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**SIA
FLAMES GROUP**

Annual Report

for 2012

Contents

Name of the company	SIA Flames group	
Legal status	Limited Liability Company	
Number, class and date of registration	401244387 - Regd. 16 September 2009	
Legal address	Mr. Sidorovskiy St. Apt. 15-1004	
Postal address	Mr. Sidorovskiy St. Apt. 15-1004	Page
Head	Svetlana Polozovna	
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Information on the Company

Name of the company	<i>SIA Flames group</i>
Legal status	<i>Limited Liability Company</i>
Number, place and date of registration	<i>40103248897, Riga, 16 September 2009</i>
Legal address	<i>Kr. Barona iela 88, Rīga, LV-1001</i>
Postal address	<i>Kr. Barona iela 88, Rīga, LV-1001</i>
Head	<i>Svjatoslavs Belozjerovs</i>
Members of the Board and their positions	<i>Svjatoslavs Belozjerovs, Chairman of the Board</i>
Reporting year	<i>01.01.2012 – 31.12.2012</i>
Auditors	<i>KPMG Baltics SIA Vesetas iela 7 Riga, LV-1013 License No 55</i>

Management Report

Line of business

Short description of the Company's activities in the reporting year

The primary activities of the Company is provision of telecommunication services.

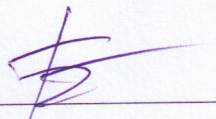
The revenue from services provided in 2012 amounts to LVL 1 161 588.

Subsequent events

No significant subsequent events have occurred since the last day of the reporting period that would materially impact the Company's financial position for the year ended 31 December 2012.

Suggestions regarding profit distribution

The result of the Company's basic operating activities is a profit of LVL 47 440. The profit is left undistributed and allocated to cover prior year accumulated losses.



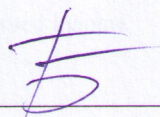
Svjatoslavs Belozjerovs
Chairman of the Board

12 September 2013

Profit and Loss Statement for 2012

	Note	2012 LVL	2011 LVL
Net sales	2	1 161 588	1 182 731
Cost of goods sold	3	(1 075 441)	(1 145 584)
Gross profit		86 147	37 147
Selling expenses	4	(22 487)	(17 407)
Administrative expenses	5	(19 526)	(8 247)
Other operating income	6	20 328	3 591
Other operating expenses	7	(12 216)	(14 088)
Profit before tax		52 246	996
Corporate income tax for the reporting year	8	(7 236)	(2 182)
Deferred tax	18	2 430	(2 912)
Current year's profit / (loss)		47 440	(4 098)

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.



Svjatoslavs Belozjerovs
Chairman of the Board

12 September 2013

Balance Sheet as at 31 December 2012

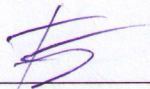
Assets		2011 LVL	2010 unaudited (restated) LVL
	Note		
Long term investments			
Intangible assets			
Other intangible assets		14 508	18 972
	Total intangible assets	14 508	18 972
	9		
Property, plant and equipment			
Other fixed assets		6 240	687
	Total fixed assets	6 240	687
	10		
	Total long term investments	20 748	19 659
Current assets			
Inventories			
Raw materials		16 670	-
Goods ready for sale		9 012	-
Prepayments for goods		11 292	1 252
	Total stock	36 974	1 252
Receivables			
Trade receivables	11	19 996	42 338
Other receivables	12	3 308	1 507
Accrued income		34 733	57 709
	Total receivables	58 037	101 554
Cash	13	4 219	35 768
	Total current assets	99 230	138 574
Total assets		119 978	158 233

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

Balance Sheet as at 31 December 2012

Liabilities	Note	2012 LVL	2011 LVL
Shareholders' equity			
Share capital	14	2 000	2 000
Retained earnings:	15		
accumulated losses carried forward from previous years		(8 475)	(4 377)
profit/(loss) of the reporting period		47 440	(4 098)
Total equity		40 965	(6 475)
Long term liabilities			
Other long term liabilities	18	482	2 912
Total long term liabilities		482	2 912
Short term liabilities			
Accounts payable to suppliers and contractors	16	62 923	97 633
Taxes and social contributions	17	3 791	3 559
Other liabilities	19	261	133
Accrued liabilities	20	11 556	60 471
Total short term liabilities		78 531	161 796
Total liabilities		79 013	164 708
Total liabilities		119 978	158 233

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.



