

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

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

**ANNUAL REPORT
FOR THE YEAR 2017
(AUDITED)**

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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 53, Riga, LV-1005, the Republic of Latvia	
Institution in charge of the Company	General meeting of shareholders	
The Company Council :		
Chairperson of the Council	Stanislav Vodolazskii Andrey Petrov	from 22.07.16. until 22.07.16.
Vice-Chairperson of the Council	Kirills Nužins	from 11.11.15.
Council Members	Andrey Sarkisov Natalia Sarkisova Sergey Bolysov Maksim Gordyukov Ivgeny Sokolsky	from 15.07.15. from 15.07.15. from 20.06.17. from 02.05.17. until 22.07.16.
The Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Aleksandrs Popadins Ilja Šestakovs Grigorijs Kapustins Olga Pētersone Nikolajs Čudinovs	from 08.11.13. from 30.01.15. from 18.10.16. until 12.10.17. until 06.09.16.
Revision Committee of the Company	Obligations of the Revision Committee are performed by the Company Council according to Minutes No.1 of ordinary meeting of shareholders dated June 20, 2017.	
Annual report drawn up by	Chief Accountant Svetlana Statina	
Accounting period	1 January 2017 – 31 December 2017	
Subsidiary companies	AS „LATVO”, reģ. Nr. 40003184975 Ganību dambis 53, Riga, the Republic of Latvia Shares – 98.7 %	
Auditor	SIA "Grant Thornton Baltic", licence Nr.155 Blaumaņa iela 22, Riga, LV-1011, Latvija Certified auditor Ingrīda Latimira Certified auditor's certificate No. 47	

MANAGEMENT REPORT

Business activities of the Company in 2017

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.

Net Volume - Company's turnover in 2017 amounted to 28.85 mil. EUR, which is 8.8 mils. EUR or 43.89% more than in the previous 2016. In its turn, the amount of gross income amounted to 4.5 mil. EUR, which is an increase of 1.5 times to the level of gross profit in 2016.

Profit Amount before interest, taxes, depreciation and amortization (EBITDA) amounted to 4.7 mil for the year 2017. EUR, which reached to 2016 3.8 mil. EUR 1.2 times higher and the net profit of the Company for 2017 amounted to 1.46 mil. EUR to 0.26 mil. EUR profit in 2016.

In 2017, the Company's financial situation was stable. The share of equity in the Company's total assets of 63.79% to 56.69% in 2016, and the ratio of current assets to current liabilities ratio of 1.10 to 1.09 in 2016. The ratio of net debt to EBITDA (Lavarage) is 1.34, and the ratio of EBITDA to current liabilities on borrowings (DSCR) of 1.55.

Other indicators

In 2017 the average number of employees was 602 people, the average monthly salary was EUR 956.

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 14 - 15 in notes to financial statements of the annual report 2017.

Significant events in 2017

21 of April 2017 JSC "Rīgas elektromašīnbūves rūpnīca" has received a filled-in standard form for the notification regarding significant amount of capital shares possession from company's share holder AAS "Baltijskij Bank". According to received form AAS "Baltijskij Bank" had sold all the shares of JSC "Rīgas elektromašīnbūves rūpnīca" previously owned by it (17.40% from shares with voting rights).

In turn, 21 of April 2017 JSC "Rīgas elektromašīnbūves rūpnīca" has received from CROWNING FINANCE CYPRUS LIMITED a filled-in standard form for the notification regarding the acquisition of a significant amount of capital shares, according to which shareholder CROWNING FINANCE CYPRUS LIMITED purchased 1 008 994 shares of JSC "Rīgas elektromašīnbūves rūpnīca", which is 17.40% from shares with voting rights.

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

Further development of the Company

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

Development Measures

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

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

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

Events after the balance sheet date

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

Distribution of profit

The shareholders of JSC "Rīgas elektromašīnbūves rūpnīca" are offered to redirect company's profit of 2017 in the amount of EUR 1 462 712 to development of the Company.

