

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

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

**CONSOLIDATED ANNUAL REPORT FOR 12 MONTHS
OF THE YEAR 2013
(NON-AUDITED)**

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

CONTENT

Information about the parent Company	3
Management report	4
Profit and loss account	6
Balance sheet	7
Cash flow statement	9
Statement of changes in equity	10
Notes to financial statements	11
Management confirmation report	21

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 31, 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	Oleg Domskiy	from 12.07.12
Vice-Chairperson of the Council	Mikhail Khromov	until 12.07.12.
	Andrey Petrov	from 12.07.12.
	Oleg Domskiy	until 12.07.12.
Council Members	Andrey Isaev	
	Ekaterina Chamkina	from 12.07.12.
	Sergey Goncharov	from 12.07.12.
	Andrey Petrov	until 12.07.12.
	Yaroslav Kolesnik	until 12.07.12.
The parent Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Aleksandrs Suvorkins	from 19.04.10.
	Fedor Dudkin	until 27.06.12.
	Rita Kargina	until 27.06.12.
	Olga Pētersone	from 27.06.12.
	Maxim Savenkov	from 27.06.12.
	Mihails Morozs	until 22.11.12.
	Aleksandrs Popadins	from 08.11.13.
Accounting period	1 January 2013 – 31 December 2013	
Auditor	SIA "Rīgas audits", licence No. 103 Skolas iela 11-501, Riga, LV-1010, Latvia Certified auditor Ē. Figurnovs Certified auditor's certificate No. 38	
Subsidiary (daughter) companies	SIA „LatTransKomplekt”, reģ. Nr. 40103287324 Ganību dambis 31, Riga, the Republic of Latvia Fixed capital LVL 2 000 (2 846 EUR) Shares – 100 % Liquidated from 15.07.13. AS „Latvo”, reģ. Nr. 40003184975 Ganību dambis 31, Riga, the Republic of Latvia Fixed capital LVL 3 925 300 (5 585 199 EUR) Shares – 98.5 %	

MANAGEMENT REPORT

Business activities of the Holding Company in 2013

Basic business activities of the Holding Company are manufacturing of electric machines and machinery. 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 turnover of the Holding Company accounted for LVL 23 813 675 (EUR 33 883 807), which is 90 % when compared with the data of 2012 and 104.72% when compared with the data of 2011.

The Holding Company has concluded the financial year 2013 with profit amounting to LVL 2 728 740 (EUR 3 882 647) before tax and profit amounting to LVL 2 337 354 (EUR 3 325 755) after tax.

The economic indicators of the Holding Company

In 2013 the Autonomy indicator (equity / entire capital) was 0.57, which has increased by 50 % when compared with 2012. Proportion coefficient of loans and equity (loans / equity) was 0.75, which has improved by 55 % when compared with 2012. Total liquidity indicator (current assets / short-term liabilities) was 1.43, which has increased by 39 % when compared with 2012. Profitability indicator of the basic business activities (profit from the basic business activities / net turnover, %) was 12.36%, which has insignificantly decreased when compared with 2012.

Other indicators

In 2013 the average number of employees was 965 people, which has slightly decreased when compared with 2012. In 2013 the average monthly salary was LVL 580 (EUR 825), and this number has increased by 4 % when compared with 2012.

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 2013.

Significant events in 2013

On July 15, 2013 the course of reorganization of the subsidiary company 'LatTransKomplekt' Ltd by means to its takeover by the parent company, the Holding JSC "Rīgas elektromašīnbūves rūpnīca" was completed.

On December 17, the Cabinet of Ministers provided support for JSC "Rīgas elektromašīnbūves rūpnīca" (hereinafter referred to as RER) investment project 'Introduction of New Asynchronous Traction Motors into Manufacture'. In the investment project frames RER arranges to make investments at the amount of 3, 8 million Ls (5,4 million EUR) for manufacture equipment modernization, to extended the range of production manufactured, by means of introduction of new asynchronous traction electric motors intended for electric trains into manufactures well to improve current asynchronous traction electric motors for metro cars.

