

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

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

**ANNUAL REPORT FOR 3 MONTHS  
OF THE YEAR 2012  
(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	Nikolajs Erohovs (from 15.03.2011)
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 2012 – 31 March 2012
Auditor	SIA "Rīgas audits", licence No. 103 Skolas iela 11-501, Riga, LV-1010, Latvia
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 %

**PROFIT AND LOSS ACCOUNT FOR 3 MONTHS OF 2012**

No.	Items	Line code	Note	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
1	Net turnover	010	1	7106170	5044116	10111169	7177130
2	Production costs of the goods sold	020	2	(5456564)	(4222581)	(7763991)	(6008191)
3	<b>Gross profit or loss</b>	030		<b>1649606</b>	<b>821535</b>	<b>2347178</b>	<b>1168939</b>
4	Selling expenses	040	3	(135497)	(122280)	(192795)	(173989)
5	Administration expenses	050	4	(519252)	(424523)	(738829)	(604042)
6	Other operating income	060	5	75977	125947	108106	179206
7	Other operating expenses	070	6	(428360)	(137144)	(609501)	(195138)
8	Other interest income and similar income	100	7		10362		14744
9	Other interest payments and similar expenses	120	8	(143040)	(152460)	(203528)	(216931)
10	Profit or loss before extraordinary items and taxes	130		499434	121437	710631	172789
11	Profit or loss before tax	160		499434	121437	710631	172789
12	Other taxes	190	9		(29401)		(41834)
13	Profit or loss of the accounting period	200		<b>499434</b>	<b>92036</b>	<b>710631</b>	<b>130955</b>

EPS (earnings per share)	0.09	0,02	0.12	0,02
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**BALANCE SHEET FOR 3 MONTHS OF 2012**

<b>A S S E T S</b>	<b>Line code</b>	<b>Note</b>	<b>31.03.12. LVL</b>	<b>31.03.11. LVL</b>	<b>31.03.12. EUR</b>	<b>31.03.11. EUR</b>
<b>1. LONG-TERM INVESTMENTS</b>		10				
<b>I. Intangible investments</b>						
1. Development costs	010		68254	136508	97117	194233
2. Other intangible investments	021		10356	7707	14735	10966
I. Total	050		<b>78610</b>	<b>144215</b>	<b>111852</b>	<b>205199</b>
<b>II. Fixed assets</b>						
1. Land plots, buildings, constructions	060		4204232	4237433	5982083	6029324
2. Equipment and machinery	080		2642810	2840144	3760380	4041161
3. Other fixed assets and inventory	090		26100	27383	37137	38962
4. Creation of fixed assets	100		779099	604361	1108558	859928
II. Total	120		<b>7652241</b>	<b>7709321</b>	<b>10888158</b>	<b>10969375</b>
<b>III. Long-term financial investments</b>						
1. Participation in capital of affiliated companies	150			59927		85268
III. Total	210			<b>59927</b>		<b>85268</b>
<b>I. PART TOTAL AMOUNT</b>	<b>220</b>		<b>7730851</b>	<b>7913463</b>	<b>11000010</b>	<b>11259842</b>
<b>2. CURRENT ASSETS</b>						
<b>I. Stocks</b>						
1. Raw materials, direct materials and auxiliary materials	230		1815579	1910004	2583336	2717691
2. Unfinished products	240		1377213	1384680	1959598	1970222
3. Finished products and goods for sale	250		57958	120165	82467	170979
4. Prepayments for goods	270		445536	255914	633941	364133
I. Total	290		<b>3696286</b>	<b>3670763</b>	<b>5259342</b>	<b>5223025</b>
<b>II. Debtors</b>						
1. Debts of buyers and customers	300	11	4859197	5831361	6914014	8297279
2. Other debtors	330	12	310267	132742	441470	188877
3. Deferred expenses	360	13	55853	56417	79472	80274
II. Total	370		<b>5225317</b>	<b>6020520</b>	<b>7434956</b>	<b>8566430</b>
<b>IV. Cash</b>	420	14	5028	9050	7154	12877
<b>II. PART TOTAL AMOUNT</b>	<b>430</b>		<b>8926631</b>	<b>9700333</b>	<b>12701452</b>	<b>13802332</b>
<b>B A L A N C E</b>	<b>440</b>		<b>16657482</b>	<b>17613796</b>	<b>23701462</b>	<b>25062174</b>

Appendices to financial statements on pages 9 – 17 are an integral part of the financial statements.

