

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

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

**CONSOLIDATED ANNUAL REPORT  
FOR 3 MONTHS OF THE YEAR 2015  
(NON-AUDITED)**

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

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## INFORMATION ABOUT THE PARENT COMPANY

|   |   |  |
|---|---|--|
| Name of the Company   | AS (Joint Stock Company) "Rīgas elektromašīnbūves rūpnīca" (AS "RER")   |  |
| Legal status of the Company   | Joint Stock Company   |  |
| Registration No. in the Register of Enterprises, date and place of registration     | No. 000304200, Riga, 29 November 1991   |  |
| Unified Registration No. in the Commercial Register, date and place of registration | No. 40003042006, Riga, 29 September 2004  |  |
| Registered office   | Ganību dambis 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   | Andrey Petrov   | from 12.07.12.   |
| Council Members   | Andrey Isaev<br>Ekaterina Chamkina<br>Sergey Goncharov  | from 01.07.02.<br>from 12.07.12.<br>from 12.07.12.   |
| The parent Company Board:   |   |  |
| Chairperson of the Board  | Nikolajs Erohovs  | from 15.03.11.   |
| Board Members   | Aleksandrs Suvorkins<br>Olga Pētersone<br>Maxim Savenkov<br>Aleksandrs Popadins<br>Nikolajs Čudinovs<br>Ilja Šestakovs                                      | until 30.01.15.<br>from 27.06.12.<br>until 30.01.15.<br>from 08.11.13.<br>from 30.01.15.<br>from 30.01.15. |
| Accounting period   | 1 January 2015 – 31 March 2015  |  |
| Auditor   | SIA "Rīgas audits", licence No. 103<br>Skolas iela 11-501, Riga, LV-1010, Latvia<br>Certified auditor J. Mežiels<br>Certified auditor's certificate No. 127 |  |
| Subsidiary (daughter) companies   | AS „Latvo”, reģ. Nr. 40003184975<br>Ganību dambis 31, Riga, the Republic of Latvia<br>Fixed capital 5 495 420 EUR<br>Shares – 98.5 %                        |  |

## MANAGEMENT REPORT

### Business activities of the Holding Company in the first quarter of 2015 year

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

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

Taking into consideration a sharp drop of Russian Ruble rate in relation to Euro (RUB/EUR) that provides its adverse affect in 2014, all first quarter of 2015 year the management of concern provided renewal of sale agreements with buyers of the Russian market to currency of euro in contracts. Furthermore since 2015 there is no more exchange rate risk.

For the period of renewal of agreements of delivery of goods to the Russian market were suspended and renewed only at the end of the quarter. As a result of it net turnover for the first quarter 2015 was only EUR 2,4 mln., and also is planned to reach the net turnover near EUR 20.mln. in 2015.

The first quarter of 2015 concern closed with profit EUR 1 622 after tax.

With the purpose to provide financial stability of concern the Board of JSC "Riga electric machine building works" has approved an arrangement of measures that provide optimization of all costs. This plan was reduced to practice in the first quarter of 2015. This arrangement of measures forecasted all types of costs, including reduction in the number of employees till 35% - 50%.

Dismissal of employees took place at the initiative of their and with the permission of the employer. Compensation was paid to the dismissed employees at the amount of EUR 0.7 mln.

Generally for 2015 is planned to get profit not less than EUR 0,5 mln.