Chairperson of the Board

Nikolajs Erohovs

Board Members

Aleksandrs Popadins

Iļja Šestakovs

Grigorijs Kapustins

27 April 2018

INCOME STATEMENT

Items	Note	31.12.17. EUR	31.12.16. EUR
Net turnover	1		
a) from other main activity types		28 845 596	20 054 718
Production cost of goods sold, acquisition cost of goods sold or services provided	2	(24 330 336)	(17 054 148)
Gross profit or loss		4 515 160	3 000 570
Selling expenses	3	(632 676)	(443 410)
Administration expenses	4	(2 342 195)	(2 200 364)
Other operating income	5	541 961	400 899
Other operating expenses	6	(589 125)	(235 936)
Other interest income and similar income:			
a) from other persons		2	-
Interest payments and similar expenses:	7		
a) to other persons		(390 360)	(401 512)
Profit or loss before the corporate income tax		1 102 767	120 247
Corporate income tax for the reporting year		-	-
Profit or loss after calculating the corporate income tax		1 102 767	120 247
Income or expenditure from changes to deferred tax assets or liabilities	8	359 945	138 786
Profit or loss of the reporting year		1 462 712	259 033

Earnings per share	0.252	0.044
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Notes on pages 11 to 25 form are integral part of these financial statements.

BALANCE SHEET

ASSETS	Note number	31.12.17. EUR	31.12.16. EUR
LONG-TERM INVESTMENTS			
Intangible assets	9		
Development expenses		1 581 122	1 758 126
Concessions, patents, licences and similar rights		327 352	271 976
Other intangible assets		24 470	55 787
Advance payments for intangible assets		3 625	13 200
Total intangible assets		1 936 569	2 099 089
Fixed assets	9		
Real estate:			
a) land, buildings and structures		15 266 356	15 473 398
Technology devices and equipment		6 088 719	7 009 406
Other fixed assets and inventory		257 242	214 495
Expense of tangible assets and construction in progress		901 770	847 697
Advance payments for fixed assets		177 139	90 979
Total fixed assets		22 691 226	23 635 975
Long-term financial investments			
Shareholding in the capital of subsidiary companies	10	5 499 400	6 439 400
Total long-term financial investments		5 499 400	6 439 400
TOTAL LONG-TERM INVESTMENTS		30 127 195	32 174 464
CURRENT ASSETS			
Inventories			
Raw materials, direct materials and auxiliary materials	11	3 677 582	3 095 221
Work in progress		2 019 058	2 419 467
Finished products and goods for sale	12	755 409	814 752
Advance payments for inventories	13	3 400 671	146 848
Total inventories		9 852 720	6 476 288
Receivables			
Trade receivables	14	293 005	1 816 016
Amounts owed by related companies	15	325 670	166 573
Other receivables	16	155 637	134 593
Prepaid expenses	17	3 988	7 062
Total receivables		778 300	2 124 244
Short-term financial investments			
Other securities and interest in capital	18	90 000	-
Total Short-term financial investments		90 000	-
Cash	19	709 060	73 106
TOTAL CURRENT ASSETS		11 430 080	8 673 638
TOTAL ASSETS		41 557 275	40 848 102

BALANCE SHEET

LIABILITIES	Note number	31.12.17. EUR	31.12.16. EUR
EQUITY CAPITAL			
Share capital (equity capital)	20	8 118 607	8 118 607
Long-term investment revaluation reserve	21	13 691 758	11 801 574
Reserves:			
a) other reserves		407 137	407 137
Retained earnings or uncovered losses of previous years		2 827 455	2 568 422
Profit or loss of the reporting year		1 462 712	259 033
TOTAL EQUITY CAPITAL		26 507 669	23 154 773
PROVISIONS			
Other provisions	22	161 524	-
TOTAL PROVISIONS		161 524	-
CREDITORS			
Long-term liabilities			
Borrowings from credit institutions	23	3 202 067	5 552 067
Trade payables	24	-	184 647
Deferred income tax liability		-	2 449 107
Deferred income	25	1 306 115	1 518 712
Total long-term liabilities		4 508 182	9 704 533
Short-term liabilities			
Borrowings from credit institutions	23	3 128 330	4 759 279
Advance payments from customers	26	4 506 224	37 678
Trade payables	24	1 463 481	1 817 873
Taxes and mandatory state social insurance contributions	27	492 802	761 742
Other liabilities	28	438 073	381 458
Deferred income	25	45 333	-
Accrued liabilities	29	305 657	230 766
Total short-term liabilities		10 379 900	7 988 796
TOTAL CREDITORS		14 888 082	17 693 329
TOTAL LIABILITIES		41 557 275	40 848 102

