

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

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

**CONSOLIDATED ANNUAL REPORT  
FOR THE YEAR 2013  
(AUDITED)**

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

## CONTENT

Information about the parent Company	3
Management report	4
Consolidated comprehensive income statement	6
Consolidated statement of financial position	7
Consolidated cash flow statement	9
Consolidated statement of changes in equity	10
Notes to the consolidated financial statements	11
Management confirmation report	22

## INFORMATION ABOUT THE PARENT COMPANY

Name of the Company	AS (Joint Stock Company) "Rīgas elektromašīnbūves rūpnīca" (AS "RER")	
Legal status of the Company	Joint Stock Company	
Registration No. in the Register of Enterprises, date and place of registration	No. 000304200, Riga, 29 November 1991	
Unified Registration No. in the Commercial Register, date and place of registration	No. 40003042006, Riga, 29 September 2004	
Registered office	Ganību dambis 31, Riga, LV-1005, the Republic of Latvia	
Institution in charge of the Company	General meeting of shareholders	
The parent Company Council :		
Chairperson of the Council	Oleg Domskiy	from 12.07.12
Vice-Chairperson of the Council	Mikhail Khromov	until 12.07.12.
	Andrey Petrov	from 12.07.12.
	Oleg Domskiy	until 12.07.12.
Council Members	Andrey Isaev	
	Ekaterina Chamkina	from 12.07.12.
	Sergey Goncharov	from 12.07.12.
	Andrey Petrov	until 12.07.12.
	Yaroslav Kolesnik	until 12.07.12.
The parent Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Aleksandrs Suvorkins	from 19.04.10.
	Fedor Dudkin	until 27.06.12.
	Rita Kargina	until 27.06.12.
	Olga Pētersone	from 27.06.12.
	Maxim Savenkov	from 27.06.12.
	Mihails Morozs	until 22.11.12.
	Aleksandrs Popadins	from 08.11.13.
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 %	

## MANAGEMENT REPORT

### Business activities of the Holding Company in 2013

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.

Net turnover of the Holding Company accounted for LVL 23 910 200 (EUR 34 021 150), which is 90.0 % when compared with the data of 2012 and 105.0% when compared with the data of 2011.

The Holding Company has concluded the financial year 2013 with profit amounting to LVL 2 579 870 (EUR 3 670 824) before tax and profit amounting to LVL 2 313 286 (EUR 3 291 509) after tax.

### *The economic indicators of the Holding Company*

In 2013 the Autonomy indicator (equity / entire capital) was 0.54, which has increased by 42 % when compared with 2012. Proportion coefficient of loans and equity (loans / equity) was 0.88, which has improved by 48 % when compared with 2012. Total liquidity indicator (current assets / short-term liabilities) was 1.40, which has increased by 36 % when compared with 2012. Profitability indicator of the basic business activities (profit from the basic business activities / net turnover, %) was 12.12%, which has insignificantly decreased when compared with 2012.

### *Other indicators*

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

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

### Risk factors related to the business activities of the Holding Company

Financial risks have been characterized on pages 13 and 14 in notes to financial statements of the annual report 2013.

### Significant events in 2013

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

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

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

Further development of the Holding Company

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

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

Chairperson of the Board

N. Erohovs

11 April 2014

**CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE YEAR 2013**

No.	Items	Note	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
1	Net turnover	1	23910200	26458628	34021150	37647236
2	Production costs of the goods sold	2	18290421	(19522195)	26024924	(27777581)
3	<b>Gross profit or loss</b>		<b>5619779</b>	<b>6936433</b>	<b>7996226</b>	<b>9869655</b>
4	Selling expenses	3	(530415)	(567727)	(754713)	(807803)
5	Administration expenses	4	(2191932)	(2156260)	(3118838)	(3068082)
6	Other operating income	5	830775	545138	1182086	775661
7	Other operating expenses	6	(847836)	(956613)	(1206362)	(1361138)
8	Other interest income and similar income		102		145	
9	Other interest payments and similar expenses	7	(300603)	(460093)	(427720)	(654653)
10	Consolidation difference			1123482		1598571
11	Profit or loss before extraordinary items and taxes		2579870	4464360	3670824	6352211
12	Profit or loss before tax		2579870	4464360	3670824	6352211
13	Corporate income tax		(159374)		(226769)	
14	Retained corporate income tax		(15636)	(55900)	(22248)	(79539)
15	Other taxes	8	(91574)	(111526)	(130298)	(158687)
16	Profit or loss of the accounting period		<b>2313286</b>	<b>4296934</b>	<b>3291509</b>	<b>6113985</b>

