

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

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

**ANNUAL REPORT
FOR THE YEAR 2014
(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 31, Riga, LV-1005, the Republic of Latvia	
Institution in charge of the Company	General meeting of shareholders	
The Company Council :		
Chairperson of the Council	Oleg Domskiy	from 12.07.12.
Vice-Chairperson of the Council	Andrey Petrov	from 12.07.12.
Council Members	Andrey Isaev Ekaterina Chamkina Sergey Goncharov	from 01.07.02. from 12.07.12. from 12.07.12.
The Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Aleksandrs Suvorkins Olga Pētersone Maxim Savenkov Aleksandrs Popadins Nikolajs Čudinovs Ilja Šestakovs	until 30.01.15. from 27.06.12. until 30.01.15. from 08.11.13. from 30.01.15. from 30.01.15.
Revision Committee of the Company	Obligations of the Revision Committee are performed by the Company Council according to Minutes No.1 of ordinary meeting of shareholders dated June 28, 2012.	
Accounting period	1 January 2014 – 31 December 2014	
Auditor	SIA "Rīgas audits", licence No. 103 Skolas iela 11-501, Riga, LV-1010, Latvia Certified auditor J. Mežiels, Certified auditor's certificate No. 127	
Subsidiary companies	AS „LATVO”, reģ. Nr. 40003184975 Ganību dambis 31, Riga, the Republic of Latvia Fixed capital 5 495 420 EUR Shares – 98.5 %	

AS "Rīgas elektromašīnbūves rūpnīca"

MANAGEMENT REPORT

Business activities of the Company in 2014

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 turnover of the Company accounted for EUR 33 526 569, which is 99.88 % when compared with the data of 2013.

Taking into consideration adverse effect due to drop of Russian Ruble rate in relation to Euro (RUB/EUR) RER has concluded the financial year 2014 with profit amounting to EUR 238 206 before tax and profit amounting to EUR 42 116 after tax.

The Company's financial position is reflected by the following economic indicators:

Due to circumstances that are unpredictable, and it is not possible to affect them as well, i.e., sharp devaluation of Russian Ruble in relation to Euro, the operational indexes of the RER for 2014 have been reduced in comparison with the for previous year of 2013.

So in 2014 the Autonomy indicator (equity / entire capital) was 0.50, in comparison with results of 2013 it is less for 3.9%. Proportion coefficient of loans and equity (loans / equity) was 1.01, in comparison with results of 2013 declination is 9.8%. Total liquidity indicator (current assets / short-term liabilities) was 1.14, profitability indicator of the basic business activities (profit from the basic business activities / net turnover, %) was 4.22%.

Other indicators

In 2014 the average number of employees was 936 people, however, actual number of employees was 866 persons as of 01.01.15., in 2014 the average monthly salary was EUR 785.

Taking into consideration that the adverse factor (rate RUB/EUR) especially affected business activities in IV quarter of 2014 and that it continues affecting in 2015 the RER management approved the arrangement of measures for optimization of costs. Implementation of that arrangement allows reducing production costs for 30 - 50% to provide financial stability of the Company.

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

Risk factors related to the business activities of the Company

Financial risks have been characterized on pages 13 and 14 in notes to financial statements of the annual report 2014.

Significant events in 2014

On March 14 and July 16, 2014 the Latvian Agency of Development and Investments (LIAA) and JSC RER concluded two contracts for implementation No. L-APV-14-0058 for the Project 'Introduction into production process of new asynchronous traction motors' and No.L-APV-14-0125 for the project 'Introduction into production process of new products of electric machine building' in the frames of support program of the European Regional Fund of Development(ERAF) 'Investments of high-level added value'. Implementation of this project started in 2014 that is going to be continued in 2015.

In December 2013 JSC RER concluded five contracts with SIA „Transporta mašīnbūves kompetences centrs” (The Centre of Transport Building Competence, Ltd) for implementation of individual research for development of new asynchronous traction drive systems of 400 kW and 180 kW power as well as for development of air conditioning system. During the year of 2014, in the frames of the Centre of Competence JSC RER carried out that individual research, and its implementation is going to be continued in 2015.

