

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

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

**ANNUAL REPORT FOR 6 MONTHS  
OF THE YEAR 2009  
(NON-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	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 – 30 June 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 %

## Joint Stock Company „Rīga Electric Machine Building Works” Management statement

### Activity of the Company during the 1st half of 2009

The core business of the joint stock company "Rīga Electric Machine Building Works" (hereinafter – JSC "RER") is manufacture of electric machines and appliances.

Main types of products are as follows:

- Electric equipment for electric trains;
- Electric equipment for passenger coaches;
- Casting.

During the 1<sup>st</sup> half of 2009 the net turnover of the stock company "RER" reached LVL 6 768 964 (EUR 9 631 368 ), which is 61.95 per cent in comparison with the corresponding time period in 2008. During the 1<sup>st</sup> half of 2009 the Company sustained losses in the amount of LVL 2 125 684 ( EUR 3 024 575) before tax deduction, after tax deduction – LVL 2 171 312 (EUR 3 089 499). Average number of employees on 30 June 2009 was 1 052, that is 78.10 per cent in comparison with the corresponding index on 30 June 2008.

*The financial standing of the Company is characterized by the following indices:*

#### Financial stability indices:

Name of the index	30/06/2009.	30/06/2008.
Independence ratio (own capital / whole capital)	0.28	0.41
Loan and own capital relation (loan capital / own capital)	2.58	1.46

#### Liquidity indices:

Name of the index	30/06/2009.	30/06/2008.
General liquidity ratio (current assets / short-term liabilities)	0.89	1.08
Quick liquidity ratio (short-term debtors and funds / short-term liabilities)	0.58	0.64

### Activity of the Company in the 2<sup>nd</sup> half of 2009

The exploitation range of electrical equipment made by JSC "Rīga Electric Machine Building Works":

- The overhaul and reconstruction maintenance for all type of carriages till the high-speed new age carriages;
- From the carriages with incomplete conditioning till the elevated comfort carriages with complete conditioning ;
- From the carriages with the autonomous power supply 8, 10, 16, 32 kW till the carriages with the unitary power supply with the statistic transformer 12 and 35 kW.

JSC "Rīga Electric Machine Building Works" plans to implement several projects to perform industrial research, to introduce new manufacturing technologies. Implementing the projects within their framework it is planned to create at least 100 new work places (within the project also the qualification of the existing employees will be raised), also to rising the turnover of the company till 20 million lats, JSC "Rīga Electric Machine Building Works" will give significant input in the facilitation of the economy development. Furthermore it should be notes that for the implementation of the projects the JSC "Rīga Electric Machine Building Works" plans to use the financial resources of the company, without any borrowings from the credit institutions that could endanger the project's implementation possibility.

Within the projects' framework it is planned to perform the experimental development of the new products, to carry out the industrial research and to elaborate the prototypes for the implementation of the projects the materials and human resources of the JSC "Riga Electric Machine Building Works" will be used.

Chairperson of the Board

Grigorijs Uspenskis

17 August 2009

**PROFIT AND LOSS ACCOUNT FOR 6 MONTHS OF 2009**

No.	Items	Line code	Note	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
1	Net turnover	010	1	6768964	10926595	9631368	15547144
2	Production costs of the goods sold	020	2	(7032501)	(9245317)	(10006347)	(13154901)
3	<b>Gross profit or loss</b>	030		<b>(263537)</b>	<b>1681278</b>	<b>(374979)</b>	<b>2392243</b>
4	Selling expenses	040	3	(282527)	(367502)	(402000)	(522908)
5	Administration expenses	050	4	(1166172)	(1768331)	(1659313)	(2516108)
6	Other operating income	060	5	116926	294309	166371	418764
7	Other operating expenses	070	6	(272509)	(222119)	(387745)	(316047)
8	Other interest income and similar income	100		2	18418	3	26206
9	Other interest payments and similar expenses	120	7	(257867)	(247259)	(366912)	(351818)
10	Profit or loss before extraordinary items and taxes	130		(2125684)	(611206)	(3024575)	(869668)
11	Profit or loss before tax	160		(2125684)	(611206)	(3024575)	(869668)
12	Other taxes	190	8	(45628)	(50873)	(64924)	(72386)
13	Profit or loss of the accounting period	200		<b>(2171312)</b>	<b>(662079)</b>	<b>(3089499)</b>	<b>(942054)</b>