Notes on pages 11 to 25 form are integral part of these financial statements.

CASH FLOW STATEMENT
(indirect method)

Cash flow from operating activities

Items	31.12.17. EUR	31.12.16. EUR
Profit or loss before taxation	1 102 767	120 247
ADJUSTMENTS		
Adjustments of decrease in value of equity capital	2 447 918	2 432 995
Amortization of intangible assets	771 827	729 833
Income from sales of fixed assets	(5 630)	(7 140)
Increase / decrease in provisions	161 524	-
Unrealized profit from fluctuations of currency exchange rate	(47 639)	(24 556)
Amounts written off fixed assets	7 149	2 242
Reserve for revaluation of long-term investments	(198 977)	(47 669)
Other operating income	-	(3 812)
Cash Flow before adjustments on changes in current assets and liabilities	4 238 939	3 202 140
ADJUSTMENTS FOR		
Increase (-)/ decrease (+) in trade and other receivables	(2 052 065)	(119 104)
Increase (-)/ decrease (+) in inventories	(122 609)	(1 032 926)
Increase (+)/ decrease (-) in trade and other payables	3 688 666	(977 545)
Gross cash flow from operating activities	5 752 931	1 072 565
Corporate tax paid	-	-
NET CASH FLOW FROM OPERATING ACTIVITIES	5 752 931	1 072 565

Cash flow from investing activities

Items	31.12.17. EUR	31.12.16. EUR
Proceeds from investment properties	850 000	200 000
Purchase of non-current assets	(2 043 040)	(971 876)
Proceeds from sale of fixed and intangible assets	5 630	7 140
Dividends received	-	536 905
NET CASH FLOW FROM INVESTING ACTIVITIES	(1 187 410)	(227 831)

Cash flow from financing activities

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

Summary of cash inflow and outflow

Items	31.12.17. EUR	31.12.16. EUR
Net cash flow from operating activities	5 752 931	1 072 565
Net cash flow from investing activities	(1 187 410)	(227 831)
Net cash flow from financing activities	(3 980 949)	(780 500)
Result of fluctuations of currency exchange rates	51 382	8 658
Net increase/decrease in cash and cash equivalents	635 954	72 892
Cash and its equivalents in the beginning of the accounting period	73 106	214
Cash and its equivalents at the end of the accounting period	709 060	73 106

Notes on pages 11 to 25 form are integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY, EUR

Kind of changes	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Total equity
As at 31.12.2015.	8 118 607	11 842 471	407 137	2 568 422	22 936 637
Long-term investment revaluation reserve decrease	-	(40 897)	-	-	(40 897)
Profit or loss for the financial year	-	-	-	259 033	259 033
As at 31.12.2016.	8 118 607	11 801 574	407 137	2 827 455	23 154 773
Long-term investment revaluation reserve decrease	-	(198 977)	-	-	(198 977)
Long-term investment revaluation reserve increase – effect of deferred enterprise income tax	-	2 089 161	-	-	2 089 161
Profit or loss for the financial year	-	-	-	1 462 712	1 462 712
As at 31.12.2017.	8 118 607	13 691 758	407 137	4 290 167	26 507 669

Notes on pages 11 to 25 form are integral part of these 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", the Annual Accounts and consolidated annual accounts of the law and "Annual report Law enforcement regulations", regulations of the Cabinet of Ministers Nr 775.

