

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

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

**ANNUAL REPORT FOR 6 MONTHS  
OF THE YEAR 2010  
(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, 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	Mihails Morozs (from 19.04.2010)
Board Members	Igors Ruļovs (from 12.05.2009) Aleksandra Dormidontova (from 19.04.2010) Anatolijs Ostaščenko (from 19.04.2010) Aleksandrs Suvorkins (from 19.04.2010)
Accounting period	1 January 2010 – 30 June 2010
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 %

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

Activity of the Company during the 1st half of 2010

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 2010 the net turnover of the stock company "RER" reached LVL 6 460 853 (EUR 9 192 966 ), which is 95.45 per cent in comparison with the corresponding time period in 2009. During the 1<sup>st</sup> half of 2010 the Company sustained losses in the amount of LVL 734 078 ( EUR 1 044 499) before tax deduction, after tax deduction – LVL 752 391 (EUR 1 070 556). Average number of employees on 30 June 2010 was 772, that is 73.38 per cent in comparison with the corresponding index on 30 June 2009.

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

### Financial stability indices:

Name of the index	30/06/2010.	30/06/2009.
Independence ratio (own capital / whole capital)	0.18	0.28
Loan and own capital relation (loan capital / own capital)	4.55	2.58

### Liquidity indices:

Name of the index	30/06/2010.	30/06/2009.
General liquidity ratio (current assets / short-term liabilities)	0.72	0.89
Quick liquidity ratio (short-term debtors and funds / short-term liabilities)	0.45	0.58

### Activity of the Company in the 2<sup>nd</sup> half of 2010

In order to keep production and sales volumes at the level of 2009, the company is constantly looking for potential customers and buyers of its products both during the first and the second halves of 2010.

In the second half of 2010 it is planned to sign a long-term contract with a Kazakh company on sales of electric equipment for electric trains.

On behalf of the Board of the Company,

Chairperson of the Board

Mihails Morozs

17 August 2010

**PROFIT AND LOSS ACCOUNT FOR 6 MONTHS OF 2010**

No.	Items	Line code	Note	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
1	Net turnover	010	1	6460853	6768964	9192966	9631368
2	Production costs of the goods sold	020	2	(6118913)	(7032501)	(8706429)	(10006347)
3	<b>Gross profit or loss</b>	030		<b>341940</b>	<b>(263537)</b>	<b>486537</b>	<b>(374979)</b>
4	Selling expenses	040	3	(175852)	(282527)	(250215)	(402000)
5	Administration expenses	050	4	(921210)	(1166172)	(1310764)	(1659313)
6	Other operating income	060	5	516443	116926	734832	166371
7	Other operating expenses	070	6	(202710)	(272509)	(288430)	(387745)
8	Other interest income and similar income	100			2		3
9	Other interest payments and similar expenses	120	7	(292689)	(257867)	(416459)	(366912)
10	Profit or loss before extraordinary items and taxes	130		(734078)	(2125684)	(1044499)	(3024575)
11	Profit or loss before tax	160		(734078)	(2125684)	(1044499)	(3024575)
12	Other taxes	190	8	(18313)	(45628)	(26057)	(64924)
13	Profit or loss of the accounting period	200		<b>(752391)</b>	<b>(2171312)</b>	<b>(1070556)</b>	<b>(3089499)</b>

EPS (earnings per share)	(0,13)	(0,37)	(0,18)	(0,53)
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**BALANCE SHEET FOR 6 MONTHS OF 2010**