**BALANCE SHEET FOR 3 MONTHS OF 2012**

LIABILITIES	Line code	Note	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
<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		214246	224120	304845	318894
3. Other provisions	510		192922	192922	274503	274503
4. Undivided profit:						
a) Undivided profit of previous years	530		(3719278)	(4243532)	(5292056)	(6038002)
b) Undivided profit of the accounting year	540		499434	92036	710631	130955
<b>1. PART TOTAL AMOUNT</b>	<b>550</b>		<b>2986329</b>	<b>2064551</b>	<b>4249164</b>	<b>2937591</b>
<b>2. PROVISIONS</b>						
1. Other provisions	580	16	256095	184531	364390	262564
<b>2. PART TOTAL AMOUNT</b>	<b>590</b>		<b>256095</b>	<b>184531</b>	<b>364390</b>	<b>262564</b>
<b>3. CREDITORS</b>						
<b>I. Long-term creditors</b>						
1. Loans from credit institutions	620	17	5341873		7600801	
2. Other loans	630	18	55169	292474	78498	416153
3. Deferred tax liabilities	731		215995	295432	307333	420362
I. Total	740		<b>5613037</b>	<b>587906</b>	<b>7986632</b>	<b>836515</b>
<b>II. Short-term creditors</b>						
1. Loans from credit institutions	770	17	1112890	7322922	1583500	10419579
2. Other loans	780	18	935814	912266	1331543	1298038
3. Advance payments received from buyers	790	19	129797	24898	184684	35427
4. Debts to suppliers and contractors	800	20	2347543	2796321	3340253	3978806
5. Debts to affiliated companies	830			5365		7634
6. Taxes and social security payments	840	21	2866345	3146828	4078442	4477533
7. Other creditors	850	22	409632	568208	582854	808487
II. Total	890		<b>7802021</b>	<b>14776808</b>	<b>11101276</b>	<b>21025504</b>
<b>3. PART TOTAL AMOUNT</b>	<b>900</b>		<b>13415058</b>	<b>15364714</b>	<b>19087908</b>	<b>21862019</b>
<b>BALANCE</b>	910		<b>16657482</b>	<b>17613796</b>	<b>23701462</b>	<b>25062174</b>

**CASH FLOW STATEMENT FOR 3 MONTHS OF 2012** (prepared by indirect method)

**I. Cash flow from operating activities**

	Items	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
1	Profit or loss before extraordinary items and taxes	499434	121437	710631	172789
	<b>ADJUSTMENTS</b>				
	Depreciation of fixed assets	81815	83283	116412	118501
	Amortization of intangible investment value	1535	77	2184	110
	Gain from sales of fixed assets	(8433)		(11999)	
	Profit or loss from fluctuations of currency exchange rates	18537	(23816)	26376	(33887)
	Other interest income and similar income		(10031)		(14273)
	Amounts written off fixed assets		8589		12221
	Reserve for revaluation of long-term investments	(612)	(40512)	(871)	(57643)
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	<b>592276</b>	<b>139027</b>	<b>842733</b>	<b>197818</b>
	<b>ADJUSTMENTS</b>				
	Increase or decrease of balance of receivables	(1168769)	(1178167)	(1663008)	(1676381)
	Increase or decrease of balance of inventories	362642	52036	515993	74041
	Increase or decrease of deferred expenses	15998	15040	22763	21400
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	565509	322991	804647	459575
	Expenses for tax payments	(26966)	(22499)	(38369)	(32013)
3	Gross cash flow from operating activities	<b>340690</b>	<b>(671572)</b>	<b>484759</b>	<b>(955560)</b>
4	Cash flow before extraordinary items	<b>340690</b>	<b>(671572)</b>	<b>484759</b>	<b>(955560)</b>
I	<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>340690</b>	<b>(671572)</b>	<b>484759</b>	<b>(955560)</b>

**II. Cash flow from investing activities**

	Items	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
1	Purchase of fixed assets and intangible investments	(39302)	(18768)	(55922)	(26704)
2	Income from sales of fixed assets and intangible investments	8433		11999	
3	Interest income received		205198		291970
II	<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(30869)</b>	<b>186430</b>	<b>(43923)</b>	<b>265266</b>