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

Accounting principles applied

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

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

Income recognition and net turnover

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

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

Capital assets and intangible assets

Capital assets and intangible assets have been reflected on the balance sheet in their purchase prices or revalued acquisition cost, excluding depreciation. Real estate revalued in the balance sheet net of accumulated depreciation. Value resulting from revaluation gains are recognized in equity under "Long-term investments revaluation reserve".

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.)

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

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

Unfinished construction and costs of capital asset creation

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

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.

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Notes (cont.)
Accounting policy (cont.)

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

Long-term and short-term items

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

Other securities

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

Long-term investment revaluation reserve

Long-term investments revaluation reserve is reduced when the revalued item of property to be seized, liquidated or appreciation is no longer justified. The revaluation reserve includes a reduction in the income statement as revenue in the reporting year in which the reductions are made.

In 2017 the Group changed the accounting policy for the fixed asset revaluation reserve and began to calculate the depreciation of revaluation reserve so that the costs of depreciation of fixed assets in the profit or loss statement correspond to changes in the revaluation reserve.

Provisions

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

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

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

Accrued liabilities

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

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

Government grants

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

Deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is accordingly recognised in other comprehensive income or directly in equity.

Notes (cont.)

Accounting policy (cont.)

Income tax is assessed for the period in accordance with Latvian tax legislation that has been enacted or substantively enacted by the balance sheet date.

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

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

Starting from the taxation year 2018, the corporate income tax will be calculated for distributed profits (20/80 from the net amount payable to shareholders). The tax on the distributed profit will be recognised when the Company's shareholders decide upon distribution.

Application of assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as income and expenses. The management has assessed its income statement and concluded that the financial statements give a true and fair view of the financial position of the Company, based on all the information currently available.

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.

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 2017 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.

Notes (cont.)
Accounting policy (cont.)

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.

Earnings per share

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

NOTES TO INCOME STATEMENT FOR THE YEAR 2017

Note No. 1 – Net turnover

Type of company's activity	NACE code	31.12.17. EUR	31.12.16. EUR
Manufacturing of electric machines and machinery	2711	28 845 596	20 054 718

Net sales by geographical markets

Country	31.12.17. EUR	31.12.16. EUR
Latvia	1 979 214	1 630 505
Russia	22 736 484	14 906 694
Belarus	259 151	130 604
Slovakia	363 796	276 841
Ukraine	26 900	-
Uzbekistan	3 474 705	3 085 983
Kazakhstan	-	11 070
Georgia	-	11 422
Other	5 346	1 599
Total	28 845 596	20 054 718

Note No. 2 – Production cost of goods sold, acquisition cost of goods sold or services provided

Indicators	31.12.17. EUR	31.12.16. EUR
Salaries	5 251 119	3 498 363
Social insurance contributions	1 205 721	797 397
Costs of materials	12 524 168	8 495 304
Energy resources	1 129 763	1 168 899
Depreciation of capital assets and intangible assets	2 751 065	2 463 479
Business trip costs	73 876	74 570
Repair costs and remuneration for works from outside	667 604	369 829
Costs of production quality control	473 183	-
Losses due to rejects	61 751	34 519
Environmental protection costs	32 426	23 090
Other costs	159 760	128 698
Total	24 330 436	17 054 148

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

Notes (cont.)

