

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

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

**ANNUAL REPORT  
2008  
(UNAUDITED)**

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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, Rīga, 29 November 1991
Unified Registration No. in the Commercial Register, date and place of registration	No. 40003042006, Rīga, 29 September 2004
Registered office	Ganību dambis 31, Rīga, LV-1005, the Republic of Latvia
Institution in charge of the Company	General meeting of shareholders
Chair of the Board	Grigorijs Uspenskis (from 29.08.2006)
Board Members	Aleksejs Maksimovs (from 25.07.2008) Vladimirs Antjufejevs (from 15.05.2006) Anatolijs Ostaščenko (from 07.05.2007) Andrejs Zujevs (from 07.05.2007)
Accounting period	1 January 2008 – 31 December 2008
Auditor	SIA "Rīgas audits", licence No. 103 Skolas iela 11-501, Rīga, LV-1010, Latvia Certified auditor Jānis Mežiels Certified auditor's certificate No. 127
Associated companies	SIA "Lovato – REZ", Reg. No. 000307218 Ganību dambis 31, Rīga, the Republic of Latvia Fixed capital LVL 115,200 (EUR 163915) Shares – 50 %

## AS "Rīgas elektromašīnbūves rūpnīca" MANAGEMENT REPORT

### Business activities of the Company in 2008

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;
- Cast products.

In 2008 the Company maintained its position both in Eastern and Western markets by successfully competing with other companies due to the quality of the Company's products, the broad line of the products and possibilities to develop new designs.

In 2008 AS "RER" continued developing. Scale of production and sales volume decreased significantly in 2007. Net turnover of the Company accounted for LVL 22470252 (EUR 31972288), which is 92.1 % when compared with the data of 2007.

AS "RER" has concluded the financial year 2008 with loss amounting to LVL 825885 (EUR 1175128) before tax and loss amounting to LVL 964450 (1372289 ) after tax.

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

### Indicators of financial stability

Indicator	31.12.2008.	31.12.2007.
Autonomy indicator (equity / entire capital)	0,32	0.46
Proportion coefficient of loans and equity (loans / equity)	2,12	1.17

### Liquidity indicators

Indicator	31.12.2008.	31.12.2007.
Total liquidity indicator (current assets / short-term liabilities)	1,04	1.28
Fast liquidity indicator (short-term debtors and cash / short-term liabilities)	0,65	0.82

### *Other indicators*

In 2008 the average number of employees was 1021 people, which has decreased by 14.6 % when compared with 2007. In 2008 the average monthly salary was LVL 675.18 (EUR 960.69), and this number has increased by 14.8% when compared with 2007.

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 2008.

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Chair of the Board

G. Uspenskis

Board Members:

A. Berezins

V. Antjufejevs

A. Ostaščenko

A. Zujevs

23 February 2009

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**PROFIT AND LOSS ACCOUNT FOR TWELVE MONTHS OF 2008**

No.	Items	Line code	Note	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
1	Net turnover	010	1	22470252	24389044	31972288	34702483
2	Production costs of the goods sold	020	2	(18147808)	(18588635)	(25822004)	(26449245)
3	<b>Gross profit or loss</b>	030		<b>4322444</b>	<b>5800409</b>	<b>6150284</b>	<b>8253238</b>
4	Selling expenses	040	3	(776545)	(415303)	(1104924)	(590923)
5	Administration expenses	050	4	(3523437)	(2977947)	(5013399)	(4237237)
6	Other operating income	060	5	369041	256130	525098	364440
7	Other operating expenses	070	6	(695289)	(557052)	(989307)	(792614)
8	Income from participation in capital of related and affiliated companies	080	7	441	1500	627	2134
9	Other interest income and similar income	100	8	18450	510	26252	726
10	Other interest payments and similar expenses	120	9	(540990)	(377462)	(769759)	(537080)
11	Profit or loss before extraordinary items and taxes	130		(825885)	1730785	(1175128)	2462684
12	Profit or loss before tax	160		(825885)	1730785	(1175128)	2462684
13	Corporate income tax	170			(252354)		(359067)
14	Retained corporate income tax	180	10	(27409)	(27295)	(38999)	(38836)
15	Other taxes	190	11	(111156)	(198818)	(158162)	(282893)
16	Profit or loss of the accounting period	200		<b>(964450)</b>	<b>1252318</b>	<b>(1372289)</b>	<b>1781888</b>