On August 1, 2014 according to resolution taken on June 27, 2014 a regular meeting of shareholders of JSC RER carried out share denomination from lat to euro.

Further development of the Company

Taking into consideration that the RUB/EUR rate continues declining in 2015 JSC 'Riga Electric Machine Building Works' will face decrease in sales and, appropriately, profit indicators will decrease by 25-35%.

The Board of JSC 'Riga Electric Machine Building Works' has approved an arrangement of measures that provide optimization of all costs and minimization of all kinds of expenses that provides completion of budget arrangement project for 2015, namely, net turnover not less than EUR 21.mln net profit at the amount of EUR 0,5 mln.

In 2015 you Company continue conversion of the manufacture for launching drives for electric trains, metro trains, automotive vehicles using asynchronous motors.

Distribution of profit

The shareholders of JSC "Rīgas elektromašīnbūves rūpnīca" are offered to redirect company's profit of 2014 in the amount of EUR 42 116 to development of the Company.

Events after the balance sheet date

In the first quarter of 2015 successful implementation of total cost optimization plan (including number of employees) approved by the Board of Directors was started.

Starting from 2015 when dealing with customers from Russia, the selling prices are fixed in Euro, reducing a risk which is connected with foreign currency fluctuations.

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Nikolajs Čudinovs

Ilja Šestakovs

09 April 2015

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"
Audited Annual Report for the year 2014

PROFIT AND LOSS ACCOUNT FOR THE 2014

No.	Items	Note	31.12.14. EUR	31.12.13. EUR
1	Net turnover	1	33526569	33567105
2	Production costs of the goods sold	2	(28446160)	(25737032)
3	Gross profit or loss		5080409	7830073
4	Selling expenses	3	(794228)	(698795)
5	Administration expenses	4	(2870590)	(3001552)
6	Other operating income	5	867640	1174527
7	Other operating expenses	6	(1611230)	(938465)
8	Other interest income and similar income		28	144
9	Writing-off long-term financial investments and short-term securities	7		(22395)
10	Other interest payments and similar expenses	8	(433823)	(427720)
11	Profit or loss before extraordinary items and taxes		238206	3915817
12	Profit or loss before tax		238206	3915817
13	Corporate income tax			(226769)
14	Deferred corporate income tax		(59318)	(22379)
15	Other taxes	9	(136772)	(130298)
16	Profit or loss of the accounting period		42116	3536371

Earnings per share	0.01	0.61
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BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2014

A S S E T S	Note	31.12.14. EUR	31.12.13. EUR
1. LONG-TERM INVESTMENTS			
I. Intangible investments	10		
1. Development costs		1997102	
2. Concessions, patents, licences and similar rights		525584	166667
3. Other intangible investments		21914	44308
I. Total		2544600	210975
II. Fixed assets	10		
1. Land plots, buildings, constructions		12758456	13808979
2. Equipment and machinery		4644928	4422234
3. Other fixed assets and inventory		234815	164803
4. Creation of fixed assets		1273371	573952
5. Prepayments for fixed assets		1013049	244501
II. Total		19924619	19214469
III. Long-term financial investments			
1. Participation in capital of related companies (subsidiaries)	11	5499400	5499400
III. Total		5499400	5499400
I. PART TOTAL AMOUNT		27968619	24924844
2. CURRENT ASSETS			
I. Stocks			
1. Raw materials, direct materials and auxiliary materials	12	3326894	3266336
2. Unfinished products		2283442	2214708
3. Finished products and goods for sale		543957	1120969
4. Prepayments for goods		150123	370085
I. Total		6304416	6972098
II. Debtors			
1. Debts of buyers and customers	13	2331157	3356431
2. Debts of related companies (subsidiaries)	14	338791	182301
3. Other debtors	15	240645	183050
4. Deferred expenses	16	2540	39568
II. Total		2913133	3761350
IV. Cash	17	328	1090
II. PART TOTAL AMOUNT		9217877	10734538
B A L A N C E		37186496	35659382

