

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

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

**ANNUAL REPORT
2011
(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
Chair of the Board	Nikolajs Erohovs (from 16.03.2011)
Board Members	Fjodors Dudkins (from 21.06.2011) Rita Kargina (from 21.06.2011) Mihails Morozs (from 19.04.2010) Aleksandrs Suvorkins (from 19.04.2010)
Accounting period	1 January 2011 – 31 December 2011
Auditor	SIA "Rīgas audits", licence No. 103 Skolas iela 11-501, Riga, LV-1010, Latvia Certified auditor Jānis Mežiels Certified auditor's certificate No. 127
Associated companies	SIA "Lovato – REZ", Reg. No. 000307218 Ganību dambis 31, Riga, the Republic of Latvia Fixed capital LVL 115 200 (EUR 163 915) Shares – 50 %

AS "Rīgas elektromašīnbūves rūpnīca" MANAGEMENT REPORT

Business activities of the Company in 2011

Basic business activities of AS "Rīgas elektromašīnbūves rūpnīca" (hereinafter – AS "RER") are manufacturing of electric machines and machinery. 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 22 739 803 (EUR 32 355 825), which is 168.98 % when compared with the data of 2010.

AS "RER" has concluded the financial year 2011 with profit amounting to LVL 562 423 (EUR 800 255) before tax and profit amounting to LVL 524 254 (EUR 745 946) after tax.

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

Indicators of financial stability

Indicator	31.12.2011.	31.12.2010.
Autonomy indicator (equity / entire capital)	0.17	0.13
Proportion coefficient of loans and equity (loans / equity)	4.78	6.64

Liquidity indicators

Indicator	31.12.2011.	31.12.2010.
Total liquidity indicator (current assets / short-term liabilities)	1.08	0.63
Fast liquidity indicator (short-term debtors and cash / short-term liabilities)	0.57	0.36

Profitability indicators

Indicator	31.12.2011.	31.12.2010.
Profitability indicator of the basic business activities, % (profit from the basic business activities / net turnover)	7.01	- 11.13
Net profitability indicator, % (net profit / net turnover)	2.31	- 13.85

Other indicators

In 2011 the average number of employees was 922 people, which has increased by 18.21 % when compared with 2010. In 2011 the average monthly salary was LVL 520.45 (EUR 740.53), and this number has increased by 17.16% when compared with 2010.

AS "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 2011.

Company development measures

In 2012 the company plans to slightly increase its production and sales volumes compared to 2011. Electric equipment for automotive transport is considered to be a new product in company's product range, and the company plans to master its production starting from 2012.

Distribution of profit made in 2011

The shareholders of JSC RER are offered to redirect company's profit of 2011 in the amount of LVL 524 254 (EUR 745 946) to "losses of earlier years."

Events after the date of balance sheet

During the period from 31.12.2011 until the date of signing the financial report of AS RER for year 2011 the liquidation procedure of associated company SIA Lovato – REZ, reg. No. 000307218, was still in progress. Losses caused by writing-off value of non-recoverable investment in amount of LVL 32 590 are included in calculation of profit or losses for the reporting year.

Company on behalf of the Board,

Chairperson of the Board

N. Erohovs

10 April 2012

PROFIT AND LOSS ACCOUNT FOR TWELVE MONTHS OF 2011

No.	Items	Line code	Note	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
1	Net turnover	010	1	22739803	13456860	32355825	19147387
2	Production costs of the goods sold	020	2	(18574609)	(12758326)	(26429288)	(18153462)
3	Gross profit or loss	030		4165194	698534	5926537	993925
4	Selling expenses	040	3	(618639)	(392600)	(880244)	(558619)
5	Administration expenses	050	4	(1951403)	(1803657)	(2776596)	(2566373)
6	Other operating income	060	5	345889	577012	492154	821014
7	Other operating expenses	070	6	(752185)	(424557)	(1070263)	(604090)
8	Other interest income and similar income	100	7	10362	195175	14744	277709
9	Writing-off long-term financial investments and short-term securities	110	8	(32590)		(46371)	
10	Other interest payments and similar expenses	120	9	(604205)	(575130)	(859706)	(818336)
11	Profit or loss before extraordinary items and taxes	130		562423	(1725223)	800255	(2454770)
12	Profit or loss before tax	160		562423	(1725223)	800255	(2454770)
13	Retained corporate income tax	180	10	79437	(47234)	113029	(67209)
14	Other taxes	190	11	(117606)	(90995)	(167338)	(129474)
15	Profit or loss of the accounting period	200		524254	(1863452)	745946	(2651453)

