



"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 2013 financial statements of Rīgas Elektromašīnbūves rūpnīca AS, reg. No. 40003042006, which are set out on pages 6 through 21 of the accompanying 2013 Annual Report and which comprise the balance sheet as at 31 December 2013, 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 2013 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 2013 set out on pages 4. to 5 of the accompanying annual report for 2013 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2013.

"Rīgas Audits" Ltd
Licence No. 103,
Janis Meziels
Chairman of the Board

Rīga, 29 April 2014


Evalds Figurnovs
Certified auditor of Latvia
Certificate No. 38

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

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

**ANNUAL REPORT
FOR THE YEAR 2013
(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
	Mikhail Khromov	until 12.07.12.
Vice-Chairperson of the Council	Andrey Petrov	from 12.07.12.
	Oleg Domskiy	until 12.07.12.
Council Members	Andrey Isaev	
	Ekaterina Chamkina	from 12.07.12.
	Sergey Goncharov	until 12.07.12.
	Andrey Petrov	until 12.07.12.
	Yaroslav Kolesnik	until 12.07.12.
The 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.
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 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 %	

AS "Rīgas elektromašīnbūves rūpnīca"

MANAGEMENT REPORT

Business activities of the Company in 2013

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 LVL 23 591 096 (EUR 33 567 105), which is 89.16 % when compared with the data of 2012 and 103.74% when compared with the data of 2011.

RER has concluded the financial year 2013 with profit amounting to LVL 2 752 052 (EUR 3 915 817) before tax and profit amounting to LVL 2 485 376 (EUR 3 536 371) after tax.

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

In 2013 the Autonomy indicator (equity / entire capital) was 0.52, which has increased by 63 % when compared with 2012. Proportion coefficient of loans and equity (loans / equity) was 0.92, which has improved by 44 % when compared with 2012. Total liquidity indicator (current assets / short-term liabilities) was 1.39, which has increased by 34 % when compared with 2012. Profitability indicator of the basic business activities (profit from the basic business activities / net turnover, %) was 12.30%, which has insignificantly decreased when compared with 2012.

Other indicators

In 2013 the average number of employees was 952 people, which has slightly decreased when compared with 2012. In 2013 the average monthly salary was LVL 543.0 (EUR 772.62), and this number has increased by 1 % when compared with 2012.

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 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 reasearches. 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 Company

In 2014 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 2013 in the amount of LVL 2 485 376 (EUR 3 536 371) to "losses of earlier years" and development of the Company.

On behalf of the Company Board
according to authorization, in correspondence with the Board session Minutes No. 3/04-2014,

Chairperson of the Board

N. Erohovs

11 April 2014

PROFIT AND LOSS ACCOUNT FOR THE 2013

No.	Items	Note	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
1	Net turnover	1	23591096	26458628	33567105	37647236
2	Production costs of the goods sold	2	(18088089)	(19635089)	(25737032)	(27938215)
3	Gross profit or loss		5503007	6823539	7830073	9709021
4	Selling expenses	3	(491116)	(535942)	(698795)	(762577)
5	Administration expenses	4	(2109503)	(2081665)	(3001552)	(2961942)
6	Other operating income	5	825462	556087	1174527	791241
7	Other operating expenses	6	(659557)	(959637)	(938465)	(1365441)
8	Other interest income and similar income		101		144	
9	Writing-off long-term financial investments and short-term securities	7	(15739)		(22395)	
10	Other interest payments and similar expenses	8	(300603)	(460093)	(427720)	(654653)
11	Profit or loss before extraordinary items and taxes		2752052	3342289	3915817	4755649
12	Profit or loss before tax		2752052	3342289	3915817	4755649
13	Corporate income tax		(159374)		(226769)	
14	Deferred corporate income tax		(15728)	(55900)	(22379)	(79539)
15	Other taxes	9	(91574)	(111526)	(130298)	(158687)
16	Profit or loss of the accounting period		2485376	3174863	3536371	4517423