Note No. 3 – Selling expenses

Indicators	31.12.17. EUR	31.12.16. EUR
Packing material and package	84 675	49 220
Transportation expenses	384 861	237 843
Salaries	98 259	73 770
Social insurance contributions	22 803	17 047
Other selling costs	42 078	65 530
Total	632 676	443 410

Note No. 4 – Administrative expenses

Indicators	31.12.17. EUR	31.12.16. EUR
Communications costs	19 807	19 323
Reimbursement for legal services	-	1 786
Annual report and auditing services	12 000	12 000
Cash circulation and expense and extra costs	64 980	42 956
Transportation expenses	24 684	25 894
Representation expenses	7 297	9 829
Salaries	1 201 000	1 080 190
Social insurance contributions	274 481	240 298
Energy resources	71 016	66 311
Depreciation of capital assets	433 923	427 113
Business trip costs	30 346	25 458
Real estate tax	96 922	119 395
Other administrative costs	105 739	129 811
Total	2 342 195	2 200 364

Note No. 5 – Other operating income

Indicators	31.12.17. EUR	31.12.16. EUR
Profit gained as a result of other sales (lease, other)	75 651	103 234
Income from sales of fixed assets	5 630	7 140
Decrease in revaluation reserve of capital assets	198 977	47 669
Decrease in deferred income	212 597	208 926
Net gains from exchange rate fluctuations	47 639	24 556
Other income	1 467	9 374
Total	541 961	400 899

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

Long-term investment object	Balance value at the moment of exclusion	Alienation income	Alienation expenses	Gross income or profit	Profit or loss from the object's alienation
Equipment	161	5 630	0.00	5 630	5 469

Note No. 6 – Other operating expenses

Indicators	31.12.17. EUR	31.12.16. EUR
Penalty and contractual penalties	26 009	46 441
Costs related to maintenance of social sphere	28 945	28 334
Costs not related to operating activities of the Company	72 148	73 041
Removal of capital assets	7 149	2 242
Write-off of bad debtors	5 813	20 528
Increase in holiday provision	74 891	63 967
Write-off of inventories	18 113	-
Increase in provisions for stocks of slow-turnover	80 755	-
Increase in provisions for doubtful debtors	112 629	-
Provisions for benefits for damages to health	161 524	-
Other costs	1 149	1 383
Total	589 125	235 936

Notes (cont.)

Note No. 7 – Interest payments and similar expenses

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

Note No. 8 – Income or expenditure from changes to deferred tax assets or liabilities

Deferred enterprise income tax displayed in the balance statement

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

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

Deferred enterprise income tax displayed in the profit or loss statement

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

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

NOTES TO BALANCE SHEET FOR THE YEAR 2017

Note No. 9 – Intangible assets and fixed assets, EUR

Intangible assets

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

Notes (cont.)

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

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

All intangible assets of JSC "RER" have been pledged as security for a loan.

Fixed assets

	Real estate*	Machinery and equipment	Other fixed assets and inventory	Fixed assets under construction	Advances for fixed assets	Total fixed assets
Acquisition value 01.01.17.	16 673 057	14 300 390	733 024	847 697	90 979	32 645 147
Additions	1 004 931	256 184	108 970	1 420 654	430 255	3 220 994
Disposal	(6 412)	(29 838)	(31 202)	(1 366 581)	(344 095)	(1 778 128)
Acquisition value 31.12.17.	17 671 576	14 526 736	810 792	901 770	177 139	34 088 013
Accumulated amortization 01.01.17.	1 199 659	7 290 984	518 529	-	-	9 009 172
Amortization charge	1 205 859	1 175 901	66 158	-	-	2 447 918
Amortization of disposals	(298)	(28 868)	(31 137)	-	-	(60 303)
Accumulated amortization 31.12.17.	2 405 220	8 438 017	553 550	-	-	11 396 787
Net book value 01.01.17.	15 473 398	7 009 406	214 495	847 697	90 979	23 635 975
Net book value 31.12.17.	15 266 356	6 088 719	257 242	901 770	177 139	22 691 226

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

All fixed assets of JSC "RER" have been pledged as security for a loan.