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION 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
<b>1. LONG-TERM INVESTMENTS</b>					
<b>I. Intangible investments</b>	9				
1. Concessions, patents, licences and similar rights		117134		166667	
2. Other intangible investments		31140	5085	44308	7235
I. Total		<b>148274</b>	<b>5085</b>	<b>210975</b>	<b>7235</b>
<b>II. Fixed assets</b>	9				
1. Land plots, buildings, constructions		9705006	4508211	13808979	6414606
2. Equipment and machinery		3107964	3041625	4422234	4327842
3. Other fixed assets and inventory		117749	56862	167542	80907
4. Creation of fixed assets		403376	346884	573952	493571
5. Prepayments for fixed assets		171836		244501	
II. Total		<b>13505931</b>	<b>7953582</b>	<b>19217208</b>	<b>11316926</b>
<b>III. Long-term financial investments</b>					
1. Own shares		10227	10227	14552	14552
2. Other long-term debtors	10	4747545	5052390	6755148	7188903
3. Deferred tax assets			1979		2816
III. Total		<b>4757772</b>	<b>5064596</b>	<b>6769700</b>	<b>7206271</b>
<b>I. PART TOTAL AMOUNT</b>		<b>18411977</b>	<b>13023263</b>	<b>26197883</b>	<b>18530432</b>
<b>2. CURRENT ASSETS</b>					
<b>I. Stocks</b>					
1. Raw materials, direct materials and auxiliary materials		2295594	2332933	3266336	3319465
2. Unfinished products		1556506	1440403	2214709	2049509
3. Finished products and goods for sale		787821	374975	1120968	533542
4. Prepayments for goods		260097	338598	370085	481782
I. Total		<b>4900018</b>	<b>4486909</b>	<b>6972098</b>	<b>6384298</b>
<b>II. Debtors</b>					
1. Debts of buyers and customers	11	2523860	1520132	3591129	2162953
2. Other debtors	12	172244	214758	245081	305573
3. Deferred expenses	13	30968	78032	44063	111030
II. Total		<b>2727072</b>	<b>1812922</b>	<b>3880273</b>	<b>2579556</b>
<b>IV. Cash</b>	14	9386	64656	13355	91997
<b>II. PART TOTAL AMOUNT</b>		<b>7636476</b>	<b>6364487</b>	<b>10865726</b>	<b>9055851</b>
<b>B A L A N C E</b>		<b>26048453</b>	<b>19387750</b>	<b>37063609</b>	<b>27586283</b>

