

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

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

**ANNUAL REPORT
2009
(AUDITED)**

CONTENT

Information about the Company	3
Management report	4
Profit and loss account	6
Balance sheet	7
Cash flow statement	9
Statement of changes in equity	10
Notes to financial statements	11
Management confirmation report	21
Auditor's report	22

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	Grigorijs Uspenskis (from 29.08.2006)
Board Members	Aleksejs Maksimovs (from 25.07.2008)
	Vladimirs Antjufejevs (from 15.05.2006)
	Igors Ruļovs (from 12.05.2009)
	Andrejs Zujevs (from 07.05.2007)
Accounting period	1 January 2009 – 31 December 2009
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 163915) Shares – 50 %

AS "Rīgas elektromašīnbūves rūpnīca" MANAGEMENT REPORT

Business activities of the Company in 2009

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 2009, despite the worldwide economic crisis that had a negative impact upon financial situation of JSC "RER" and its foreign partners, the company managed to keep its positions both in Eastern-European and Western-European markets, while successfully competing with other enterprises.

Net turnover of the Company accounted for LVL 10789592 (EUR 15352206), which is 48.02 % when compared with the data of 2008.

AS "RER" has concluded the financial year 2009 with loss amounting to LVL 4106215 (EUR 5842617) before tax and loss amounting to LVL 4190893 (EUR 5963104) after tax.

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

Indicators of financial stability

Indicator	31.12.2009.	31.12.2008.
Autonomy indicator (equity / entire capital)	0.21	0,32
Proportion coefficient of loans and equity (loans / equity)	3.72	2,12

Liquidity indicators

Indicator	31.12.2009.	31.12.2008.
Total liquidity indicator (current assets / short-term liabilities)	0.76	1,02
Fast liquidity indicator (short-term debtors and cash / short-term liabilities)	0.48	0,63

Other indicators

In 2009 the average number of employees was 929 people, which has decreased by 32.0 % when compared with 2008. In 2009 the average monthly salary was LVL 378.22 (EUR 538.16), and this number has decreased by 44.0% when compared with 2008.

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 2009.

Company development measures

JSC "RER"s forecast of company`s turnover in 2010 is based on the valid contracts with the consumers in Russia, Belarus and Ukraine, i.e. the leading machine-building plants such as:

OJSC «Demikhovo Engineering Plant» (Russia, Orekhovo-Zuyevo), OJSC «Torzhok Carriage Plant» (Russia, Torzhok), OJSC «Lugansktteplovoz» (Ukraine, Lugansk), OJSC «Oktyabrsky Electric Railway Car Repair Plant» (Russia, St-Petersburg).

JSC "RER" keeps the segment in repair of electric equipment for rolling stock and city electric transport which biggest customers are carriage-building plants in the Baltic States, Russia and Sweden, eg.: OJSC "Tver Carriage Works" ("TVZ", Russia), Bombardier Transportation Sweden AB (Sweden), JSC «VRC Zaslauks» (Latvia), JSC «Rīgas vagonbūves rūpnīca» («Riga Railcar Factory», Latvia).

Company on behalf of the Board,

Head clerk, Board Member

I. Ruļovs

09 April 2010

PROFIT AND LOSS ACCOUNT FOR TWELVE MONTHS OF 2009

No.	Items	Line code	Note	31.12.09. LVL	31.12.08. LVL	31.12.09. EUR	31.12.08. EUR
1	Net turnover	010	1	10789592	22470252	15352206	31972288
2	Production costs of the goods sold	020	2	(11486503)	(18147808)	(16343821)	(25822004)
3	Gross profit or loss	030		(696911)	4322444	(991615)	6150284
4	Selling expenses	040	3	(474214)	(776545)	(674746)	(1104924)
5	Administration expenses	050	4	(2031025)	(3523437)	(2889888)	(5013399)
6	Other operating income	060	5	227861	344350	324217	489966
7	Other operating expenses	070	6	(607607)	(670598)	(864547)	(954175)
8	Income from participation in capital of related and affiliated companies	080			441		627
9	Other interest income and similar income	100	7	23103	18450	32873	26252
10	Other interest payments and similar expenses	120	8	(547422)	(540990)	(778911)	(769759)
11	Profit or loss before extraordinary items and taxes	130		(4106215)	(825885)	(5842617)	(1175128)
12	Profit or loss before tax	160		(4106215)	(825885)	(5842617)	(1175128)
13	Corporate income tax	170					
14	Retained corporate income tax	180	9	6578	(27409)	9360	(38999)
15	Other taxes	190	10	(91256)	(111156)	(129847)	(158162)
16	Profit or loss of the accounting period	200		(4190893)	(964450)	(5963104)	(1372289)