EPS (earnings per share)	0.09	(0.32)	0.13	(0.46)
The number of shares is 5799005				

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2011

A S S E T S	Line code	Note	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
1. LONG-TERM INVESTMENTS		12				
I. Intangible investments						
1. Development costs	010		68254	136508	97117	194233
2. Concessions, licences and similar rights	020			15		21
3. Other intangible investments	021		9191	63	13078	90
I. Total	050		77445	136586	110195	194344
II. Fixed assets						
1. Land plots, buildings, constructions	060		4220861	4251667	6005744	6049577
2. Equipment and machinery	080		2680908	2913052	3814588	4144900
3. Other fixed assets and inventory	090		29126	30827	41443	43863
4. Creation of fixed assets	100		766559	594586	1090715	846020
II. Total	120		7697454	7790132	10952490	11084360
III. Long-term financial investments						
1. Participation in capital of affiliated companies	150			59927		85268
III. Total	210			59927		85268
I. PART TOTAL AMOUNT	220		7774899	7986645	11062685	11363972
2. CURRENT ASSETS						
I. Stocks						
1. Raw materials, direct materials and auxiliary materials	230		1686324	2053850	2399423	2922365
2. Unfinished products	240		1888587	1371529	2687217	1951510
3. Finished products and goods for sale	250		38481	41506	54754	59058
4. Prepayments for goods	270		163051	254676	232001	362371
I. Total	290		3776443	3721561	5373395	5295304
II. Debtors						
1. Debts of buyers and customers	300	13	3986329	3202921	5672035	4557346
2. Other debtors	330	14	251597	68570	357989	97567
3. Deferred expenses	360	15	71851	71457	102235	101674
II. Total	370		4309777	3342948	6132259	4756587
III. Securities and participation in capitals						
1. Other securities	400	16		1702505		2422446
III. Total	410			1702505		2422446
IV. Cash	420	17	7799	41911	11097	59634
II. PART TOTAL AMOUNT	430		8094019	8808925	11516751	12533971
B A L A N C E	440		15868918	16795570	22579436	23897943

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

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2011

LIABILITIES	Line code	Note	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
1. SHAREHOLDERS' EQUITY						
1. Share capital (capital stock)	450	18	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	470		214858	264632	305715	376537
3. Other provisions	510		192922	192922	274503	274503
4. Undivided profit:						
a) Undivided profit of previous years	530		(4243532)	(2380080)	(6038002)	(3386549)
b) Undivided profit of the accounting year	540		524254	(1863452)	745946	(2651453)
1. PART TOTAL AMOUNT	550		2487507	2013027	3539403	2864279
2. PROVISIONS						
1. Other provisions	580	19	256095	184531	364390	262564
2. PART TOTAL AMOUNT	590		256095	184531	364390	262564
3. CREDITORS						
I. Long-term creditors						
1. Loans from credit institutions	620	20	5341873		7600801	
2. Other loans	630	21	55169	292474	78498	416153
3. Deferred tax liabilities	731		215995	295432	307333	420362
I. Total	740		5613037	587906	7986632	836515
II. Short-term creditors						
1. Loans from credit institutions	770	20	1335468	7323318	1900200	10420143
2. Other loans	780	21	1003975	476766	1428528	678377
3. Advance payments received from buyers	790	22	35398	94066	50367	133844
4. Debts to suppliers and contractors	800	23	1795074	2826586	2554160	4021870
5. Debts to affiliated companies	830			3623		5154
6. Taxes and social security payments	840	24	2815807	2918632	4006532	4152839
7. Other creditors	850	25	526557	367115	749224	522358
II. Total	890		7512279	14010106	10689011	19934585
3. PART TOTAL AMOUNT	900		13125316	14598012	18675643	20771100
BALANCE	910		15868918	16795570	22579436	23897943