Appendices to financial statements on pages 11 – 21 are an integral part of the financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION 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
<b>1. SHAREHOLDERS' EQUITY</b>					
1. Share capital (capital stock)	15	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	16	4844123	209105	6892566	297530
3. Other provisions		192922	192922	274503	274503
4. Undivided profit:					
a) Undivided profit of previous years		577656	(3719278)	821930	(5292056)
b) Undivided profit of the accounting year		2313286	4296934	3291509	6113985
<b>1. PART TOTAL AMOUNT</b>		<b>13726992</b>	<b>6778688</b>	<b>19531749</b>	<b>9645203</b>
<b>2. PROVISIONS</b>					
1. Other provisions	17	286447	487006	407577	692947
<b>2. PART TOTAL AMOUNT</b>		<b>286447</b>	<b>487006</b>	<b>407577</b>	<b>692947</b>
<b>3. CREDITORS</b>					
<b>I. Long-term creditors</b>					
1. Loans from credit institutions	18	4220338	4166288	6005000	5928094
2. Other loans	19	458228	677153	652000	963502
3. Other creditors	20	758054	800394	1078614	1138858
4. Deferred tax liabilities	21	1140397	271895	1622639	386872
I. Total		<b>6577017</b>	<b>5915730</b>	<b>9358253</b>	<b>8417326</b>
<b>II. Short-term creditors</b>					
1. Loans from credit institutions	18	2803507	1693808	3989031	2410072
2. Other loans	19		55169		78498
3. Advance payments received from buyers	22	537	37072	764	52749
4. Debts to suppliers and contractors	23	1536229	1809366	2185857	2574496
5. Taxes and social security payments	24	733695	2217854	1043954	3155722
6. Other creditors	20	384029	393057	546424	559270
II. Total		<b>5457997</b>	<b>6206326</b>	<b>7766030</b>	<b>8830807</b>
<b>3. PART TOTAL AMOUNT</b>		<b>12035014</b>	<b>12122056</b>	<b>17124283</b>	<b>17248133</b>
<b>B A L A N C E</b>		<b>26048453</b>	<b>19387750</b>	<b>37063609</b>	<b>27586283</b>



**CONSOLIDATED 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	2579870	4464360	3670824	6352211
	<b>ADJUSTMENTS</b>				
	Depreciation of fixed assets	628075	335981	893670	478058
	Amortization of intangible investment value	27830	7290	39599	10373
	Gain from sales of fixed assets	(195911)	(8433)	(278756)	(11999)
	Profit or loss from fluctuations of currency exchange rates	437771	197689	622892	281286
	Consolidation difference	1720	(1086420)	2447	(1545836)
	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	<b>3428017</b>	<b>3925314</b>	<b>4877629</b>	<b>5585218</b>
	<b>ADJUSTMENTS</b>				
	Increase or decrease of balance of receivables	(305642)	2182022	(434889)	3104738
	Increase or decrease of balance of inventories	(428358)	559336	(609499)	795863
	Increase or decrease of deferred expenses	47064	(1955)	66966	(2782)
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	(2851274)	(15597)	(4056997)	(22193)
	Increase or decrease of accruals	(201483)	208052	(286684)	296031
	Expenses for tax payments	(91574)	(150709)	(130298)	(214440)
3	Gross cash flow from operating activities	<b>(403250)</b>	<b>6706463</b>	<b>(573772)</b>	<b>9542435</b>
4	Expenses from company tax payments	(159374)	(63504)	(226769)	(90358)
5	Cash flow before extraordinary items	<b>(562624)</b>	<b>6642959</b>	<b>(800541)</b>	<b>9452077</b>
I	<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>(562624)</b>	<b>6642959</b>	<b>(800541)</b>	<b>9452077</b>

**II. Cash flow from investing activities**

	Items	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
1	Stocks or shares purchase from related undertakings		(4785233)		(6808773)
2	Purchase of fixed assets and intangible investments	(764250)	(610340)	(1087430)	(868436)
3	Income from sales of fixed assets and intangible investments	319918	9048	455202	12874
4	Expenses for sales of fixed assets		(806)		(1147)
5	Income from repayment of loans	304845		433755	
II	<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(139487)</b>	<b>(5387331)</b>	<b>(198473)</b>	<b>(7665482)</b>

**III. Cash flow from financing activities**

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

**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	(562624)	6642959	(800541)	9452077
II	Net cash flow from investing activities	(139487)	(5387331)	(198473)	(7665482)
III	Net cash flow from financing activities	879466	(1037920)	1251368	(1476826)
	Result of fluctuations of currency exchange rates	(232625)	(160851)	(330996)	(228869)
	Net cash flow of the accounting period	<b>(55270)</b>	<b>56857</b>	<b>(78642)</b>	<b>80900</b>
	Cash and its equivalents in the beginning of the accounting period	<b>64656</b>	<b>7799</b>	<b>91997</b>	<b>11097</b>
	Cash and its equivalents at the end of the accounting period	<b>9386</b>	<b>64656</b>	<b>13355</b>	<b>91997</b>