Earnings per share	0.42	0.55	0.59	0.78
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BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 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	4740	44308	6744
I. Total		148274	4740	210975	6744
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		115824	55079	164803	78370
4. Creation of fixed assets		403376	346884	573952	493571
5. Prepayments for fixed assets		171836		244501	
II. Total		13504006	7951799	19214469	11314389
III. Long-term financial investments					
1. Participation in capital of related companies (subsidiaries)	11	3865000	4801000	5499400	6831208
III. Total		3865000	4801000	5499400	6831208
I. PART TOTAL AMOUNT		17517280	12757539	24924844	18152341
2. CURRENT ASSETS					
I. Stocks					
1. Raw materials, direct materials and auxiliary materials		2295594	2332933	3266336	3319465
2. Unfinished products		1556506	1440403	2214708	2049509
3. Finished products and goods for sale		787821	374568	1120969	532962
4. Prepayments for goods		260097	274777	370085	390972
I. Total		4900018	4422681	6972098	6292908
II. Debtors					
1. Debts of buyers and customers	12	2358913	1369278	3356431	1948307
2. Debts of related companies (subsidiaries)	13	128122	265191	182301	377333
3. Other debtors	14	128648	114994	183050	163622
4. Deferred expenses	15	27809	73806	39568	105017
II. Total		2643492	1823269	3761350	2594279
IV. Cash	16	766	48780	1090	69408
II. PART TOTAL AMOUNT		7544276	6294730	10734538	8956595
B A L A N C E		25061556	19052269	35659382	27108936

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

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"
Audited Annual Report for the year 2013

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 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)	17	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	18	4844123	209105	6892566	297530
3. Other provisions		192922	192922	274503	274503
4. Undivided profit:					
a) Undivided profit of previous years		(544415)	(3719278)	(774633)	(5292056)
b) Undivided profit of the accounting year		2485376	3174863	3536371	4517423
1. PART TOTAL AMOUNT		12777011	5656617	18180048	8048641
2. PROVISIONS					
1. Other provisions	19	271300	472563	386025	672397
2. PART TOTAL AMOUNT		271300	472563	386025	672397
3. CREDITORS					
I. Long-term creditors					
1. Loans from credit institutions	20	4220338	4166288	6005000	5928094
2. Other loans	21	458228	677153	652000	963502
3. Debts to related companies (subsidiaries)			937742		1334287
4. Other creditors	22	758054	800394	1078614	1138858
5. Deferred tax liabilities	23	1142468	271895	1625586	386872
I. Total		6579088	6853472	9361200	9751613
II. Short-term creditors					
1. Loans from credit institutions	20	2803507	1693808	3989031	2410072
2. Other loans			55169		78498
3. Advance payments received from buyers	24	537	1652	764	2351
4. Debts to suppliers and contractors	25	1522358	1779928	2166120	2532609
5. Taxes and social security payments	26	728799	2177582	1036988	3098419
6. Other creditors	22	378956	361478	539206	514336
II. Total		5434157	6069617	7732109	8636285
3. PART TOTAL AMOUNT		12013245	12923089	17093309	18387898
BALANCE		25061556	19052269	35659382	27108936

CASH FLOW STATEMENT FOR THE YEAR 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	2752052	3342289	3915817	4755649
	ADJUSTMENTS				
	Depreciation of fixed assets	627874	332696	893384	473384
	Amortization of intangible investment value	27830	7151	39599	10175
	Gain from sales of fixed assets	(195911)	(8433)	(278756)	(11999)
	Profit or loss from fluctuations of currency exchange rates	256973	206882	365640	294367
	Amounts written off fixed assets	38318	20600	54522	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	3417480	3895432	4862637	5542701
	ADJUSTMENTS				
	Increase or decrease of balance of receivables	(301837)	2417795	(429475)	3440212
	Increase or decrease of balance of inventories	(492017)	(534512)	(700078)	(760542)
	Increase or decrease of deferred expenses	45997	(1955)	65448	(2782)
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	(2650567)	800140	(3771418)	1138497
	Increase or decrease of accruals	(201263)	216468	(286371)	308006
	Expenses for tax payments	(91574)	(150709)	(130298)	(214440)
3	Gross cash flow from operating activities	(273781)	6642659	(389555)	9451652
4	Expenses for corporate income tax payments	(159374)		(226769)	
5	Cash flow before extraordinary items	(433155)	6642659	(616324)	9451652
I	NET CASH FLOW FROM OPERATING ACTIVITIES	(433155)	6642659	(616324)	9451652

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		(4801000)		(6831208)
2	Purchase of fixed assets and intangible investments	(762416)	(610340)	(1084820)	(868436)
3	Income from sales of fixed assets and intangible investments	319918	8433	455202	11999
II	NET CASH FLOW FROM INVESTING ACTIVITIES	(442498)	(5402907)	(629618)	(7687645)