EPS (earnings per share)	(0.72)	(0,17)	(1.03)	(0,24)
The number of shares is 5799005				

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2009

A S S E T S	Line code	Note	31.12.09. LVL	31.12.08. LVL	31.12.09. EUR	31.12.08. EUR
1. LONG-TERM INVESTMENTS		11				
I. Intangible investments						
1. Development costs	010		170636	341271	242793	485585
2. Concessions, licences and similar rights	020		96	417	137	593
3. Other intangible investments	021		654	3971	931	5650
I. Total	050		171386	345659	243861	491828
II. Fixed assets						
1. Land plots, buildings, constructions	060		4296350	4353002	6113155	6193764
2. Equipment and machinery	080		3148415	3358734	4479791	4779048
3. Other fixed assets and inventory	090		39654	66075	56423	94016
4. Creation of fixed assets	100		630390	724287	896964	1030568
5. Prepayments for fixed assets	110			36856		52441
II. Total	120		8114809	8538954	11546333	12149837
III. Long-term financial investments						
1. Participation in capital of affiliated companies	150		59927	59927	85268	85268
III. Total	210		59927	59927	85268	85268
I. PART TOTAL AMOUNT	220		8346122	8944540	11875462	12726933
2. CURRENT ASSETS						
I. Stocks						
1. Raw materials, direct materials and auxiliary materials	230		2189971	3011995	3116048	4285683
2. Unfinished products	240		1271996	2853405	1809887	4060030
3. Finished products and goods for sale	250		244765	226610	348269	322437
4. Prepayments for goods	270		234970	59474	334332	84624
I. Total	290		3941702	6151484	5608536	8752774
II. Debtors						
1. Debts of buyers and customers	300	12	4532554	7353961	6449243	10463744
2. Debts of affiliated companies	320			466		663
3. Other debtors	330	13	97718	375755	139040	534651
4. Deferred expenses	360	14	175984	177434	250403	252466
II. Total	370		4806256	7907616	6838686	11251524
III. Securities and participation in capitals						
1. Other securities	400	15	2009786	1600000	2859667	2276595
III. Total	410		2009786	1600000	2859667	2276595
IV. Cash	420	16	77188	523272	109829	744549
II. PART TOTAL AMOUNT	430		10834932	16182372	15416718	23025442
B A L A N C E	440		19181054	25126912	27292180	35752375

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

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2009

LIABILITIES	Line code	Note	31.12.09. LVL	31.12.08. LVL	31.12.09. EUR	31.12.08. EUR
1. SHAREHOLDERS' EQUITY						
1. Share capital (capital stock)	450	17	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	470		264632	187500	376537	266788
3. Other provisions	510		192922	192922	274503	274503
4. Undivided profit:						
a) Undivided profit of previous years	530		1810813	2775263	2576555	3948844
b) Undivided profit of the accounting year	540		(4190893)	(964450)	(5963104)	(1372289)
1. PART TOTAL AMOUNT	550		3876479	7990240	5515732	11369087
2. PROVISIONS						
1. Other provisions	580	18	184707	200153	262814	284792
2. PART TOTAL AMOUNT	590		184707	200153	262814	284792
3. CREDITORS						
I. Long-term creditors						
1. Loans from credit institutions	620	19				
2. Other loans	630	20	553886	822619	788109	1170481
3. Deferred tax liabilities	731		248198	254776	353154	362514
I. Total	740		802084	1077395	1141263	1532995
II. Short-term creditors						
1. Loans from credit institutions	770	19	8187027	8613505	11649090	12255913
2. Other loans	780	20	574567	422215	817535	600758
3. Advance payments received from buyers	790			2499		3556
4. Debts to suppliers and contractors	800	21	2363089	3983254	3362373	5667660
5. Debts to affiliated companies	830		2489	3395	3541	4831
6. Taxes and social security payments	840	22	2524497	1577784	3592036	2244984
7. Other creditors	850	23	666115	1256472	947796	1787799
II. Total	890		14317784	15859124	20372371	22565501
3. PART TOTAL AMOUNT	900		15119868	16936519	21513634	24098496
BALANCE	910		19181054	25126912	27292180	35752375