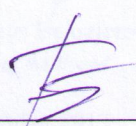
 Svjatoslavs Belozjerovs
 Chairman of the Board

12 September 2013

Statement of Cash Flow for 2012

	Note	2012 LVL	2011 LVL
Cash flows from operating activities			
1. Profit or loss before taxes		52 246	996
Adjustments for:			
depreciation;		5 160	3 485
2. Profit or loss before adjustments for the effect of changes to current assets and short term liabilities		57 406	4 481
Adjustments for:			
(increase)/decrease of receivables;		43 517	162 742
(increase)/decrease of stock;		(35 722)	(1 252)
increase/(decrease) of accounts payable to suppliers, contractors and other creditors		(84 743)	(130 062)
3. Gross cash flows from operating activities		(19 542)	35 909
4. Corporate income tax		(5 758)	-
<i>Net cash flows from operating activities</i>		<u>(25 300)</u>	<u>35 909</u>
Cash flows from investing activities			
Purchase of fixed and intangible assets		(6 249)	(23 144)
<i>Net cash flows from investing activities</i>		<u>(6 249)</u>	<u>(23 144)</u>
Net increase in cash and cash equivalents		<u>(31 549)</u>	<u>12 765</u>
Cash and cash equivalents at the beginning of the period		<u>35 768</u>	<u>23 003</u>
Cash and cash equivalents at the end of the period	13	<u>4 219</u>	<u>35 768</u>

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.



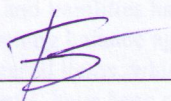
 Svjatoslavs Belozjerovs
 Chairman of the Board

12 September 2013

Statement of Changes to the Shareholders Equity for 2012

	Note	Share capital LVL	Retained earnings/(accu- mulated loss) carried forward from previous years LVL	Retained earnings / (uncovered loss) of the reporting year LVL	Total equity LVL
31.12.2010. (unaudited)		2 000	(14 589)	10 212	(2 377)
Profit of 2010 transferred to accumulated loss of previous years		-	10 212	(10 212)	-
Loss for the year		-	-	(4 098)	(4 098)
31.12.2011.		2 000	(4 377)	(4 098)	(6 475)
Loss of 2011 transferred to accumulated loss of previous years	15	-	(4 098)	4 098	-
Profit for the year		-	-	47 440	47 440
31.12.2012.		2 000	(8 475)	47 440	38 627

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.



Svjatoslavs Belozjerovs
Chairman of the Board

12 September 2013

Notes to the Financial Statements

(1) Summary of significant accounting principles

Information on the Company's activities

The primary activities of SIA Flames group is provision of telecommunication services.

Basis of preparation

The financial statements have been prepared in accordance with the law "On Accounting" and the "Annual Reports Law".

The profit and loss statement was prepared according to the turnover costing method. The cash flow statement was prepared according to the indirect method. The financial statements are prepared on the historical cost basis.

Accounting principles

The financial statements were prepared in accordance with the following policies:

- a) Going concern assumption that the Company will continue as a going concern
- b) Consistent valuation principles with those used in the prior year.
- c) Items were valued in accordance with the principle of prudence:
 - the financial statements reflect only the profit generated to the date of the balance sheet;
 - all incurred liabilities and current or prior year losses have been taken into consideration even if discovered within the period after the date of the balance sheet and preparation of the financial statements; and,
 - all amounts of impairment and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit.
- d) Income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received. Expenses were matched with revenue for the reporting period.
- e) Assets and liabilities have been valued separately.
- f) The opening balance agrees with the prior year closing balance.
- g) All material items, which would influence the decision-making process of users of the financial statements, have been recognised and insignificant items have been combined and their details disclosed in the notes.
- h) Business transactions are recorded taking into account their economic contents and substance, not the legal form.