On behalf of the Holding Company,

Chairperson of the Board

Nikolajs Erohovs

29 May 2015

**CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE 3 MONTHS OF THE YEAR 2015**

| No. | Items   | Note | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|-----|---|------|------------------|------------------|
| 1   | Net turnover  | 1    | 2361236          | 9827826          |
| 2   | Production costs of the goods sold                  | 2    | (2764364)        | (8084671)        |
| 3   | <b>Gross profit or loss</b>                         |      | <b>(403128)</b>  | <b>1743155</b>   |
| 4   | Selling expenses                                    | 3    | (60939)          | (213345)         |
| 5   | Administration expenses                             | 4    | (470025)         | (763856)         |
| 6   | Other operating income                              | 5    | 1114038          | 47358            |
| 7   | Other operating expenses                            | 6    | (41097)          | (409849)         |
| 8   | Other interest income and similar income            |      | 8                | 25               |
| 9   | Other interest payments and similar expenses        | 7    | (104233)         | (109506)         |
| 10  | Profit or loss before extraordinary items and taxes |      | 34624            | 293982           |
| 11  | Profit or loss before tax                           |      | 34624            | 293982           |
| 12  | Other taxes   | 8    | (33002)          | (34193)          |
| 13  | Profit or loss of the accounting period             |      | <b>1622</b>      | <b>259789</b>    |

|                    |        |      |
|--------------------|--------|------|
| Earnings per share | 0.0003 | 0.04 |
|--------------------|--------|------|

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 3 MONTHS OF THE YEAR 2015**

| A S S E T S  | Note | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--|------|------------------|------------------|
| <b>1. LONG-TERM INVESTMENTS</b>                            |      |                  |                  |
| <b>I. Intangible investments</b>                           | 9    |                  |                  |
| 1. Development costs                                       |      | 2190766          | 373319           |
| 2. Concessions, patents, licences and similar rights       |      | 493883           | 390687           |
| 3. Other intangible investments                            |      | 16436            | 38350            |
| I. Total   |      | <b>2701085</b>   | <b>802356</b>    |
| <b>II. Fixed assets</b>                                    | 9    |                  |                  |
| 1. Land plots, buildings, constructions                    |      | 12546413         | 13591799         |
| 2. Equipment and machinery                                 |      | 4878340          | 4756085          |
| 3. Other fixed assets and inventory                        |      | 223278           | 157928           |
| 4. Creation of fixed assets                                |      | 1185410          | 976041           |
| 5. Prepayments for fixed assets                            |      | 901635           |                  |
| II. Total  |      | <b>19735076</b>  | <b>19481853</b>  |
| <b>III. Long-term financial investments</b>                |      |                  |                  |
| 1. Own shares  |      | 14551            | 14551            |
| 2. Other long-term debtors                                 | 10   | 8191578          | 6573709          |
| III. Total   |      | <b>8206129</b>   | <b>6588260</b>   |
| <b>I. PART TOTAL AMOUNT</b>                                |      | <b>30642290</b>  | <b>26872469</b>  |
| <b>2. CURRENT ASSETS</b>                                   |      |                  |                  |
| <b>I. Stocks</b>   |      |                  |                  |
| 1. Raw materials, direct materials and auxiliary materials |      | 3154962          | 3429551          |
| 2. Unfinished products                                     |      | 2233226          | 2132810          |
| 3. Finished products and goods for sale                    |      | 658071           | 576729           |
| 4. Prepayments for goods                                   |      | 210730           | 522996           |
| I. Total   |      | <b>6256989</b>   | <b>6662086</b>   |
| <b>II. Debtors</b>   |      |                  |                  |
| 1. Debts of buyers and customers                           | 11   | 2304766          | 5049047          |
| 2. Other debtors   | 12   | 164374           | 219719           |
| 3. Deferred expenses                                       | 13   | 7596             | 17989            |
| II. Total  |      | <b>2476736</b>   | <b>5286755</b>   |
| <b>IV. Cash</b>  | 14   | 28232            | 27817            |
| <b>II. PART TOTAL AMOUNT</b>                               |      | <b>8761957</b>   | <b>11976658</b>  |
| <b>B A L A N C E</b>                                       |      | <b>39404247</b>  | <b>38849127</b>  |