**CONSOLIDATED 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
<b>1. Balance as of 31.12.2011.g.</b>	<b>5799005</b>	<b>214858</b>	<b>192922</b>	<b>(3719278)</b>	<b>2487507</b>
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				4296934	4296934
<b>4. Balance as of 31.12.2012.g.</b>	<b>5799005</b>	<b>209105</b>	<b>192922</b>	<b>577656</b>	<b>6778688</b>
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				2313286	2313286
<b>9. Balance as of 31.12.2013.g.</b>	<b>5799005</b>	<b>4844123</b>	<b>192922</b>	<b>2890942</b>	<b>13726992</b>

**CONSOLIDATED 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
<b>1. Balance as of 31.12.2011.g.</b>	<b>8251241</b>	<b>305715</b>	<b>274503</b>	<b>(5292055)</b>	<b>3539404</b>
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				6113985	6113985
<b>4. Balance as of 31.12.2012.g.</b>	<b>8251241</b>	<b>297530</b>	<b>274503</b>	<b>821930</b>	<b>9645204</b>
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				3291509	3291509
<b>9. Balance as of 31.12.2013.g.</b>	<b>8251241</b>	<b>6892566</b>	<b>274503</b>	<b>4113439</b>	<b>19531749</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### GENERAL INFORMATION

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

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

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

The main activities of the holding company are electric machinery and equipment manufacturing.

### ACCOUNTING POLICY

#### Principles of preparing the financial statement

The holding company's financial statement was prepared in compliance with the International Financial Reporting Standards (IFRS). To apply these standards there were not made any significant changes in the Holding's financial principles.

The balance data of the consolidated financial report of the holding company, the parent company's financial report and the subsidiary company's financial reports are identical. Processing the financial report the subsidiary company of the Holding applies the same accounting methods and other regulations of valuation as the parent company of the Holding does.

In the course of consolidation all both mutual transactions and residual values that are in the frames of the Holding have been excluded.

The share of JSC 'RER' in the own capital of the subsidiary company as well as the investment of JSC 'RER' into the subsidiary company's capital have been mutually excluded. The negative equity arisen out from that mutual exclusion is included into the calculations of consolidated profit or of loss.

The share belonging to the minority group of shareholders of subsidiary company JSC 'Latvo' is not separately displayed because such shareholders of the minority group are shareholders of the parent company.

Profit and loss account has been prepared according to the turnover cost method. Cash flow statement has been prepared in accordance with the indirect method.

#### 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:

- Licences 20%
- Software 50%

Capital assets:

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

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

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

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

	31.12.2013.g., LVL	31.12.2012.g., LVL	31.12.2013.g., EUR	31.12.2012.g., EUR
Unfinished construction objects	177532	118011	252605	167915
Costs of capital asset creation	225844	228873	321347	325656
<b>Total</b>	<b>403376</b>	<b>346884</b>	<b>573952</b>	<b>493571</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. The reserves at the amount of LVL 153 459 (EUR 218 352) have been established for stocks of slow-turnover.

#### Debts of debtors

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

#### Currency unit and recalculation of foreign currency

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

Notes 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.

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

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

Long-term and short-term items

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

Other securities

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

Long-term investment revaluation reserve

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

Provisions

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

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

*Provisions for warranty repairs.* A warranty period of the Company's basic products is 2 years. In 2013 warranty repair costs accounted is only 1.73% of the net turnover. Since amount of the warranty repair costs is of no high importance, provisions for warranty repairs are not created.

Deferred tax

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

Risk management

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

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

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

asset fraudulence and protection, efficiency of actions and information system and their compliance with regulatory documents, procedures and agreements.

The most substantial risks holding companies is exposed to in the course of commercial activities, are financial risks:

*Currency risk*

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

In 2013 a significant part of the Holding Company's income was in rouble, major part of its costs was in lats. 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. In 2012 the average rate of the Holding Company's loans and financial leasing transactions was 5.22%, in 2013 – 4.14%.