**III. Cash flow from financing activities**

	Items	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
1	Loans received		773853		1101094
2	Expenses for repayment of loans	(222578)	(262656)	(316700)	(373726)
3	Expenses for repurchase of leased fixed assets	(55169)	(55169)	(78498)	(78498)
III	<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(277747)</b>	<b>456028</b>	<b>(395198)</b>	<b>648870</b>

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

	Items	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
I	Net cash flow from operating activities	340690	(671572)	484759	(955560)
II	Net cash flow from investing activities	(30869)	186430	(43923)	265266
III	Net cash flow from financing activities	(277747)	456028	(395198)	648870
	Result of fluctuations of currency exchange rates	(34845)	(3747)	(49581)	(5333)
	Net cash flow of the accounting period	<b>(2771)</b>	<b>(32861)</b>	<b>(3943)</b>	<b>(46757)</b>
	Cash and its equivalents in the beginning of the accounting period	<b>7799</b>	<b>41911</b>	<b>11097</b>	<b>59634</b>
	Cash and its equivalents at the end of the accounting period	<b>5028</b>	<b>9050</b>	<b>7154</b>	<b>12877</b>

**STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 3 MONTHS OF 2012, LVL**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
<b>1. Balance as of 31.12.2010.g.</b>	<b>5799005</b>	<b>264632</b>	<b>192922</b>	<b>(4243532)</b>	<b>2013027</b>
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(40512)			(40512)
b) increase of fixed assets					
3. Income or loss of the accounting period in accordance with the profit and loss account				92036	92036
<b>4. Balance as of 31.03.2011.g.</b>	<b>5799005</b>	<b>224120</b>	<b>192922</b>	<b>(4151496)</b>	<b>2064551</b>
<b>5. Balance as of 31.12.2011.g.</b>	<b>5799005</b>	<b>214858</b>	<b>192922</b>	<b>(3719278)</b>	<b>2487507</b>
6. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(612)			(612)
b) increase of fixed assets					
7. Income or loss of the accounting period in accordance with the profit and loss account				499434	499434
<b>8. Balance as of 31.03.2012.g.</b>	<b>5799005</b>	<b>214246</b>	<b>192922</b>	<b>(3219844)</b>	<b>2986329</b>

**STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 3 MONTHS OF 2012, EUR**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
<b>1. Balance as of 31.12.2010.g.</b>	<b>8251241</b>	<b>376537</b>	<b>274503</b>	<b>(6038002)</b>	<b>2864279</b>
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(57643)			(57643)
b) increase of fixed assets					
3. Income or loss of the accounting period in accordance with the profit and loss account				130955	130955
<b>4. Balance as of 31.03.2011.g.</b>	<b>8251241</b>	<b>318894</b>	<b>274503</b>	<b>(5907047)</b>	<b>2937591</b>
<b>5. Balance as of 31.12.2011.g.</b>	<b>8251241</b>	<b>305715</b>	<b>274503</b>	<b>(5292056)</b>	<b>3539403</b>
6. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(870)			(870)
b) increase of fixed assets					
7. Income or loss of the accounting period in accordance with the profit and loss account				710631	710631
<b>8. Balance as of 31.03.2012.g.</b>	<b>8251241</b>	<b>304845</b>	<b>274503</b>	<b>(4581425)</b>	<b>4249164</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", 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.

#### 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

During the period from 31.12.2011 until 31.03.2012 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 2011 year.

#### 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 31.03.2012. : 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.

#### 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.

Notes (cont.)

Accounting policy (cont.)

*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.

#### *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 ruble, 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.

Notes (cont.)

*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 TO PROFIT AND LOSS ACCOUNT FOR 3 MONTHS OF 2012**

**Note No. 1 – Net turnover**

Country	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Latvia	566502	988881	806060	1407051
Russia	6519180	3472192	9275957	4940484
Georgia		409875		583200
Ukraine	15696	107521	22333	152989
Sweden		4510		6417
Belarus		40781		58026
Other	4792	20356	6819	28963
<b>Total</b>	<b>7106170</b>	<b>5044116</b>	<b>10111169</b>	<b>7177130</b>