CASH FLOW STATEMENT FOR TWELVE MONTHS OF 2011 (prepared by indirect method)

I. Cash flow from operating activities

	Items	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
1	Profit or loss before extraordinary items and taxes	562423	(1725223)	800255	(2454771)
	ADJUSTMENTS				
	Depreciation of fixed assets	328778	346759	467809	493394
	Amortization of intangible investment value	3163	672	4501	956
	Gain from sales of fixed assets	(11634)	(7128)	(16554)	(10142)
	Profit or loss from fluctuations of currency exchange rates	(1460)	(318337)	(2077)	(452953)
	Other interest income and similar income	(10031)		(14273)	
	Writing-off long-term financial investments and short-term securities	32590		46371	
	Amounts written off fixed assets	9170	727	13048	1034
	Reserve for revaluation of long-term investments	(49773)		(70821)	
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	863226	(1702530)	1228259	(2422482)
	ADJUSTMENTS				
	Increase or decrease of balance of receivables	673380	1980052	958133	2817360
	Increase or decrease of balance of inventories	(146507)	239847	(208461)	341272
	Increase or decrease of deferred expenses	(394)	104527	(561)	148729
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	(946792)	624901	(1347164)	889154
	Increase or decrease of accruals	71564	(176)	101826	(250)
	Expenses for tax payments	(136183)	(86191)	(193771)	(122639)
3	Gross cash flow from operating activities	378294	1160430	538261	1651144
4	Cash flow before extraordinary items	378294	1160430	538261	1651144
I	NET CASH FLOW FROM OPERATING ACTIVITIES	378294	1160430	538261	1651144

II. Cash flow from investing activities

	Items	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
1	Purchase of fixed assets and intangible investments	(230210)	(22808)	(327559)	(32453)
2	Income from sales of fixed assets and intangible investments	11634	7128	16554	10142
3	Interest income received	205198		291970	
II	NET CASH FLOW FROM INVESTING ACTIVITIES	(13378)	(15680)	(19035)	(22311)

III. Cash flow from financing activities

	Items	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
1	Loans received	777553	771036	1106358	1097085
2	Expenses for repayment of loans	(977742)	(1728220)	(1391202)	(2459036)
3	Expenses for repurchase of leased fixed assets	(237306)	(254371)	(337656)	(361937)
III	NET CASH FLOW FROM FINANCING ACTIVITIES	(437495)	(1211555)	(622500)	(1723888)

IV. Summary of cash inflow and outflow

	Items	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
I	Net cash flow from operating activities	378294	1160430	538261	1651144
II	Net cash flow from investing activities	(13378)	(15680)	(19035)	(22311)
III	Net cash flow from financing activities	(437495)	(1211555)	(622500)	(1723888)
	Result of fluctuations of currency exchange rates	38467	31528	54737	44860
	Net cash flow of the accounting period	(34112)	(35277)	(48537)	(50195)
	Cash and its equivalents in the beginning of the accounting period	41911	77188	59634	109829
	Cash and its equivalents at the end of the accounting period	7799	41911	11097	59634

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2011, LVL

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 31.12.2009.g.	5799005	264632	192922	(2380080)	3876479
2. Income or loss of the accounting period that is not included in the profit and loss account: a) decrease of fixed assets b) increase of fixed assets					
3. Income or loss of the accounting period in accordance with the profit and loss account				(1863452)	(1863452)
4. Balance as of 31.12.2010.g.	5799005	264632	192922	(4243532)	2013027
5. Income or loss of the accounting period that is not included in the profit and loss account: a) decrease of fixed assets b) increase of fixed assets		(49774)			(49774)
6. Income or loss of the accounting period in accordance with the profit and loss account				524254	524254
7. Balance as of 31.12.2011.g.	5799005	214858	192922	(3719278)	2487507