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

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2014

LIABILITIES	Note	31.12.14. EUR	31.12.13. EUR
1. SHAREHOLDERS' EQUITY			
1. Share capital (capital stock)	18	8118607	8251241
2. Reserve for revaluation of long-term investments	19	6787883	6892566
3. Other provisions		407137	274503
4. Undivided profit:			
a) Undivided profit of previous years		2761738	(774633)
b) Undivided profit of the accounting year		42116	3536371
1. PART TOTAL AMOUNT		18117481	18180048
2. PROVISIONS			
1. Other provisions	20	381374	386025
2. PART TOTAL AMOUNT		381374	386025
3. CREDITORS			
I. Long-term creditors			
1. Loans from credit institutions	21	6443871	6005000
2. Other loans	22	489000	652000
3. Debts to suppliers and contractors	23	587013	
4. Other creditors	24	1104316	1078614
5. Deferred income	25	333848	
6. Deferred tax liabilities	26	1666539	1625586
I. Total		10624587	9361200
II. Short-term creditors			
1. Loans from credit institutions	21	4232659	3989031
2. Advance payments received from buyers	27	838	764
3. Debts to suppliers and contractors	23	2676029	2166120
4. Taxes and social security payments	28	626303	1036988
5. Other creditors	24	527225	539206
II. Total		8063054	7732109
3. PART TOTAL AMOUNT		18687641	17093309
BALANCE		37186496	35659382

CASH FLOW STATEMENT FOR THE YEAR 2014 (prepared by indirect method)

I. Cash flow from operating activities

	Items	31.12.14. EUR	31.12.13. EUR
1	Profit or loss before extraordinary items and taxes	238206	3915817
	ADJUSTMENTS		
	Depreciation of fixed assets	1665115	893384
	Amortization of intangible investment value	97498	39599
	Gain from sales of fixed assets	(215834)	(278756)
	Profit or loss from fluctuations of currency exchange rates	1230866	365640
	Amounts written off fixed assets	4102	54522
	Reserve for revaluation of long-term investments	(123048)	(127569)
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	2896905	4862637
	ADJUSTMENTS		
	Increase or decrease of balance of receivables	(1392198)	(364027)
	Increase or decrease of balance of inventories	667682	(700078)
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	1451429	(3771418)
	Increase or decrease of accruals	(4651)	(286371)
	Expenses for tax payments	(136772)	(130298)
3	Gross cash flow from operating activities	3482395	(389555)
4	Expenses for corporate income tax payments	(94487)	(226769)
5	Cash flow before extraordinary items	3387908	(616324)
I	NET CASH FLOW FROM OPERATING ACTIVITIES	3387908	(616324)

II. Cash flow from investing activities

	Items	31.12.14. EUR	31.12.13. EUR
1	Purchase of fixed assets and intangible investments	(4222793)	(1084820)
2	Income from sales of fixed assets and intangible investments	396686	455202
II	NET CASH FLOW FROM INVESTING ACTIVITIES	(3826107)	(629618)

III. Cash flow from financing activities

	Items	31.12.14. EUR	31.12.13. EUR
1	Loans received	1917498	3027399
2	Expenses for repayment of loans	(1398000)	(1697533)
3	Expenses for repurchase of leased fixed assets		(78498)
III	NET CASH FLOW FROM FINANCING ACTIVITIES	519498	1251368

IV. Summary of cash inflow and outflow

	Items	31.12.14. EUR	31.12.13. EUR
I	Net cash flow from operating activities	3387908	(616324)
II	Net cash flow from investing activities	(3826107)	(629618)
III	Net cash flow from financing activities	519498	1251368
	Result of fluctuations of currency exchange rates	(82061)	(73744)
	Net cash flow of the accounting period	(762)	(68318)
	Cash and its equivalents in the beginning of the accounting period	1090	69408
	Cash and its equivalents at the end of the accounting period	328	1090