Appendices to financial statements on pages 10 – 18 are an integral part of the financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 3 MONTHS OF THE YEAR 2015**

| LIABILITIES   | Note | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|---|------|------------------|------------------|
| <b>1. SHAREHOLDERS' EQUITY</b>                      |      |                  |                  |
| 1. Share capital (capital stock)                    | 15   | 8118607          | 8251241          |
| 2. Reserve for revaluation of long-term investments | 16   | 6787883          | 6892505          |
| 3. Other provisions                                 |      | 407137           | 274503           |
| 4. Undivided profit:                                |      |                  |                  |
| a) Undivided profit of previous years               |      | 4765821          | 4113439          |
| b) Undivided profit of the accounting year          |      | 1622             | 259789           |
| <b>1. PART TOTAL AMOUNT</b>                         |      | <b>20081070</b>  | <b>19791477</b>  |
| <b>2. PROVISIONS</b>                                |      |                  |                  |
| 1. Other provisions                                 | 17   | 201510           | 407577           |
| <b>2. PART TOTAL AMOUNT</b>                         |      | <b>201510</b>    | <b>407577</b>    |
| <b>3. CREDITORS</b>                                 |      |                  |                  |
| <b>I. Long-term creditors</b>                       |      |                  |                  |
| 1. Loans from credit institutions                   | 18   | 6556322          | 6494003          |
| 2. Other loans                                      | 19   | 489000           | 652000           |
| 3. Debts to suppliers and contractors               | 20   | 648680           | 682114           |
| 4. Other creditors                                  | 21   | 1104357          | 1085844          |
| 5. Deferred income                                  | 22   | 892653           |                  |
| 6. Deferred tax liabilities                         |      | 1664156          | 1622639          |
| I. Total  |      | <b>11355168</b>  | <b>10536600</b>  |
| <b>II. Short-term creditors</b>                     |      |                  |                  |
| 1. Loans from credit institutions                   | 18   | 4160522          | 4030284          |
| 2. Advance payments received from buyers            | 23   | 18013            | 12181            |
| 3. Debts to suppliers and contractors               | 20   | 1992036          | 2652414          |
| 4. Taxes and social security payments               | 24   | 1250284          | 801669           |
| 5. Other creditors                                  | 21   | 345644           | 616925           |
| II. Total   |      | <b>7766499</b>   | <b>8113473</b>   |
| <b>3. PART TOTAL AMOUNT</b>                         |      | <b>19121667</b>  | <b>18650073</b>  |
| <b>BALANCE</b>                                      |      | <b>39404247</b>  | <b>38849127</b>  |

**CONSOLIDATED CASH FLOW STATEMENT FOR 3 MONTHS OF THE YEAR 2015**  
(prepared by indirect method)

**I. Cash flow from operating activities**

|   | Items   | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|---|---|------------------|------------------|
| 1 | Profit or loss before extraordinary items and taxes   | 34624            | 293982           |
|   | <b>ADJUSTMENTS</b>  |                  |                  |
|   | Depreciation of fixed assets  | 425994           | 393520           |
|   | Amortization of intangible investment value   | 105866           | 15959            |
|   | Gain from sales of fixed assets   | (3968)           |                  |
|   | Profit or loss from fluctuations of currency exchange rates   | (872905)         | 360262           |
|   | Reserve for revaluation of long-term investments  |                  | (61)             |
| 2 | Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities | <b>(310389)</b>  | <b>1063662</b>   |
|   | <b>ADJUSTMENTS</b>  |                  |                  |
|   | Increase or decrease of balance of receivables  | (3566)           | (1676758)        |
|   | Increase or decrease of balance of inventories  | 108034           | 310012           |
|   | Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors               | 138264           | 1239852          |
|   | Increase or decrease of accruals  | (199807)         |                  |
|   | Expenses for tax payments   | (33002)          | (34193)          |
| 3 | Gross cash flow from operating activities   | <b>(300466)</b>  | <b>902575</b>    |
| 4 | Expenses from company tax payments  | (55711)          |                  |
| 5 | Cash flow before extraordinary items  | <b>(356177)</b>  | <b>902575</b>    |
| I | <b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>  | <b>(356177)</b>  | <b>902575</b>    |