EPS (earnings per share)	(0,37)	(0,11)	(0,53)	(0,16)
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**BALANCE SHEET FOR 6 MONTHS OF 2009**

<b>A S S E T S</b>	<b>Line code</b>	<b>Note</b>	<b>30.06.08. LVL</b>	<b>30.06.07. LVL</b>	<b>30.06.08. EUR</b>	<b>30.06.07. EUR</b>
<b>1. LONG-TERM INVESTMENTS</b>		9				
<b>I. Intangible investments</b>						
1. Development costs	010		341271		485585	
2. Concessions, licences and similar rights	020		248	595	353	847
3. Other intangible investments	021		2105	6276	2995	8930
<b>I. Total</b>	<b>050</b>		<b>343624</b>	<b>6871</b>	<b>488933</b>	<b>9777</b>
<b>II. Fixed assets</b>						
1. Land plots, buildings, constructions	060		4324602	4352879	6153354	6193589
2. Equipment and machinery	080		3267656	2040040	4649456	2902715
3. Other fixed assets and inventory	090		51845	92418	73769	131499
4. Creation of fixed assets	100		697464	1768973	992402	2517022
5. Prepayments for fixed assets	110			133312		189686
<b>II. Total</b>	<b>120</b>		<b>8341567</b>	<b>8387622</b>	<b>11868981</b>	<b>11934511</b>
<b>III. Long-term financial investments</b>						
1. Participation in capital of affiliated companies	150		59927	59927	85268	85268
<b>III. Total</b>	<b>210</b>		<b>59927</b>	<b>59927</b>	<b>85268</b>	<b>85268</b>
<b>I. PART TOTAL AMOUNT</b>	<b>220</b>		<b>8745118</b>	<b>8454420</b>	<b>12443182</b>	<b>12029556</b>
<b>2. CURRENT ASSETS</b>						
<b>I. Stocks</b>						
1. Raw materials, direct materials and auxiliary materials	230		2172019	2395227	3090505	3408101
2. Unfinished products	240		1449169	1779699	2061982	2532284
3. Finished products and goods for sale	250		468130	856738	666089	1219028
4. Prepayments for goods	270		323607	42873	460451	61003
<b>I. Total</b>	<b>290</b>		<b>4412925</b>	<b>5074537</b>	<b>6279027</b>	<b>7220416</b>
<b>II. Debtors</b>						
1. Debts of buyers and customers	300	10	6437424	5497275	9159629	7821918
2. Debts of affiliated companies	320		1966	149	2797	212
3. Other debtors	330	11	272184	210906	387283	300091
4. Deferred expenses	360	12	99376	2482	141399	3532
<b>II. Total</b>	<b>370</b>		<b>6810950</b>	<b>5710812</b>	<b>9691108</b>	<b>8125753</b>
<b>III. Securities and participation in capitals</b>						
1. Other securities	400	13	1600000	1600000	2276595	2276595
<b>III. Total</b>	<b>410</b>		<b>1600000</b>	<b>1600000</b>	<b>2276595</b>	<b>2276595</b>
<b>IV. Cash</b>	<b>420</b>	<b>14</b>	<b>287</b>	<b>5991</b>	<b>408</b>	<b>8524</b>
<b>II. PART TOTAL AMOUNT</b>	<b>430</b>		<b>12824162</b>	<b>12391340</b>	<b>18247138</b>	<b>17631288</b>
<b>B A L A N C E</b>	<b>440</b>		<b>21569280</b>	<b>20845760</b>	<b>30690320</b>	<b>29660844</b>

Appendices to financial statements on pages 11 – 20 are an integral part of the financial statements.