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR THE YEAR 2014, EUR

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balanse as of 31.12.2012.g.	8251241	297530	274503	(774633)	8048641
2. Long-term investment revaluation reserve decrease		(127569)			(127569)
3. Long-term investment revaluation reserve increase - revaluation		7938940			7938940
4. Calculation of deferred enterprise income tax – revaluation effect		(1216335)			(1216335)
5. Income or loss of the accounting period in accordance with the profit and loss account				3536371	3536371
6. Balanse as of 31.12.2013.g.	8251241	6892566	274503	2761738	18180048
7. Long-term investment revaluation reserve decrease		(123048)			(123048)
8. long-term investment revaluation reserve increase – effect of deferred enterprise income tax		18365			18365
9. Share denomination from lat to euro	(132634)		132634		
10. Income or loss of the accounting period in accordance with the profit and loss account				42116	42116
11. Balanse as of 31.12.2014.g.	8118607	6787883	407137	2803854	18117481

NOTES

ACCOUNTING POLICY

Basis for report preparation

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

Accounting principles applied

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

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

Income recognition and net turnover

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

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

Capital assets and intangible assets

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

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

Intangible assets:

- | | |
|------------|-----|
| - Licences | 20% |
| - Software | 50% |

Capital assets:

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

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

Notes (cont.)
Accounting policy (cont.)

Unfinished construction and costs of capital asset creation

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

	31.12.14. EUR	31.12.13. EUR
Unfinished construction objects	252605	252605
Costs of capital asset creation	1020766	321347
Total	1273371	573952

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 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. Assets and liabilities in the foreign currency have been recalculated in lats according to the exchange rate of the Bank of Latvia set on the last day of the reporting period – 31.12.2013. Profit made or loss incurred as a result of fluctuations of exchange rates has been reflected in the profit and loss account of the corresponding period.

Notes (cont.)
Accounting policy (cont.)

	31.12.14., 1 EUR	31.12.13., 1 EUR
USD	1.216	1.3791
RUB	69.1345	45.3246

Long-term and short-term items

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

Other securities

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

Long-term investment revaluation reserve

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

Provisions

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

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

Provisions for warranty repairs. A warranty period of the Company's basic products is 2 - 3 years. In 2014 warranty repair costs accounted only 0.09% 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 Company. Risk management in the Company is controlled by the Council and the Board of the Company. In its activities AS RER follows the general principles of risk management listed below:

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

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

Notes (cont.)
Accounting policy (cont.)

Financial risk

Currency risk

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

In 2014 a significant part of the Company's income was in rouble, major part of its costs was in euro. All received loans were in euro.

Interest rate risk

The Company is at the interest rate risk due to its short-term and long-term loans and financial leasing transactions. In 2013 the average rate of the Company's loans and financial leasing transactions was 4.14%, in 2014 – 3.77%.

Liquidity risk

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

Credit risk

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

NOTES TO PROFIT AND LOSS ACCOUNT FOR THE YEAR 2013

Note No. 1 – Net turnover

Country	31.12.14. EUR	31.12.13. EUR
Latvia	2582668	2246282
Russia	30224178	29900149
Ukraine		34130
United Kingdom		25543
Belarus	130042	183252
Slovakia	141590	326132
Azerbaijan	93355	283527
Poland	25631	545159
Kazakhstan	18399	
Uzbekistan	310434	
Other	272	22931
Total	33526569	33567105

Note No. 2 – Production costs of products sold

Indicators	31.12.14. EUR	31.12.13. EUR
Salaries	6591919	6525161
Social insurance contributions	1520946	1537436
Costs of materials	16368978	12337535
Energy resources	1484450	1604547
Depreciation of capital assets and intangible assets	1416106	775045
Business trip costs	71272	147394
Repair costs and remuneration for works from outside	270205	530412
Costs of production quality control	420393	1731225
Development costs		97117
Expenses on product certification		92407
Losses due to rejects	68036	79402
Environmental protection costs	19046	83932
Other costs	214809	195419
Total	28446160	25737032

Notes (cont.)