**II. Cash flow from investing activities**

|    | Items  | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|----|--|------------------|------------------|
| 1  | Purchase of fixed assets and intangible investments          | (608217)         | (1510005)        |
| 2  | Income from sales of fixed assets and intangible investments | 3968             |                  |
| 3  | Income from repayment of loans                               |                  | 181438           |
| II | <b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>               | <b>(604249)</b>  | <b>(1328567)</b> |

**III. Cash flow from financing activities**

|     | Items  | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|-----|--|------------------|------------------|
| 1   | Loans received                                 | 325314           | 910256           |
| 2   | Expenses for repayment of loans                | (285000)         | (380000)         |
| III | <b>NET CASH FLOW FROM FINANCING ACTIVITIES</b> | <b>40314</b>     | <b>530256</b>    |

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

|     | Items  | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|-----|--|------------------|------------------|
| I   | Net cash flow from operating activities                            | (356177)         | 902575           |
| II  | Net cash flow from investing activities                            | (604249)         | (1328567)        |
| III | Net cash flow from financing activities                            | 40314            | 530256           |
|     | Result of fluctuations of currency exchange rates                  | 912475           | (89802)          |
|     | Net cash flow of the accounting period                             | <b>(7637)</b>    | <b>14462</b>     |
|     | Cash and its equivalents in the beginning of the accounting period | <b>35869</b>     | <b>13355</b>     |
|     | Cash and its equivalents at the end of the accounting period       | <b>28232</b>     | <b>27817</b>     |



**CONSOLIDATED STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 3 MONTHS OF THE YEAR 2015, EUR**

| Kind of changes   | Share capital  | Reserve for revaluation of long-term investments | Other provisions | Undivided profit | Total           |
|---|----------------|--|------------------|------------------|-----------------|
| <b>1. Balance as of 31.12.2013.g.</b>   | <b>8251241</b> | <b>6892566</b>                                   | <b>274503</b>    | <b>4113439</b>   | <b>19531749</b> |
| 2. Long-term investment revaluation reserve decrease                                      |                | (61)   |                  |                  | (61)            |
| 3. Income or loss of the accounting period in accordance with the profit and loss account |                |  |                  | 259789           | 259789          |
| <b>4. Balance as of 31.03.2014.g.</b>   | <b>8251241</b> | <b>6892505</b>                                   | <b>274503</b>    | <b>4373228</b>   | <b>19791477</b> |
| <b>5. Balance as of 31.12.2014.g.</b>   | <b>8118607</b> | <b>6787883</b>                                   | <b>407137</b>    | <b>4765821</b>   | <b>20079448</b> |
| 6. Long-term investment revaluation reserve decrease                                      |                |  |                  |                  |                 |
| 7. Income or loss of the accounting period in accordance with the profit and loss account |                |  |                  | 1622             | 1622            |
| <b>8. Balance as of 31.03.2015.g.</b>   | <b>8118607</b> | <b>6787883</b>                                   | <b>407137</b>    | <b>4767443</b>   | <b>20081070</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### GENERAL INFORMATION

In December 2012 JSC "Riga Electric Machine BuildingWorks" 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 BuildingWorks" (hereinafter referred to as JSC "RER") and its subsidiary company of "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.

#### Accounting principles applied

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

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

#### Income recognition and net turnover

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

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

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

#### Capital assets and intangible assets

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

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

Intangible assets:

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

Capital assets:

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

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

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

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

|                                 | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|---------------------------------|------------------|------------------|
| Unfinished construction objects | 252605           | 252605           |
| Costs of capital asset creation | 932805           | 723436           |
| <b>Total</b>                    | <b>1185410</b>   | <b>976041</b>    |

#### Financial leasing

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

#### Receivables

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

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

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

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

#### Debts of debtors

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

#### Currency unit and recalculation of foreign currency

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

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

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

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

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

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

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

*Interest rate risk*

The Holding Company is at the interest rate risk due to its short-term and long-term 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 COMPREHENSIVE INCOME STATEMENT FOR 3 MONTHS OF THE YEAR 2015**