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

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Salaries	1287677	949904	1832199	1351592
Social insurance contributions	304225	224923	432873	320037
Costs of materials	3239427	2552438	4609289	3631792
Energy resources	427603	322798	608424	459300
Depreciation of capital assets and intangible assets	74122	73703	105466	104870
Business trip costs	20548	10046	29237	14294
Repair costs and remuneration for works from outside	41652	42522	59265	60503
Development costs	17063	17064	24278	24280
Losses due to rejects	18603	11374	26470	16184
Other costs	25644	17809	36490	25339
<b>Total</b>	<b>5456564</b>	<b>4222581</b>	<b>7763991</b>	<b>6008191</b>

**Note No. 3 – Selling costs**

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Packing material and package	24039	60152	34204	85589
Transportation expenses	86508	43943	123090	62525
Salaries	20135	14569	28650	20730
Social insurance contributions	4815	3464	6851	4929
Other selling costs		152		216
<b>Total</b>	<b>135497</b>	<b>122280</b>	<b>192795</b>	<b>173989</b>

**Note No. 4 – Administrative costs**

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Communications costs	4143	3965	5895	5642
Reimbursement for legal services	10948	1159	15578	1649
Cash circulation and expense and extra costs	1450	4143	2063	5895
Transportation expenses	4423	3556	6293	5060
Representation expenses	986	1476	1403	2100
Salaries	342561	281989	487420	401234
Social insurance contributions	79817	66269	113569	94292
Energy resources	12233	11323	17406	16111
Depreciation of capital assets	10837	7973	15420	11345
Business trip costs	4899	4169	6971	5932
Security services	35993	30725	51213	43718
Other administrative costs	10962	7776	15598	11064
<b>Total</b>	<b>519252</b>	<b>424523</b>	<b>738829</b>	<b>604042</b>

Notes (cont.)

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

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Profit gained as a result of other sales (materials, lease, other)	58055	45326	82605	64493
Penalty and contractual penalties		259		369
Income from sales of fixed assets	8433		11999	
Income related to maintenance of social sphere	8821	7308	12551	10398
Decrease in revaluation reserve of capital assets	612	40512	871	57643
Income from fluctuations of exchange rates		23816		33887
Other income	56	8726	80	12416
<b>Total</b>	<b>75977</b>	<b>125947</b>	<b>108106</b>	<b>179206</b>

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

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Penalty and contractual penalties	69906	100426	99467	142893
Costs related to maintenance of social sphere	15489	14621	22039	20804
Costs not related to operating activities of the Company	18303	13472	26043	19169
Losses from fluctuations of exchange rates	18537		26376	
Removal of capital assets		8589		12221
Loss from previous year		36		51
General accrual	300000		426861	
Other costs	6125		8715	
<b>Total</b>	<b>428360</b>	<b>137144</b>	<b>609501</b>	<b>195138</b>

**Note No. 7 - Other interest income and similar income**

Indicator	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Interest income (short-term loans)		10031		14273
Other interest income		331		471
<b>Total</b>		<b>10362</b>		<b>14744</b>

**Note No. 8 – Other interest payments and similar costs**

Indicator	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Loan agreements	138971	60997	197738	86791
Leasing agreements	4069	7231	5790	10289
Credit line agreements		84232		119851
<b>Total</b>	<b>143040</b>	<b>152460</b>	<b>203528</b>	<b>216931</b>

**Note No. 9 – Other taxes**

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Real estate tax on premises (buildings)		24142		34351
Real estate tax on land		5259		7483
<b>Total</b>		<b>29401</b>		<b>41834</b>

Notes (cont.)

**NOTES TO BALANCE SHEET FOR THE 3 MONTHS OF 2012**

**Note No. 10 – Statement of movement of long-term investments, LVL**

	Initial value				Depreciation				Remaining value	
	Remaining amount as at 01.01.12	Purchase	Removed	Remaining amount as at 31.03.12	Remaining amount as at 01.01.12	Calculated	Removed	Remaining amount as at 31.03.12	01.01.12	31.03.12.
<b>Intangible investments</b>										
Devel.costs	68254			68254					68254	68254
Licences and other	301			301	301			301		
Software	23041	2700		25741	13850	1535		15385	9191	10356
<b>Total</b>	<b>91596</b>	<b>2700</b>		<b>94296</b>	<b>14151</b>	<b>1535</b>		<b>15686</b>	<b>77445</b>	<b>78610</b>
<b>Capital assets</b>										
Land, premises, buildings*	7018451			7018451	2797590	16629		2814219	4220861	4204232
Equipment and machinery	5493513	23669	(7445)	5509737	2812605	61767	(7445)	2866927	2680908	2642810
Other capital assets	258354	393	(1137)	257610	229228	3419	(1137)	231510	29126	26100
Creation of capital assets	766559	34285	(21745)	779099					766559	779099
<b>Total</b>	<b>13536877</b>	<b>58347</b>	<b>(30327)</b>	<b>13564897</b>	<b>5839423</b>	<b>81815</b>	<b>(8582)</b>	<b>5912656</b>	<b>7697454</b>	<b>7652241</b>
<b>In total</b>	<b>13628473</b>	<b>61047</b>	<b>(30327)</b>	<b>13659193</b>	<b>5853574</b>	<b>83350</b>	<b>(8582)</b>	<b>5928342</b>	<b>7774899</b>	<b>7730851</b>