**BALANCE SHEET FOR 6 MONTHS OF 2009**

<b>LIABILITIES</b>	<b>Line code</b>	<b>Note</b>	<b>30.06.09. LVL</b>	<b>30.06.08. LVL</b>	<b>30.06.09. EUR</b>	<b>30.06.08. EUR</b>
<b>1. SHAREHOLDERS' EQUITY</b>						
1. Share capital (capital stock)	450	15	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	470		185338	193645	263712	275532
3. Other provisions	510		192922	192922	274503	274503
4. Undivided profit:						
a) Undivided profit of previous years	530		1810813	2775263	2576555	3948843
b) Undivided profit of the accounting year	540		(2171312)	(662079)	(3089499)	(942054)
<b>1. PART TOTAL AMOUNT</b>	<b>550</b>		<b>5816766</b>	<b>8298756</b>	<b>8276512</b>	<b>11808065</b>
<b>2. PROVISIONS</b>						
1. Other provisions	580	16	200153	189406	284792	269500
<b>2. PART TOTAL AMOUNT</b>	<b>590</b>		<b>200153</b>	<b>189406</b>	<b>284792</b>	<b>269500</b>
<b>3. CREDITORS</b>						
<b>I. Long-term creditors</b>						
1. Loans from credit institutions	620	17		657746		935888
2. Other loans	630	18	822619	10832	1170481	15413
3. Deferred tax liabilities	731		254776	227367	362514	323514
<b>I. Total</b>	<b>740</b>		<b>1077395</b>	<b>895945</b>	<b>1532995</b>	<b>1274815</b>
<b>II. Short-term creditors</b>						
1. Loans from credit institutions	770	17	8581400	6132526	12210232	8725798
2. Other loans	780	18	117687	1022039	167454	1454230
3. Advance payments received from buyers	790	19	3236	53779	4604	76521
4. Debts to suppliers and contractors	800	20	2735519	2871138	3892293	4085261
5. Debts to affiliated companies	830		3220	7089	4582	10087
6. Taxes and social security payments	840	21	2346839	745214	3339251	1060344
7. Other creditors	850	22	687065	629868	977605	896223
<b>II. Total</b>	<b>890</b>		<b>14474966</b>	<b>11461653</b>	<b>20596021</b>	<b>16308464</b>
<b>3. PART TOTAL AMOUNT</b>	<b>900</b>		<b>15552361</b>	<b>12357598</b>	<b>22129016</b>	<b>17583279</b>
<b>BALANCE</b>	<b>910</b>		<b>21569280</b>	<b>20845760</b>	<b>30690320</b>	<b>29660844</b>



**CASH FLOW STATEMENT FOR 6 MONTHS OF 2009** (prepared by indirect method)

**I. Cash flow from operating activities**

	Items	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
1	Profit or loss before extraordinary items and taxes	(2125684)	(611206)	(3024575)	(869668)
	<b>ADJUSTMENTS</b>				
	Depreciation of fixed assets	193127	145241	274795	206659
	Amortization of intangible investment value	2535	2170	3607	3088
	Profit or loss from fluctuations of currency exchange rates	150667	59541	214380	84719
	Amounts written off fixed assets	2802	1436	3987	2043
	Reserve for revaluation of long-term investments	(2162)	(5793)	(3076)	(8243)
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	<b>(1778715)</b>	<b>(408611)</b>	<b>(2530882)</b>	<b>(581402)</b>
	<b>ADJUSTMENTS</b>				
	Increase or decrease of balance of receivables	632106	1421112	899406	2022060
	Increase or decrease of balance of inventories	2002692	(446797)	2849574	(635735)
	Increase or decrease of deferred expenses	78058	6657	111067	9472
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	(723403)	1804832	(1029313)	2568045
	Increase or decrease of accruals		(223555)		(318090)
	Expenses for tax payments	(71403)	(56082)	(101597)	(79797)
3	Gross cash flow from operating activities	<b>139335</b>	<b>2097556</b>	<b>198255</b>	<b>2984553</b>
4	Expenses for corporate income tax payments		(108888)		(154934)
5	Cash flow before extraordinary items	<b>139335</b>	<b>1988668</b>	<b>198255</b>	<b>2829619</b>
I	<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>139335</b>	<b>1988668</b>	<b>198255</b>	<b>2829619</b>