**Note No. 1 – Net turnover**

| Country      | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--------------|------------------|------------------|
| Latvia       | 78285            | 77800            |
| Russia       | 1874316          | 9690405          |
| Belarus      | 5975             | 59093            |
| Slovakia     | 15289            |                  |
| Uzbekistan   | 385442           |                  |
| Other        | 1929             | 528              |
| <b>Total</b> | <b>2361236</b>   | <b>9827826</b>   |

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

| Indicators   | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--|------------------|------------------|
| Salaries   | 785171           | 1768178          |
| Social insurance contributions   | 179923           | 410035           |
| Costs of materials   | 1014592          | 4420858          |
| Energy resources   | 243468           | 579730           |
| Depreciation of fixed assets and intangible investments, write-off of intangible investments value | 407996           | 339162           |
| Business trip costs  | 7835             | 15077            |
| Repair costs and remuneration for works from outside   | 100891           | 90532            |
| Costs of production quality control  |                  | 396870           |
| Losses due to rejects  | 1852             | 11074            |
| Environmental protection costs   | 3429             | 6521             |
| Other costs  | 19207            | 46634            |
| <b>Total</b>   | <b>2764364</b>   | <b>8084671</b>   |

Notes to consolidated comprehensive income statement (cont.)

**Note No. 3 – Selling costs**

| Indicators                     | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--------------------------------|------------------|------------------|
| Packing material and package   | 7962             | 29195            |
| Transportation expenses        | 23133            | 133087           |
| Salaries                       | 22126            | 38905            |
| Social insurance contributions | 5180             | 9017             |
| Other selling costs            | 2538             | 3141             |
| <b>Total</b>                   | <b>60939</b>     | <b>213345</b>    |

**Note No. 4 – Administrative costs**

| Indicators   | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--|------------------|------------------|
| Communications costs                                       | 4523             | 5193             |
| Reimbursement for legal services                           |                  | 1540             |
| Cash circulation and expense and extra costs               | 13989            | 16859            |
| Transportation expenses                                    | 5665             | 4646             |
| Salaries   | 279437           | 438025           |
| Social insurance contributions                             | 60952            | 98910            |
| Energy resources   | 8605             | 19344            |
| Depreciation of fixed assets                               | 70415            | 75554            |
| Business trip costs  | 9593             | 9725             |
| Security services  | 11349            | 46194            |
| Inspection audit services                                  |                  | 17332            |
| Consulting services for the projects of the European funds |                  | 14229            |
| Other administrative costs                                 | 5497             | 16305            |
| <b>Total</b>   | <b>470025</b>    | <b>763856</b>    |

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

| Indicators  | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|---|------------------|------------------|
| Profit gained as a result of other sales (lease, other) | 29824            | 34135            |
| Sale of capital assets                                  | 3968             |                  |
| Income related to maintenance of social sphere          | 7514             | 9312             |
| Profit from fluctuations of exchange rates              | 872905           |                  |
| Decrease in revaluation reserve of fixed assets         |                  | 61               |
| Decrease in holiday provision                           | 199807           |                  |
| Other income  | 20               | 3850             |
| <b>Total</b>  | <b>1114038</b>   | <b>47358</b>     |

Notes to consolidated comprehensive income statement (cont.)

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

| Indicators   | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--|------------------|------------------|
| Penalty and contractual penalties                        | 10062            | 534              |
| Costs related to maintenance of social sphere            | 15174            | 23318            |
| Costs not related to operating activities of the Company | 15281            | 24518            |
| Loss from fluctuations of exchange rates                 |                  | 360262           |
| Other costs  | 580              | 1217             |
| <b>Total</b>   | <b>41097</b>     | <b>409849</b>    |

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

| Indicator              | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|------------------------|------------------|------------------|
| Loan agreements        | 78971            | 88133            |
| Credit line agreements | 21595            | 21373            |
| Other                  | 3667             |                  |
| <b>Total</b>           | <b>104233</b>    | <b>109506</b>    |