Note No. 10 – Participation in capital of related companies (subsidiaries)

Indicators	31.12.17.	31.12.16.
AS „LATVO”, reģ. Nr. 40003184975, Ganību dambis 53, Rīga, the Republic of Latvia		
Shares, %	98.7	98.7
Shareholders' equity, EUR	6 791 471	7 734 165
Profit or loss, EUR	(942 694)	208 883
Net turnover, EUR	1 970 184	1 590 475
SIA „RER-Termināls”, reģ. Nr. 40203010535 Ganību dambis 53, Rīga, the Republic of Latvia		
Shares, %	-	82.46
Shareholders' equity, EUR	-	1 140 000
Profit or loss, EUR	-	-
Net turnover, EUR	-	-

Indicators	31.12.17. EUR	31.12.16. EUR
AS „LATVO”	5 499 400	5 499 400
SIA „RER-Termināls”	-	940 000
Total	5 499 400	6 439 400

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.

Notes (cont.)

Note No. 11 – Raw materials, direct materials and auxiliary materials

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

Changes in provisions

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

Note No. 12 – Finished goods and goods for sale

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

Note No. 13 – Advance payments for inventories

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

Note No. 14 – Trade receivables

Indicators	31.12.17. EUR	31.12.16. EUR
Debts of customers and clients	333 634	1 816 016
Provisions for doubtful debtors	(40 629)	-
Total	293 005	1 816 016

Changes in provisions

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

Note No. 15 – Debts of related companies (subsidiaries)

Indicators	31.12.17. EUR	31.12.16. EUR
AS „LATVO”	325 670	166 389
SIA „RER-Termināls”	-	184
Total	325 670	166 573

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

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Notes (cont.)

Note No. 16 – Other receivables

Indicators	31.12.17. EUR	31.12.16. EUR
Taxes paid in advance	7 590	9 561
Overpaid taxes	114 580	90 287
Processing of goods	12 710	9 426
Advance payments for services	16 723	21 730
Other	4 034	3 589
Total	155 637	134 593

Note No. 17 – Prepaid expenses

Indicators	31.12.17. EUR	31.12.16. EUR
Insurance	2 027	1 893
Payment for use of design documentation	-	728
Network's services	-	2 250
Other	1 961	2 191
Total	3 988	7 062

Note No. 18 – Other securities and interest in capital

Indicators	31.12.17. EUR	31.12.16. EUR
SIA „RER-Termināls”	90 000	-

Note No. 19 – Cash

Indicators	31.12.17. EUR	31.12.16. EUR
Current accounts in banks	709 060	73 106

Note No. 20 – Stock capital (fixed capital)

Total number of stocks of AS "RER" is 5 799 005 shares. A nominal value of each share is EUR 1.40. The Company's fixed capital is EUR 8 118 607, which is split into: 5 799 005 regular voting shares. Company's shares are listed on the Stock Exchange Nasdaq Riga AS, on the Baltic Secondary List.

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

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

Company shareholders (over 5%) as of 31.12.2017.

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

Notes (cont.)

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

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

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

According to the law "On Corporate Income Tax" Part 5 of Article 6, as measured by the corporate income tax purposes, does not take into account off-balance sheet revaluation results (excluding revaluation of assets due to foreign exchange rate changes).

Item of fixed assets	Revaluation reserve surplus, EUR		Value of the fixed asset in the beginning of the period, EUR	Decrease of revaluating reserve, EUR	Value of fixed assets at the end of the period, EUR	
	01.01.17.	31.12.17.			without revaluating	with revaluating
	01.01.17.	31.12.17.	01.01.17.	2017	31.12.17.	31.12.17.
Real estate (land, buildings and structures)	11 801 574	13 691 758	15 473 398	198 977	5 336 517	15 266 356

Note No. 22 – Other provisions

Indicators	31.12.17. EUR	31.12.16. EUR
Provisions for benefits for damages to health	161 524	-

Note No. 23 – Long-term and short-term loans from credit institutions

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

The implementation of obligations of the Company are provided and strengthened by:

- (i) mortgage on all real estate belonged to the Company;
- (ii) commercial pledge of all property of the Company as a totality of belongings at the mortgage moment, including the Company's shares in subsidiaries, as well as totality of belongings for the next components. The value of Group's mortgaged assets on 31 December 2017 is EUR 41 557 275 (31.12.2016. - EUR 40 848 102);
- (iii) guarantees from related parties.