EPS (earnings per share)	(0.17)	0,22	(0.24)	0,31
The number of shares is 5799005				

**BALANCE SHEET FOR TWELVE MONTHS OF 2008**

A S S E T S	Line code	Note	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
<b>1. LONG-TERM INVESTMENTS</b>		12				
<b>I. Intangible investments</b>						
1. Concessions, licences and similar rights	020		417	797	593	1134
2. Other intangible investments	021		3971	4906	5650	6981
I. Total	050		<b>4388</b>	<b>5703</b>	<b>6243</b>	<b>8115</b>
<b>II. Fixed assets</b>						
1. Land plots, buildings, constructions	060		4353002	4385783	6193764	6240407
2. Equipment and machinery	080		3358734	1973758	4779048	2808405
3. Other fixed assets and inventory	090		66075	110360	94016	157028
4. Creation of fixed assets	100		724287	460239	1030568	654861
5. Prepayments for fixed assets	110		36856	396945	52441	564802
II. Total	120		<b>8538954</b>	<b>7327085</b>	<b>12149837</b>	<b>10425503</b>
<b>III. Long-term financial investments</b>						
1. Participation in capital of related companies	130					
2. Participation in capital of affiliated companies	150		59927	59927	85268	85268
III. Total	210		<b>59927</b>	<b>59927</b>	<b>85268</b>	<b>85268</b>
<b>I. PART TOTAL AMOUNT</b>	<b>220</b>		<b>8603269</b>	<b>7392715</b>	<b>12241348</b>	<b>10518886</b>
<b>2. CURRENT ASSETS</b>						
<b>I. Stocks</b>						
1. Raw materials, direct materials and auxiliary materials	230		3011995	2723374	4285683	3875012
2. Unfinished products	240		2853405	1359704	4060030	1934684
3. Finished products and goods for sale	250		226610	501789	322437	713981
4. Prepayments for goods	270		59474	62849	84624	89426
I. Total	290		<b>6151484</b>	<b>4647716</b>	<b>8752774</b>	<b>6613103</b>
<b>II. Debtors</b>						
1. Debts of buyers and customers	300	13	7353961	6656413	10463744	9471222
2. Debts of affiliated companies	320		466	388	663	552
3. Other debtors	330	14	375755	80323	534651	114289
4. Deferred expenses	360	15	518705	9139	738051	13004
II. Total	370		<b>8248887</b>	<b>6746263</b>	<b>11737109</b>	<b>9599068</b>
<b>III. Securities and participation in capitals</b>						
1. Other securities	400	16	1600000	1600000	2276595	2276595
III. Total	410		<b>1600000</b>	<b>1600000</b>	<b>2276595</b>	<b>2276595</b>
<b>IV. Cash</b>	420	17	523272	11713	744549	16666
<b>II. PART TOTAL AMOUNT</b>	<b>430</b>		<b>16523643</b>	<b>13005692</b>	<b>23511027</b>	<b>18505432</b>
<b>B A L A N C E</b>	<b>440</b>		<b>25126912</b>	<b>20398407</b>	<b>35752375</b>	<b>29024317</b>

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

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**BALANCE SHEET FOR TWELVE MONTHS OF 2008**