**Note No. 10 – Statement of movement of long-term investments, EUR**

	Initial value				Depreciation				Remaining value	
	Remaining amount as at 01.01.12	Purchase	Removed	Remaining amount as at 31.03.12	Remaining amount as at 01.01.12	Calculated	Removed	Remaining amount as at 31.03.12	01.01.12	31.03.12
<b>Intangible assets</b>										
Devel.costs	97117			97117					97117	97117
Licences and other	428			428	428			428		
Software	32784	3842		36626	19707	2184		21891	13077	14735
<b>Total</b>	<b>130329</b>	<b>3842</b>		<b>134171</b>	<b>20135</b>	<b>2184</b>		<b>22319</b>	<b>110194</b>	<b>111852</b>
<b>Capital assets</b>										
Land, premises, buildings*	9986356			9986356	3980612	23661		4004273	6005744	5982083
Equipment and machinery	7816565	33678	(10593)	7839650	4001976	87887	(10593)	4079270	3814589	3760380
Other capital assets	367605	559	(1618)	366546	326162	4865	(1618)	329409	41443	37137
Creation of capital assets	1090715	48783	(30940)	1108558					1090715	1108558
<b>Total</b>	<b>19261241</b>	<b>83020</b>	<b>(43151)</b>	<b>19301110</b>	<b>8308750</b>	<b>116413</b>	<b>(12211)</b>	<b>8412952</b>	<b>10952491</b>	<b>10888158</b>
<b>In total</b>	<b>19391570</b>	<b>86862</b>	<b>(43151)</b>	<b>19435281</b>	<b>8328885</b>	<b>118597</b>	<b>(12211)</b>	<b>8435271</b>	<b>11062685</b>	<b>11000010</b>

In 2012 assessed value of the premises accounted for LVL 5 681 775 (EUR 8 084 437), assessed value of the plot accounted for LVL 2 061 090 (EUR 2 932 667).

Notes (cont.)

**Note No. 11 – Debts of customers and clients**

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Debts of customers and clients (for the goods and services)	4859197	5831361	6914014	8297279
<b>Total</b>	<b>4859197</b>	<b>5831361</b>	<b>6914014</b>	<b>8297279</b>

**Note No. 12 – Other debtors**

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Taxes paid in advance	2929	1343	4168	1911
Overpaid taxes	138513	99678	197086	141829
Rental debts	30821	26237	43854	37332
Claims settlement	132800		188957	
Other	5204	5484	7404	7805
<b>Total</b>	<b>310267</b>	<b>132742</b>	<b>441469</b>	<b>188877</b>

**Note No. 13 – Costs of the following periods**

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Insurance	1440	1110	2049	1579
Expenses for development of new techniques	51191	51191	72838	72838
Software service	2059	2835	2930	4034
Other	1163	1281	1655	1823
<b>Total</b>	<b>55853</b>	<b>56417</b>	<b>79472</b>	<b>80274</b>

**Note No. 14 – Cash**

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Current accounts in banks	5028	9050	7154	12877

**Note No. 15 – Stock capital (fixed capital)**

Total number of stocks of AS "RER" is 5799005 shares. A nominal value of each share is LVL 1.00. The Company's fixed capital is LVL 5799005, which is split into: 5799005 regular voting shares.