<b>A S S E T S</b>	<b>Line code</b>	<b>Note</b>	<b>30.06.10. LVL</b>	<b>30.06.09. LVL</b>	<b>30.06.10. EUR</b>	<b>30.06.09. EUR</b>
<b>1. LONG-TERM INVESTMENTS</b>		9				
<b>I. Intangible investments</b>						
1. Development costs	010		170636	341271	242793	485585
2. Concessions, licences and similar rights	020		45	248	64	353
3. Other intangible investments	021		187	2105	266	2995
I. Total	050		<b>170868</b>	<b>343624</b>	<b>243123</b>	<b>488933</b>
<b>II. Fixed assets</b>						
1. Land plots, buildings, constructions	060		4268045	4324602	6072881	6153354
2. Equipment and machinery	080		3048877	3267656	4338161	4649456
3. Other fixed assets and inventory	090		32907	51845	46822	73769
4. Creation of fixed assets	100		593971	697464	845145	992402
5. Prepayments for fixed assets	110					
II. Total	120		<b>7943800</b>	<b>8341567</b>	<b>11303009</b>	<b>11868981</b>
<b>III. Long-term financial investments</b>						
1. 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>8174595</b>	<b>8745118</b>	<b>11631400</b>	<b>12443182</b>
<b>2. CURRENT ASSETS</b>						
<b>I. Stocks</b>						
1. Raw materials, direct materials and auxiliary materials	230		2200076	2172019	3130426	3090505
2. Unfinished products	240		1206646	1449169	1716903	2061982
3. Finished products and goods for sale	250		97131	468130	138205	666089
4. Prepayments for goods	270		275373	323607	391820	460451
I. Total	290		<b>3779226</b>	<b>4412925</b>	<b>5377354</b>	<b>6279027</b>
<b>II. Debtors</b>						
1. Debts of buyers and customers	300	10	4611053	6437424	6560937	9159629
2. Debts of affiliated companies	320		82	1966	117	2797
3. Other debtors	330	11	75720	272184	107740	387283
4. Deferred expenses	360	12	86965	99376	123740	141399
II. Total	370		<b>4773820</b>	<b>6810950</b>	<b>6792534</b>	<b>9691108</b>
<b>III. Securities and participation in capitals</b>						
1. Other securities	400	13	1641438	1600000	2335556	2276595
III. Total	410		<b>1641438</b>	<b>1600000</b>	<b>2335556</b>	<b>2276595</b>
<b>IV. Cash</b>	<b>420</b>	<b>14</b>	<b>5238</b>	<b>287</b>	<b>7453</b>	<b>408</b>
<b>II. PART TOTAL AMOUNT</b>	<b>430</b>		<b>10199722</b>	<b>12824162</b>	<b>14512897</b>	<b>18247138</b>
<b>B A L A N C E</b>	<b>440</b>		<b>18374317</b>	<b>21569280</b>	<b>26144297</b>	<b>30690320</b>

Appendices to financial statements on pages 11 – 19 are an integral part of the financial statements.

**BALANCE SHEET FOR 6 MONTHS OF 2010**

<b>LIABILITIES</b>	<b>Line code</b>	<b>Note</b>	<b>30.06.10. LVL</b>	<b>30.06.09. LVL</b>	<b>30.06.10. EUR</b>	<b>30.06.09. 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		264632	185338	376537	263712
3. Other provisions	510		192922	192922	274503	274503
4. Undivided profit:						
a) Undivided profit of previous years	530		(2380080)	1810813	(3386549)	2576555
b) Undivided profit of the accounting year	540		(752391)	(2171312)	(1070556)	(3089499)
<b>1. PART TOTAL AMOUNT</b>	<b>550</b>		<b>3124088</b>	<b>5816766</b>	<b>4445176</b>	<b>8276512</b>
<b>2. PROVISIONS</b>						
1. Other provisions	580	16	184707	200153	262814	284792
<b>2. PART TOTAL AMOUNT</b>	<b>590</b>		<b>184707</b>	<b>200153</b>	<b>262814</b>	<b>284792</b>
<b>3. CREDITORS</b>						
<b>I. Long-term creditors</b>						
1. Loans from credit institutions	620	17				
2. Other loans	630	18	553886	822619	788109	1170481
3. Deferred tax liabilities	731		248198	254776	353154	362514
I. Total	740		<b>802084</b>	<b>1077395</b>	<b>1141263</b>	<b>1532995</b>
<b>II. Short-term creditors</b>						
1. Loans from credit institutions	770	17	7476168	8581400	10637629	12210232
2. Other loans	780	18	166951	117687	237550	167454
3. Advance payments received from buyers	790	19	15026	3236	21380	4604
4. Debts to suppliers and contractors	800	20	3186656	2735519	4534203	3892293
5. Debts to affiliated companies	830		4111	3220	5849	4582
6. Taxes and social security payments	840	21	2794218	2346839	3975814	3339251
7. Other creditors	850	22	620308	687065	882619	977605
II. Total	890		<b>14263438</b>	<b>14474966</b>	<b>20295044</b>	<b>20596021</b>
<b>3. PART TOTAL AMOUNT</b>	<b>900</b>		<b>15065522</b>	<b>15552361</b>	<b>21436307</b>	<b>22129016</b>
<b>BALANCE</b>	<b>910</b>		<b>18374317</b>	<b>21569280</b>	<b>26144297</b>	<b>30690320</b>

