

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

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

**ANNUAL REPORT
2011
(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 |

INFORMATION ABOUT THE COMPANY

| | |
|---|--|
| Name of the Company | AS (Joint Stock Company) "Rīgas elektromašīnbūves rūpnīca" (AS "RER") |
| Legal status of the Company | Joint Stock Company |
| Registration No. in the Register of Enterprises, date and place of registration | No. 000304200, Riga, 29 November 1991 |
| Unified Registration No. in the Commercial Register, date and place of registration | No. 40003042006, Riga, 29 September 2004 |
| Registered office | Ganību dambis 31, Riga, LV-1005, the Republic of Latvia |
| Institution in charge of the Company | General meeting of shareholders |
| Chair of the Board | Nikolajs Erohovs (from 16.03.2011) |
| Board Members | Fjodors Dudkins (from 21.06.2011) |
| | Rita Kargina (from 21.06.2011) |
| | Mihails Morozs (from 19.04.2010) |
| | Aleksandrs Suvorkins (from 19.04.2010) |
| Accounting period | 1 January 2011 – 31 December 2011 |
| Auditor | SIA "Rīgas audits", licence No. 103 Skolas iela 11-501, Riga, LV-1010, Latvia Certified auditor Jānis Mežiels Certified auditor's certificate No. 127 |
| Associated companies | SIA "Lovato – REZ", Reg. No. 000307218 Ganību dambis 31, Riga, the Republic of Latvia Fixed capital LVL 115 200 (EUR 163 915) Shares – 50 % |

AS "Rīgas elektromašīnbūves rūpnīca" MANAGEMENT REPORT

Business activities of the Company in 2011

Basic business activities of AS "Rīgas elektromašīnbūves rūpnīca" (hereinafter – AS "RER") are manufacturing of electric machines and machinery. The main types of products are as follows:

- Electrical equipment for electric trains;
- Electric equipment for passenger cars;
- Electric equipment for metro cars;
- Cast products.

Net turnover of the Company accounted for LVL 22 739 803 (EUR 32 355 825), which is 168.98 % when compared with the data of 2010.

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

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

Indicators of financial stability

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

Liquidity indicators

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

Profitability indicators

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

Other indicators

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

AS "RER" has to fulfill environmental protection requirements while carrying out its operating activities. In order to comply with the said requirements the Company conducts the relevant activities on a regular basis, yet proportion of costs related to those activities is not significant in the total production cost price.

Risk factors related to the business activities of the Company

Financial risks have been characterized on pages 13 and 14 in notes to financial statements of the annual report 2011.

Company development measures

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

Distribution of profit made in 2011

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

Events after the date of balance sheet

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

Company on behalf of the Board,

Chairperson of the Board

N. Erohovs

10 April 2012

PROFIT AND LOSS ACCOUNT FOR TWELVE MONTHS OF 2011

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

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

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

I. Cash flow from operating activities

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

II. Cash flow from investing activities

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

III. Cash flow from financing activities

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

IV. Summary of cash inflow and outflow

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

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

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

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

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

NOTES

ACCOUNTING POLICY

Basis for report preparation

Annual report has been prepared in accordance with the Laws of the Republic of Latvia "On Accounting" and "On the Annual Accounts of Undertakings", regulations of the Cabinet of Ministers Nr 481 and Nr 488. Profit and loss account has been prepared according to the turnover cost method. Cash flow statement has been prepared in accordance with the indirect method. The annual report presents fairly and clearly financial position of the Company, as well as its assets and liabilities.

Accounting principles applied

Annual report items have been assessed according to the following accounting principles:

- Assuming the Company will continue its activities;
- The same valuation methods as previous year have also been used this year;
- The annual report includes the profit made to the date of balance sheet only;
- All losses made over the accounting year or previous years have been taken into account;
- All depreciation amounts have been calculated and taken into account, regardless of whether the accounting year was ended with profit or loss;
- All costs and income pertaining to the accounting year have been taken into account, irrespective of the date of payment, as well as the date when invoice has been received or issued. The costs and income over the reporting period have been coordinated.