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

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. 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	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Holiday provisions	256095	184531	364390	262564

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

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
<b>Latvian credit institutions, loan agreement, including</b>	<b>6454763</b>	<b>2374576</b>	<b>9184301</b>	<b>3378717</b>
Long-term debt	5341873		7600801	
Short-term debt	1112890	2374576	1583500	3378717
<b>Latvian credit institutions, credit line agreement, including</b>		<b>4948346</b>		<b>7040862</b>
Short-term debt		4948346		7040862

**Note No. 18 – Other loans**

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
<b>Leasing agreements, including</b>	<b>316266</b>	<b>553571</b>	<b>450006</b>	<b>787661</b>
Long-term debt	55169	292474	78498	416153
Short-term debt	261097	261097	371508	371508
<b>Other loans, including</b>	<b>674717</b>	<b>651169</b>	<b>960036</b>	<b>926530</b>
Short-term debt	674717	651169	960036	926530

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

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Local customers	416	582	592	828
Foreign customers	129381	24316	184092	34599
<b>Total</b>	<b>129797</b>	<b>24898</b>	<b>184684</b>	<b>35427</b>

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

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Local suppliers	1662684	2196791	2365786	3125752
Foreign suppliers	684859	599530	974467	853054
<b>Total</b>	<b>2347543</b>	<b>2796321</b>	<b>3340253</b>	<b>3978806</b>

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

Indicators	31.03.12. LVL	31.03.11. LVL	31.03.12. EUR	31.03.11. EUR
Personal income tax	1104483	1281153	1571539	1822916
Mandatory social insurance contributions	1739171	1799011	2474617	2559764
Natural resources tax	10233	1788	14560	2544
Real estate tax on land	2192	5260	3119	7484
Real estate tax on premises (buildings)	10026	59402	14266	84521
State business risk fee	240	214	341	304
<b>Total</b>	<b>2866345</b>	<b>3146828</b>	<b>4078442</b>	<b>4477533</b>



Notes (cont.)

**Note No. 22 – Other creditors**

<b>Indicators</b>	<b>31.03.12. LVL</b>	<b>31.03.11. LVL</b>	<b>31.03.12. EUR</b>	<b>31.03.11. EUR</b>
Salary debt	399102	549181	567871	781414
Support payments	2936	3843	4178	5468
Trade union membership fee	6598	11025	9388	15687
Other	996	4159	1417	5918
<b>Total</b>	<b>409632</b>	<b>568208</b>	<b>582854</b>	<b>808487</b>

Company on behalf of the Board,

Chairperson of the Board

Nikolais Erohovs

25 May 2012

## MANAGEMENT REPORT

“Riga Electric Machine Building Works” (JSC RER) is the largest machine building company in the Baltic States. The core business of company is manufacture of traction power equipment and related appliances for railway rolling stock.

The company was organized at the base of former Russian-French enterprise “PROVODNIK” (established in 1888) and has more than 120 years of history and experience in power engineering.

Since 1946 the production plant manufactures equipment for railway and floor trackless electrical transport by orders of railcar building works and railways of Russia, CIS countries, Baltic states, and some European countries.

During more than 50 years of history JSC RER has developed and mastered production of most innovative power equipment for electrical trains, locomotive-hauled passenger coaches and metropolitan coaches.

Strategy of JSC RER provides further expansion both at Russian and foreign markets.

During the period of years 2010–2011 JSC RER production supplies to Russian market achieved 86–88% of gross amount of sales, while in the 1<sup>st</sup> quarter of 2012 the company delivered to Russian market 91.7% of manufactured products. Total sales amount of JSC RER in 2011 compared to 2010 grew by 169%, and in 1<sup>st</sup> quarter of 2012 in comparison with respective period of previous year – by 140.9%. Notwithstanding losses in 2010, company profit in 2011 reached 0.5 millions LVL, and net profit in 1<sup>st</sup> quarter 2012 compared to 1<sup>st</sup> quarter 2011 increased fivefold. Labour productivity rate growth during 1<sup>st</sup> quarter 2012 achieved 111.9% along with wage growth rate amounting to 103.6%. The company currently has no wage payment debts.

Presently JSC RER employs 934 persons. Average age of employees is 50 years.

JSC RER has developed a complex program of company staffing with needed professionals, which provides training of workers and engineers in training centres of Latvia.

With direct and active participation of the Embassy of Russian Federation in Latvia, Russian Ministry of Education resolved positively about allocation of places for studying in high schools of Russian Federation. Currently 8 students of JSC RER are studying there.

In accordance with Strategic development plan, JSC RER before year 2016 is planning to diversify its product line. This shall ensure that product share intended for Russian market in 2016 shall make at least 75% of the total planned manufacture output of JSC RER which shall increase by 2.8 times compared to output in 2010.