LIABILITIES	Line code	Note	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
<b>1. SHAREHOLDERS' EQUITY</b>						
1. Share capital (capital stock)	450	18	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	470		187500	199438	266788	283775
3. Other provisions	510		192922	192922	274503	274503
4. Undivided profit:						
a) Undivided profit of previous years	530		2775263	1522945	3948844	2166956
b) Undivided profit of the accounting year	540		(964450)	1252318	(1372289)	1781888
<b>1. PART TOTAL AMOUNT</b>	<b>550</b>		<b>7990240</b>	<b>8966628</b>	<b>11369087</b>	<b>12758363</b>
<b>2. PROVISIONS</b>						
1. Other provisions	580	19	200153	412822	284792	587393
<b>2. PART TOTAL AMOUNT</b>	<b>590</b>		<b>200153</b>	<b>412822</b>	<b>284792</b>	<b>587393</b>
<b>3. CREDITORS</b>						
<b>I. Long-term creditors</b>						
1. Loans from credit institutions	620	20		657746		935888
2. Other loans	630	21	822619	10832	1170481	15413
3. Deferred tax liabilities	731		254776	227367	362514	323514
I. Total	740		<b>1077395</b>	<b>895945</b>	<b>1532995</b>	<b>1274815</b>
<b>II. Short-term creditors</b>						
1. Loans from credit institutions	770	20	8613505	6871091	12255913	9776682
2. Other loans	780	21	422215	229958	600758	327201
3. Advance payments received from buyers	790	22	2499	10507	3556	14950
4. Debts to suppliers and contractors	800	23	3983254	1745326	5667660	2483373
5. Debts to affiliated companies	830		3395	1713	4831	2437
6. Taxes and social security payments	840	24	1577784	696564	2244984	991121
7. Other creditors	850	25	1256472	567853	1787799	807982
II. Total	890		<b>15859124</b>	<b>10123012</b>	<b>22565501</b>	<b>14403746</b>
<b>3. PART TOTAL AMOUNT</b>	<b>900</b>		<b>16936519</b>	<b>11018957</b>	<b>24098496</b>	<b>15678561</b>
<b>BALANCE</b>	<b>910</b>		<b>25126912</b>	<b>20398407</b>	<b>35752375</b>	<b>29024317</b>



**CASH FLOW STATEMENT FOR TWELVE MONTHS OF 2008** (prepared by indirect method)

**I. Cash flow from operating activities**

	Items	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
1	Profit or loss before extraordinary items and taxes	(825885)	1730785	(1175128)	2462684
	<b>ADJUSTMENTS</b>				
	Depreciation of fixed assets	328934	253975	468031	361374
	Amortization of intangible investment value	4654	1512	6622	2151
	Gain from sales of fixed assets		(2100)		(2988)
	Profit or loss from fluctuations of currency exchange rates	319576	96265	454715	136974
	Income from participation in capital of related and affiliated companies	(441)	(1500)	(627)	(2134)
	Amounts written off investments		448093		637579
	Amounts written off fixed assets	2862	22615	4072	32178
	Reserve for revaluation of long-term investments	(11938)	38167	(16986)	54307
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	<b>(182238)</b>	<b>2587812</b>	<b>(259301)</b>	<b>3682125</b>
	<b>ADJUSTMENTS</b>				
	Increase or decrease of balance of receivables	(685493)	(5347635)	(975369)	(7608999)
	Increase or decrease of balance of inventories	(1507143)	(1299997)	(2144471)	(1849729)
	Increase or decrease of deferred expenses	(509566)	15313	(725047)	21788
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	6091503	7664234	8667428	10905223
	Increase or decrease of accruals	(212669)	226257	(302601)	321935
	Expenses for tax payments	(86723)	(200370)	(123396)	(285101)
3	Gross cash flow from operating activities	<b>2907671</b>	<b>3645614</b>	<b>4137243</b>	<b>5187242</b>
4	Expenses for corporate income tax payments	(213694)	(282956)	(304059)	(402610)
5	Cash flow before extraordinary items	2693977	3362658	3833184	4784632
I	<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>2693977</b>	<b>3362658</b>	<b>3833184</b>	<b>4784632</b>

**II. Cash flow from investing activities**

	Items	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
1	Purchase of fixed assets and intangible investments	(756041)	(1169733)	(1075749)	(1664380)
2	Income from sales of fixed assets and intangible investments		2100		2988
3	Dividends received	441	1500	627	2134
II	<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(755600)</b>	<b>(1166133)</b>	<b>(1075122)</b>	<b>(1659258)</b>