In December 2013, JSC "Rīgas elektromašīnbūves rūpnīca" has signed a contract with „Transporta mašīnbūves kompetences centrs” LLC for realization of individual researches. Within the framework of the Competence Centre, new systems of asynchronous drive engines with the power of 400 kW and 180 kW as well as air conditioning systems will be developed. Total planned budget of researches is LVL 2,3 million (3.3 million EUR) with the respective grant from ERDF in the amount of LVL 585 thousand (EUR 832 thousand).

Further development of the Holding Company

In 2014 you Holding Company continue conversion of the manufacture for launching drives for electric trains, metro trains, automotive vehicles using asynchronous motors.

On behalf of the Holding Company,

Chairperson of the Board

N. Erohovs

27 February 2014

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR 12 MONTHS OF 2013

No.	Items	Note	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
1	Net turnover	1	23813675	26458628	33883807	37647236
2	Production costs of the goods sold	2	18151373	(19522195)	25827077	(27777581)
3	Gross profit or loss		5662302	6936433	8056730	9869655
4	Selling expenses	3	(527188)	(567727)	(750121)	(807803)
5	Administration expenses	4	(2192128)	(2156260)	(3119117)	(3068082)
6	Other operating income	5	911608	545138	1297101	775661
7	Other operating expenses	6	(847545)	(956613)	(1205948)	(1361138)
8	Other interest income and similar income		101		144	
9	Other interest payments and similar expenses	7	(278410)	(460093)	(396142)	(654653)
10	Consolidation difference			1123482		1598571
11	Profit or loss before extraordinary items and taxes		2728740	4464360	3882647	6352211
12	Profit or loss before tax		2728740	4464360	3882647	6352211
13	Corporate income tax		(166206)		(236490)	
14	Retained corporate income tax	8	(133606)	(55900)	(190104)	(79539)
15	Other taxes	9	(91574)	(111526)	(130298)	(158687)
16	Profit or loss of the accounting period		2337354	4296934	3325755	6113985

Earnings per share	0.40	0.74	0.57	1.05
--------------------	------	------	------	------

CONSOLIDATED BALANCE SHEET FOR 12 MONTHS OF 2013

A S S E T S	Note	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
1. LONG-TERM INVESTMENTS					
I. Intangible investments	10				
1. Concessions, patents, licences and similar rights		117134		166667	
2. Other intangible investments		31140	5085	44308	7235
I. Total		148274	5085	210975	7235
II. Fixed assets	10				
1. Land plots, buildings, constructions		9705006	4508211	13808979	6414606
2. Equipment and machinery		3107964	3041625	4422234	4327842
3. Other fixed assets and inventory		117749	56862	167542	80907
4. Creation of fixed assets		403376	346884	573952	493571
5. Prepayments for fixed assets		171836		244501	
II. Total		13505931	7953582	19217208	11316926
III. Long-term financial investments					
1. Own shares		10227	10227	14552	14552
2. Other long-term debtors	11	4747545	5052390	6755148	7188903
3. Deferred tax assets		1979	1979	2816	2816
III. Total		4759751	5064596	6772516	7206271
I. PART TOTAL AMOUNT		18413956	13023263	26200699	18530432
2. CURRENT ASSETS					
I. Stocks					
1. Raw materials, direct materials and auxiliary materials		2402135	2332933	3417930	3319465
2. Unfinished products		1556506	1440403	2214709	2049509
3. Finished products and goods for sale		767952	374975	1092697	533542
4. Prepayments for goods		260097	338598	370085	481782
I. Total		4986690	4486909	7095421	6384298
II. Debtors					
1. Debts of buyers and customers	12	2523860	1520132	3591129	2162953
2. Other debtors	13	173278	214758	246552	305573
3. Deferred expenses	14	16328	78032	23233	111030
II. Total		2713466	1812922	3860914	2579556
IV. Cash	15	9386	64656	13355	91997
II. PART TOTAL AMOUNT		7709542	6364487	10969690	9055851
B A L A N C E		26123498	19387750	37170389	27586283