**CASH FLOW STATEMENT FOR 6 MONTHS OF 2010** (prepared by indirect method)

**I. Cash flow from operating activities**

	Items	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
1	Profit or loss before extraordinary items and taxes	(734078)	(2125684)	(1044499)	(3024575)
	<b>ADJUSTMENTS</b>				
	Depreciation of fixed assets	176204	193127	250716	274795
	Amortization of intangible investment value	518	2535	737	3607
	Profit or loss from fluctuations of currency exchange rates	(423711)	150667	(602886)	214380
	Amounts written off fixed assets	440	2802	626	3987
	Reserve for revaluation of long-term investments		(2162)		(3076)
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	<b>(980627)</b>	<b>(1778715)</b>	<b>(1395306)</b>	<b>(2530882)</b>
	<b>ADJUSTMENTS</b>				
	Increase or decrease of balance of receivables	718347	632106	1022116	899406
	Increase or decrease of balance of inventories	202879	2002692	288671	2849574
	Increase or decrease of deferred expenses	89019	78058	126663	111067
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	1418547	(723403)	2018411	(1029313)
	Expenses for tax payments	(54746)	(71403)	(77897)	(101597)
3	Gross cash flow from operating activities	<b>1393419</b>	<b>139335</b>	<b>1982658</b>	<b>198255</b>
4	Expenses for corporate income tax payments				
5	Cash flow before extraordinary items	<b>1393419</b>	<b>139335</b>	<b>1982658</b>	<b>198255</b>
I	<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1393419</b>	<b>139335</b>	<b>1982658</b>	<b>198255</b>

**II. Cash flow form investing activities**

	Items	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
1	Purchase of fixed assets and intangible investments	(5635)	(35898)	(8018)	(51078)
II	<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(5635)</b>	<b>(35898)</b>	<b>(8018)</b>	<b>(51078)</b>

**III. Cash flow from financing activities**

	Items	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
1	Expenses for repayment of loans	(1327468)	(485546)	(1888817)	(690870)
2	Expenses for repurchase of leased fixed assets	(142274)	(149434)	(202438)	(212625)
III	<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(1469742)</b>	<b>(634980)</b>	<b>(2091255)</b>	<b>(903495)</b>

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

	Items	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
I	Net cash flow from operating activities	1393419	139335	1982658	198255
II	Net cash flow from investing activities	(5635)	(35898)	(8018)	(51078)
III	Net cash flow from financing activities	(1469742)	(634980)	(2091255)	(903495)
	Result of fluctuations of currency exchange rates	10008	8558	14239	12177
	Net cash flow of the accounting period	<b>(71950)</b>	<b>(522985)</b>	<b>(102376)</b>	<b>(744141)</b>
	Cash and its equivalents in the beginning of the accounting period	<b>77188</b>	<b>523272</b>	<b>109829</b>	<b>744549</b>
	Cash and its equivalents at the end of the accounting period	<b>5238</b>	<b>287</b>	<b>7453</b>	<b>408</b>



**STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 6 MONTHS OF 2010, LVL**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
<b>1. Balance as of 31.12.2008.g.</b>	<b>5799005</b>	<b>187500</b>	<b>192922</b>	<b>1810813</b>	<b>7990240</b>
2. 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					
3. Income or loss of the accounting period in accordance with the profit and loss account				(2171312)	(2171312)
<b>4. Balance as of 30.06.2009.g.</b>	<b>5799005</b>	<b>185338</b>	<b>192922</b>	<b>(360499)</b>	<b>5816766</b>
<b>5. Balance as of 31.12.2009.g.</b>	<b>5799005</b>	<b>264632</b>	<b>192922</b>	<b>(2380080)</b>	<b>3876479</b>
6. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets					
b) increase of fixed assets					
7. Income or loss of the accounting period in accordance with the profit and loss account				(752391)	(752391)
<b>8. Balance as of 30.06.2010.g.</b>	<b>5799005</b>	<b>264632</b>	<b>192922</b>	<b>(3132471)</b>	<b>3124088</b>

**STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 6 MONTHS OF 2010, EUR**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
<b>1. Balance as of 31.12.2008.g.</b>	<b>8251241</b>	<b>266788</b>	<b>274503</b>	<b>2576555</b>	<b>11369087</b>
2. 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					
3. Income or loss of the accounting period in accordance with the profit and loss account				(3089499)	(3089499)
<b>4. Balance as of 30.06.2009.g.</b>	<b>8251241</b>	<b>263712</b>	<b>274503</b>	<b>(512944)</b>	<b>8276512</b>
<b>5. Balance as of 31.12.2009.g.</b>	<b>8251241</b>	<b>376537</b>	<b>274503</b>	<b>(3386549)</b>	<b>5515732</b>
6. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets					
b) increase of fixed assets					
7. Income or loss of the accounting period in accordance with the profit and loss account				(1070556)	(1070556)
<b>8. Balance as of 30.06.2010.g.</b>	<b>8251241</b>	<b>376537</b>	<b>274503</b>	<b>(4457105)</b>	<b>4445176</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 30.06.2010 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 30.06.2010. : 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 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 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 2010**

**Note No. 1 – Net turnover**

Country	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Latvia	2441822	1575121	3474400	2241195
Russia	3897197	4906026	5545212	6980646
Ukraine	32440	26840	46158	38190
Sweden	72771	40492	103544	57615
British Virgin Islands		210841		300000
Other	16623	9644	23652	13722
<b>Total</b>	<b>6460853</b>	<b>6768964</b>	<b>9192966</b>	<b>9631368</b>

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

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Salaries	1481593	2085594	2108117	2967533
Social insurance contributions	349465	491621	497244	699514
Costs of materials	3442935	3573024	4898855	5083955
Energy resources	435452	475861	619592	677089
Depreciation of capital assets and intangible assets	164191	175967	233623	250378
Business trip costs	11573	10296	16467	14650
Repair costs and remuneration for works from outside	81051	65993	115325	93900
Development costs	85318	85318	121397	121397
Other costs	67335	68827	95809	97931
<b>Total</b>	<b>6118913</b>	<b>7032501</b>	<b>8706429</b>	<b>10006347</b>

**Note No. 3 – Selling costs**

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Packing material and package	92346	106787	131397	151944
Transportation expenses	55972	134832	79641	191849
Salaries	22125	32886	31481	46793
Social insurance contributions	5330	7847	7584	11165
Other selling costs	79	175	112	249
<b>Total</b>	<b>175852</b>	<b>282527</b>	<b>250215</b>	<b>402000</b>

**Note No. 4 – Administrative costs**

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Communications costs	15228	14917	21667	21225
Cash circulation and expense and extra costs	15591	3802	22184	5410
Transportation expenses	10057	7582	14310	10788
Representation expenses	2490	3171	3543	4512
Salaries	600227	760098	854046	1081522
Social insurance contributions	141724	177488	201655	252543
Energy resources	18688	38943	26591	55411
Depreciation of capital assets	16195	25731	23043	36612
Business trip costs	17490	30307	24886	43123
Security services	66492	79443	94610	113037
Year's payment to Stock Exchange of Riga	2500	5000	3557	7114
Other administrative costs	14528	19690	20672	28016
<b>Total</b>	<b>921210</b>	<b>1166172</b>	<b>1310764</b>	<b>1659313</b>

Notes (cont.)