**II. Cash flow from investing activities**

	Items	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
1	Purchase of fixed assets and intangible investments	(35898)	(1474185)	(51078)	(2097576)
II	<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(35898)</b>	<b>(1474185)</b>	<b>(51078)</b>	<b>(2097576)</b>

**III. Cash flow from financing activities**

	Items	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
1	Expenses for repayment of loans	(485546)	(438495)	(690870)	(623922)
2	Expenses for repurchase of leased fixed assets	(149434)	(20150)	(212625)	(28671)
III	<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(634980)</b>	<b>(458645)</b>	<b>(903495)</b>	<b>(652593)</b>

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

	Items	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
I	Net cash flow from operating activities	139335	1988668	198255	2829619
II	Net cash flow from investing activities	(35898)	(1474185)	(51078)	(2097576)
III	Net cash flow from financing activities	(634980)	(458645)	(903495)	(652593)
	Result of fluctuations of currency exchange rates	8558	(61560)	12177	(87592)
	Net cash flow of the accounting period	<b>(522985)</b>	<b>(5722)</b>	<b>(744141)</b>	<b>(8142)</b>
	Cash and its equivalents in the beginning of the accounting period	<b>523272</b>	<b>11713</b>	<b>744549</b>	<b>16666</b>
	Cash and its equivalents at the end of the accounting period	<b>287</b>	<b>5991</b>	<b>408</b>	<b>8524</b>

**STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 6 MONTHS OF 2009, LVL**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
<b>1. Balance as of 31.12.2007.g.</b>	<b>5799005</b>	<b>199438</b>	<b>192922</b>	<b>2775263</b>	<b>8966628</b>
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(5793)			(5793)
b) increase of fixed assets					
3. Income or loss of the accounting period in accordance with the profit and loss account				(662079)	(662079)
<b>4. Balance as of 30.06.2008.g.</b>	<b>5799005</b>	<b>193645</b>	<b>192922</b>	<b>2113184</b>	<b>8298756</b>
<b>5. Balance as of 31.12.2008.g.</b>	<b>5799005</b>	<b>187500</b>	<b>192922</b>	<b>1810813</b>	<b>7990240</b>
6. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(2162)			(2162)
b) increase of fixed assets					
7. Income or loss of the accounting period in accordance with the profit and loss account				(2171312)	(2171312)
<b>8. Balance as of 30.06.2009.g.</b>	<b>5799005</b>	<b>185338</b>	<b>192922</b>	<b>(360499)</b>	<b>5816766</b>

**STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 6 MONTHS OF 2009, EUR**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
<b>1. Balance as of 31.12.2007.g.</b>	<b>8251241</b>	<b>283775</b>	<b>274503</b>	<b>3948843</b>	<b>12758362</b>
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(8243)			(8243)
b) increase of fixed assets					
3. Income or loss of the accounting period in accordance with the profit and loss account				(942054)	(942054)
<b>4. Balance as of 30.06.2008.g.</b>	<b>8251241</b>	<b>275532</b>	<b>274503</b>	<b>3006789</b>	<b>11808065</b>
<b>5. Balance as of 31.12.2008.g.</b>	<b>8251241</b>	<b>266788</b>	<b>274503</b>	<b>2576555</b>	<b>11369087</b>
6. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(3076)			(3076)
b) increase of fixed assets					
7. Income or loss of the accounting period in accordance with the profit and loss account				(3089499)	(3089499)
<b>8. Balance as of 30.06.2009.g.</b>	<b>8251241</b>	<b>263712</b>	<b>274503</b>	<b>(512944)</b>	<b>8276512</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.

#### 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.

Notes (cont.)

Accounting policy (cont.)

#### Long-term financial investments

As at 30.06.2009 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.

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

Data of the Financial report that are represented in EUR are recalculated in conformity with the exchange rate set by the Bank of Latvia as of 30.06.2009. : 1 EUR – 0.702804.

#### 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.

Notes (cont.)

Accounting policy (cont.)

#### 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 2007 warranty repair costs accounted for LVL 90,596 (EUR 128,906), 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.