CASH FLOW STATEMENT FOR TWELVE MONTHS OF 2009 (prepared by indirect method)

I. Cash flow from operating activities

	Items	31.12.09. LVL	31.12.08. LVL	31.12.09. EUR	31.12.08. EUR
1	Profit or loss before extraordinary items and taxes	(4106215)	(825885)	(5842617)	(1175128)
	ADJUSTMENTS				
	Depreciation of fixed assets	378441	328934	538473	468031
	Amortization of intangible investment value	4138	4654	5888	6622
	Gain from sales of fixed assets				
	Profit or loss from fluctuations of currency exchange rates	84014	319576	119541	454715
	Income from participation in capital of related and affiliated companies		(441)		(627)
	Amounts written off investments				
	Amounts written off fixed assets	2906	2862	4135	4072
	Reserve for revaluation of long-term investments	77132	(11938)	109749	(16986)
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	(3559584)	(182238)	(5064831)	(259301)
	ADJUSTMENTS				
	Increase or decrease of balance of receivables	3030251	(685493)	4311659	(975369)
	Increase or decrease of balance of inventories	2486597	(1507143)	3538109	(2144471)
	Increase or decrease of deferred expenses	1450	(168295)	2063	(239462)
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	(1003840)	6091503	(1428336)	8667428
	Increase or decrease of accruals	(15446)	(212669)	(21978)	(302601)
	Expenses for tax payments	(71403)	(86723)	(101597)	(123396)
3	Gross cash flow from operating activities	868025	3248942	1235089	4622828
4	Expenses for corporate income tax payments		(213694)		(304059)
5	Cash flow before extraordinary items	868025	3035248	1235089	4318769
I	NET CASH FLOW FROM OPERATING ACTIVITIES	868025	3035248	1235089	4318769

II. Cash flow from investing activities

	Items	31.12.09. LVL	31.12.08. LVL	31.12.09. EUR	31.12.08. EUR
1	Purchase of fixed assets and intangible investments	(95877)	(1097312)	(136421)	(1561334)
2	Repaid loans	(409786)		(583073)	
3	Dividends received		441		627
II	NET CASH FLOW FROM INVESTING ACTIVITIES	(505663)	(1096871)	(719494)	(1560707)

III. Cash flow from financing activities

	Items	31.12.09. LVL	31.12.08. LVL	31.12.09. EUR	31.12.08. EUR
1	Loans received	260037	266590	369999	379323
2	Expenses for repayment of loans	(864798)	(1534735)	(1230497)	(2183731)
3	Expenses for repurchase of leased fixed assets	(221325)	(103163)	(314917)	(146788)
III	NET CASH FLOW FROM FINANCING ACTIVITIES	(826086)	(1371308)	(1175415)	(1951196)

IV. Summary of cash inflow and outflow

	Items	31.12.09. LVL	31.12.08. LVL	31.12.09. EUR	31.12.08. EUR
I	Net cash flow from operating activities	868025	3035248	1235089	4318769
II	Net cash flow from investing activities	(505663)	(1096871)	(719494)	(1560707)
III	Net cash flow from financing activities	(826086)	(1371308)	(1175415)	(1951196)
	Result of fluctuations of currency exchange rates	17640	(55510)	25100	(78983)
	Net cash flow of the accounting period	(446084)	511559	(634720)	727883
	Cash and its equivalents in the beginning of the accounting period	523272	11713	744549	16666
	Cash and its equivalents at the end of the accounting period	77188	523272	109829	744549