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	341489
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	(1476827)

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	(433155)	6642659	(616324)	9451652
II	Net cash flow from investing activities	(442498)	(5402907)	(629618)	(7687645)
III	Net cash flow from financing activities	879466	(1037920)	1251368	(1476827)
	Result of fluctuations of currency exchange rates	(51827)	(160851)	(73744)	(228869)
	Net cash flow of the accounting period	(48014)	40981	(68318)	58311
	Cash and its equivalents in the beginning of the accounting period	48780	7799	69408	11097
	Cash and its equivalents at the end of the accounting period	766	48780	1090	69408

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR THE YEAR 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. Long-term investment revaluation reserve decrease		(5753)			(5753)
3. Income or loss of the accounting period in accordance with the profit and loss account				3174863	3174863
4. Balance as of 31.12.2012.g.	5799005	209105	192922	(544415)	5656617
5. Long-term investment revaluation reserve decrease		(89656)			(89656)
6. long-term investment revaluation reserve increase - revaluation		5579519			5579519
7. Calculation of deferred enterprise income tax – revaluation effect		(854845)			(854845)
8. Income or loss of the accounting period in accordance with the profit and loss account				2485376	2485376
9. Balance as of 31.12.2013.g.	5799005	4844123	192922	1940961	12777011

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR THE YEAR 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	(5292056)	3539403
2. Long-term investment revaluation reserve decrease		(8185)			(8185)
3. Income or loss of the accounting period in accordance with the profit and loss account				4517423	4517423
4. Balance as of 31.12.2012.g.	8251241	297530	274503	(774633)	8048641
5. Long-term investment revaluation reserve decrease		(127569)			(127569)
6. long-term investment revaluation reserve increase - revaluation		7938940			7938940
7. Calculation of deferred enterprise income tax – revaluation effect		(1216335)			(1216335)
8. Income or loss of the accounting period in accordance with the profit and loss account				3536371	3536371
9. Balance as of 31.12.2013.g.	8251241	6892566	274503	2761738	18180048

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 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. Remaining amounts of receivables have been audited at the annual inventory.

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. 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.

	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.

Notes (cont.)

Accounting policy (cont.)

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 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 Company. Risk management in the Company is controlled by the Council and the Board of the Company. In its activities AS RER follows the general principles of risk management listed below:

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

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

Financial risk

Currency risk

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

In 2013 a significant part of the Company's income was in rouble, major part of its costs was in lats. All received loans were in euro.

Notes (cont.)

Accounting policy (cont.)

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 2012 the average rate of the Company's loans and financial leasing transactions was 5.22%, in 2013 – 4.14%.

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	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Latvia	1578696	1651553	2246282	2349948
Russia	21013944	24417519	29900149	34742999
Ukraine	23987	147766	34130	210252
United Kingdom	17952	150592	25543	214273
Belarus	128790	82839	183252	117869
Slovakia	229207		326132	
Azerbaijan	199264		283527	
Poland	383140		545159	
Other	16116	8359	22931	11895
Total	23591096	26458628	33567105	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	4585909	4780265	6525161	6801704
Social insurance contributions	1080516	1128615	1537436	1605874
Costs of materials	8670869	10943950	12337535	15571838
Energy resources	1127682	1201367	1604547	1709391
Depreciation of capital assets and intangible assets	544705	288522	775045	410530
Business trip costs	103589	65399	147394	93054
Repair costs and remuneration for works from outside	372776	181859	530412	258762
Costs of production quality control	1216712	724721	1731225	1031186
Development costs	68254	68254	97117	97117
Expenses on product certification	64944	33173	92407	47201
Losses due to rejects	55804	62684	79402	89191
Environmental protection costs	58988	36277	83932	51618
Other costs	137341	120003	195419	170749
Total	18088089	19635089	25737032	27938215

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	54447	78765	77471	112072
Transportation expenses	313589	340306	446197	484212
Salaries	84750	81722	120589	116280
Social insurance contributions	20142	19498	28659	27743
Other selling costs	18188	15651	25879	22270
Total	491116	535942	698795	762577

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Notes (cont.)