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

CONSOLIDATED BALANCE SHEET FOR 12 MONTHS OF 2013

LIABILITIES	Note	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
1. SHAREHOLDERS' EQUITY					
1. Share capital (capital stock)	16	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments		5698969	209105	8108902	297530
3. Other provisions		192922	192922	274503	274503
4. Undivided profit:					
a) Undivided profit of previous years		577656	(3719278)	821930	(5292056)
b) Undivided profit of the accounting year		2337354	4296934	3325755	6113985
1. PART TOTAL AMOUNT		14605906	6778688	20782331	9645203
2. PROVISIONS					
1. Other provisions	17	286447	487006	407577	692947
2. PART TOTAL AMOUNT		286447	487006	407577	692947
3. CREDITORS					
I. Long-term creditors					
1. Loans from credit institutions	18	4220338	4166288	6005000	5928094
2. Other loans	19	458228	677153	652000	963502
3. Other creditors	20	758054	800394	1078614	1138858
4. Deferred tax liabilities		405501	271895	576976	386872
I. Total		5842121	5915730	8312590	8417326
II. Short-term creditors					
1. Loans from credit institutions	18	2803507	1693808	3989031	2410072
2. Other loans	19		55169		78498
3. Advance payments received from buyers	21	537	37072	764	52749
4. Debts to suppliers and contractors	22	1444823	1809366	2055798	2574496
5. Taxes and social security payments	23	740511	2217854	1053652	3155722
6. Other creditors	20	399646	393057	568646	559270
II. Total		5389024	6206326	7667891	8830807
3. PART TOTAL AMOUNT		11231145	12122056	15980481	17248133
BALANCE		26123498	19387750	37170389	27586283

CONSOLIDATED CASH FLOW STATEMENT FOR 12 MONTHS OF 2013 (prepared by indirect method)

I. Cash flow from operating activities

	Items	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
1	Profit or loss before extraordinary items and taxes	2728740	4464360	3882647	6352211
	ADJUSTMENTS				
	Depreciation of fixed assets	628075	335981	893670	478058
	Amortization of intangible investment value	27830	7290	39599	10373
	Gain from sales of fixed assets	(319918)	(8433)	(455202)	(11999)
	Profit or loss from fluctuations of currency exchange rates	433791	197689	617229	281286
	Consolidation difference	1720	(1086420)	2447	(1545836)
	Amounts written off fixed assets	162325	20600	230968	29311
	Reserve for revaluation of long-term investments	(89656)	(5753)	(127569)	(8186)
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	3572907	3925314	5083789	5585218
	ADJUSTMENTS				
	Increase or decrease of balance of receivables	(333077)	2182022	(473926)	3104738
	Increase or decrease of balance of inventories	(515030)	559336	(732822)	795863
	Increase or decrease of deferred expenses	61704	(1955)	87797	(2782)
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	(2920246)	(15597)	(4155136)	(22193)
	Increase or decrease of accruals	(201483)	208052	(286684)	296031
	Expenses for tax payments	(91574)	(150709)	(130298)	(214440)
3	Gross cash flow from operating activities	(426799)	6706463	(607280)	9542435
4	Expenses from company tax payments	(166206)	(63504)	(236490)	(90358)
5	Cash flow before extraordinary items	(593005)	6642959	(843770)	9452077
I	NET CASH FLOW FROM OPERATING ACTIVITIES	(593005)	6642959	(843770)	9452077

II. Cash flow from investing activities

	Items	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
1	Stocks or shares purchase from related undertakings		(4785233)		(6808773)
2	Purchase of fixed assets and intangible investments	(764250)	(610340)	(1087430)	(868436)
3	Income from sales of fixed assets and intangible investments	319918	9048	455202	12874
4	Expenses for sales of fixed assets		(806)		(1147)
5	Income from repayment of loans	154428		219731	
II	NET CASH FLOW FROM INVESTING ACTIVITIES	(289904)	(5387331)	(412497)	(7665482)

III. Cash flow from financing activities

	Items	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
1	Loans received	2127668	240000	3027399	341490
2	Expenses for repayment of loans	(1193033)	(1057245)	(1697533)	(1504324)
3	Expenses for repurchase of leased fixed assets	(55169)	(220675)	(78498)	(313992)
III	NET CASH FLOW FROM FINANCING ACTIVITIES	879466	(1037920)	1251368	(1476826)

IV. Summary of cash inflow and outflow

	Items	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
I	Net cash flow from operating activities	(593005)	6642959	(843770)	9452077
II	Net cash flow from investing activities	(289904)	(5387331)	(412497)	(7665482)
III	Net cash flow from financing activities	879466	(1037920)	1251368	(1476826)
	Result of fluctuations of currency exchange rates	(51827)	(160851)	(73743)	(228869)
	Net cash flow of the accounting period	(55270)	56857	(78642)	80900
	Cash and its equivalents in the beginning of the accounting period	64656	7799	91997	11097
	Cash and its equivalents at the end of the accounting period	9386	64656	13355	91997