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2011, EUR

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 31.12.2009.g.	8251241	376537	274503	(3386549)	5515732
2. Income or loss of the accounting period that is not included in the profit and loss account: a) decrease of fixed assets b) increase of fixed assets					
3. Income or loss of the accounting period in accordance with the profit and loss account				(2651453)	(2651453)
4. Balance as of 31.12.2010.g.	8251241	376537	274503	(6038002)	2864279
5. Income or loss of the accounting period that is not included in the profit and loss account: a) decrease of fixed assets b) increase of fixed assets		(70822)			(70822)
6. Income or loss of the accounting period in accordance with the profit and loss account				745946	745946
7. Balance as of 31.12.2011.g.	8251241	305715	274503	(5292056)	3539403

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. The annual report presents fairly and clearly financial position of the Company, as well as its assets and liabilities.

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.

	31.12.2011.g., LVL	31.12.2010.g., LVL	31.12.2011.g., EUR	31.12.2010.g., EUR
Unfinished construction objects	118011	118011	167915	167915
Costs of capital asset creation	648548	476575	922800	678105
Total	766559	594586	1090715	846020

Long-term financial investments

As on 31.12.2011 JSC „RER” investments to associated society „Lovato-REZ” Ltd have been written off due to liquidation. Losses from writing-off investment costs is LVL 32 590 (EUR 46 371).

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.

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 – 31.12.2011. Profit made or loss incurred as a result of fluctuations of exchange rates has been reflected in the profit and loss account of the corresponding period.

Notes (cont.)
Accounting policy (cont.)

	31.12.2011.g., LVL	31.12.2010.g., LVL
1 EUR	0.702804	0.702804
1 USD	0.544	0.535
1 RUB	0.0170	0.0176

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 2011 warranty repair costs accounted for LVL 10 070.19 (EUR 14 328.59), which is only 0.04% of the net turnover. Since amount of the warranty repair costs is of no high importance, provisions for warranty repairs are not created.

Deferred tax

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

Risk management

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

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

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

Notes (cont.)
Accounting policy (cont.)

Financial risk

Currency risk

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

A significant part of the Company's income is in lats and rouble, major part of its costs are in lats, while all received loans are in euros.

From 1 January 2005 the Bank of Latvia has set the official fixed lat to euro exchange rate, which is 0.702804. As long as the Bank of Latvia maintains the said fixed exchange rate the Company's profit and loss made as a result of fluctuations of the exchange rate will not be significant.

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 2010 the average rate of the Company's loans and financial leasing transactions was 6.686%, in 2011 – 6.692%.

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. Debts of customers and clients of AS "RER" have increased – by 24.46% – when compared with 2010. 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 ENDED 31 DECEMBER 2011

Note No. 1 – Net turnover

Country	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Latvia	4347522	4367257	6185966	6214047
Russia	16981454	8480295	24162432	12066373
Ukraine	239470	264467	340735	376303
Sweden		72770		103542
United Kingdom	377085		536544	
Estonia		85269		121327
Belarus	119659	27131	170259	38604
Georgia	541440	141962	770400	201994
New Zealand	105582		150230	
Other	27591	17709	39259	25197
Total	22739803	13456860	32355825	19147387

Note No. 2 – Production costs of products sold

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Salaries	4259497	3026146	6060718	4305818
Social insurance contributions	1008728	713465	1435291	1015169
Costs of materials	11578003	7399682	16474014	10528799
Energy resources	992821	841670	1412657	1197589
Depreciation of capital assets and intangible assets	291005	319136	414063	454090
Business trip costs	47752	32477	67945	46211
Repair costs and remuneration for works from outside	195944	159719	278803	227260
Development costs	68254	136509	97117	194235
Expenses on product certification	32184	65443	45794	93117
Losses due to rejects	48356	18002	68804	25615
Environmental protection costs	7227	14519	10283	20659
Other costs	44838	31558	63799	44903
Total	18574609	12758326	26429288	18153465

Notes (cont.)