**Note No. 8 – Other taxes**

| Indicators                              | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|---|------------------|------------------|
| Real estate tax on premises (buildings) | 27992            | 29358            |
| Real estate tax on land                 | 5010             | 4835             |
| <b>Total</b>                            | <b>33002</b>     | <b>34193</b>     |

**Note No. 9 – Statement of movement of intangible assets and capital assets, EUR**

|                                  | Intangible investments |                             |                              | Capital assets             |                         |                      |                            |                                |
|----------------------------------|------------------------|-----------------------------|------------------------------|----------------------------|-------------------------|----------------------|----------------------------|--------------------------------|
|                                  | Development costs      | Licences and similar rights | Other intangible investments | Land, premises, buildings* | Equipment and machinery | Other capital assets | Creation of capital assets | Prepayments for capital assets |
| <b>Initial value</b>             |                        |                             |                              |                            |                         |                      |                            |                                |
| Remaining amount as at 01.01.15. | 1997102                | 634447                      | 80384                        | 13779279                   | 10200603                | 670297               | 1273371                    | 1013049                        |
| Purchase                         | 262351                 |                             |                              |                            | 431280                  | 2547                 | 345280                     | 40992                          |
| Removed                          |                        |                             |                              |                            | (45557)                 |                      | (433241)                   | (152406)                       |
| Write-off of value               | (68687)                |                             |                              |                            |                         |                      |                            |                                |
| Remaining amount as at 31.03.15. | 2190766                | 634447                      | 80384                        | 13779279                   | 10586326                | 672844               | 1185410                    | 901635                         |
| <b>Depreciation</b>              |                        |                             |                              |                            |                         |                      |                            |                                |
| Remaining amount as at 01.01.15. |                        | 108863                      | 58470                        | 1020823                    | 5555675                 | 433483               |                            |                                |
| Calculated                       |                        | 31701                       | 5478                         | 212043                     | 197868                  | 16083                |                            |                                |
| Removed                          |                        |                             |                              |                            | (45557)                 |                      |                            |                                |
| Remaining amount as at 31.03.15. |                        | 140564                      | 63948                        | 1232866                    | 5707986                 | 449566               |                            |                                |
| <b>Remaining value</b>           |                        |                             |                              |                            |                         |                      |                            |                                |
| 01.01.15.                        | 1997102                | 525584                      | 21914                        | 12758456                   | 4644928                 | 236814               | 1273371                    | 1013049                        |
| 31.03.15.                        | 2190766                | 493883                      | 16436                        | 12546413                   | 4878340                 | 223278               | 1185410                    | 901635                         |

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

Notes to the consolidated financial statements (cont.)

**Note No. 10 – Other long-term debtors**

| Rādītāji  | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|---|------------------|------------------|
| Long-term loan of the subsidiary (daughter) company (until 31.12.17.) | 8191578          | 6573709          |
| <b>Total</b>  | <b>8191578</b>   | <b>6573709</b>   |

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

| Indicators  | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|---|------------------|------------------|
| Debts of customers and clients (for the goods and services) | 2304766          | 5049047          |
| <b>Total</b>  | <b>2304766</b>   | <b>5049047</b>   |

**Note No. 12 – Other debtors**

| Indicators            | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|-----------------------|------------------|------------------|
| Taxes paid in advance | 93481            | 7427             |
| Overpaid taxes        | 51666            | 189614           |
| Rental debts          | 6201             | 7720             |
| Processing of goods   | 9697             |                  |
| Other                 | 3329             | 14958            |
| <b>Total</b>          | <b>164374</b>    | <b>219719</b>    |

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

| Indicators                 | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|----------------------------|------------------|------------------|
| Insurance                  | 2784             | 1984             |
| Certification              | 3420             |                  |
| Computer's network service |                  | 7915             |
| Other                      | 1392             | 8090             |
| <b>Total</b>               | <b>7596</b>      | <b>17989</b>     |

**Note No. 14 – Cash**

| Indicators                | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|---------------------------|------------------|------------------|
| Current accounts in banks | 28232            | 27817            |

**Note No. 15 – Parent Company's Stock capital (fixed capital)**

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

| Indicators               | 31.03.15.<br>EUR | 31.03.14.<br>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             |                  |
| <b>Total</b>             | <b>8118607</b>   | <b>8251241</b>   |



Notes to the consolidated financial statements (cont.)