**III. Cash flow from financing activities**

	Items	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
1	Loans received	266590		379323	
2	Expenses for repayment of loans	(1534735)	(876990)	(2183731)	(1247844)
3	Expenses for repurchase of leased fixed assets	(103163)	(36244)	(146788)	(51571)
4	Dividends paid out				
5	Expenses for purchase of short-term securities (bill of exchange)		(1600000)		(2276595)
III	<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(1371308)</b>	<b>(2513234)</b>	<b>(1951196)</b>	<b>(3576010)</b>

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

	Items	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
I	Net cash flow from operating activities	2693977	3362658	3833184	4784632
II	Net cash flow from investing activities	(755600)	(1166133)	(1075122)	(1659258)
III	Net cash flow from financing activities	(1371308)	(2513234)	(1951196)	(3576010)
	Result of fluctuations of currency exchange rates	(55510)	(87598)	(78983)	(124641)
	Net cash flow of the accounting period	<b>511559</b>	<b>(404307)</b>	<b>727883</b>	<b>(575277)</b>
	Cash and its equivalents in the beginning of the accounting period	<b>11713</b>	<b>416020</b>	<b>16666</b>	<b>591943</b>
	Cash and its equivalents at the end of the accounting period	<b>523272</b>	<b>11713</b>	<b>744549</b>	<b>16666</b>

**STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2008, LVL**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
<b>1. Balance as of 31.12.2006.g.</b>	<b>5799005</b>	<b>161271</b>	<b>192922</b>	<b>1522945</b>	<b>7676143</b>
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(2461)			(2461)
b) increase of fixed assets		40628			40628
3. Income or loss of the accounting period in accordance with the profit and loss account				1252318	1252318
<b>4. Balance as of 31.12.2007.g.</b>	<b>5799005</b>	<b>199438</b>	<b>192922</b>	<b>2775263</b>	<b>8966628</b>
5. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(11938)			(11938)
b) increase of fixed assets					
6. Income or loss of the accounting period in accordance with the profit and loss account				(964450)	(964450)
<b>7. Balance as of 31.12.2008.g.</b>	<b>5799005</b>	<b>187500</b>	<b>192922</b>	<b>1810813</b>	<b>7990240</b>

**STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2008, EUR**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
<b>1. Balance as of 31.12.2006.g.</b>	<b>8251241</b>	<b>229468</b>	<b>274503</b>	<b>2166956</b>	<b>10922168</b>
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(3502)			(3502)
b) increase of fixed assets		57809			57809
3. Income or loss of the accounting period in accordance with the profit and loss account				1781888	1781888
<b>4. Balance as of 31.12.2007.g.</b>	<b>8251241</b>	<b>283775</b>	<b>274503</b>	<b>3948844</b>	<b>12758363</b>
5. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(16987)			(16987)
b) increase of fixed assets					
6. Income or loss of the accounting period in accordance with the profit and loss account				(1372289)	(1372289)
<b>7. Balance as of 31.12.2008.g.</b>	<b>8251241</b>	<b>266788</b>	<b>274503</b>	<b>2576555</b>	<b>11369087</b>

## 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", as well as pursuant to the existing Accounting standards of Latvia.

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.

	<b>31.12.2008 LVL</b>	<b>31.12.2007 LVL</b>	<b>31.12.2008 EUR</b>	<b>31.12.2007 EUR</b>
Unfinished construction objects	118011	118,011	167915	167,915
Costs of capital asset creation	606276	342,228	862653	486,946
<b>Total</b>	<b>724287</b>	<b>460,239</b>	<b>1030568</b>	<b>654,861</b>

Long-term financial investments

As at 31.12.2008 AS "RER" has an investment in the associated company SIA "Lovato-REZ".