**CONSOLIDATED STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 12 MONTHS OF 2013,
LVL**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 31.12.2011.g.	5799005	214858	192922	(3719278)	2487507
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(5753)			(5753)
b) increase of fixed assets					
3. Income or loss of the accounting period in accordance with the profit and loss account				4296934	4296934
4. Balance as of 31.12.2012.g.	5799005	209105	192922	577656	6778688
5. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(89656)			(89656)
b) increase of fixed assets		5579520			5579520
6. Income or loss of the accounting period in accordance with the profit and loss account				2337354	2337354
7. Balance as of 31.12.2013.g.	5799005	5698969	192922	2915010	14605906

**CONSOLIDATED STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 12 MONTHS OF 2013,
EUR**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 31.12.2011.g.	8251241	305715	274503	(5292055)	3539404
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(8185)			(8185)
b) increase of fixed assets					
3. Income or loss of the accounting period in accordance with the profit and loss account				6113985	6113985
4. Balance as of 31.12.2012.g.	8251241	297530	274503	821930	9645204
5. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(127569)			(127569)
b) increase of fixed assets		7938941			7938941
6. Income or loss of the accounting period in accordance with the profit and loss account				3325755	3325755
7. Balance as of 31.12.2013.g.	8251241	8108902	274503	4147685	20782331

NOTES

GENERAL INFORMATION

Since 31.08.2012 after acquiring 100% shares of "LatTransKomplekt" Ltd, reg.No.40103287324, JSC "Riga Electric Machine Building Works" has become a holding company.

In December 2012 JSC "Riga Electric Machine Building Works" acquired 98.5% shares of JSC "Latvo", reg. No. 40003184975 capitalizing debt obligations of JSC "Latvo" to JSC "Riga Electric Machine Building Works".

Consolidated financial reports include the balance data of both (the Holding) JSC "Riga Electric Machine Building Works" (hereinafter referred to as JSC "RER") and its subsidiary companies of "LatTransKomplekt" Ltd, "Latvo" JSC.

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.

The annual report presents fairly and clearly financial position of the Company, as well as its assets and liabilities.

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 (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:

- 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 capital asset creation and 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.

	31.12.2013.g., LVL	31.12.2012.g., LVL	31.12.2013.g., EUR	31.12.2012.g., EUR
Unfinished construction objects	177532	118011	252605	167915
Costs of capital asset creation	225844	228873	321347	325656
Total	403376	346884	573952	493571

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. The reserves at the amount of LVL 153 459 (EUR 218 352) have been established for stocks of slow-turnover.

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 national currency of the Republic of Latvia – lats (LVL). All transactions carried out in foreign currencies have been recalculated in lats according to the exchange rate of the Bank of Latvia set on day when the relevant transaction is takes place.

Notes (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.

Data of the Financial report that are represented in EUR are recalculated in conformity with the exchange rate set by the Bank of Latvia as of 31.12.2013. : 1 EUR – 0.702804.

	31.12.2013.g., LVL	31.12.2012.g., LVL
1 EUR	0.702804	0.702804
1 USD	0.515	0.531
1 RUB	0.0156	0.0174

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 years. In 2013 warranty repair costs accounted is only 1.73% of the net turnover. Since amount of the warranty repair costs is of no high importance, provisions for warranty repairs are not created.

Deferred tax

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

Risk management

Risk management is an integral part of management process of the 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

Notes (cont.)

asset 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.

A significant part of the Company's income is in lats and rouble, major part of its costs are in lats, while all received loans are in euros.

From 1 January 2005 the Bank of Latvia has set the official fixed lat to euro exchange rate, which is 0.702804.

As long as the Bank of Latvia maintains the said fixed exchange rate the Company's profit and loss made as a result of fluctuations of the exchange rate will not be significant.

Interest rate risk

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

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.

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 or a group of business partners of similar type.