Note No. 3 – Selling costs

Indicators	31.12.14. EUR	31.12.13. EUR
Packing material and package	124924	77471
Transportation expenses	484624	446197
Salaries	149731	120589
Social insurance contributions	34823	28659
Other selling costs	126	25879
Total	794228	698795

Note No. 4 – Administrative costs

Indicators	31.12.14. EUR	31.12.13. EUR
Communications costs	27832	27986
Reimbursement for legal services	5680	14708
Cash circulation and expense and extra costs	42293	29739
Transportation expenses	27109	20827
Representation expenses	11428	12772
Salaries	1649796	1910844
Social insurance contributions	329068	439561
Energy resources	61814	60439
Depreciation of capital assets	303730	112659
Business trip costs	32198	50347
Security services	191152	195915
Inspection audit services	17332	
Consulting services for the projects of the European funds	58901	
Other administrative costs	112257	125755
Total	2870590	3001552

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

Indicators	31.12.14. EUR	31.12.13. EUR
Profit gained as a result of other sales (lease, other)	122988	248501
Income from sales of fixed assets	396686	455202
Income related to maintenance of social sphere	31012	27740
Decrease in revaluation reserve of capital assets	123048	127569
Writing-off accruals set up before	180999	297739
Decrease in holiday provision	4651	3788
Other income	8256	13988
Total	867640	1174527

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

Indicators	31.12.14. EUR	31.12.13. EUR
Penalty and contractual penalties	20539	5313
Costs related to maintenance of social sphere	72305	67524
Costs not related to operating activities of the Company	86151	96176
Re-accreditation costs		31000
Loss from fluctuations of exchange rates	1230866	365640
Removal of capital assets	185652	230968
Write-off of bad debtors	1109	13635
Increase in provisions for doubtful debtors		11034
Provision for the court's decision		90829
Other costs	14608	26346
Total	1611230	938465

Notes (cont.)

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

Indicator	31.12.14. EUR	31.12.13. EUR
Write-off of investment costs to the subsidiary (daughter) society		22395

Note No. 8 – Other interest payments and similar costs

Indicator	31.12.14. EUR	31.12.13. EUR
Loan agreements	345665	388822
Leasing agreements		452
Credit line agreements	85776	38446
Other	2382	
Total	433823	427720

Note No. 9 – Other taxes

Indicators	31.12.14. EUR	31.12.13. EUR
Real estate tax on premises (buildings)	117432	113017
Real estate tax on land	19340	17281
Total	136772	130298

NOTES TO BALANCE SHEET FOR THE YEAR 2014

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

	Intangible investments			Capital assets				
	Development costs	Licences and similar rights	Other intangible investments	Land, premises, buildings*	Equipment and machinery	Other capital assets	Creation of capital assets	Prepayments for capital assets
Initial value								
Remaining amount as at 01.01.14.		200427	80384	13962666	9285691	548657	573952	244501
Purchase	1997102	434020		2887	967614	121751	1767953	1379458
Removed				(186274)	(52702)	(7572)	(1068534)	(610910)
Remaining amount as at 31.12.14.	1997102	634447	80384	13779279	10200603	662836	1273371	1013049
Depreciation								
Remaining amount as at 01.01.14.		33760	36075	153687	4863457	383854		
Calculated		75103	22395	869729	743682	51704		
Removed				(2593)	(51464)	(7537)		
Remaining amount as at 31.12.14.		108863	58470	1020823	5555675	428021		
Remaining value								
01.01.14.		166667	44309	13808979	4422234	164803	573952	244501
31.12.14.	1997102	525584	21914	12758456	4644928	234815	1273371	1013049

*In 2014 assessed value of the premises accounted EUR 7 906 544, assessed value of the plot accounted for EUR 1 728 102.

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

Indicators	31.12.14.	31.12.13.
AS „LATVO”, reģ. Nr. 40003184975, Ganību dambis 31, Rīga, the Republic of Latvia		
Shares, %	98.5	98.5
Shareholders' equity, EUR	7461367	6851101
Profit or loss, EUR	610266	(242260)
Net turnover, EUR	2229075	2568461

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"
Audited Annual Report for the year 2014

Notes (cont.)