##### *Interest rate risk*

The Company is at the interest rate risk due to its short-term and long-term loans and financial leasing transactions.

##### *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. 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 (cont.)

## NOTES TO PROFIT AND LOSS ACCOUNT FOR 6 MONTHS OF 2009

### Note No. 1 – Net turnover

Country	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Latvia	1575121	4734274	2241195	6736265
Russia	4906026	5163654	6980646	7347218
Great Britain		975742		1388356
Ukraine	26840	6478	38190	9217
Sweden	40492	32027	57615	45570
BVI	210841		300000	
Other	9644	14420	13722	20518
<b>Total</b>	<b>6768964</b>	<b>10926595</b>	<b>9631368</b>	<b>15547144</b>

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

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Salaries	2085594	3572788	2967533	5083619
Social insurance contributions	491621	836507	699514	1190242
Costs of materials	3573024	4235529	5083955	6026615
Energy resources	475861	289018	677089	411236
Depreciation of capital assets and intangible assets	175967	103160	250378	146783
Business trip costs	10296	39015	14650	55513
Repair costs and remuneration for works from outside	65993	66705	93900	94913
Development costs	85318		121397	
Other costs	68827	102595	97931	145980
<b>Total</b>	<b>7032501</b>	<b>9245317</b>	<b>10006347</b>	<b>13154901</b>

### Note No. 3 – Selling costs

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Packing material and package	106787	129336	151944	184029
Transportation expenses	134832	160096	191849	227796
Salaries	32886	65285	46793	92892
Social insurance contributions	7847	12508	11165	17797
Other selling costs	175	277	249	394
<b>Total</b>	<b>282527</b>	<b>367502</b>	<b>402000</b>	<b>522908</b>

### Note No. 4 – Administrative costs

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Communications costs	14917	23227	21225	33049
Office costs		2688		3825
Cash circulation and expense and extra costs	3802	6655	5410	9469
Transportation expenses	7582	16765	10788	23854
Representation expenses	3171	6771	4512	9634
Salaries	760098	1177648	1081522	1675642
Social insurance contributions	177488	261559	252543	372165
Costs of materials	3766	9562	5359	13606
Energy resources	38943	57755	55411	82178
Repair costs		1933		2750
Depreciation of capital assets	25731	37138	36612	52843
Business trip costs	30307	47395	43123	67437
Security services	79443	92001	113037	130906
Year's payment to Stock Exchange of Riga	5000	5000	7114	7114
Computer's network service		7132		10148
Other administrative costs	15924	15102	22657	21488
<b>Total</b>	<b>1166172</b>	<b>1768331</b>	<b>1659313</b>	<b>2516108</b>

Notes (cont.)

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

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Profit gained as a result of other sales (materials, lease, other)	80329	36385	114298	51771
Penalty and contractual penalties	13095		18633	
Remaining amounts of removal of capital assets, materials	1031	4675	1467	6652
Inventory surplus		507		721
Decrease in reserve of holiday provisions		223416		317892
Income related to maintenance of social sphere	19011	19604	27050	27894
Decrease in revaluation reserve of capital assets	2162	5793	3076	8243
Income from fluctuations of exchange rates		3461		4925
Other income	1298	468	1847	666
<b>Total</b>	<b>116926</b>	<b>294309</b>	<b>166371</b>	<b>418764</b>

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

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Penalty and contractual penalties	16267	16376	23146	23301
Costs related to maintenance of social sphere	33653	85382	47884	121488
Costs not related to operating activities of the Company	68152	54898	96972	78113
Losses from converting currency	212	63002	302	89644
Losses from fluctuations of exchange rates	150455		214078	
Removal of capital assets	2802	1436	3987	2043
Loss from previous year	130	1025	185	1458
Other costs	838		1191	
<b>Total</b>	<b>272509</b>	<b>222119</b>	<b>387745</b>	<b>316047</b>

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

Indicator	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Loan agreements	20227	45999	28780	65451
Leasing agreements	36310	18850	51664	26821
Credit line agreements	201330	182410	286468	259546
<b>Total</b>	<b>257867</b>	<b>247259</b>	<b>366912</b>	<b>351818</b>

**Note No. 8 – Other taxes**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Real estate tax on premises (buildings)	38896	45487	55345	64722
Real estate tax on land	6732	5386	9579	7664
<b>Total</b>	<b>45628</b>	<b>50873</b>	<b>64924</b>	<b>72386</b>

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Notes (cont.)