NOTES TO CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR 12 MONTHS OF 2013

Note No. 1 – Net turnover

Country	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Latvia	185157	1651553	263455	2349948
Russia	22336246	24417519	31781615	34742999
Ukraine	152389	147766	216830	210252
United Kingdom	17952	150592	25543	214273
Belarus	248702	82839	353871	117869
Slovakia	229207		326132	
Azerbaijan	199264		283527	
Poland	383140		545159	
Slovenia	41313		58783	
Other	20305	8359	28892	11895
Total	23813675	26458628	33883807	37647236

Note No. 2 – Production costs of products sold

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Salaries	4639467	4780265	6601367	6801704
Social insurance contributions	1092887	1128615	1555038	1605874
Costs of materials	8681088	10831056	12352075	15411204
Energy resources	1128823	1201367	1606170	1709391
Depreciation of capital assets and intangible assets	545457	288522	776115	410530
Business trip costs	109484	65399	155782	93054
Repair costs and remuneration for works from outside	349502	181859	497297	258762
Costs of production quality control	1216712	724721	1731225	1031185
Development costs	68254	68254	97117	97117
Expenses of product's certification	64944	33173	92407	47201
Losses due to rejects	55860	62684	79482	89191
Environmental protection costs	59047	36277	84016	51618
Other costs	139848	120003	198986	170750
Total	18151373	19522195	25827077	27777581

Notes (cont.)

Note No. 3 – Selling costs

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Packing material and package	60986	78765	86775	112072
Transportation expenses	331781	340306	472082	484212
Salaries	93150	107974	132541	153633
Social insurance contributions	22170	25031	31545	35616
Other selling costs	19101	15651	27178	22270
Total	527188	567727	750121	807803

Note No. 4 – Administrative costs

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Communications costs	21657	24296	30815	34570
Reimbursement for legal services	10337	27794	14708	39547
Cash circulation and expense and extra costs	21801	10075	31020	14335
Transportation expenses	14637	18857	20827	26831
Representation expenses	9303	11422	13237	16252
Salaries	1395918	1416849	1986212	2015995
Social insurance contributions	321685	329453	457717	468769
Energy resources	42477	39704	60439	56494
Depreciation of capital assets	80173	40618	114076	57794
Business trip costs	35384	28611	50347	40710
Security services	137690	147982	195915	210559
Other administrative costs	101066	60599	143804	86226
Total	2192128	2156260	3119117	3068082

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

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Profit gained as a result of other sales (materials, lease, other)	159042	227140	226296	323191
Remaining amounts of removal of capital assets, materials		24285		34554
Sale of capital assets	319918	8433	455202	11999
Income related to maintenance of social sphere	19496	23782	27740	33839
Decrease in revaluation reserve of capital assets	89656	5753	127569	8186
Writing off debts to suppliers and contractors		249016		354318
Writing-off accruals set up before	198601		282584	
Decrease in provisions for stocks of slow-turnover	10651		15155	
Decrease in holiday provision	2662		3788	
Joint financing of project	96526		137344	
Other income	15056	6729	21423	9574
Total	911608	545138	1297101	775661

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

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Penalty and contractual penalties	6399	138500	9105	197068
Costs related to maintenance of social sphere	47456	43210	67524	61482
Costs not related to operating activities of the Company	68445	70567	97388	100408
Re-accreditation costs	21787		31000	
Loss from fluctuations of exchange rates	433791	197689	617229	281286
Removal of capital assets	162325	20600	230968	29311
Write-off of bad debtors	9583	36161	13635	51452
Increase in provisions for doubtful debtors	7755	56617	11034	80559
Increase in holiday provision		17867		25422
Provisions for stocks of slow-turnover		164109		233506
Provision for the court's decision	63835		90829	
Other accruals		199443		283782
Other costs	26169	11850	37236	16862
Total	847545	956613	1205948	1361138

Joint Stock Company "Rīgas Elektromašīnbūves rūpnīca"
Non-audited Consolidated Annual Report for 12 months of the year 2013

Notes (cont.)