No. of registration certificate and date of registration	Name	Registered office	Investment, %	Amount invested	Part of the profit for 1996-2001	Total Column 5 + column 6	Founders
1	2	3	4	5	6	7	8
000307218 04.1992	SIA "Lovato-REZ"	Ganību dambis 31, Rīga, the Republic of Latvia	50	57,600.00 LVL 81,957.00 EUR	2,327.00 LVL 3,311.00 EUR	59,927.00 LVL 85,268.00 EUR	1. AS "RER", Latvia 2. "Lovato" S.A., Italy

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 – 31.12.2008. 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.)

	31.12.2008, LVL	31.12.2007, LVL
1 EUR	0.702804	0.702804
1 USD	0.495	0.484
1 RUB	0.0171	0.0197
1 SEK	0.0635	0.0744

#### 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 2008 warranty repair costs accounted for LVL 90596 (EUR 128906), which is only 0.40% 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.

#### 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 euros, 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.

Notes (cont.)  
Accounting policy (cont.)

*Interest rate risk*

The Company is at the interest rate risk due to its short-term and long-term loans and financial leasing transactions. In 2007 the average rate of the Company's loans and financial leasing transactions was 6.162%, in 2008 – 6.597%.

*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 10.5% – when compared with 2007.

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 2008**

**Note No. 1 – Net turnover**

Country	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Latvia	7975193	10,976,465	11347677	15,618,102
Russia	13400097	1,264,527	19066621	1,799,260
Ukraine		1,191,170		1,694,882
Sweden	71187	46,940	101290	66,790
Great Britain	981892	10,875,293	1397106	15,474,148
Other	41883	34,649	59594	49,301
<b>Total</b>	<b>22470252</b>	<b>24,389,044</b>	<b>31972288</b>	<b>34,702,483</b>

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Salaries	6688629	6120568	9517062	8708784
Social insurance contributions	1564541	1410784	2226141	2007365
Costs of materials	8350823	9926109	11882151	14123581
Energy resources	776835	571006	1105337	812468
Depreciation of capital assets and intangible assets	250350	186109	356216	264809
Business trip costs	46495	66417	66156	94503
Repair costs and remuneration for works from outside	190297	148746	270768	211647
Services of experts	92275		131295	
Losses due to rejects	93806	78723	133474	112013
Environmental protection costs	20561	14741	29256	20975
Other costs	73196	65432	104148	93100
<b>Total</b>	<b>18147808</b>	<b>18588635</b>	<b>25822004</b>	<b>26449245</b>

**Note No. 3 – Selling costs**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Packing material and package	255183	250131	363093	355904
Transportation expenses	374349	22171	532651	31546
Salaries	118545	115160	168674	163858
Social insurance contributions	28020	26970	39869	38375
Other selling costs	448	871	637	1240
<b>Total</b>	<b>776545</b>	<b>415303</b>	<b>1104924</b>	<b>590923</b>

Notes (cont.)

**Note No. 4 – Administrative costs**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Communications costs	56953	45030	81037	64072
Office costs	11462	15627	16309	22235
Cash circulation and expense and extra costs	36952	80198	52578	114111
Transportation expenses	32597	21694	46381	30868
Representation expenses	13667	24791	19446	35274
Salaries	2286213	2020060	3252988	2874286
Social insurance contributions	487189	391621	693207	557226
Costs of materials	15894	24848	22615	35356
Energy resources	115151	89649	168114	127559
Repair costs		5562		7914
Depreciation of capital assets	70713	60805	100616	86518
Business trip costs	92697	60678	131896	86337
Security services	185587	66707	264067	94916
Year's payment to Stock Exchange of Riga	5000		7114	
Computer's network service	13064		18588	
Consulting service and business management services	55682	28171	79228	40084
Other administrative costs	41616	42506	59215	60481
<b>Total</b>	<b>3523437</b>	<b>2977947</b>	<b>5013399</b>	<b>4237237</b>