Related parties

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules.

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

Notes to the Financial Statements

- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled, or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Financial instruments and financial risks

Financial instrument is an agreement that simultaneously results in financial assets of one party and financial liabilities or equity securities of the other party.

The key financial instruments held by the Company are financial assets such as trade receivables and other receivables and financial liabilities, accounts payable to suppliers and contractors and other creditors arising directly from its business activities.

Financial risks connected with the Company's financial instruments, financial risk management

Key financial risks related to the Company's financial instruments are:

- Currency risk – risk that the Company may suffer unexpected losses arising from fluctuations in the foreign exchange rates;
The currency risk arises from sales, purchases and other monetary assets and liabilities denominated in USD.
- Liquidity risk – risk that the Company will not be able to meet its financial liabilities in due time.

Management has implemented the following procedures to control key (or significant) risks.

Currency risk

For the purposes of currency risk management, the Company's management performs regular oversight to ensure that the currency structure of assets and liabilities is matched.

Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If according to management, the fair value of an asset or liability is significantly different from the book value, fair value disclosures are made in the notes to the financial statements.

Changes in the fair value of financial instruments are reflected in the profit and loss statement except for the following cases:

- the financial instrument is used in a hedge relationship and the Company's hedge accounting policy foresees that all (or part of) changes to the value of the instrument are not charged to the profit and loss statement;
- changes to the value of the instrument depend on changes in market rates applicable to the Company's long-term investments in foreign operations.

In both cases above, changes in the fair value of the financial instrument are reflected in the balance sheet item Financial instrument revaluation reserve.

Reporting period

The reporting period is the 12 months from 1 January 2012 to 31 December 2012.

Notes to the Financial Statements

Currency unit and revaluation of foreign currency

All amounts in these financial statements are expressed in the Latvian national currency – lats (LVL).

Foreign currency transactions are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the transaction date.

All monetary asset and liability items were revalued to lats according to the exchange rate of the Bank of Latvia on the last day of the reporting year. Non-monetary items of assets and liabilities, and foreign exchange transactions are revalued to lats in accordance with the exchange rate set by the Bank of Latvia on the transaction date.

	31.12.2012	31.12.2011
EUR	0.7028	0.7028
USD	0.5310	0.5440

Profit or loss arising from the fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognized in the profit and loss statement in the respective period in which the fluctuation occurs.

Estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in the accounting estimates are recognised in the period when those estimates are reviewed and in the future periods.

Key sources of estimation uncertainty are the following:

(i) Impairment

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(ii) Useful lives of fixed and intangible assets

Management estimates the useful lives of fixed and intangible assets in proportion to the expected duration of use of the asset (its expected capacity or effectiveness) based on historical experience with similar fixed assets and future plans. According to management estimates, the useful lives of certain fixed and intangible assets are the following:

Intangible assets:

Other intangible assets 5 years

Property, plant and equipment:

Other fixed assets 3 years

(iii) Valuation of receivables

A number of significant risks and uncertainties are inherent to the process of monitoring financial assets and estimating impairment. These risks and uncertainties include the risk the Company's assessment of the clients' ability to meet all their liabilities will change according to changes in the clients' credit ratio and the risk that the economic situation will deteriorate beyond expected.

Receivables are valued according to the principle of prudence and recognized at net amount due less allowances for doubtful loans and trade receivables.

Notes to the Financial Statements

Doubtful debt allowances are recognized based on an individual management assessment of the recoverability of each receivable.

(vi) Deferred tax asset

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax amounts are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Revenue recognition

Income from services

Revenue from services provided is recognized in the profit and loss statement as generated.