Note No. 7 – Other interest payments and similar costs

Indicator	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Loan agreements	255334	449794	363308	639999
Leasing agreements	318	10299	452	14654
Credit line agreements	22758		32382	
Total	278410	460093	396142	654653

Note No. 8 – Deferred corporate income tax

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Deferred tax liabilities as at the beginning of accounting year	271895	215995	386872	307333
Deferred tax expenditure in profit and loss account of accounting year	133606	55900	190104	79539
Deferred tax liabilities as at the end of accounting year	405501	271895	576976	386872

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Deferred tax liabilities : Temporary difference of depreciation of capital assets	373714	337083	531747	479626
Deferred tax assets: Temporary differences of costs of holidays and of other costs not used	31787	(65188)	45229	(92754)
Deferred tax liabilities	405501	271895	576976	386872

Note No. 9 – Other taxes

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Real estate tax on premises (buildings)	79429	85227	113017	121267
Real estate tax on land	12145	26299	17281	37420
Total	91574	111526	130298	158687

NOTES TO CONSOLIDATED BALANCE SHEET FOR THE 12 MONTHS OF 2013

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

	Intangible investments		Capital assets				
	Licences and similar rights	Other intangible investments	Land, premises, buildings*	Equipment and machinery	Other capital assets	Creation of capital assets	Prepayments for capital assets
Initial value							
Remaining amount as at 01.01.13.	2525	26382	7370117	6047795	308234	346884	
Purchase	140561	30803		504046	91627	552394	171836
Revaluation			5519999			59521	
Revaluation (accumulated depreciation)			(2907196)				
Removed		(691)	(169903)	(25820)	(4922)	(555423)	
Remaining amount as at 31.12.13.	143086	56494	9813017	6526021	394939	403376	171836
Depreciation							
Remaining amount as at 01.01.13.	2525	21297	2861906	3006170	251372		
Calculated	23427	4403	164975	434234	28866		
Revaluation (accumulated depreciation)			(2907196)				
Removed		(346)	(11674)	(22347)	(3048)		
Remaining amount as at 31.12.13.	25952	25354	108011	3418057	277190		
Remaining value							
01.01.13.		5085	4508211	3041625	56862	346884	
31.12.13.	117134	31140	9705006	3107964	117749	403376	171836

Notes (cont.)

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

	Intangible investments		Capital assets				
	Licences and similar rights	Other intangible investments	Land, premises, buildings*	Equipment and machinery	Other capital assets	Creation of capital assets	Prepayments for capital assets
Initial value							
Remaining amount as at 01.01.13.	3593	37538	10486732	8605237	438577	493571	
Purchase	200000	43829		717193	130373	785986	244501
Revaluation			7854251			84691	
Revaluation (accumulated depreciation)			(4136567)				
Removed		(983)	(241750)	(36739)	(7003)	(790296)	
Remaining amount as at 31.12.13.	203593	80384	13962666	9285691	561947	573952	244501
Depreciation							
Remaining amount as at 01.01.13.	3593	30303	4072126	4277395	357671		
Calculated	33333	6265	234739	617859	41071		
Revaluation (accumulated depreciation)			(4136567)				
Removed		(492)	(16611)	(31797)	(4337)		
Remaining amount as at 31.12.13.	36926	36076	153687	4863457	394405		
Remaining value							
01.01.13.		7235	6414606	4327842	80906	493571	
31.12.13.	166667	44308	13808979	4422234	167542	573952	244501

*In 2013 assessed value of the premises accounted for LVL 5 556 751 (EUR 7 906 544), assessed value of the plot accounted for LVL 1 214 517 (EUR 1 728 102).

Note No. 11 – Other long-term debtors

Rādītāji	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Long-term loan	4747545	5052390	6755148	7188903
Total	4747545	5052390	6755148	7188903

Note No. 12 – Debts of customers and clients

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Debts of customers and clients	2593073	1584257	3689610	2254195
Provisions for doubtful debtors	(69213)	(64125)	(98481)	(91242)
Total	2523860	1520132	3591129	2162953

Note No. 13 – Other debtors

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Taxes paid in advance	3291	14091	4683	20050
Overpaid taxes	124822	174717	177606	248600
Rental debts	5484	14921	7803	21231
Deposit for development of the European funds	36026		51260	
Other	3655	11029	5200	15692
Total	173278	214758	246552	305573

Note No. 14 – Costs of the following periods

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Insurance	1445	1616	2056	2299
Expenses for development of new techniques		68254		97117
Computer's network service	8215		11689	
Certification	3159		4495	
Other	3509	8162	4993	11614
Total	16328	78032	23233	111030

Notes (cont.)