**NOTES TO BALANCE SHEET FOR THE 6 MONTHS OF 2009**

**Note No. 9 – 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 30.06.09	Remaining amount as at 01.01.09	Calculated	Removed	Remaining amount as at 30.06.09	01.01.09	30.06.09.
<b>Intangible investments</b>										
Devel.costs	341271			341271					341271	341271
Licences and other	1137			1137	720	169		889	417	248
Software	10265	500		10765	6294	2366		8660	3971	2105
<b>Total</b>	<b>352673</b>	<b>500</b>		<b>353173</b>	<b>7014</b>	<b>2535</b>		<b>9549</b>	<b>345659</b>	<b>343624</b>
<b>Capital assets</b>										
Land, premises, buildings*	7284609			7284609	2931607	28400		2960007	4353002	4324602
Equipment and machinery	5848019	55349	(23196)	5880172	2489285	146427	(23196)	2612516	3358734	3267656
Other capital assets	264678	6872	(138)	271412	198603	21102	(138)	219567	66075	51845
Creation of capital assets	724287	8174	(34997)	697464					724287	697464
Advance payments for capital assets	36856		(36856)						36856	
<b>Total</b>	<b>14158449</b>	<b>70395</b>	<b>(95187)</b>	<b>14133657</b>	<b>5619495</b>	<b>195929</b>	<b>(23334)</b>	<b>5792090</b>	<b>8538954</b>	<b>8341567</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>14571049</b>	<b>70895</b>	<b>(95187)</b>	<b>14546757</b>	<b>5626509</b>	<b>198464</b>	<b>(23334)</b>	<b>5801639</b>	<b>8944540</b>	<b>8745118</b>

**Note No. 9 – 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 30.06.09	Remaining amount as at 01.01.09	Calculated	Removed	Remaining amount as at 30.06.09	01.01.09	30.06.09
<b>Intangible assets</b>										
Devel.costs	485585				485585				485585	485585
Licences and other	1618			1618	1025	240		1265	593	353
Software	14606	711		15317	8956	3366		12322	5650	2995
<b>Total</b>	<b>501809</b>	<b>711</b>		<b>502520</b>	<b>9981</b>	<b>3606</b>		<b>13587</b>	<b>491828</b>	<b>488933</b>
<b>Capital assets</b>										
Land, premises, buildings*	10365065			10365065	4171301	40410		4211711	6193764	6153354
Equipment and machinery	8320982	78755	(33005)	8366732	3541934	208347	(33005)	3717276	4779048	4649456
Other capital assets	376603	9778	(196)	386185	282587	30025	(196)	312416	94016	73769
Creation of capital assets	1030568	11631	(49797)	992402					1030568	992402
Advance payments for capital assets	52441		(52441)						52441	
<b>Total</b>	<b>20145659</b>	<b>100164</b>	<b>(135439)</b>	<b>20110384</b>	<b>7995822</b>	<b>278782</b>	<b>(33201)</b>	<b>8241403</b>	<b>12149837</b>	<b>11868981</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>20732736</b>	<b>100875</b>	<b>(135439)</b>	<b>20698172</b>	<b>8005803</b>	<b>282388</b>	<b>(33201)</b>	<b>8254990</b>	<b>12726933</b>	<b>12443182</b>



Notes (cont.)

\* In 2008 assessed value of the premises decreased and accounted for LVL 9920904 (EUR 14116175), while assessed value of the plot increased significantly and accounted for LVL 16372912 (EUR 23296555).