Loans and credit agreements (EUR)

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

Notes (cont.)

Note No. 24 – Trade payables

Indicators	31.12.17. EUR	31.12.16. EUR
Long-term creditors, including	-	184 647
Foreign suppliers	-	184 647
Short-term creditors, including	1 463 481	1 817 873
Local suppliers	1 161 366	1 030 319
Foreign suppliers	302 115	787 554

Note No. 25 – Long-term and short-term deferred income

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

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

Explanation on the financial assistance received in the previous years

Provider of financial assistance	Year of receipt	Sum, EUR	Receipt objective	Conditions	The sum to be paid back in the reporting year if any of the conditions is not reached
Transporta mašīnbūves kompetences centrs SIA	2014 - 2016	359 473	New product development	conditions fulfilled	-
Latvijas Investīciju un Attīstības Aģentūru (LIAA)	2014 - 2016	1 396 272	New technological equipment	conditions fulfilled	-

The Company has an obligation during 5 year period from the receiving of the funds to comply with the terms of grant contract is respect of use of assets in the place of Project activity and for the intended purpose, not alienating and not to transfer the assets for use by third parties, insuring the property and performing of other duties.

Note No. 26 – Advance payments from customers

Indicators	31.12.17. EUR	31.12.16. EUR
Local customers	6 514	506
Foreign customers	4 499 710	37 172
Total	4 506 224	37 678

Note No. 27 – Taxes and mandatory state social insurance contributions, EUR

Indicators	31.12.17. EUR	31.12.16. EUR
Tax contributions and state social insurance contributions at the beginning of the year	761 742	1 451 492
Changes within the reporting year	(268 940)	(689 750)
Tax contributions and state social insurance contributions at the end of the year	492 802	761 742

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

Indicators	Personal income tax	Mandatory social insurance contributions	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
01.01.17. debt	372 999	384 263	-	4 284	-	-	196
01.01.17. overpayment	-	-	90 287	-	-	-	-
Calculated	1 333 247	2 293 984	1 159 958	20 166	19 846	77 076	2 599
Penalty calculated	13 866	5 334	-	-	-	-	-
Allocated to other taxes	-	-	368 904	-	-	-	-
Repaid from the budget	-	-	879 637	-	-	-	-
Paid	1 278 257	2 252 158	2 432 792	18 300	18 651	77 015	2 573
Penalty paid	13 866	5 334	-	-	-	-	-
Tax debt is settled from excess payment of other tax	166 329	202 575	-	-	-	-	-
31.12.17. debt	261 660	223 514	-	6 150	1 195	61	222
31.12.17. overpayment	-	-	114 580	-	-	-	-

As for 31.12.2017. the Company has no current tax debts.

Note No. 28– Short-term other liabilities

Indicators	31.12.17. EUR	31.12.16. EUR
Salary debt	436 119	376 839
Other	1 954	4 619
Total	438 073	381 458

Note No. 29 – Accrued liabilities

Indicators	31.12.17. EUR	31.12.16. EUR
Provisions for unused vacation compensation	305 657	230 766

Note No. 30 – Average number of employees

Indicators	31.12.17.	31.12.16.
Members of the Council	5	5
Members of the Board	5	5
Other employees	592	538
Average number of employees	602	548

Note No. 31 – Information about remuneration to the Council and Board Members

Indicators	31.12.17. EUR	31.12.16. EUR
Wages to the Council Members	10 600	10 600
Wages to the Board Members	9 918	10 600
Mandatory state social insurance contributions	4 840	5 001
Total	25 358	26 201

Note No. 32 – Information about remuneration for services of the commercial company of certified auditors (amounts given including VAT)

Indicators	31.12.17. EUR	31.12.16. EUR
Remuneration for auditing annual report and consolidated annual report	14 520	14 520

Notes (cont.)