Note No. 3 – Selling costs

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Packing material and package	218482	179000	310872	254693
Transportation expenses	311864	155254	443742	220907
Salaries	70914	46729	100902	66489
Social insurance contributions	16905	11258	24054	16019
Other selling costs	474	359	674	511
Total	618639	392600	880244	558619

Note No. 4 – Administrative costs

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Communications costs	26538	27962	37760	39786
Cash circulation and expense and extra costs	12399	29331	17642	41734
Transportation expenses	14248	15924	20273	22658
Representation expenses	7705	7365	10963	10479
Salaries	1303459	1129540	1854655	1607191
Social insurance contributions	303139	265323	431328	377521
Energy resources	39811	35002	56646	49803
Depreciation of capital assets	32533	31736	46290	45156
Business trip costs	17564	27826	24991	39593
Security services	144353	132754	205396	188892
Year's payment to Stock Exchange of Riga	3125	5845	4446	8317
Market research		41360		58850
Consulting service		14232		20250
Other administrative costs	46529	39457	66206	56143
Total	1951403	1803657	2776596	2566373

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

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Profit gained as a result of other sales (materials, lease, other)	230176	220356	327509	313538
Penalty and contractual penalties	259	94	369	134
Remaining amounts of removal of capital assets, materials	15	656	21	933
Income from sales of fixed assets	11634	7128	16554	10142
Deposited salaries		1880		2675
Inventory surplus	2473		3519	
Income related to maintenance of social sphere	23173	28206	32972	40134
Income from fluctuations of exchange rates	1460	318337	2077	452953
Decrease in revaluation reserve of capital assets	49773		70821	
Other income	26926	355	38312	505
Total	345889	577012	492154	821014

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

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Penalty and contractual penalties	413022	306760	587677	436480
Costs related to maintenance of social sphere	44084	43529	62726	61936
Costs not related to operating activities of the Company	70450	70565	100241	100405
Re-accreditation costs	92722		131932	
Removal of capital assets	8708	727	12390	1034
Loss from previous year	36	1518	51	2160
Write-off of bad debtors	229	133	326	189
Inventory deficit	9383		13351	
Increase in provisions for doubtful debtors	40600		57769	
Increase in holiday provision	71564		101826	
Other costs	1387	1325	1974	1886
Total	752185	424557	1070263	604090

Notes (cont.)

Note No. 7 - Other interest income and similar income

Indicator	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Interest income	10031	195167	14273	277698
Other interest income	331	8	471	11
Total	10362	195175	14744	277709

Note No. 8 - Writing-off long-term financial investments and short-term securities

Indicator	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Write-off of investment costs to the associated society	32590		46371	

Note No. 9 – Other interest payments and similar costs

Indicator	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Loan agreements	345999	213554	492312	303860
Leasing agreements	25306	35137	36007	49995
Credit line agreements	232900	326439	331387	464481
Total	604205	575130	859706	818336

Note No. 10 – Deferred corporate income tax

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Deferred tax liabilities as at the beginning of accounting year	295432	248198	420362	353153
Deferred tax expenditure in profit and loss account of accounting year	(79437)	47234	(113029)	67209
Deferred tax liabilities as at the end of accounting year	215995	295432	307333	420362

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Deferred tax liabilities :				
Temporary difference of depreciation of capital assets	232820	295406	331273	420325
Deferred tax assets:				
Temporary differences of costs of holidays not used	(16825)	26	(23940)	37
Deferred tax liabilities	215995	295432	307333	420362

Note No. 11 – Other taxes

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Real estate tax on premises (buildings)	96567	74163	137402	105524
Real estate tax on land	21039	16832	29936	23950
Total	117606	90995	167338	129474