Income recognition and net turnover

Net turnover is a total amount of the value of products sold and services rendered over the year without discounts and value added tax. Income from the sale of products is recognized as soon as the most significant title is conferred on the customer and risks to the products and remuneration can be assessed properly. Income from service rendering is recognized as soon as the service is rendered. Other types of income are recognized as follows:

- Income from rent – at the moment it is generated;
- Income from penalty and delay payments – at the moment they are received;
- Dividends – at the moment legal rights to the dividends are established.

Capital assets and intangible assets

Capital assets and intangible assets have been reflected on the balance sheet in their purchase prices, excluding depreciation.

Depreciation of capital assets and intangible assets has been calculated according to the straight-line method. No depreciation of land has been calculated. In order to calculate depreciation of capital assets and intangible assets the following depreciation norms (% a year) approved by the Management has been used:

Intangible assets:

- | | |
|------------|-----|
| - Licences | 20% |
| - Software | 50% |

Capital assets:

- | | |
|--------------------------------------|-------------|
| - Premises, buildings | 1.1 – 1.9 % |
| - Equipment and machinery | 2 – 20 % |
| - Other capital assets and inventory | 10 – 50 % |

Repair or maintenance costs of capital assets have been included in the profit and loss account of the period during which they have been incurred. Repair (renovation) and modernization costs that increase value of the capital assets or prolong period of using them have been capitalized and written off during the period they were used effectively.

Notes (cont.)

Accounting policy (cont.)

Unfinished construction and costs of capital asset creation

Unfinished construction reflects costs of capital asset creation and costs of construction objects. The unfinished construction has been given in its initial value. The initial value includes construction costs and other direct costs. Depreciation of the unfinished construction has not been calculated, since the relevant assets have not been finished and put into operation.

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

Long-term financial investments

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

Financial leasing

In cases capital assets have been acquired on conditions of financial leasing, leasing interest payments and payments considered as such have been included in the profit and loss account of the period they were incurred.

Receivables

Evaluation of the remaining amounts of materials and primary materials has been carried out by employing the FIFO method.

Inventory of low value has been recorded on the basis of purchase cost price written off 100% after having been put into operation.

Remaining amounts of finished products and unfinished products have been assessed according to their cost prices.

Remaining amounts of receivables have been audited at the annual inventory.

Debts of debtors

Debts of debtors have been reflected on the balance sheet in their net values subtracting special provisions for doubtful debtors. Special provisions for doubtful debtors are created for those cases when the Management believes that the debtors are not likely to repay their debts.

Currency unit and recalculation of foreign currency

Indicators reflected in the annual report have been given in the national currency of the Republic of Latvia – lats (LVL). All transactions carried out in foreign currencies have been recalculated in lats according to the exchange rate of the Bank of Latvia set on day when the relevant transaction is takes place. Assets and liabilities in the foreign currency have been recalculated in lats according to the exchange rate of the Bank of Latvia set on the last day of the reporting period – 31.12.2011. Profit made or loss incurred as a result of fluctuations of exchange rates has been reflected in the profit and loss account of the corresponding period.

Notes (cont.)

Accounting policy (cont.)

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

Long-term and short-term items

Long-term items comprise amounts whose terms of receipt, payment or write-off fall due later than after the end of the corresponding accounting year. Amounts to be received, paid or written off in a year are given in the short-term items.

Other securities

Short-term investments in securities not quoted in stock exchange have been given in their purchase values.

Long-term investment revaluation reserve

Long-term invest revaluation reserve is reduced if the revaluated object has been removed or sold.

Provisions

Provisions are recognized if the Company has liabilities due to some event in the past and there is a possibility that in order to meet those liabilities resources promising economic gains could be diverted from the Company and if amount of liabilities can be assessed properly.

Holiday provisions are calculated by multiplying the average earnings of an employee by the average number of holidays not taken by an employee.

Provisions for warranty repairs. A warranty period of the Company's basic products is 2 years. In 2011 warranty repair costs accounted for LVL 10 070.19 (EUR 14 328.59), which is only 0.04% of the net turnover. Since amount of the warranty repair costs is of no high importance, provisions for warranty repairs are not created.

Deferred tax

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

Risk management

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

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

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

Notes (cont.)

Accounting policy (cont.)