Note No. 4 – Administrative costs

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Communications costs	19669	23446	27986	33361
Reimbursement for legal services	10337	25559	14708	36367
Cash circulation and expense and extra costs	20901	9419	29739	13402
Transportation expenses	14637	18857	20827	26831
Representation expenses	8976	11394	12772	16212
Salaries	1342949	1364828	1910844	1941975
Social insurance contributions	308925	316921	439561	450938
Energy resources	42477	39704	60439	56494
Depreciation of capital assets	79177	40618	112659	57794
Business trip costs	35384	28611	50347	40710
Security services	137690	147982	195915	210559
Other administrative costs	88381	54326	125755	77299
Total	2109503	2081665	3001552	2961942

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)	174647	238089	248501	338770
Remaining amounts of removal of capital assets, materials		24285		34554
Income from sales of fixed 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	
Other income	9831	6729	13988	9575
Total	825462	556087	1174527	791241

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	3734	136701	5313	194508
Costs related to maintenance of social sphere	47456	43210	67524	61482
Costs not related to operating activities of the Company	67593	69838	96176	99371
Re-accreditation costs	21787		31000	
Loss from fluctuations of exchange rates	256973	206882	365640	294367
Removal of capital assets	162325	20600	230968	29311
Write-off of bad debtors	9583	36161	13635	51452
Increase in provisions for doubtful debtors	7755	53167	11034	75650
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	18516	11659	26346	16590
Total	659557	959637	938465	1365441

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

Indicator	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Write-off of investment costs to the subsidiary (daughter) society	15739		22395	

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Notes (cont.)

Note No. 8 – 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	273265	449794	388822	639999
Leasing agreements	318	10299	452	14654
Credit line agreements	27020		38446	
Total	300603	460093	427720	654653

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 BALANCE SHEET FOR THE YEAR 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.	300	25691	7370117	6047795	296555	346884	
Purchase	140561	30803		504046	89793	552394	171836
Revaluation			5519999			59520	
Revaluation (accumulated depreciation)			(2907196)				
Removed			(169903)	(25820)	(750)	(555422)	
Remaining amount as at 31.12.13.	140861	56494	9813017	6526021	385598	403376	171836
Depreciation							
Remaining amount as at 01.01.13.	300	20951	2861906	3006170	241476		
Calculated	23427	4403	164975	434234	28665		
Revaluation (accumulated depreciation)			(2907196)				
Removed			(11674)	(22347)	(367)		
Remaining amount as at 31.12.13.	23727	25354	108011	3418057	269774		
Remaining value							
01.01.13.		4740	4508211	3041625	55079	346884	
31.12.13.	117134	31140	9705006	3107964	115824	403376	171836

*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).

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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.	427	36555	10486732	8605237	421960	493571	
Purchase	200000	43829		717193	127764	785986	244501
Revaluation			7854251			84689	
Revaluation (accumulated depreciation)			(4136567)				
Removed			(241750)	(36739)	(1067)	(790294)	
Remaining amount as at 31.12.13.	200427	80384	13962666	9285691	548657	573952	244501
Depreciation							
Remaining amount as at 01.01.13.	427	29811	4072126	4277395	343590		
Calculated	33333	6265	234739	617859	40786		
Revaluation (accumulated depreciation)			(4136567)				
Removed			(16611)	(31797)	(522)		
Remaining amount as at 31.12.13.	33760	36076	153687	4863457	383854		
Remaining value							
01.01.13.		6744	6414606	4327842	78370	493571	
31.12.13.	166667	44308	13808979	4422234	164803	573952	244501

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

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
LATTRANSKOMPLEKT SIA, shares 100%		936000		1331808
LATVO AS, shares 98.5%	3865000	3865000	5499400	5499400
Total	3865000	4801000	5499400	6831208

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	2428126	1433403	3454912	2039549
Provisions for doubtful debtors	(69213)	(64125)	(98481)	(91242)
Total	2358913	1369278	3356431	1948307

Note No. 13 – Debts of related companies (subsidiaries)

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
LATTRANSKOMPLEKT SIA		6665		9484
LATVO AS	128122	258526	182301	367849
Total	128122	265191	182301	377333

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. 14 – Other debtors

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Taxes paid in advance	3291	1117	4683	1589
Overpaid taxes	81220	95865	115566	136404
Rental debts	5484	14921	7803	21231
Deposit for development of the European funds	36026		51260	
Other	2627	3091	3738	4398
Total	128648	114994	183050	163622

Notes (cont.)