NOTES TO BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2011

Note No. 12 – Statement of movement of long-term investments, LVL

	Initial value				Depreciation				Remaining value	
	Remaining amount as at 01.01.11	Purchase	Removed	Remaining amount as at 31.12.11	Remaining amount as at 01.01.11	Calculated	Removed	Remaining amount as at 31.12.11	01.01.11	31.12.11.
Intangible investments										
Devel.costs	136508		(68254)	68254					136508	68254
Licences and other	301			301	286	15		301	15	
Software	10765	12276		23041	10702	3148		13850	63	9191
Total	147574	12276	(68254)	91596	10988	3163		14151	136586	77445
Capital assets										
Land, premises, buildings*	6992345	26841	(735)	7018451	2740678	57647	(735)	2797590	4251667	4220861
Equipment and machinery	5917086	34200	(457773)	5493513	3004034	259249	(450678)	2812605	2913052	2680908
Other capital assets	267340	12257	(21243)	258354	236513	11882	(19167)	229228	30827	29126
Creation of capital assets	594586	235439	(63466)	766559					594586	766559
Total	13771357	308737	(543217)	13536877	5981225	328778	(470580)	5839423	7790132	7697454
Long-term fin. investm.										
Partnership in capital of associated companies	59927		(59927)						59927	
Total	59927		(59927)						59927	
In total	13978858	321013	(671398)	13628473	5992213	331941	(470580)	5853574	7986645	7774899

Note No. 12 – Statement of movement of long-term investments, EUR

	Initial value				Depreciation				Remaining value	
	Remaining amount as at 01.01.11	Purchase	Removed	Remaining amount as at 31.12.11	Remaining amount as at 01.01.11	Calculated	Removed	Remaining amount as at 31.12.11	01.01.11	31.12.11
Intangible assets										
Devel.costs	194233		(97116)	97117					194233	97117
Licences and other	428			428	407	21		428	21	
Software	15317	17467		32784	15227	4479		19706	90	13078
Total	(209978)	17467	(97116)	130329	15634	4500		20134	194344	110195
Capital assets										
Land, premises, buildings*	9949211	38191	(1046)	3899633	82025	(1046)		3980612	6049578	6005744
Equipment and machinery	8419254	48662	(651352)	7816564	4274355	368878	(641257)	4001976	4144899	3814588
Other capital assets	380391	17440	(30226)	367605	336528	16907	(27272)	326163	43863	41442
Creation of capital assets	846020	335000	(90304)	1090716					846020	1090716
Total	19594876	439293	(772928)	19261241	8510516	467810	(669575)	8308751	11084360	10952490
Long-term fin. investm.										
Partnership in capital of associated companies	85268		(85268)						85268	
Total	85268		(85268)						85268	
In total	19890122	456760	(955312)	19391570	8526150	472310	(669575)	8328885	11363972	11062685

In 2011 assessed value of the premises (buildings) accounted for LVL 5 668 859 (EUR 8 066 060), assessed value of the land plot accounted for LVL 2 111 434 (EUR 3 004 300).

Notes (cont.)

Note No. 13 – Debts of customers and clients

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Debts of customers and clients	4037327	3213685	5744599	4572662
Provisions for doubtful debtors	(50998)	(10764)	(72564)	(15316)
Total	3986329	3202921	5672035	4557346

Note No. 14 – Other debtors

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Demand calculations for personnel		3160		4496
Taxes paid in advance	1164	1264	1656	1799
Overpaid taxes	82975	37045	118063	52710
Rental debts	28283	24599	40243	35001
Claims settlement	132800		188957	
Other	6375	2502	9070	3561
Total	251597	68570	357989	97567

Note No. 15 – Costs of the following periods

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Insurance	1596	1052	2271	1497
Annual anti-virus program licences	547	649	778	923
Expenses for development of new techniques	68254	68254	97117	97117
Other	1454	1502	2069	2137
Total	71851	71457	102235	101674

Note No. 16 – Other securities and partnership in capitals

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Short-term loan		1702505		2422446

Note No. 17 – Cash

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Current accounts in banks	7799	41911	11097	59634

Note No. 18 – Stock capital (fixed capital)

Total number of stocks of AS "RER" is 5 799 005 shares. A nominal value of each share is 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	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Residents, including	199525	199525	283898	283898
- physical entities	174322	174322	248037	248037
- legal entities	25203	25203	35861	35861
Non-residents, including	5599480	5599480	7967343	7967343
- Russia	1011027	1011027	1438562	1438562
- Canada	5119	5119	7284	7284
- Estonia (nominal shareholder)	4583334	4583334	6521497	6521497
Total	5799005	5799005	8251241	8251241

Notes (cont.)