Long and short term classification

Amounts whose terms of receipt, payment or write off are due more than one year after the balance sheet date are classified as long term. Amounts to be received, paid or written off within one year of the balance sheet date are classified as short term.

Fixed and intangible assets

Intangible assets and fixed assets are recognised at historical cost, less accumulated amortization and depreciation. Amortization and depreciation is calculated from the first day of the month following their putting to operation until the first day of the month following their disposal. Amortization and depreciation is calculated on a straight-line basis and written-off over the useful lives of the assets.

The depreciation method is reviewed at least on an annual basis, at the year-end.

Corporate income tax

Corporate income tax comprises current and deferred tax. Corporate income tax is recognized in the profit and loss statement.

Current tax

Current income tax is calculated in accordance with the law "On Corporate Income Tax" by setting the amount of taxable income and applying a tax rate of 15%.

Deferred tax

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting using the balance sheet method providing for purposes and the amounts used for taxation purposes. These differences have primarily occurred due to different depreciation rates used for fixed assets in tax accounting and financial accounting, recognized provisions and tax losses available to be carried forward according to the tax declaration. Deferred tax is calculated based on the statutory rate of 15%.

Notes to the Financial Statements**(2) Net sales**

Net sales represents revenue generated during the reporting period from the Company's basic activities – sales of services, net of value added tax and discounts.

Line of business	2012	2011
	LVL	LVL
Telecommunication services	1 161 588	1 182 731
	1 161 588	1 182 731

Net sales by geographic markets:

	2012	2011
	LVL	LVL
EU countries	729 292	674 157
Third countries	432 296	508 574
	1 161 588	1 182 731

(3) Cost of goods sold

Cost of goods sold represents costs incurred for generating net sales – such as costs of services recognized at acquisition cost, and costs related to purchase of services.

	2012	2011
	LVL	LVL
Costs related to services	1 075 441	1 145 584
	1 075 441	1 145 584

(4) Selling expenses

	2012	2011
	LVL	LVL
Advertisement and representation expenses	22 487	17 407
	22 487	17 407

(5) Administrative expenses

	2012	2011
	LVL	LVL
Personnel costs	2 400	2 400
Compulsory state social security contributions	578	581
Communication expenses	389	-
Rent of premises	1 277	1 463
Business trip expenses	6 720	-
Representation expenses	441	-
Other expenses	7 721	3 803
	19 526	8 247

Notes to the Financial Statements

(6) Other operating income

	2012	2011
	LVL	LVL
Profit from currency exchange fluctuations	5 226	2 701
Other income	4 378	890
Decrease in provisions for bad debtors	10 724	-
	<u>20 328</u>	<u>3 591</u>

(7) Other operating expenses

	2012	2011
	LVL	LVL
Expenses on currency translation	1 211	536
Depreciation	696	137
Amortization of intangible investments	4 464	3 348
Doubtful debt allowance	-	7 326
Other expenses	5 845	2 741
	<u>12 216</u>	<u>14 088</u>

(8) Corporate income tax for the reporting year

	2012	2011
	LVL	LVL
Current tax in line with the declaration	7 236	2 182
	<u>7 236</u>	<u>2 182</u>

(9) Intangible assets

	Other intangible assets LVL
Historical cost	
31.12.2011	22 320
Additions	-
31.12.2012	22 320
Accumulated depreciation	
31.12.2011	3 348
Depreciation	4 464
31.12.2012	7 812
Balance as at 31.12.2011	<u>18 972</u>
Balance as at 31.12.2012	<u>14 508</u>

Notes to the Financial Statements**(10) Fixed assets**

	Other fixed assets LVL
Historical cost	
31.12.2011	824
Additions	6 249
31.12.2012	7 073
Accumulated depreciation	
31.12.2011	137
Depreciation	696
31.12.2012	833
Balance as at 31.12.2011	<u>687</u>
Balance as at 31.12.2012	<u>6 240</u>