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2009, LVL

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 31.12.2007.g.	5799005	199438	192922	2775263	8966628
2. 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					
3. Income or loss of the accounting period in accordance with the profit and loss account				(964450)	(964450)
4. Balance as of 31.12.2008.g.	5799005	187500	192922	1810813	7990240
5. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(2392)			(2392)
b) increase of fixed assets		79524			79524
6. Income or loss of the accounting period in accordance with the profit and loss account				(4190893)	(4190893)
7. Balance as of 31.12.2009.g.	5799005	264632	192922	(2380080)	3876479

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2009, EUR

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 31.12.2007.g.	8251241	283775	274503	3948844	12758363
2. 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					
3. Income or loss of the accounting period in accordance with the profit and loss account				(1372289)	(1372289)
4. Balance as of 31.12.2008.g.	8251241	266788	274503	2576555	11369087
5. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(3403)			(3403)
b) increase of fixed assets		113152			113152
6. Income or loss of the accounting period in accordance with the profit and loss account				(5963104)	(5963104)
7. Balance as of 31.12.2009.g.	8251241	376537	274503	(3386549)	5515732

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.

	31.12.2009 LVL	31.12.2008 LVL	31.12.2009 EUR	31.12.2008 EUR
Unfinished construction objects	118011	118011	167915	167915
Costs of capital asset creation	512379	606276	729049	862653
Total	630390	724287	896964	1030568

Long-term financial investments

As at 31.12.2009 AS "RER" has an investment in the associated company SIA "Lovato-REZ".

No. of registration certificate and date of registration	Name	Registered office	Invest ment, %	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 – 31.12.2009. 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.)

	31.12.2009, LVL	31.12.2008, LVL
1 EUR	0.702804	0.702804
1 USD	0.489	0.495
1 RUB	0.0164	0.0171
1 SEK	0.0678	0.0635

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 2009 warranty repair costs accounted for LVL 41094 (EUR 58471), which is only 0.38% 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 been 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 2008 the average rate of the Company's loans and financial leasing transactions was 6.597%, in 2008 – 6.578%.

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 decreased – by 38.0% – when compared with 2008.

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 2009

Note No. 1 – Net turnover

Country	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Latvia	2405673	10296490	3422964	14650585
Russia	7985890	11046391	11362898	15717599
Ukraine	72647		103367	
Sweden	96804	71116	137740	101189
Great Britain		981892		1397106
British Virgin Islands	210841		300000	
Other	17737	74363	25237	105809
Total	10789592	22470252	15352206	31972288

Note No. 2 – Production costs of products sold

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Salaries	3276364	6688629	4661846	9517062
Social insurance contributions	774395	1564541	1101865	2226141
Costs of materials	5769112	8350823	8208707	11882151
Energy resources	820071	776835	1166856	1105337
Depreciation of capital assets and intangible assets	352500	250350	501562	356216
Business trip costs	24554	46495	34937	66156
Repair costs and remuneration for works from outside	175744	190297	250061	270768
Services of experts		92275		131295
Development costs	170636		242793	
Losses due to rejects	41094	93806	58471	133474
Environmental protection costs	12030	20561	17117	29256
Other costs	70003	73196	99606	104148
Total	11486503	18147808	16343821	25822004

Note No. 3 – Selling costs

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Packing material and package	164519	255183	234089	363093
Transportation expenses	248119	374349	353042	532651
Salaries	49409	118545	70303	168674
Social insurance contributions	11827	28020	16828	39869
Other selling costs	340	448	484	637
Total	474214	776545	674746	1104924

Notes (cont.)

Note No. 4 – Administrative costs

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Communications costs	34350	56953	48876	81037
Office costs		11462		16309
Reimbursement for legal services	12834		18261	
Cash circulation and expense and extra costs	23330	36952	33196	52578
Transportation expenses	15401	32597	21914	46381
Representation expenses	9165	13667	13041	19446
Salaries	1295090	2286213	1842747	3252988
Social insurance contributions	298583	487189	424845	693207
Costs of materials	4932	15894	7018	22615
Energy resources	62020	115151	88247	168114
Depreciation of capital assets	46328	70713	65919	100616
Business trip costs	50773	92697	72243	131896
Security services	143942	185587	204811	264067
Year's payment to Stock Exchange of Riga	5000	5000	7114	7114
Computer's network service		13064		18588
Consulting service and business management services		55682		79228
Other administrative costs	29277	41616	41656	59215
Total	2031025	3523437	2889888	5013399