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

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Profit gained as a result of other sales (materials, lease, other)	76886	80329	109399	114298
Penalty and contractual penalties	94	13095	134	18633
Remaining amounts of removal of capital assets, materials	345	1031	491	1467
Sale of capital assets	158		225	
Income related to maintenance of social sphere	15073	19011	21447	27050
Decrease in revaluation reserve of capital assets		2162		3076
Income from fluctuations of exchange rates	423711		602886	
Other income	176	1298	250	1847
<b>Total</b>	<b>516443</b>	<b>116926</b>	<b>734832</b>	<b>166371</b>

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

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Penalty and contractual penalties	135736	16267	193135	23146
Costs related to maintenance of social sphere	23500	33653	33437	47884
Costs not related to operating activities of the Company	41516	68152	59072	96972
Losses from converting currency		212		302
Losses from fluctuations of exchange rates		150455		214078
Removal of capital assets	440	2802	626	3987
Loss from previous year	1518	130	2160	185
Other costs		838		1191
<b>Total</b>	<b>202710</b>	<b>272509</b>	<b>288430</b>	<b>387745</b>

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

Indicator	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Loan agreements	115227	20227	163953	28780
Leasing agreements	18753	36310	26683	51664
Credit line agreements	158709	201330	225823	286468
<b>Total</b>	<b>292689</b>	<b>257867</b>	<b>416459</b>	<b>366912</b>

**Note No. 8 – Other taxes**

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Real estate tax on premises (buildings)	8417	38896	11976	55345
Real estate tax on land	9896	6732	14081	9579
<b>Total</b>	<b>18313</b>	<b>45628</b>	<b>26057</b>	<b>64924</b>

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Notes (cont.)

**NOTES TO BALANCE SHEET FOR THE 6 MONTHS OF 2010**

**Note No. 9 – Statement of movement of long-term investments, LVL**

	Initial value				Depreciation				Remaining value	
	Remaining amount as at 01.01.10	Purchase	Removed	Remaining amount as at 30.06.10	Remaining amount as at 01.01.10	Calculated	Removed	Remaining amount as at 30.06.10	01.01.10	30.06.10.
<b>Intangible investments</b>										
Devel.costs	170636			170636					170636	170636
Licences and other	1137		(837)	300	1041	51	(837)	255	96	45
Software	10765			10765	10111	467		10578	654	187
<b>Total</b>	<b>182538</b>		<b>(837)</b>	<b>181701</b>	<b>11152</b>	<b>518</b>	<b>(837)</b>	<b>10833</b>	<b>171386</b>	<b>170868</b>
<b>Capital assets</b>										
Land, premises, buildings*	6980378			6980378	2684028	28305		2712333	4296350	4268045
Equipment and machinery	5904076	41641	(6266)	5939451	2755661	140930	(6017)	2890574	3148415	3048877
Other capital assets	269623	412	(3470)	266565	229969	6969	(3280)	233658	39654	32907
Creation of capital assets	630390	4870	(41289)	593971					630390	593971
<b>Total</b>	<b>13784467</b>	<b>46923</b>	<b>(51025)</b>	<b>13780365</b>	<b>5669658</b>	<b>176204</b>	<b>(9297)</b>	<b>5836565</b>	<b>8114809</b>	<b>7943800</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>14026932</b>	<b>46923</b>	<b>(51862)</b>	<b>14021993</b>	<b>5680810</b>	<b>176722</b>	<b>(10134)</b>	<b>5847398</b>	<b>8346122</b>	<b>8174595</b>

**Note No. 9 – Statement of movement of long-term investments, EUR**

	Initial value				Depreciation				Remaining value	
	Remaining amount as at 01.01.10	Purchase	Removed	Remaining amount as at 30.06.10	Remaining amount as at 01.01.10	Calculated	Removed	Remaining amount as at 30.06.10	01.01.10	30.06.10
<b>Intangible assets</b>										
Devel.costs	242793			242793					242793	242793
Licences and other	1618		(1191)	427	1482	72	(1191)	363	136	64
Software	15317			15317	14387	664		15051	930	266
<b>Total</b>	<b>259728</b>		<b>(1191)</b>	<b>258537</b>	<b>15869</b>	<b>736</b>	<b>(1191)</b>	<b>15414</b>	<b>243859</b>	<b>243123</b>
<b>Capital assets</b>										
Land, premises, buildings*	9932183			9932183	3819028	40274		3859302	6113155	6072881
Equipment and machinery	8400743	59250	(8916)	8451077	3920953	200524	(8561)	4112916	4479790	4338161
Other capital assets	383639	586	(4937)	379288	327216	9917	(4667)	332466	56423	46822
Creation of capital assets	896964	6929	(58748)	845145					896964	845145
<b>Total</b>	<b>19613529</b>	<b>66765</b>	<b>(72601)</b>	<b>19607693</b>	<b>8067197</b>	<b>250715</b>	<b>(13228)</b>	<b>8304684</b>	<b>11546332</b>	<b>11303009</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>19958525</b>	<b>66765</b>	<b>(73792)</b>	<b>19951498</b>	<b>8083066</b>	<b>251451</b>	<b>(14419)</b>	<b>8320098</b>	<b>11875459</b>	<b>11631400</b>

Notes (cont.)

