		(327 589)				(327 589)
Long-term investment revaluation reserve increase – effect of deferred enterprise income tax		47 200				47 200
Long-term investment revaluation reserve increase - revaluation		6 280 140				6 280 140
Calculation of deferred enterprise income tax – revaluation effect		(945 163)				(945 163)
Income or loss of the accounting period in accordance with the profit and loss account				(163 374)		(163 374)
<b>Balance as of 31.12.2015</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>
Long-term investment revaluation reserve decrease		(40 897)				(40 897)
Income or loss of the accounting period in accordance with the profit and loss account				332 802		332 802
Minority stockholders changes					200 000	200 000
<b>Balance as of 31.12.2016</b>	<b>8 118 607</b>	<b>11 801 574</b>	<b>407 137</b>	<b>4 935 249</b>	<b>200 000</b>	<b>25 462 567</b>

Appendices to financial statements on pages 10 – 20 are an integral part of the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### GENERAL INFORMATION

5th of August 2016 Company Register of Republic of Latvia registered a subsidiary company of JSC «Rīga electric machine building works» - «RER-Terminals» LTD, registration Nr. 40203010535. JSC «Rīga electric machine building works» made property investment in the share capital of «RER-Terminals» LTD, which consisted from the land plot and buildings located on it. Market value of property invested is 1 140 000 EUR.

Consolidated financial reports include the balance data of both (the Holding) JSC "Rīga Electric Machine Building Works" (hereinafter referred to as JSC "RER") and its subsidiary companies of "Latvo" JSC, «RER-Terminals» LTD.

The main activities of the holding company are electric machinery and equipment manufacturing.

### ACCOUNTING POLICY

#### Principles of preparing the financial statement

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

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

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

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

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

Profit and loss account has been prepared according 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.

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

Capital assets and intangible assets

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

Unfinished construction and costs of capital asset creation

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

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

Financial leasing

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

Receivables

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

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

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

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

Debts of debtors

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

Currency unit and recalculation of foreign currency

Indicators reflected in the annual report have been given in euro (EUR). All transactions carried out in foreign currencies have been recalculated in euros according to the exchange rate of the European Central Bank set on day when the relevant transaction is takes place.

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

Profit made or loss incurred as a result of fluctuations of exchange rates has been reflected in the profit and loss account of the corresponding period.

	31.12.16., 1 EUR	31.12.15., 1 EUR
USD	1.0453	1.0926
RUB	63.2555	79.754

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

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

#### Other securities

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

#### Long-term investment revaluation reserve

Long-term 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 2016 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.

#### Reclassification

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

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

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

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

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

#### Risk management

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

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

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

##### *Currency risk*

The Company's financial assets and liabilities that are at the foreign currency risk include cash, debts of customers and clients, debts to suppliers and contractors and short-term and long-term loans.

In 2016 a significant part of the Holding Company's income was in euro and USA dollar, major part of its costs was in euro. All received loans were in euro.

##### *Interest rate risk*

The Holding Company is at the interest rate risk due to its short-term and long-term.

##### *Liquidity risk*

The Holding 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.

Notes to the consolidated financial statements (cont.)

*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

**NOTES TO CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE YEAR 2016**

**Note No. 1 – Net turnover**

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

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

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

**Note No. 3 – Selling costs**

Indicators	31.12.16. EUR	31.12.15. EUR
Packing material and package	49 220	46 709
Transportation expenses	256 623	207 298
Salaries	85 770	83 657
Social insurance contributions	19 879	15 962
Other selling costs	66 817	11 461
<b>Total</b>	<b>478 309</b>	<b>365 087</b>

Notes to consolidated comprehensive income statement (cont.)