(11) Trade receivables

	2012 LVL	2011 LVL
Trade receivables, gross value	21 076	54 143
Allowance for doubtful debts	(1 080)	(11 805)
	<u>19 996</u>	<u>42 338</u>

(12) Other receivables

	2012 LVL	2011 LVL
Overpaid taxes	2 808	104
Other receivables	500	1 403
	<u>3 308</u>	<u>1 507</u>

(13) Cash

By currency:	2012		2011		
	Valūta	LVL	Valūta	LVL	
Current account	LVL	-	3	-	8
Current account	USD	7 940	4 216	61 961	33 707
Current account	EUR	-	-	2 922	2 053
		<u>4 219</u>		<u>35 768</u>	

(14) Share capital

Share capital of the Company as at 31 December 2012 is LVL 2,000 and it is divided into 200 shares with the nominal value of LVL 10.

Notes to the Financial Statements**(15) Retained earnings**

According to Shareholders' Meeting decision profit of 2012 in the amount of LVL 45 102 will be remained undistributed and allocated to cover prior year accumulated losses.

(16) Accounts payable to suppliers and contractors

	2012 LVL	2011 LVL
Accounts payable to suppliers and contractors	62 923	97 633
	<u>62 923</u>	<u>97 633</u>

(17) Taxes and social contributions

Type of tax	Balance at 31.12.2011 LVL	Calculated in 2012 LVL	Repaid back / (Paid in) 2012 LVL	Transfer from/ to other taxes in 2012 LVL	Balance at 31.12.2012 LVL
Corporate income tax	2 313	7 236	(5 758)	-	3 791
Withholding tax	1 171	-	-	(1 171)	-
Value added tax	(104)	(7 354)	3 479	1 171	(2 808)
Social contributions	75	843	(918)	-	-
Personal income tax	-	534	(534)	-	-
	<u>3 455</u>	<u>1 259</u>	<u>(3 731)</u>	<u>-</u>	<u>983</u>
Including:					
Overpaid taxes	(104)				(2 808)
Tax liabilities	3 559				3 791

Overpaid taxes are disclosed under other receivables.

(18) Deferred tax liabilities

Deferred tax relates to the following temporary differences:

	2012 LVL		2011 LVL	
	aktīvi	saistības	aktīvi	saistības
Depreciation	-	644	-	2 912
Allowance for doubtful debts	162	-	1 771	-
(Unrecognized deferred tax asset)	-	-	(1 771)	-
Net deferred tax liability	<u>-</u>	<u>482</u>	<u>-</u>	<u>2 912</u>

	2012 LVL	2011 LVL
Deferred tax liabilities, beginning of the period	2 912	-
Changes in deferred tax recognized in the income statement	(2 430)	2 912
Deferred tax liabilities, end of the period	<u>482</u>	<u>2 912</u>

Notes to the Financial Statements

(19) Other liabilities

	2012	2011
	LVL	LVL
Remuneration	-	133
Other liabilities	261	-
	<u>261</u>	<u>133</u>

(20) Accrued liabilities

	2012	2011
	LVL	LVL
Accrued liabilities for non-received invoices	11 556	60 471
	<u>11 556</u>	<u>60 471</u>

(21) Number of employees

	2012	2011
Average number of employees in the reporting year	<u>1</u>	<u>1</u>

(22) Personnel costs

Type of costs	2012	2011
	LVL	LVL
Remuneration	2 400	2 400
Compulsory state social security contributions	578	581
	<u>2 978</u>	<u>2 981</u>

(23) Information on remuneration to sworn auditors

Administrative expenses include a fee paid to the commercial company of sworn auditors for the audit of the financial statements. During the reporting period, the Company did not receive any other services from the auditor. Information on contingent liabilities and pledged assets

(24) Subsequent events

No significant subsequent events have occurred since the last day of the reporting period that would materially impact the Company's financial position for the year ended 31 December 2012.