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

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Profit gained as a result of other sales (materials, lease, other)	156222	60825	222284	86546
Penalty and contractual penalties	13629		19392	
Inventory surplus		12253		17434
Remaining amounts of removal of capital assets, materials	2316	5723	3295	8143
Deposited salaries	15		21	
Income related to maintenance of social sphere	35105	36475	49950	51899
Decrease in revaluation reserve of capital assets		11938		16986
Decrease in holiday provision	15446	212669	21978	302601
Other income	5128	4467	7297	6357
Total	227861	344350	324217	489966

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

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Penalty and contractual penalties	113160	86415	161012	122957
Costs related to maintenance of social sphere	53994	133655	76827	190174
Costs not related to operating activities of the Company	268864	121649	382559	173091
Losses from converting currency	212	56594	302	80526
Losses from fluctuations of exchange rates	83802	262982	119240	374190
Removal of capital assets	2906	2862	4135	4072
Increase in revaluation reserve of capital assets	77132		109749	
Write-off material values	4398		6258	
Loss from previous year		1525		2170
Inventory deficit		3238		4607
Other costs	3139	1678	4465	2388
Total	607607	670598	864547	954175

Notes (cont.)

Note No. 7 - Other interest income and similar income

Indicator	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Interest income	23038	18400	32780	26180
Other interest income	65	50	93	72
Total	23103	18450	32873	26252

Note No. 8 – Other interest payments and similar costs

Indicator	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Loan agreements	113327	78417	161250	111577
Leasing agreements	66015	46950	93931	66804
Credit line agreements	368080	415623	523730	591378
Total	547422	540990	778911	769759

Note No. 9 – Deferred corporate income tax

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Deferred tax liabilities as at the beginning of accounting year	254776	227367	362513	323514
Deferred tax expenditure in profit and loss account of accounting year	(6578)	27409	(9359)	38999
Deferred tax liabilities as at the end of accounting year	248198	254776	353154	362513

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Deferred tax liabilities :				
Temporary difference of depreciation of capital assets	245881	222876	349857	317124
Deferred tax assets:				
Temporary differences of costs of holidays not used	2317	31900	3297	45389
Deferred tax liabilities	248198	254776	353154	362513

Note No. 10 – Other taxes

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Real estate tax on premises (buildings)	61709	100384	87805	142835
Real estate tax on land	29547	10772	42042	15327
Total	91256	111156	129847	158162

NOTES TO BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2009

Note No. 11 – Statement of movement of long-term investments, LVL

	Initial value				Depreciation				Remaining value	
	Remaining amount as at 01.01.09	Purchase	Removed	Remaining amount as at 31.12.09	Remaining amount as at 01.01.09	Calculated	Removed	Remaining amount as at 31.12.09	01.01.09	31.12.09.
Intangible investments										
Devel.costs	341271		(170635)	170636					341271	170636
Licences and other	1137			1137	720	321		1041	417	96
Software	10265	500		10765	6294	3817		10111	3971	654
Total	352673	500	(170635)	182538	7014	4138		11152	345659	171386
Capital assets										
Land, premises, buildings*	7284609		(304231)	6980378	2931607	56652	(304231)	2684028	4353002	4296350
Equipment and machinery	5848019	80373	(24316)	5904076	2489285	287813	(21437)	2755661	3358734	3148415
Other capital assets	264678	7582	(2637)	269623	198603	33976	(2610)	229969	66075	39654
Creation of capital assets	724287	7422	(101319)	630390					724287	630390
Advance payments for capital assets	36856		(36856)						36856	
Total	14158449	95377	(469359)	13784467	5619495	378441	(328278)	5669658	8538954	8114809
Long-term fin. investm.										
Partnership in capital of associated companies	59927			59927					59927	59927
Total	59927			59927					59927	59927
In total	14571049	95877	(639994)	14026932	5626509	382579	(328278)	5680810	8944540	8346122