**Note No. 10 – Debts of customers and clients**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Debts of customers and clients	6447271	5509324	9173640	7839062
Provisions for doubtful debtors	(9847)	(12049)	(14011)	(17144)
<b>Total</b>	<b>6437424</b>	<b>5497275</b>	<b>9159629</b>	<b>7821918</b>

**Note No. 11 – Other debtors**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Demand calculations for personnel	198	1652	282	2351
Taxes paid in advance	1728	9325	2459	13268
Overpaid taxes	233475	127603	332204	181563
Advance payments for services		48715		69315
Interest income	18400	18400	26181	26181
Rental debts	13415		19088	
Other	4968	5211	7069	7413
<b>Total</b>	<b>272184</b>	<b>210906</b>	<b>387283</b>	<b>300091</b>

**Note No. 12 – Costs of the following periods**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Press subscription		31		44
Insurance	11871	169	16891	240
Expenses for development of new techniques	85318		121396	
Annual anti-virus program licences	1585	1585	2255	2255
Other	602	697	857	993
<b>Total</b>	<b>99376</b>	<b>2482</b>	<b>141399</b>	<b>3532</b>

**Note No. 13 – Other securities and partnership in capitals**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Short-term loan	1600000	1600000	2276595	2276595

**Note No. 14 – Cash**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Current accounts in banks	287	5991	408	8524

**Note No. 15 – 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	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. 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
<b>Total</b>	<b>5799005</b>	<b>5799005</b>	<b>8251241</b>	<b>8251241</b>

Notes (cont.)

**Note No. 16 – Other provisions**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Holiday provisions	200153	189406	284792	269500

**Note No. 17 – Long-term and short-term loans from credit institutions**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
<b>Latvian credit institutions, loan agreement, including</b>	<b>759832</b>	<b>1096241</b>	<b>1081144</b>	<b>1559810</b>
Long-term debt		657746		935888
Short-term debt	759832	438495	1081144	623922
<b>Latvian credit institutions, credit line agreement, including</b>	<b>7821568</b>	<b>5694031</b>	<b>11129088</b>	<b>8101876</b>
Short-term debt	7821568	5694031	11129088	8101876

**Note No. 18 – Other loans**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
<b>Leasing agreements, including</b>	<b>940306</b>	<b>1032871</b>	<b>1337935</b>	<b>1469643</b>
Long-term debt	822619	10832	1170481	15413
Short-term debt	117687	1022039	167454	1454230

**Note No. 19 – Advances received from customers**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Local customers		34616		49255
Foreign customers	3236	19163	4604	27266
<b>Total</b>	<b>3236</b>	<b>53779</b>	<b>4604</b>	<b>76521</b>

**Note No. 20 – Debts to suppliers and contractors**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Local suppliers	2181446	2144974	3103918	3052023
Foreign suppliers	554073	726164	788375	1033238
<b>Total</b>	<b>2735519</b>	<b>2871138</b>	<b>3892293</b>	<b>4085261</b>

**Note No. 21 – Taxes and social insurance contributions**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Personal income tax	922837	181826	1313079	258715
Mandatory social insurance contributions	1421077	557508	2022010	793262
Natural resources tax	2459	5497	3499	7822
Real estate tax on land		33		47
State business risk fee	466	350	663	498
<b>Total</b>	<b>2346839</b>	<b>745214</b>	<b>3339251</b>	<b>1060344</b>

Notes (cont.)

**Note No. 22 – Other creditors**

Indicators	30.06.09. LVL	30.06.08. LVL	30.06.09. EUR	30.06.08. EUR
Salary debt	667543	616631	949828	877388
Support payments	1620	1392	2305	1981
Trade union membership fee	13085	8361	18618	11897
Other	4817	3484	6854	4957
<b>Total</b>	<b>687065</b>	<b>629868</b>	<b>977605</b>	<b>896223</b>

Chair of the Board

G. Uspenskis

17 August 2009

### **Statement on the Management responsibility**

The management of the Company is responsible for the issue of the financial statement and confirms that the financial statement holds the actual and objective representation of the financial standing and performance results of the company by the end of the accounts period.

The management of the Company confirms that appropriate accounting methods were applied and justified and considerate decisions were made when drawing up the financial statement on the 6 months of 2009.

The management bears responsibility regarding the provision of appropriate accounting system, preservation of the Company's capital.

On behalf of the Board of the Company,

Chairperson of the Board

G. Uspenskis

17 August 2009