Note No. 33 - Transactions with related parties

Related party	Services rendered and goods sold	Services rendered and goods purchased	Amounts owed by related parties	Payables to related parties
	2017 EUR	2017 EUR	31.12.17. EUR	31.12.17. EUR
AS „LATVO”	1 782 053	-	325 670	-
AO Krona Grup	22 689 890	537 593	231 073	-

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

There are none

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

There are none

Significant agreements

There are none

Information on pledged or otherwise encumbered assets

As on 31.12.2017. all assets of JSC "RER" have been pledged as security for a loan.

Liabilities for pensions

There are none

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

There are none

Significant events not included in the balance sheet or income statement

There are none

Events after the balance sheet date

There have not been any significant or extraordinary events between the last day of the reporting year and the day when the management signed the report that could essentially influence data or financial position of the company.

Notes (cont.)

Distribution of profit

The shareholders of JSC "Rīgas elektromašīnbūves rūpnīca" are offered to redirect company's profit of 2017 in the amount of EUR 1 462 712 to development of the Company.

Notes on pages 11 to 25 form are integral part of these financial statements.

Chairperson of the Board

Nikolajs Erohovs

Board Members

Aleksandrs Popadins

Ilja Šestakovs

Grigorijs Kapustins

Annual report drawn up by
Chief Accountant

Svetlana Statina

27 April 2018

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 2017.

The Management of the Company confirms that during preparation of the annual report 2017 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

Aleksandrs Popadins

Ilja Šestakovs

Grigorijs Kapustins

27 April 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Rīgas Elektromašīnbūves Rūpnīca AS

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of AS "Rīgas Elektromašīnbūves Rūpnīca" ("the Company") set out on pages 6 to 25 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2017,
- the profit and loss statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of AS "Rīgas Elektromašīnbūves Rūpnīca" as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

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

Audit questions	Measures taken
<u>Revenue completeness and periodization</u>	In order to assess the risk of non-compliance with the periodization of revenues, we have conducted the following audit procedures:
<p>The core business of the group is the production of electrical machinery and apparatus. More than 95% of revenues are generated by exporting products to approximately 7 different countries globally.</p> <p>The appropriate selling conditions vary between customers, and the transfer of ownership depends on the incoterms used for each transaction. The duration of the transportation of products sold varies significantly depending on the location of the customer. This necessitates the introduction and maintenance of consistent accounting and control procedures</p>	<ul style="list-style-type: none"> • have met with the financial management of the Group and discussed the current market situation, revenue structure of the Group, changes during the reporting year as well as the most significant risks while ensuring revenue completeness and periodization • became aware of the appropriateness of income traceability methods used and assessed the appropriateness, implementation and operational efficiency of control procedures used • carried out detailed analytical procedures while assessing changes in recognized



for revenue recognition, which ensures a precise periodicity and completeness of said revenue recognition. Therefore, we consider the aspects of accounting and control as a significant audit issue.

More detailed information on this issue is provided in Note 1 of Financial Statement and on page 13 of Accounting Policy (Revenue Recognition and Net Turnover).

revenue in relation to the previous year, analysed monthly and significant fluctuations. Additionally, have performed detailed comparison of supporting documentation with accounting data;

- conducted an individual sales transaction check-up, when the sale is performed just before or straight after the end of the reporting year. Have obtained evidence that justifies the correctness of the recognition period based on terms and conditions stated/contained in sales and delivery contracts/documents.
- Additionally, have asked for sample letters of correspondence and checked the balance of sales receivables at the balance date.

Reporting on Other Information

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

- the Management Report, as set out on page 4. till 5. of the accompanying Annual Report,
- the information about Company as set out on page 3. of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 26 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

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

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

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of



Grant Thornton

An instinct for growth

Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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



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

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

We confirm that:

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

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

SLA „Grant Thornton Baltic”
License No. 155

Silvija Gulbe
Member of the Board

Riga, 27 April 2018

Ingrida Latimira
Sworn auditor
Certificate No. 47