*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 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	281683	1651553	400799	2349948
Russia	22336246	24417519	31781615	34742999
Ukraine	152389	147766	216830	210252
United Kingdom	17952	150592	25543	214273
Belarus	248702	82839	353871	117869
Slovakia	229207		326132	
Azerbaijan	199264		283527	
Poland	383140		545159	
Slovenia	41313		58783	
Other	20304	8359	28891	11895
<b>Total</b>	<b>23910200</b>	<b>26458628</b>	<b>34021150</b>	<b>37647236</b>

**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	4623372	4780265	6578466	6801704
Social insurance contributions	1089168	1128615	1549746	1605874
Costs of materials	8672429	10831056	12339755	15411204
Energy resources	1127682	1201367	1604547	1709391
Depreciation of capital assets and intangible assets	544906	288522	775331	410530
Business trip costs	109379	65399	155632	93054
Repair costs and remuneration for works from outside	412878	181859	587472	258762
Costs of production quality control	1216712	724721	1731225	1031185
Development costs	174174	68254	247827	97117
Expenses of product's certification	64944	33173	92407	47201
Losses due to rejects	55804	62684	79402	89191
Environmental protection costs	58988	36277	83932	51618
Other costs	139985	120003	199182	170750
<b>Total</b>	<b>18290421</b>	<b>19522195</b>	<b>26024924</b>	<b>27777581</b>

Notes to consolidated comprehensive income statement (cont.)

**Note No. 3 – Selling costs**

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Packing material and package	63991	78765	91051	112072
Transportation expenses	331781	340306	472082	484212
Salaries	93150	107974	132541	153633
Social insurance contributions	22170	25031	31545	35616
Other selling costs	19323	15651	27494	22270
<b>Total</b>	<b>530415</b>	<b>567727</b>	<b>754713</b>	<b>807803</b>

**Note No. 4 – Administrative costs**

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Communications costs	21657	24296	30815	34570
Reimbursement for legal services	10337	27794	14708	39547
Cash circulation and expense and extra costs	21801	10075	31020	14335
Transportation expenses	14637	18857	20827	26831
Representation expenses	9303	11422	13237	16252
Salaries	1395918	1416849	1986212	2015995
Social insurance contributions	321685	329453	457717	468769
Energy resources	42477	39704	60439	56494
Depreciation of capital assets	80173	40618	114076	57794
Business trip costs	35384	28611	50347	40710
Security services	137690	147982	195915	210559
Other administrative costs	100870	60599	143525	86226
<b>Total</b>	<b>2191932</b>	<b>2156260</b>	<b>3118838</b>	<b>3068082</b>

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

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Profit gained as a result of other sales (materials, lease, other)	159042	227140	226296	323191
Remaining amounts of removal of capital assets, materials		24285		34554
Sale of capital assets	319918	8433	455202	11999
Income related to maintenance of social sphere	19496	23782	27740	33839
Decrease in revaluation reserve of capital assets	89656	5753	127569	8186
Writing off debts to suppliers and contractors	17747	249016	25252	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	13002	6729	18500	9574
<b>Total</b>	<b>830775</b>	<b>545138</b>	<b>1182086</b>	<b>775661</b>

Notes to consolidated comprehensive income statement (cont.)

**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	6402	138500	9109	197068
Costs related to maintenance of social sphere	47456	43210	67524	61482
Costs not related to operating activities of the Company	68445	70567	97388	100408
Re-accreditation costs	21787		31000	
Loss from fluctuations of exchange rates	437771	197689	622892	281286
Removal of capital assets	162325	20600	230968	29311
Write-off of bad debtors	9583	36161	13635	51452
Increase in provisions for doubtful debtors	7755	56617	11034	80559
Increase in holiday provision		17867		25422
Provisions for stocks of slow-turnover		164109		233506
Provision for the court's decision	63835		90829	
Other accruals		199443		283782
Other costs	22477	11850	31983	16862
<b>Total</b>	<b>847836</b>	<b>956613</b>	<b>1206362</b>	<b>1361138</b>

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

Indicator	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Loan agreements	273265	449794	388822	639999
Leasing agreements	318	10299	452	14654
Credit line agreements	27020		38446	
<b>Total</b>	<b>300603</b>	<b>460093</b>	<b>427720</b>	<b>654653</b>

**Note No. 8 – 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
<b>Total</b>	<b>91574</b>	<b>111526</b>	<b>130298</b>	<b>158687</b>



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

Notes to the consolidated financial statements (cont.)