**Note No. 4 – Administrative costs**

Indicators	31.12.16. EUR	31.12.15. EUR
Communications costs	20 687	25 746
Reimbursement for legal services	1 786	3 140
Annual report and auditing services	15 000	10 434
Cash circulation and expense and extra costs	42 956	37 382
Transportation expenses	25 894	23 394
Representation expenses	9 829	5 732
Salaries	1 141 751	1 135 401
Social insurance contributions	254 819	207 298
Energy resources	66 311	26 134
Depreciation of capital assets	427 113	279 955
Business trip costs	25 458	34 413
Security services		11 349
Consulting services for the projects of the European funds		19 304
Real estate tax	119 395	132 005
Other administrative costs	131 424	53 249
<b>Total</b>	<b>2 282 423</b>	<b>2 004 936</b>

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

Indicators	31.12.16. EUR	31.12.15. EUR
Profit gained as a result of other sales (materials, lease, other)	100 390	84 876
Sale of capital assets	7 140	561 749
Income related to maintenance of social sphere		18 545
Decrease in revaluation reserve of capital assets	47 669	327 589
Writing off unclaimed debts to suppliers and contractors		1 048 267
Income from fluctuations of exchange rates	301 375	786 266
Decrease in holiday provision		210 361
Decrease in deferred income (Eurofound)	208 926	28 108
Other income	9 374	43 832
<b>Total</b>	<b>674 874</b>	<b>3 109 593</b>

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

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

**Note No. 7 – Other interest payments and similar costs**

Indicator	31.12.16. EUR	31.12.15. EUR
Loan agreements	309 765	353699
Credit line agreements	91 747	89187
Other		3
<b>Total</b>	<b>401 512</b>	<b>442889</b>

Notes to the consolidated financial statements (cont.)

**Note No. 8 – Statement of movement of intangible assets and capital assets, EUR**

	Intangible investments				Capital assets			
	Development costs	Licences and similar rights	Other intangible investments	Prepayments for intangible investments	Land, premises, buildings*	Equipment and machinery	Other capital assets	Creation of capital assets
<b>Initial value</b>								
Remaining amount as at 01.01.16.	2 142 347	634 447	95 324		17 661 671	14 154 298	670 719	643 332
Purchase	211 616		48 939	18 640	135 117	258 091	90 419	711 772
Removed			(1 416)	(5 440)	(779)	(111 999)	(20 235)	(507 407)
Write-off of value	(274 749)							
Consolidation difference					17 048			
Remaining amount as at 31.12.16.	2 079 214	634 447	142 847	13 200	17 813 057	14 300 390	740 903	847 697
<b>Depreciation</b>								
Remaining amount as at 01.01.16.	278	235 667	81 006			6 234 493	489 121	
Calculated	320 810	126 804	7 470		1 209 771	1 167 010	57 168	
Removed			(1 416)		(18)	(110 519)	(20 234)	
Consolidation difference					(10 094)			
Remaining amount as at 31.12.16.	321 088	362 471	87 060		1 199 659	7 290 984	526 055	
<b>Remaining value</b>								
01.01.16.	2 142 069	398 780	14 318		17 661 671	7 919 805	181 598	643 332
31.12.16.	1 758 126	271 976	55 787	13 200	16 613 398	7 009 406	214 848	847 697

\* In 2016 assessed value of the premises accounted EUR 6 373 640, assessed value of the plot accounted for EUR 1 586 075.

**Note No. 9 – Other long-term debtors**

Rādītāji	31.12.16. EUR	31.12.15. EUR
Long-term loan of the subsidiary (daughter) company (until 01.01.2019)	7 829 908	7 554 006
<b>Total</b>	<b>7 829 908</b>	<b>7 554 006</b>

**Note No. 10 – Raw materials, direct materials and auxiliary materials**

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

**Note No. 11 – Debts of customers and clients**

Indicators	31.12.16. EUR	31.12.15. EUR
Debts of customers and clients	1 900 484	2 255 588
Provisions for doubtful debtors		(10 494)
<b>Total</b>	<b>1 900 484</b>	<b>2 245 094</b>



Notes to the consolidated financial statements (cont.)