Note No. 15 – Cash

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Current accounts in banks	9386	64656	13355	91997

Note No. 16 – 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 LVL 1.00. The Company's fixed capital is LVL 5 799 005, which is split into: 5 799 005 regular voting shares.

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

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Residents, including	199135	199135	283343	283343
- physical entities	173927	173927	247475	247475
- legal entities	25208	25208	35868	35868
Non-residents, including	5599870	5599870	7967898	7967898
- Russia	1011027	1011027	1438562	1438562
- Canada	5119	5119	7284	7284
- British Virgin Islands	3249563	3249563	4623712	4623712
- Belize	1333771	1333771	1897785	1897785
- Lithuania	390	390	555	555
Total	5799005	5799005	8251241	8251241

Note No. 17 – Other provisions

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Holiday provisions	279613	281351	397853	400326
Other provisions	6834	205655	9724	292621
Total	286447	487006	407577	692947

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

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Latvian credit institutions, loan agreement, including	5328301	5860096	7581489	8338166
Long-term debt	4220338	4166288	6005000	5928094
Short-term debt	1107963	1693808	1576489	2410072
Latvian credit institutions, credit line, including	1695544		2412542	
Short-term debt	1695544		2412542	

As on 31/12/2013 all assets of parent Company have been pledged as security for a loan.

Note No. 19 – Other loans

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Leasing agreements, including		55169		78498
Short-term debt		55169		78498
Other loans, including	458228	677153	652000	963502
Long-term debt	458228	677153	652000	963502

Notes (cont.)

Note No. 20 – Long-term and short-term other creditors

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Long-term creditors, including	758054	800394	1078614	1138858
Other creditors	22054	64394	31380	91624
Settlement of the debts of other companies	736000	736000	1047234	1047234
Short-term creditors, including	399646	393057	568646	559270
Salary debt	386247	377086	549581	536545
Support payments	3095	3447	4404	4905
Trade union membership fee	455	1906	647	2712
Other	9849	10618	14014	15108

Note No. 21 – Advances received from customers

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Local customers	154	35580	219	50626
Foreign customers	383	1492	545	2123
Total	537	37072	764	52749

Note No. 22 – Debts to suppliers and contractors

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Local suppliers	881934	987803	1254879	1405517
Foreign suppliers	562889	821563	800919	1168979
Total	1444823	1809366	2055798	2574496

Note No. 23 – Taxes and social insurance contributions

Indicators	Personal income tax	Mandator y social insurance contribu- tions	Income tax	Value added tax	Natural resource s tax	Real estate tax on land	Real estate tax on premi- ses (buil- dings)	State business risk fee	LVL
31.12.12. debt	925616	1258999	30677		2327			235	
31.12.12. overpayment	3866	6014	57799	120012				17	
Calculated	1213642	2169369	166206	1799406	9988	12145	79429	2888	
Penalty calculated				523					
Allocated to other taxes		2449	14148	539840	3				
Paid	1580233	2840636	862	2327771	9260	12145	79429	2873	
Penalty paid	14322			523					
Tax debt is settled from excess payment of other tax	229014	324976		2449					
31.12.13. debt	311823	259191	166206		3058			233	
31.12.13. overpayment			13836	110986					

* As for 31.12.2013 the Holding Company has no current tax debts.

Joint Stock Company "Rīgas Elektromašīnbūves rūpnīca"
Non-audited Consolidated Annual Report for 12 months of the year 2013

Notes (cont.)

EUR

Indicators	Personal income tax	Mandatory social insurance contributions	Income tax	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
31.12.12. debt	1317033	1791395	43649		3311			334
31.12.12. overpayment	5501	8557	82239	170762				24
Calculated	1726857	3086733	236489	2560324	14212	17281	113017	4110
Penalty calculated				744				
Allocated to other taxes		3485	20131	768123	4			
Paid	2248469	4041861	1227	3312120	13176	17281	113017	4088
Penalty paid	20379			744				
Tax debt is settled from excess payment of other tax	325858	462399		3485				
31.12.13. debt	443683	368796	236490		4351			332
31.12.13. overpayment			19687	157920				

On behalf of the Holding Company,

Chairperson of the Board

Nikolajs Erohovs

27 February 2014

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 2013.

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

Nikolajs Erohovs

27 February 2014