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Profit gained as a result of other sales (materials, lease, other)	60825	221160	86546	314682
Inventory surplus	12253		17434	
Remaining amounts of removal of capital assets, materials	5723	779	8143	1108
Sale of capital assets		2100		2988
Deposited salaries		5		7
Income related to maintenance of social sphere	36475	29585	51899	42096
Decrease in revaluation reserve of capital assets	11938	2461	16986	3502
Decrease in holiday provision	212669		302601	
Income from fluctuations of exchange rates	24691		35132	
Other income	4467	40	6357	57
<b>Total</b>	<b>369041</b>	<b>256130</b>	<b>525098</b>	<b>364440</b>

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Penalty and contractual penalties	86415	11551	122957	16436
Costs related to maintenance of social sphere	133655	112251	190174	159719
Costs not related to operating activities of the Company	121649	161866	173091	230315
Losses from converting currency	56594	86469	80526	123034
Losses from fluctuations of exchange rates	287673	9796	409322	13938
Removal of capital assets	2862	22615	4072	32178
Losses caused by write-off of investment value of related companies		65468		93153
Provisions for doubtful debts		12188		17342
Write-off of bad debtors		5120		7285
Tax surcharge		28507		40562
Increase in revaluation reserve of capital assets		40628		57808
Loss from previous year	1525		2170	
Inventory deficit	3238		4607	
Other costs	1678	593	2388	844
<b>Total</b>	<b>695289</b>	<b>557052</b>	<b>989307</b>	<b>792614</b>

Notes (cont.)

**Note No. 7 – Income from partnership in capitals of the Concern's subsidiary companies and associated companies**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Associated company dividends	441	1500	627	2134

**Note No. 8 - Other interest income and similar income**

Indicator	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Interest income (bill of exchange)	18400		26180	
Other interest income	50	510	72	726
<b>Total</b>	<b>18450</b>	<b>510</b>	<b>26252</b>	<b>726</b>

**Note No. 9 – Other interest payments and similar costs**

Indicator	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Loan agreements	78417	122415	111577	174181
Leasing agreements	46950	6838	66804	9730
Credit line agreements	415623	248209	591378	353169
<b>Total</b>	<b>540990</b>	<b>377462</b>	<b>769759</b>	<b>537080</b>

**Note No. 10 – Deferred corporate income tax**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Deferred tax liabilities as at the beginning of accounting year	227367	200072	323514	284678
Deferred tax expenditure in profit and loss account of accounting year	27409	27295	38999	38836
Deferred tax liabilities as at the end of accounting year	254776	227367	362513	323514

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Deferred tax liabilities :				
Temporary difference of depreciation of capital assets	222876	261305	317124	371804
Deferred tax assets:				
Temporary differences of costs of holidays not used	31900	(33938)	45389	(48290)
Deferred tax liabilities	254776	227367	362513	323514

**Note No. 11 – Other taxes**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Real estate tax on premises (buildings)	100384	190200	142835	270631
Real estate tax on land	10772	8618	15327	12262
<b>Total</b>	<b>111156</b>	<b>198818</b>	<b>158162</b>	<b>282893</b>