Financial risk

Currency risk

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

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

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

Interest rate risk

The Company is at the interest rate risk due to its short-term and long-term loans and financial leasing transactions. In 2010 the average rate of the Company's loans and financial leasing transactions was 6.686%, in 2011 – 6.692%.

Liquidity risk

The Company has control over its liquidity risk by ensuring the appropriate financing with the help of a credit line granted by a Latvian credit institution.

Credit risk

The Company is at the credit risk due to its debts of customers and clients. Debts of customers and clients of AS "RER" have increased – by 24.46% – when compared with 2010. It is characteristic of the Company that credit risk concentrates on a separate business partner or a group of business partners of similar type.

NOTES TO PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

Note No. 1 – Net turnover

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

Note No. 2 – Production costs of products sold

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

Notes (cont.)

Note No. 3 – Selling costs

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

Note No. 4 – Administrative costs

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

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

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

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

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

Notes (cont.)

Note No. 7 - Other interest income and similar income

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

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

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

Note No. 9 – Other interest payments and similar costs

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

Note No. 10 – Deferred corporate income tax

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

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

Note No. 11 – Other taxes

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

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"
Audited Annual Report 2011

NOTES TO BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

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

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

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

Notes (cont.)

Note No. 13 – Debts of customers and clients

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

Note No. 14 – Other debtors

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

Note No. 15 – Costs of the following periods

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

Note No. 16 – Other securities and partnership in capitals

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

Note No. 17 – Cash

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

Note No. 18 – Stock capital (fixed capital)

Total number of stocks of AS "RER" is 5 799 005 shares. A nominal value of each share is LVL 1.00.
The Company's fixed capital is LVL 5 799 005, which is split into: 5 799 005 regular voting shares.

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

| Indicators | 31.12.11. LVL | 31.12.10. LVL | 31.12.11. EUR | 31.12.10. EUR |
|---------------------------------|------------------|------------------|------------------|------------------|
| Residents, including | 199525 | 199525 | 283898 | 283898 |
| - physical entities | 174322 | 174322 | 248037 | 248037 |
| - legal entities | 25203 | 25203 | 35861 | 35861 |
| Non-residents, including | 5599480 | 5599480 | 7967343 | 7967343 |
| - Russia | 1011027 | 1011027 | 1438562 | 1438562 |
| - Canada | 5119 | 5119 | 7284 | 7284 |
| - Estonia (nominal shareholder) | 4583334 | 4583334 | 6521497 | 6521497 |
| Total | 5799005 | 5799005 | 8251241 | 8251241 |

Notes (cont.)

Note No. 19 – Other provisions

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

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

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

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

Note No. 21 – Other loans

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

Note No. 22 – Advance payments received from buyers

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

Note No. 23 – Debts to suppliers and contractors

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

Note No. 24 – Taxes and social insurance contributions

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

LVL

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"
Audited Annual Report 2011

Notes (cont.)

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

Note No. 25 – Other creditors

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

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

| Indicators | 31.12.11. | 31.12.10. |
|-----------------------------|-----------|-----------|
| Average number of employees | 922 | 780 |

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

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

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

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

Company on behalf of the Board,

Chairperson of the Board

N. Erohova

10 April 2012

MANAGEMENT CONFIRMATION REPORT

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

The Management of the Company confirms that during preparation of the audited annual report 2011 appropriate accounting methods were used and employed consistently, moreover, reasonable and careful decisions have been taken.

The Management of the Company is responsible for organizing accounting, preserving the Company's capital, as well as for preventing deceit and other dishonest activities.

Company on behalf of the Board,

Chairperson of the Board

N. Erohovs

10 April 2012



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying 2011 financial statements of JSC'' RIGA ELECTRIC MACHINERY FACTORY'' (further ''the Company''), which are set out on pages 6 through 20 of the accompanying 2011 Annual Report and which comprise the balance sheet as at 31 December 2011, 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 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Republic of Latvia Annual Accounts Law .

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Management Report for the year ended 31 December 2011 ,included on pages 4 through 5 of the accompanying 2011 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 2011.

Riga, 27 April 2012

“Rigas Audits” Ltd, certificate No 103,

Board of chairman , certificated auditor,

certificate No 127



Janis Meziels
Janis Meziels