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

In 2013 the parent Company carried out revaluation of immovable property. Immovable property was evaluated according to its market value. Evaluation was carried out by independent evaluator 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. 17 – Other provisions**

| Indicators         | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--------------------|------------------|------------------|
| Holiday provisions | 192594           | 397853           |
| Other provisions   | 8916             | 9724             |
| <b>Total</b>       | <b>201510</b>    | <b>407577</b>    |

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

| Indicators  | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|---|------------------|------------------|
| <b>Latvian credit institutions, loan agreement, including</b> | <b>7752811</b>   | <b>7690492</b>   |
| Long-term debt  | 6556322          | 6494003          |
| Short-term debt   | 1196489          | 1196489          |
| <b>Latvian credit institutions, credit line, including</b>    | <b>2964033</b>   | <b>2833795</b>   |
| Short-term debt   | 2964033          | 2833795          |

As on 31.03.2015 all assets of parent Company have been pledged as security for a loan.

**Note No. 19 – Other loans**

| Indicators                    | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|-------------------------------|------------------|------------------|
| <b>Other loans, including</b> | <b>489000</b>    | <b>652000</b>    |
| Long-term debt                | 489000           | 652000           |

**Note No. 20 – Debts to suppliers and contractors**

| Indicators                             | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--|------------------|------------------|
| <b>Long-term creditors, including</b>  | <b>648680</b>    | <b>682114</b>    |
| Foreign suppliers                      | 648680           | 682114           |
| <b>Short-term creditors, including</b> | <b>1992036</b>   | <b>2652414</b>   |
| Local suppliers                        | 754243           | 1765886          |
| Foreign suppliers                      | 1237793          | 886528           |

**Note No. 21 – Long-term and short-term other creditors**

| Indicators                                 | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--|------------------|------------------|
| <b>Long-term creditors, including</b>      | <b>1104357</b>   | <b>1085844</b>   |
| Other creditors                            | 57123            | 38610            |
| Settlement of the debts of other companies | 1047234          | 1047234          |
| <b>Short-term creditors, including</b>     | <b>345644</b>    | <b>616925</b>    |
| Salary debt                                | 255712           | 606117           |
| Support payments                           | 2131             | 4610             |
| Trade union membership fee                 | 357              | 807              |
| Earnest                                    | 77885            |                  |
| Other                                      | 9559             | 5391             |

Notes to the consolidated financial statements (cont.)

**Note No. 22 – Deferred income**

| Indicators   | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--|------------------|------------------|
| Support for the project implementation in the frames of the Centre of Competence   | 32610            |                  |
| Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value" | 860043           |                  |
| <b>Total</b>   | <b>892653</b>    |                  |

**Note No. 23 – Advances received from customers**

| Indicators        | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|-------------------|------------------|------------------|
| Local customers   | 1725             | 1131             |
| Foreign customers | 16288            | 11050            |
| <b>Total</b>      | <b>18013</b>     | <b>12181</b>     |

**Note No. 24 – Taxes and social insurance contributions**

| Indicators                               | 31.03.15.<br>EUR | 31.03.14.<br>EUR |
|--|------------------|------------------|
| Personal income tax                      | 519614           | 304468           |
| Mandatory social insurance contributions | 648485           | 264188           |
| Income tax                               | 78189            | 226769           |
| Natural resources tax                    | 3827             | 5898             |
| State business risk fee                  | 169              | 346              |
| <b>Total</b>                             | <b>1250284</b>   | <b>801669</b>    |

\* As for 31.03.2015 the Holding Company has no current tax debts.

On behalf of the Holding Company,

Chairperson of the Board

Nikolajs Erohovs

29 May 2015

## 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 March 2015.

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

29 May 2015