Note No. 19 – Other provisions

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Holiday provisions	256095	184531	364390	262564

Note No. 20 – Long-term and short-term loans from credit institutions

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Latvian credit institutions, loan agreement, including	6677341	2374576	9501001	3378717
Long-term debt	5341873		7600801	
Short-term debt	1335468	2374576	1900200	3378717
Latvian credit institutions, credit line agreement, including		4948741		7041424
Short-term debt		4948741		7041424

As on 31/12/2011 all assets of JSC "RER" have been pledged as security for a loan.

Note No. 21 – Other loans

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Leasing agreements, including	371435	608740	528504	866159
Long-term debt	55169	292474	78498	416153
Short-term debt	316266	316266	450006	450006
Other loans, including	687709	160500	978522	228371
Short-term debt	687709	160500	978522	228371

Note No. 22 – Advance payments received from buyers

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Local customers	421	7307	599	10397
Foreign customers	34977	86759	49768	123447
Total	35398	94066	50367	133844

Note No. 23 – Debts to suppliers and contractors

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Local suppliers	1426971	2118036	2030397	3013694
Foreign suppliers	368103	708550	523763	1008176
Total	1795074	2826586	2554160	4021870

Note No. 24 – Taxes and social insurance contributions

Indicators	Personal income tax	Mandatory social insurance contribu- tions	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
31.12.10. debt	1219407	1639321		1951	4208	53551	194
31.12.10. overpayment			37045				
Calculated	1137496	1993440	1140317	6008	21039	96567	2766
Penalty calculated	138082	225649				4761	
Allocated to other taxes			1877332				
Paid	876485	529780	3063579	6172	18234	117948	2717
Penalty paid	69555	225649				4761	
Tax debt is settled from excess payment of other tax	510930	1366401					1
31.12.11. debt	1038015	1736580		1787	7013	32170	242
31.12.11. overpayment			82975				

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Notes (cont.)

Indicators	EUR						
	Personal income tax	Mandatory social insurance contributions	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
31.12.10. debt	1735060	2332544		2776	5987	76196	276
31.12.10. overpayment			52710				
Calculated	1618511	2836410	1622525	8549	29936	137402	3936
Penalty calculated	196473	321070				6774	
Allocated to other taxes			2671203				
Paid	1247126	753809	4359080	8782	25945	167825	3866
Penalty paid	98968	321070				6774	
Tax debt is settled from excess payment of other tax	726989	1944213					
31.12.11. debt	1476961	2470932		2543	9978	45773	345
31.12.11. overpayment			118062				

Note No. 25 – Other creditors

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Salary debt	511241	353386	727430	502822
Support payments	2346	3053	3338	4344
Trade union membership fee	11043	10676	15713	15191
Other	1927		2743	
Total	526557	367115	749224	522357

Note No. 26 – Number of the Company's employees

Indicators	31.12.11.	31.12.10.
Average number of employees	922	780

Note No. 27 – Information about remuneration to the Council and Board Members

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Remuneration calculated to the Council Members	7450	7450	10600	10600
Remuneration calculated to the Board Members	7450	7450	10600	10600
Total	14900	14900	21200	21200

Note No. 28 – Information about remuneration for services of the commercial company of certified auditors (amounts given including VAT)

Indicators	31.12.11. LVL	31.12.10. LVL	31.12.11. EUR	31.12.10. EUR
Remuneration for auditing annual report	4026	3660	5728	5208

Company on behalf of the Board,

Chairperson of the Board

N. Erohovs

10 April 2012

MANAGEMENT CONFIRMATION REPORT

The Management of the Company is responsible for preparation of financial statements and confirms that the annual report presents fairly, in all material respects, the financial position of the Company, as well as results of its activities as at the end of the accounting year.

The Management of the Company confirms that during preparation of the audited annual report 2011 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.

Company on behalf of the Board,

Chairperson of the Board

N. Erohovs

10 April 2012