**Note No. 9 – 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
<b>Initial value</b>							
Remaining amount as at 01.01.13.	2525	26382	7370117	6047795	308234	346884	
Purchase	140561	30803		504046	91627	552394	171836
Revaluation			5519999			59520	
Revaluation (accumulated depreciation)			(2907196)				
Removed		(691)	(169903)	(25820)	(4922)	(555422)	
Remaining amount as at 31.12.13.	143086	56494	9813017	6526021	394939	403376	171836
<b>Depreciation</b>							
Remaining amount as at 01.01.13.	2525	21297	2861906	3006170	251372		
Calculated	23427	4403	164975	434234	28866		
Revaluation (accumulated depreciation)			(2907196)				
Removed		(346)	(11674)	(22347)	(3048)		
Remaining amount as at 31.12.13.	25952	25354	108011	3418057	277190		
<b>Remaining value</b>							
01.01.13.		5085	4508211	3041625	56862	346884	
31.12.13.	117134	31140	9705006	3107964	117749	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).

**Note No. 9 – 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
<b>Initial value</b>							
Remaining amount as at 01.01.13.	3593	37538	10486732	8605237	438577	493571	
Purchase	200000	43829		717193	130373	785986	244501
Revaluation			7854251			84689	
Revaluation (accumulated depreciation)			(4136567)				
Removed		(983)	(241750)	(36739)	(7003)	(790294)	
Remaining amount as at 31.12.13.	203593	80384	13962666	9285691	561947	573952	244501
<b>Depreciation</b>							
Remaining amount as at 01.01.13.	3593	30303	4072126	4277395	357671		
Calculated	33333	6265	234739	617859	41071		
Revaluation (accumulated depreciation)			(4136567)				
Removed		(492)	(16611)	(31797)	(4337)		
Remaining amount as at 31.12.13.	36926	36076	153687	4863457	394405		
<b>Remaining value</b>							
01.01.13.		7235	6414606	4327842	80906	493571	
31.12.13.	166667	44308	13808979	4422234	167542	573952	244501

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

Rādītāji	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Long-term loan of the subsidiary (daughter) company (until 01.12.15.)	4747545	5052390	6755148	7188903
<b>Total</b>	<b>4747545</b>	<b>5052390</b>	<b>6755148</b>	<b>7188903</b>

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

Notes to the consolidated financial statements (cont.)

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

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

**Note No. 12 – Other debtors**

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Taxes paid in advance	3291	14091	4683	20050
Overpaid taxes	124787	174717	177556	248600
Rental debts	5484	14921	7803	21231
Deposit for development of the European funds	36026		51260	
Other	2656	11029	3779	15692
<b>Total</b>	<b>172244</b>	<b>214758</b>	<b>245081</b>	<b>305573</b>

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

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Insurance	1445	1616	2056	2299
Expenses for development of new techniques		68254		97117
Computer's network service	8215		11689	
Certification	3159		4495	
Cost of Europrojects	14640		20830	
Other	3509	8162	4993	11614
<b>Total</b>	<b>30968</b>	<b>78032</b>	<b>44063</b>	<b>111030</b>

**Note No. 14 – Cash**

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

**Note No. 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 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
<b>Total</b>	<b>5799005</b>	<b>5799005</b>	<b>8251241</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.

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. 17 – Other provisions

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

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

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

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

#### Note No. 19 – Other loans

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

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

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
<b>Long-term creditors, including</b>	<b>758054</b>	<b>800394</b>	<b>1078614</b>	<b>1138858</b>
Other creditors	22054	64394	31380	91624
Settlement of the debts of other companies	736000	736000	1047234	1047234
<b>Short-term creditors, including</b>	<b>384029</b>	<b>393057</b>	<b>546424</b>	<b>559270</b>
Salary debt	370571	377086	527275	536545
Support payments	3095	3447	4404	4905
Trade union membership fee	455	1906	647	2712
Other	9908	10618	14098	15108

Notes to the consolidated financial statements (cont.)