**NOTES TO BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2008**

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

	Initial value			Depreciation					Remaining value	
	Remaining amount as at 01.01.08	Purchase	Removed	Remaining amount as at 31.12.08	Remaining amount as at 01.01.08	Calculated	Removed	Remaining amount as at 31.12.08	01.01.08	31.12.08.
<b>Intangible investments</b>										
Licences and other	1360		(223)	1137	563	380	(223)	720	797	417
Software	6926	3339		10265	2020	4274		6294	4906	3971
<b>Total</b>	<b>8286</b>	<b>3339</b>	<b>(223)</b>	<b>11402</b>	<b>2583</b>	<b>4654</b>	<b>(223)</b>	<b>7014</b>	<b>5703</b>	<b>4388</b>
<b>Capital assets</b>										
Land, premises, buildings*	7256001	28608		7284609	2870218	61389		2931607	4385783	4353002
Equipment and machinery	4369920	1589663	(111564)	5848019	2396162	204687	(111564)	2489285	1973758	3358734
Other capital assets	245409	21435	(2166)	264678	135049	65720	(2166)	198603	110360	66075
Creation of capital assets	460239	1827372	(1563324)	724287					460239	724287
Advance payments for capital assets	396945	1450265	(1810354)	36856					396945	36856
<b>Total</b>	<b>12728514</b>	<b>4917343</b>	<b>(3487408)</b>	<b>14158449</b>	<b>5401429</b>	<b>331796</b>	<b>(113730)</b>	<b>5619495</b>	<b>7327085</b>	<b>8538954</b>
<b>Long-term fin. investm.</b>										
Partnership in capital of associated companies	59927			59927					59927	59927
<b>Total</b>	<b>59927</b>			<b>59927</b>					<b>59927</b>	<b>59927</b>
<b>In total</b>	<b>12796727</b>	<b>4920682</b>	<b>(3487631)</b>	<b>14229778</b>	<b>5404012</b>	<b>336450</b>	<b>(113953)</b>	<b>5626509</b>	<b>7392715</b>	<b>8603269</b>

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

	Initial value			Depreciation					Remaining value	
	Remaining amount as at 01.01.08	Purchase	Removed	Remaining amount as at 31.12.08	Remaining amount as at 01.01.08	Calculated	Removed	Remaining amount as at 31.12.08	01.01.08	31.12.08
<b>Intangible assets</b>										
Licences and other	1936		(317)	1618	801	541	(317)	1025	1134	593
Software	9855	4751		14606	2874	6082		8956	6981	5650
<b>Total</b>	<b>11791</b>	<b>4751</b>	<b>(317)</b>	<b>16224</b>	<b>3675</b>	<b>6623</b>	<b>(317)</b>	<b>9981</b>	<b>8115</b>	<b>6243</b>
<b>Capital assets</b>										
Land, premises, buildings*	10324360	40706		10365065	4083952	87349		4171301	6240407	6193764
Equipment and machinery	6217836	2261887	(158741)	8320982	3409431	291244	(158741)	3541934	2808405	4779048
Other capital assets	349185	30499	(3082)	376603	192158	93511	(3082)	282587	157028	94016
Creation of capital assets	654861	2600116	(2224409)	1030568					654861	1030568
Advance payments for capital assets	564802	2063541	(2575902)	52441					564802	52441
<b>Total</b>	<b>18111044</b>	<b>6996749</b>	<b>(4962134)</b>	<b>20145659</b>	<b>7685541</b>	<b>472104</b>	<b>(161823)</b>	<b>7995822</b>	<b>10425503</b>	<b>12149837</b>
<b>Long-term fin. investm.</b>										
Partnership in capital of associated companies	85268			85268					85268	85268
<b>Total</b>	<b>85268</b>			<b>85268</b>					<b>85268</b>	<b>85268</b>
<b>In total</b>	<b>18208103</b>	<b>7001500</b>	<b>(4962451)</b>	<b>20247151</b>	<b>7689216</b>	<b>478727</b>	<b>(162140)</b>	<b>8005803</b>	<b>10518886</b>	<b>12241348</b>

Notes (cont.)

**Note No. 13 – Debts of customers and clients**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Debts of customers and clients	7364419	6668462	10478624	9488367
Provisions for doubtful debtors	(10458)	(12049)	(14880)	(17145)
<b>Total</b>	<b>7353961</b>	<b>6656413</b>	<b>10463744</b>	<b>9471222</b>

**Note No. 14 – Other debtors**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Demand calculations for personnel		6926		9855
Taxes paid in advance	6178	14133	8791	20109
Overpaid taxes	225353	41542	320648	59109
Advance payments for services	112509	12001	160086	17076
Interest income (bill of exchange)	18400		26181	
Rental debts	9126		12985	
Other	4189	5721	5960	8140
<b>Total</b>	<b>375755</b>	<b>80323</b>	<b>534651</b>	<b>114289</b>