Note No. 11 – Statement of movement of long-term investments, EUR

	Initial value				Depreciation				Remaining value	
	Remaining amount as at 01.01.09	Purchase	Removed	Remaining amount as at 31.12.09	Remaining amount as at 01.01.09	Calculated	Removed	Remaining amount as at 31.12.09	01.01.09	31.12.09
Intangible assets										
Devel.costs	485585		(242792)	242793					485585	242793
Licences and other	1618			1618	1025	456		1481	593	137
Software	14606	711		15317	8956	5430		14386	5650	931
Total	501809	711	(242792)	259728	9981	5886		15867	491828	243861
Capital assets										
Land, premises, buildings*	10365065		(432882)	9932183	4171301	80609	(432882)	3819028	6193764	6113155
Equipment and machinery	8320982	114360	(34599)	8400743	3541934	409520	(30502)	3920952	4779048	4479791
Other capital assets	376603	10788	(3752)	383639	282587	48343	(3714)	327216	94016	56423
Creation of capital assets	1030568	10561	(144165)	896964					1030568	896964
Advance payments for capital assets	52441		(52441)						52441	
Total	20145659	135709	(667839)	19613529	7995822	538472	(467098)	8067196	12149837	11546333
Long-term fin. investm.										
Partnership in capital of associated companies	85268			85268					85268	85268
Total	85268			85268					85268	85268
In total	20732736	136420	(910631)	19958525	8005803	544358	(467098)	8083063	12726933	11875462

In 2009 assessed value of the premises accounted for LVL 7 784 197 (EUR 11 075 914), assessed value of the plot accounted for LVL 3 965 648 (EUR 5 642 609).

Notes (cont.)

Note No. 12 – Debts of customers and clients

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Debts of customers and clients	4542584	7364419	6463514	10478624
Provisions for doubtful debtors	(10030)	(10458)	(14271)	(14880)
Total	4532554	7353961	6449243	10463744

Note No. 13 – Other debtors

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Demand calculations for personnel	7739		11012	
Taxes paid in advance	5940	6178	8452	8791
Overpaid taxes	60117	225353	85539	320648
Advance payments for services		112509		160086
Interest income		18400		26181
Rental debts	19027	9126	27073	12985
Other	4895	4189	6964	5960
Total	97718	375755	139040	534651

Note No. 14 – Costs of the following periods

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.0 EUR	31.12.08 EUR
Press subscription		140		199
Insurance	4247	3617	6044	5147
Annual anti-virus program licences	623	1585	886	2255
Expenses for development of new techniques	170636	170636	242793	242793
Other	478	1456	680	2072
Total	175984	177434	250403	252466

Note No. 15 – Other securities and partnership in capitals

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Short-term loan	2009786	1600000	2859667	2276595

Note No. 16 – Cash

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Current accounts in banks	77188	523272	109829	744549

Note No. 17 – Stock capital (fixed capital)

Total number of stocks of AS "RER" is 5 799 005 shares. A nominal value of each share is LVL 1.00.

The Company's fixed capital is LVL 5 799 005, which is split into: 5 799 005 regular voting shares.

Composition of shareholders according to the database of the Latvian Central Depository:

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 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. 18 – Other provisions

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Holiday provisions	184707	200153	262814	284792

Note No. 19 – Long-term and short-term loans from credit institutions

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Latvian credit institutions, loan agreement, including	3238673	964479	4608217	1372330
Long-term debt				
Short-term debt	3238673	964479	4608217	1372330
Latvian credit institutions, credit line agreement, including	4948354	7649026	7040873	10883583
Short-term debt	4948354	7649026	7040873	10883583

Note No. 20 – Other loans

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Leasing agreements, including	868416	982484	1235645	1397949
Long-term debt	553886	822619	788109	1170481
Short-term debt	314530	159865	447536	227468
Other loans, including	260037	262350	369999	373290
Long-term debt				
Short-term debt	260037	262350	369999	373290

Note No. 21 – Debts to suppliers and contractors

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Local suppliers	1837064	3188061	2613907	4536202
Foreign suppliers	526025	795193	748466	1131458
Total	2363089	3983254	3362373	5667660