Indicators	31.12.14. EUR	31.12.13. EUR
AS „LATVO”	5499400	5499400
Total	5499400	5499400

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

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

Indicators	31.12.14. EUR	31.12.13. EUR
Raw materials, direct materials and auxiliary materials	3364247	3484688
Provisions for stocks of slow-turnover	(37353)	(218352)
Total	3326894	3266336

Note No. 13 – Debts of customers and clients

Indicators	31.12.14. EUR	31.12.13. EUR
Debts of customers and clients	2352317	3454912
Provisions for doubtful debtors	(21160)	(98481)
Total	2331157	3356431

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

Indicators	31.12.14. EUR	31.12.13. EUR
AS „LATVO”	338791	182301
Total	338791	182301

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

Note No. 15 – Other debtors

Indicators	31.12.14. EUR	31.12.13. EUR
Taxes paid in advance	94210	4683
Overpaid taxes	121395	115566
Rental debts	7476	7803
Deposit for development of the European funds		51260
Processing of goods	16606	
Other	958	3738
Total	240645	183050

Note No. 16 – Costs of the following periods

Indicators	31.12.14. EUR	31.12.13. EUR
Insurance	2154	2056
Computer's network service		11689
Cost of Europrojects		20830
Other	386	4993
Total	2540	39568

Note No. 17 – Cash

Indicators	31.12.14. EUR	31.12.13. EUR
Current accounts in banks	328	1090

Notes (cont.)

Note No. 18 – Stock capital (fixed capital)

Total number of stocks of AS "RER" is 5 799 005 shares. A nominal value of each share is EUR 1.40. The Company's fixed capital is EUR 8 118 607, which is split into: 5 799 005 regular voting shares.

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

Indicators	31.12.14. EUR	31.12.13. EUR
Residents, including	274111	283343
- physical entities	237567	247475
- legal entities	36544	35868
Non-residents, including	7844496	7967898
- Russia	1415438	1438562
- Canada	7167	7284
- British Virgin Islands	4549388	4623712
- Belize	1867279	1897785
- Lithuania	3823	555
- Estonia	1401	
Total	8118607	8251241

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

In 2013 the Company carried out revaluation of immovable property. Immovable property was evaluated according to its market value. Evaluation was carried out by independent evaluator BIZNESA KONSULTANTU GRUPA (BUSINESS CONSULTING GROUP) Ltd. Market value of immovable property was determined by means of income method. Revaluation is processed for whole group of capital assets 'Land plots, buildings and constructions'.

As result of evaluation increase of active value was ascertained at the amount of EUR 7 938 940 that was included into equity capital position 'Long-term investment revaluation reserve', from which deferred tax effect was deducted at the amount of EUR 1 216 335.

Note No. 20 – Other provisions

Indicators	31.12.14. EUR	31.12.13. EUR
Holiday provisions	381374	386025
Total	381374	386025

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

Indicators	31.12.14. EUR	31.12.13. EUR
Latvian credit institutions, loan agreement, including	7925360	7581489
Long-term debt	6443871	6005000
Short-term debt	1481489	1576489
Latvian credit institutions, credit line, including	2751170	2412542
Short-term debt	2751170	2412542

As on 31.12.2014 all assets of JSC "RER" have been pledged as security for a loan.

Note No. 22 – Other loans

Indicators	31.12.14. EUR	31.12.13. EUR
Other loans, including	489000	652000
Long-term debt	489000	652000

Notes (cont.)

Note No. 23 – Debts to suppliers and contractors

Indicators	31.12.14. EUR	31.12.13. EUR
Long-term creditors, including	587013	
Foreign suppliers	587013	
Short-term creditors, including	2676029	2166120
Local suppliers	1595401	1278484
Foreign suppliers	1080628	887636

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

Indicators	31.12.14. EUR	31.12.13. EUR
Long-term creditors, including	1104316	1078614
Other creditors	57082	31380
Settlement of the debts of other companies	1047234	1047234
Short-term creditors, including	527225	539206
Salary debt	512497	520258
Support payments	4412	4404
Trade union membership fee	745	647
Other	9571	13897