\* 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).

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

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Debts of customers and clients	4622306	6447271	6576949	9173640
Provisions for doubtful debtors	(11253)	(9847)	(16012)	(14011)
<b>Total</b>	<b>4611053</b>	<b>6437424</b>	<b>6560937</b>	<b>9159629</b>

**Note No. 11 – Other debtors**

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Demand calculations for personnel	928	198	1320	282
Taxes paid in advance	3227	1728	4592	2459
Overpaid taxes	44852	233475	63819	332204
Interest income		18400		26181
Rental debts	21808	13415	31030	19088
Other	4905	4968	6979	7069
<b>Total</b>	<b>75720</b>	<b>272184</b>	<b>107740</b>	<b>387283</b>

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

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Insurance	803	11871	1144	16891
Expenses for development of new techniques	85318	85318	121396	121396
Annual anti-virus program licences	156	1585	222	2255
Other	688	602	979	857
<b>Total</b>	<b>86965</b>	<b>99376</b>	<b>123741</b>	<b>141399</b>

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

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Short-term loan	1641438	1600000	2335556	2276595

**Note No. 14 – Cash**

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Current accounts in banks	5238	287	7453	408

**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	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. 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	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Holiday provisions	184707	200153	262814	284792

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

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
<b>Latvian credit institutions, loan agreement, including</b>	<b>2533840</b>	<b>759832</b>	<b>3605330</b>	<b>1081144</b>
Long-term debt				
Short-term debt	2533840	759832	3605330	1081144
<b>Latvian credit institutions, credit line agreement, including</b>	<b>4942328</b>	<b>7821568</b>	<b>7032299</b>	<b>11129088</b>
Short-term debt	4942328	7821568	7032299	11129088

**Note No. 18 – Other loans**

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
<b>Leasing agreements, including</b>	<b>720837</b>	<b>940306</b>	<b>1025659</b>	<b>1337935</b>
Long-term debt	553886	822619	788109	1170481
Short-term debt	166951	117687	237550	167454

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

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Local customers	970		1380	
Foreign customers	14056	3236	20000	4604
<b>Total</b>	<b>15026</b>	<b>3236</b>	<b>21380</b>	<b>4604</b>

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

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Local suppliers	2243136	2181446	3191695	3103918
Foreign suppliers	943520	554073	1342508	788375
<b>Total</b>	<b>3186656</b>	<b>2735519</b>	<b>4534203</b>	<b>3892293</b>

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

Indicators	30.06.10. LVL	30.06.09. LVL	30.06.10. EUR	30.06.09. EUR
Personal income tax	1161220	922837	1652267	1313079
Mandatory social insurance contributions	1614084	1421077	2296635	2022010
Natural resources tax	4515	2459	6424	3499
Real estate tax on premises (buildings)	14208		20216	
State business risk fee	191	466	272	663
<b>Total</b>	<b>2794218</b>	<b>2346839</b>	<b>3975814</b>	<b>3339251</b>

Notes (cont.)

**Note No. 22 – Other creditors**

<b>Indicators</b>	<b>30.06.10. LVL</b>	<b>30.06.09. LVL</b>	<b>30.06.10. EUR</b>	<b>30.06.09. EUR</b>
Salary debt	602546	667543	857346	949828
Support payments	3939	1620	5605	2305
Trade union membership fee	13823	13085	19668	18618
Other		4817		6854
<b>Total</b>	<b>620308</b>	<b>687065</b>	<b>882619</b>	<b>977605</b>

On behalf of the Board of the Company,

Chair of the Board

Mihails Morozs

17 August 2010

### **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 2010.

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

Mihails Morozs

17 August 2010