**Note No. 12 – Other debtors**

Indicators	31.12.16. EUR	31.12.15. EUR
Taxes paid in advance	63 647	8 984
Overpaid taxes	90 385	70 826
Rental debts		5 709
Processing of goods	9 426	148 762
Other	5 052	3 543
<b>Total</b>	<b>168 510</b>	<b>237 824</b>

**Note No. 13 – Costs of the following periods**

Indicators	31.12.16. EUR	31.12.15. EUR
Insurance	1 893	1 855
Payment for use of design documentation	728	9 464
Certification	1 773	2 692
Computer's network service	2 250	
Other	2 191	1 353
<b>Total</b>	<b>8 835</b>	<b>15 364</b>

**Note No. 14 – Cash**

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

**Note No. 15 – 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	31.12.16. EUR	31.12.15. EUR
Residents, including	270 938	270 938
- physical entities	234 394	233 135
- legal entities	36 544	37 803
Non-residents, including	7 847 669	7 847 669
- Russia	5 149 997	5 149 997
- Canada	7 167	7 167
- British Virgin Islands	814 829	814 829
- Belize	1 867 279	1 867 279
- Lithuania	2 446	2 446
- Estonia	5 951	5 951
<b>Total</b>	<b>8 118 607</b>	<b>8 118 607</b>

Company shareholders (over 5%) as of 31.12.2016

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

Notes to the consolidated financial statements (cont.)

**Note No. 16 – Reserve for revaluation of long-term investments**

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

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

**Note No. 17 – Other provisions**

Indicators	31.12.16. EUR	31.12.15. EUR
Provision for warranty repairs	6 312	4 545
<b>Total</b>	<b>6 312</b>	<b>4 545</b>

**Note No. 18 – Long-term and short-term loans from credit institutions**

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

As on 31.12.2016 all assets of parent Company have been pledged as security for a loan.

**Note No. 19 – Debts to suppliers and contractors**

Indicators	31.12.16. EUR	31.12.15. EUR
<b>Long-term creditors, including</b>	<b>184 647</b>	<b>519 534</b>
Foreign suppliers	184 647	519 534
<b>Short-term creditors, including</b>	<b>1 833 339</b>	<b>1 996 759</b>
Local suppliers	1 037 261	1 364 536
Foreign suppliers	796 078	632 223

**Note No. 20 – Deferred tax liabilities**

**Deferred enterprise income tax displayed in the consolidated statement of financial position**

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

Notes to the consolidated financial statements (cont.)

**Deferred enterprise income tax displayed in the consolidated comprehensive income statement**

Rādītāji	31.12.16. EUR	31.12.15. EUR
Deferred tax expenditure in profit and loss account of accounting year	(138 786)	32 545

**Note No. 21 – Deferred income**

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

**Note No. 22 – Advances received from customers**

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

**Note No. 23 – Taxes and social insurance contributions**

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>31.12.15. debt</b>	641 160	808 023	98 904			3 185			184
<b>31.12.15. overpayment</b>					70 825				
Calculated	987 996	1 736 308	218 674		736 576	13 327	23 791	95 604	2 386
Penalty calculated	22 130	20 731						983	1
Allocated to other taxes	333			44 850	748 408				
Repaid from the budget		630			309 796				
Paid	998 970	1 662 548	98 904	98 936	1 814 007	12 228	23 791	95 604	2 372
Penalty paid	22 130	20 731						983	1
Tax debt is settled from excess payment of other tax	254 623	493 785	44 850		333				
<b>31.12.16. debt</b>	375 896	387 368	173 824			4 284			198
<b>31.12.16. overpayment</b>				54 086	90 385				

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

**Note No. 24 – Short-term other creditors**

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

Notes to the consolidated financial statements (cont.)

**Note No. 25 – Accrued liabilities**

Indicators	31.12.16. EUR	31.12.15. EUR
Holiday provisions	249 319	182 040
<b>Total</b>	<b>249 319</b>	<b>182 040</b>

**Note No. 26 – Information about remuneration for services of the commercial company of certified auditors** (amounts given including VAT)

Indicators	31.12.16. EUR	31.12.15. EUR
Remuneration for auditing annual report	13 310	10 560
Remuneration for auditing consolidated annual report	4 840	2 066
<b>Total</b>	<b>18 150</b>	<b>12 626</b>

On behalf of the Holding Company,

Chairperson of the Board  
of JSC «Riga electric machine building works»

Nikolajs Erohovs

28 February 2017

## MANAGEMENT CONFIRMATION REPORT

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

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

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

On behalf of the Holding Company,

Chairperson of the Board  
of JSC «Riga electric machine building works»

Nikolajs Erohovs

28 February 2017