**Note No. 15 – Costs of the following periods**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Press subscription	140	1980	199	2817
Insurance	3617	2722	5147	3873
Annual anti-virus program licences	1585	3267	2255	4649
Expenses for development of new techniques	511907		728378	
Other	1456	1170	2072	1665
<b>Total</b>	<b>518705</b>	<b>9139</b>	<b>738051</b>	<b>13004</b>

**Note No. 16 – Other securities and partnership in capitals**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Simple bill of exchange	1600000	1600000	2276595	2276595

**Note No. 17 – Cash**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Current accounts in banks	523272	11713	744549	16666

**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	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 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
<b>Total</b>	<b>5799005</b>	<b>5799005</b>	<b>8251241</b>	<b>8251241</b>

Notes (cont.)

**Note No. 19 – Other provisions**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Holiday provisions	200153	412822	284792	587393

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
<b>Latvian credit institutions, loan agreement, including</b>	<b>964479</b>	<b>1534736</b>	<b>1372330</b>	<b>2183732</b>
Long-term debt		657746		935888
Short-term debt	964479	876990	1372330	1247844
<b>Latvian credit institutions, credit line agreement, including</b>	<b>7649026</b>	<b>5994101</b>	<b>10883583</b>	<b>8528838</b>
Short-term debt	7649026	5994101	10883583	8528838

**Note No. 21 – Other loans**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
<b>Leasing agreements, including</b>	<b>982484</b>	<b>240790</b>	<b>1397949</b>	<b>342614</b>
Long-term debt	822619	10832	1170481	15413
Short-term debt	159865	229958	227468	327201
<b>Other loans, including</b>	<b>262350</b>		<b>373290</b>	
Long-term debt				
Short-term debt	262350		373290	

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Local customers	2499	2804	3556	3990
Foreign customers		7703		10960
<b>Total</b>	<b>2499</b>	<b>10507</b>	<b>3556</b>	<b>14950</b>

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Local suppliers	3188061	1411726	4536202	2008705
Foreign suppliers	795193	333600	1131458	474670
<b>Total</b>	<b>3983254</b>	<b>1745326</b>	<b>5667660</b>	<b>2483375</b>

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Personal income tax	598514	181790	851609	258664
Mandatory social insurance contributions	948898	505421	1350159	719149
Corporate income tax		5527		7864
Natural resources tax	3927	3488	5588	4963
Real estate tax on land	96		137	
Real estate tax on premises (buildings)	25679		36538	
State business risk fee	670	338	953	481
<b>Total</b>	<b>1577784</b>	<b>696564</b>	<b>2244984</b>	<b>991121</b>

Notes (cont.)

**Note No. 25 – Other creditors**

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Salary debt	1237254	559081	1760454	795501
Support payments	2631	1143	3744	1626
Trade union membership fee	11207	7610	15946	10828
Deposited salaries	5287		7523	
Other	93	19	132	26
<b>Total</b>	<b>1256472</b>	<b>567853</b>	<b>1787799</b>	<b>807981</b>

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

Indicators	31.12.08	31.12.07
Average number of employees	1021	1193

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Remuneration calculated to the Council Members	7450	7450	10600	10600
Remuneration calculated to the Board Members	7032	5612	10006	7985
<b>Total</b>	<b>14482</b>	<b>13062</b>	<b>20606</b>	<b>18585</b>

**Note No. 28 – Information about remuneration for services of the commercial company of certified auditors**

(amounts given including VAT of 18%)

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Remuneration for auditing annual report	4074	4074	5797	5797
Remuneration for carrying out other auditing tasks		2950		4197
<b>Total</b>	<b>4074</b>	<b>7024</b>	<b>5797</b>	<b>9994</b>

Chair of the Board

G. Uspenskis

Board Members:

A. Maksimovs

V. Antjufejevs

A. Ostaščenko

A. Zujevs

23 February 2009

### **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 unaudited annual report 2008 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.

Chair of the Board

G. Uspenskis

Board Members:

A. Maksimovs

V. Antjufejevs

A. Ostaščenko

A. Zujevs

23 February 2009