Note No. 25 – Deferred income

Indicators	31.12.14. EUR	31.12.13. EUR
Support for the project implementation in the frames of the Centre of Competence	29357	
Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	304491	
Total	333848	

Note No. 26 – Deferred tax liabilities

Deferred enterprise income tax displayed in the balance statement

Rādītāji	31.12.14. EUR	31.12.13. EUR
Liabilities		
Long-term investment revaluation effect	1197971	1216335
Fixed assets depreciation temporary difference effect	534551	467154
Total liabilities	1732522	1683489
Assets		
Accumulated leave costs temporary difference effect	(57206)	(57904)
Temporary difference on provision for doubtful receivables	(3174)	
Temporary difference on provision for impaired materials	(5603)	
Total assets	(65983)	
Deferred enterprise income tax displayed in the balance statement	1666539	1625586

Deferred enterprise income tax displayed in the profit or loss statement

Rādītāji	31.12.14. EUR	31.12.13. EUR
Deferred tax expenditure in profit and loss account of accounting year	59318	22379

Note No. 27 – Advance payments received from buyers

Indicators	31.12.14. EUR	31.12.13. EUR
Local customers	219	219
Foreign customers	619	545
Total	838	764

Notes (cont.)

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

Indicators	Personal income tax	Mandatory social insurance contributions	Corporate income tax	Corporate income tax paid in advance	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
31.12.13. debt	440352	365236	226769			4299			332
31.12.13. overpayment					115567				
Calculated	1761799	2997199			1848592	14557	19340	117432	4003
Penalty calculated	16348	252	3370						
Allocated to other taxes	7586	15081			115566				
Repaid from the budget					1268609				
Paid	1871802	3099427	94487	67758	3238595	14900	19340	117432	4017
Penalty paid	28677	252	1671						
Tax debt is settled from excess payment of other tax	53671	61895	81	22586					
31.12.14. debt	271935	216194	133900			3956			318
31.12.14. overpayment				90344	121395				

As for 31.12.2014 the Company has no current tax debts.

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

Indicators	31.12.14.	31.12.13.
Average number of employees	927	952

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

Indicators	31.12.14. EUR	31.12.13. EUR
Remuneration calculated to the Council Members	10600	10600
Remuneration calculated to the Board Members	9946	9562
Total	20546	20162

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

Indicators	31.12.14. EUR	31.12.13. EUR
Remuneration for auditing annual report	7748	7748
Remuneration for auditing consolidated annual report	2066	2066

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Nikolajs Čudinovs

Ilja Šestakovs

MANAGEMENT CONFIRMATION REPORT

The Management of the Company is responsible for preparation of financial statements and confirms that the annual report give a true and fair view of the financial position of the Company and of its financial performance for the period ended 31 December 2014.

The Management of the Company confirms that during preparation of the annual report 2014 appropriate accounting methods were used and employed consistently, moreover, reasonable and careful decisions have been taken.

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

Chairperson of the Board

Nikolajs Erohovs

Board Members

Olga Pētersone

Aleksandrs Popadins

Nikolajs Čudinovs

Ilja Šestakovs

09 April 2015



"RĪGAS AUDITS", SIA

Translation from Latvian*

INDEPENDENT AUDITORS' REPORT

To the shareholders of Rīgas Elektromašīnbūves rūpnīca AS

Report on the Financial Statements

We have audited the accompanying 2014 financial statements of Rīgas Elektromašīnbūves rūpnīca AS, reg. No. 40003042006, which are set out on pages 6 through 21 of the accompanying 2014 Annual Report and which comprise the balance sheet as at 31 December 2014, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Rīgas Elektromašīnbūves rūpnīca AS as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Republic of Latvia Annual Accounts Law .

Report on Other Legal and Regulatory Requirements

We have read the management report for 2014 set out on pages 4. to 5 of the accompanying annual report for 2014 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2014.

"Rigas Audits" Ltd, certificate No 103,
Chairman of the Board, certificated auditor, Janis Meziels
Certificate No 127
Riga, 29 April 2015

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

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