**Note No. 21 – Deferred tax liabilities**

**Deferred enterprise income tax displayed in the consolidated statement of financial position**

Rādītāji	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
<b>Liabilities</b>				
Long-term investment revaluation effect	854845		1216335	
Fixed assets depreciation temporary difference effect	328519	337083	467440	479626
Total liabilities	1183364	337083	1683775	479626
<b>Assets</b>				
Accumulated leave costs temporary difference effect	(42967)	(65188)	(61136)	(92754)
<b>Deferred enterprise income tax displayed in the balance statement</b>	<b>1140397</b>	<b>271895</b>	<b>1622639</b>	<b>386872</b>

**Deferred enterprise income tax displayed in the consolidated comprehensive income 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	15636	55900	22248	79539

**Note No. 22 – Advances received from customers**

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

**Note No. 23 – Debts to suppliers and contractors**

Indicators	31.12.13. LVL	31.12.12. LVL	31.12.13. EUR	31.12.12. EUR
Local suppliers	904127	987803	1286457	1405517
Foreign suppliers	632102	821563	899400	1168979
<b>Total</b>	<b>1536229</b>	<b>1809366</b>	<b>2185857</b>	<b>2574496</b>

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

Indicators	LVL							
	Personal income tax	Mandatory social insurance contributions	Income tax	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
<b>31.12.12. debt</b>	<b>925616</b>	<b>1258999</b>	<b>30677</b>		<b>2327</b>			<b>235</b>
<b>31.12.12. overpayment</b>	<b>3866</b>	<b>6014</b>	<b>57799</b>	<b>120012</b>				<b>17</b>
Calculated	1213648	2169378	159374	1799441	9988	12145	79429	2888
Penalty calculated				523				
Allocated to other taxes		2449	14148	539840	3			
Paid	1580233	2840636	862	2327771	9260	12145	79429	2872
Penalty paid	14322			523				
Tax debt is settled from excess payment of other tax	229014	324976		2449				
<b>31.12.13. debt</b>	<b>311829</b>	<b>259200</b>	<b>159374</b>		<b>3058</b>			<b>234</b>
<b>31.12.13. overpayment</b>			<b>13836</b>	<b>110951</b>				

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

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

Notes to the consolidated financial statements (cont.)

EUR

Indicators	Personal income tax	Mandatory social insurance contributions	Income tax	Value added tax	Natural resource tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
<b>31.12.12. debt</b>	<b>1317033</b>	<b>1791395</b>	<b>43649</b>		<b>3311</b>			<b>334</b>
<b>31.12.12. overpayment</b>	<b>5501</b>	<b>8557</b>	<b>82239</b>	<b>170762</b>				<b>24</b>
Calculated	1726866	3086746	226769	2560374	14212	17281	113017	4110
Penalty calculated				744				
Allocated to other taxes		3485	20131	768123	4			
Paid	2248469	4041861	1228	3312120	13176	17281	113017	4087
Penalty paid	20378			744				
Tax debt is settled from excess payment of other tax	325858	462400		3485				
<b>31.12.13. debt</b>	<b>443693</b>	<b>368808</b>	<b>226769</b>		<b>4351</b>			<b>333</b>
<b>31.12.13. overpayment</b>			<b>19687</b>	<b>157870</b>				

On behalf of the Holding Company,  
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

Consolidated financial statements are prepared to the best of our knowledge, in accordance with International Financial Reporting Standards adopted by the European Union. These financial statements give a true and fair view of the financial position of the Group and of its financial performance for the period ended 31 December 2013.

In preparing those financial statements, management selected suitable accounting policies, made judgments and estimates that are reasonable and prudent, prepared the financial statements on the going concern basis to presume that the Group will continue in business.

The Management Board is responsible for organizing accounting, they are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Chairperson of the Board

N. Erohovs

11 April 2014