Note No. 22 – Taxes and social insurance contributions

Indicators	31.12.08 LVL debt (840.b.r.)	31.12.08 LVL overpay ment (330.b.r.)	Calculat ed, LVL	Penalty calculat ed, LVL	Paid, LVL	Penalty paid, LVL	31.12.09 LVL debt (840.b.r.)	31.12.09 LVL overpay ment (330.b.r.)
Personal income tax	598514		733723	23195	383253	2522	969657	
Mandatory social insurance contributions	948898		1359090	35165	830199	7982	1504972	
Corporate income tax		204984	204984					
Value added tax		20369	1151616	19	1191364	19		60117
Natural resources tax	3927		11089		11558		3458	
Real estate tax on land	96		13465	103	6802	103	6759	
Real estate tax on premises (buildings)	25679		77791	1080	64601	899	39050	
State business risk fee	670		2787	18	2856	18	601	
Total	1577784	225353	3554545	59580	2490633	11543	2524497	60117

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"
Audited Annual Report 2009

Notes (cont.)

Indicators	31.12.08. EUR debt (840.b.r.)	31.12.08. EUR overpay ment (330.b.r.)	Calculat ed, EUR	Penalty calculat ed, EUR	Paid, EUR	Penalty paid EUR	31.12.09. EUR debt (840.b.r.)	31.12.09. EUR overpay ment (330.b.r.)
Personal income tax	851609		1043994	33004	545320	3588	1379699	
Mandatory social insurance contributions	1350159		1933811	50035	1181267	11356	2141382	
Corporate income tax		291666	291666					
Value added tax		28982	1638602	27	1695159	27		85539
Natural resources tax	5588		15778		16446		4920	
Real estate tax on land	137		19159	147	9679	147	9617	
Real estate tax on premises (buildings)	36538		110687	1537	91919	1280	55563	
State business risk fee	953		3966	26	4064	26	855	
Total	2244984	320648	5057663	84776	3543854	16424	3592036	85539

Possible liabilities

Presently there are negotiations with State Revenue Service about reassessment of delayed maturity of tax payment. It is impossible at the moment to forecast the results of these negotiations that could impact the amount of possible additional tax liability (penalty).

Note No. 23 – Other creditors

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Salary debt	651057	1237254	926370	1760454
Support payments	3551	2631	5053	3744
Trade union membership fee	11507	11207	16373	15946
Deposited salaries		5287		7523
Other		93		132
Total	666115	1256472	947796	1787799

Note No. 24 – Number of the Company's employees

Indicators	31.12.09	31.12.08
Average number of employees	929	1372

Note No. 25 – Information about remuneration to the Council and Board Members

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Remuneration calculated to the Council Members	7700	7450	10956	10600
Remuneration calculated to the Board Members	6862	7032	9764	10006
Total	14562	14482	20720	20606

Note No. 26 – Information about remuneration for services of the commercial company of certified auditors (amounts given including VAT)

Indicators	31.12.09 LVL	31.12.08 LVL	31.12.09 EUR	31.12.08 EUR
Remuneration for auditing annual report	4114	4074	5854	5797

Company on behalf of the Board,

Head clerk, Board Member

I. Ruļovs

09 April 2010

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 2009 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,

Head clerk, Board Member

I. Ruļovs

09 April 2010



INDEPENDENT AUDITORS' REPORT

To the shareholders of JSC'' RIGA ELECTRIC MACHINERY FACTORY''

Report on the Financial Statements

We have audited the accompanying 2009 financial statements of JSC'' RIGA ELECTRIC MACHINERY FACTORY'' (further ''the Company''), which are set out on pages 6 through 20 of the accompanying 2009 Annual Report and which comprise the balance sheet as at 31 December 2009, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Financial Statements of Companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Company as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the Republic of Latvia Annual Accounts Law .

Emphasis of Matter

Without qualifying our opinion, we would like to draw your attention to the fact listed in the annotation 22 of this Financial Statement. It states that presently there are negotiations with State Revenue Service about reassessment of delayed maturity of tax payment. It is impossible at the moment to forecast the results of these negotiations, as well as other factors in the future, that could impact the amount of possible additional tax liabilities. Wherewith, accumulation for tax risk has not been made.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2009 ,included on pages 4 through 5 of the accompanying 2009 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2009.

Riga, 29 April 2010

“Rigas Audits” Ltd, certificate No 103

Board of chairman , certificated auditor,

certificate No 127



Janis Meziels