Note No. 15 – 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	
Cost of Europrojects	14640		20830	
Other	3509	3936	4993	5601
Total	27809	73806	39568	105017

Note No. 16 – Cash

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Current accounts in banks	766	48780	1090	69408

Note No. 17 – 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. 18 – 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.

As result of evaluation increase of active value was ascertained at the amount of LVL 5 579 519 that was included into equity capital position 'Long-term investment revaluation reserve', from which deferred tax effect was deducted at the amount of LVL 854 845.

Note No. 19 – Other provisions

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Holiday provisions	271300	273962	386025	389813
Other provisions		198601		282584
Total	271300	472563	386025	672397

Note No. 20 – 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 JSC "RER" have been pledged as security for a loan.

Notes (cont.)

Note No. 21 – 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

Note No. 22 – 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	378956	361478	539206	514336
Salary debt	365639	353613	520258	503145
Support payments	3095	3447	4404	4905
Trade union membership fee	455	1906	647	2712
Other	9767	2512	13897	3574

Note No. 23 – Deferred tax liabilities

Deferred enterprise income tax displayed in the balance statement

Rādītāji	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Liabilities				
Long-term investment revaluation effect	854845		1216335	
Fixed assets depreciation temporary difference effect	328318	337083	467154	479626
Total liabilities	1183163	337083	1683489	479626
Assets				
Accumulated leave costs temporary difference effect	(40695)	(65188)	(57904)	(92754)
Deferred enterprise income tax displayed in the balance statement	1142468	271895	1625586	386872

Deferred enterprise income tax displayed in the profit or loss statement

Rādītāji	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Deferred tax expenditure in profit and loss account of accounting year	15728	55900	22379	79539

Note No. 24 – Advance payments received from buyers

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Local customers	154	160	219	228
Foreign customers	383	1492	545	2123
Total	537	1652	764	2351

Note No. 25 – Debts to suppliers and contractors

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Local suppliers	898524	978952	1278484	1392923
Foreign suppliers	623834	800976	887636	1139686
Total	1522358	1779928	2166120	2532609

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

Note No. 26 – Taxes and social insurance contributions

LVL

Indicators	Personal income tax	Mandatory social insurance contributions	Corporate 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	921707	1253313			2327			235
31.12.12. overpayment				95865				
Calculated	1193290	2128783	159374	1454799	9952	12145	79429	2858
Penalty calculated				523				
Allocated to other taxes		2449		539840	3			
Paid	1566090	2813118		1977545	9260	12145	79429	2860
Penalty paid	14322			523				
Tax debt is settled from excess payment of other tax	225104	314738		2449				
31.12.13. debt	309481	256689	159374		3022			233
31.12.13. overpayment				81220				

As for 31.12.2013 the Company has no current tax debts.

EUR

Indicators	Personal income tax	Mandatory social insurance contributions	Corporate 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	1311471	1783304			3311			334
31.12.12. overpayment				136404				
Calculated	1697899	3028985	226769	2069992	14160	17281	113017	4067
Penalty calculated				744				
Allocated to other taxes		3485		768123	4			
Paid	2228345	4002706		2813793	13176	17281	113017	4069
Penalty paid	20379			744				
Tax debt is settled from excess payment of other tax	320294	447832		3485				
31.12.13. debt	440352	365236	226769		4299			332
31.12.13. overpayment				115567				

Note No. 27 – Number of the Company's employees

Indicators	31.12.13.	31.12.12.
Average number of employees	952	962

Note No. 28 – Information about remuneration to the Council and Board Members

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Remuneration calculated to the Council Members	7450	7450	10600	10600
Remuneration calculated to the Board Members	6720	7450	9562	10600
Total	14170	14900	20162	21200

Note No. 29 – Information about remuneration for services of the commercial company of certified auditors (amounts given including VAT)

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Remuneration for auditing annual report	5445	5445	7748	7748
Remuneration for auditing consolidated annual report	1452	1452	2066	2066

On behalf of the Company Board
according to authorization, in correspondence with the Board session Minutes No. 3/04-2014,

Chairperson of the Board

N. Erohova

11 April 2014

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 2013.

The Management of the Company confirms that during preparation of the annual report 2013 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.

On behalf of the Company Board
according to authorization, in correspondence with the Board session Minutes No. 3/04-2014,

Chairperson of the Board

N. Erohovs

11 April 2014