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

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

ANNUAL REPORT
2010
(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 15.03.2011)
Board Members	Igors Ruļovs	(from 12.05.2009)
	Aleksandra Dormidontova	(from 19.04.2010)
	Mihails Morozs	(from 19.04.2010)
	Aleksandrs Suvorkins	(from 19.04.2010)
Accounting period	1 January 2010 – 31 December 2010	
Auditor	SIA "Rīgas audits", licence No. 103 Skolas iela 11-501, Riga, LV-1010, Latvia Certified auditor Jānis Mežiels Certified auditor's certificate No. 127	
Associated companies	SIA "Lovato – REZ", Reg. No. 000307218 Ganību dambis 31, Riga, the Republic of Latvia Fixed capital LVL 115,200 (EUR 163915) Shares – 50 %	

AS "Rīgas elektromašīnbūves rūpnīca"
MANAGEMENT REPORT

Business activities of the Company in 2010

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

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

Net turnover of the Company accounted for LVL 13456860 (EUR 19147387), which is 124.72 % when compared with the data of 2009.

AS "RER" has concluded the financial year 2010 with loss amounting to LVL 1725223 (EUR 2454770) before tax and loss amounting to LVL 1863452 (EUR 2651453) after tax.

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

Indicators of financial stability

Indicator	31.12.2010.	31.12.2009.
Autonomy indicator (equity / entire capital)	0.13	0.21
Proportion coefficient of loans and equity (loans / equity)	6.64	3.72

Liquidity indicators

Indicator	31.12.2010.	31.12.2009.
Total liquidity indicator (current assets / short-term liabilities)	0.63	0.76
Fast liquidity indicator (short-term debtors and cash / short-term liabilities)	0.36	0.48

Other indicators

In 2010 the average number of employees was 780 people, which has decreased by 16.04 % when compared with 2009. In 2010 the average monthly salary was LVL 444.23 (EUR 632.08), and this number has increased by 17.45% when compared with 2009.

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 2010.

Company development measures

In 2011, JSC RER plans to increase output of electric equipment for electric trains ED-4M and ED-9M, by average number of 3 sets monthly in various series (from 6 to 11 cars). Besides, in the 2-nd half of the year it is planned to produce sets of electric equipment for electric trains EPL-2T and EPL-9T – in total up to 6 sets.

The challenge of 2011 is to master serial production of asynchronous electric motor DTA-170.

In 2011 JSC RER plans to master serial production of updated electric sets applying new hardware components.

Events after the date of balance sheet

In June, 2009 JSC RER had issued a short-term loan, that was fully paid back to JSC "RER" LVL 1712536 (EUR 2436719) by February, 2011 including an accumulated interest.

Chair of the Board	N. Erohovs
Board Members:	M. Morozs
	I. Ruļovs
	A. Dormidontova
	A. Suvorkins

11 April 2011

PROFIT AND LOSS ACCOUNT FOR TWELVE MONTHS OF 2010

No.	Items	Line code	Note	31.12.10. LVL	31.12.09. LVL	31.12.10. EUR	31.12.09. EUR
1	Net turnover	010	1	13456860	10789592	19147387	15352206
2	Production costs of the goods sold	020	2	(12758326)	(11486503)	(18153462)	(16343821)
3	**Gross profit or loss**	030		**698534**	**(696911)**	**993925**	**(991615)**
4	Selling expenses	040	3	(392600)	(474214)	(558619)	(674746)
5	Administration expenses	050	4	(1803657)	(2031025)	(2566373)	(2889888)
6	Other operating income	060	5	577012	227861	821014	324217
7	Other operating expenses	070	6	(424557)	(607607)	(604090)	(864547)
8	Other interest income and similar income	100	7	195175	23103	277709	32873
9	Other interest payments and similar expenses	120	8	(575130)	(547422)	(818336)	(778911)
10	Profit or loss before extraordinary items and taxes	130		(1725223)	(4106215)	(2454770)	(5842617)
11	Profit or loss before tax	160		(1725223)	(4106215)	(2454770)	(5842617)
12	Corporate income tax	170					
13	Retained corporate income tax	180	9	(47234)	6578	(67209)	9360
14	Other taxes	190	10	(90995)	(91256)	(129474)	(129847)
15	Profit or loss of the accounting period	200		**(1863452)**	**(4190893)**	**(2651453)**	**(5963104)**

EPS (earnings per share)	(0.32)	(0,72)	(0.46)	(1,03)
The number of shares is 5799005				

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2010

A S S E T S	Line code	Note	31.12.10. LVL	31.12.09. LVL	31.12.10. EUR	31.12.09. EUR
1. LONG-TERM INVESTMENTS		11				
I. Intangible investments						
1. Development costs	010		136508	170636	194233	242793
2. Concessions, licences and similar rights	020		15	96	21	137
3. Other intangible investments	021		63	654	90	931
I. Total	050		**136586**	**171386**	**194344**	**243861**
II. Fixed assets						
1. Land plots, buildings, constructions	060		4251667	4296350	6049577	6113155
2. Equipment and machinery	080		2913052	3148415	4144900	4479791
3. Other fixed assets and inventory	090		30827	39654	43863	56423
4. Creation of fixed assets	100		594586	630390	846020	896964
II. Total	120		**7790132**	**8114809**	**11084360**	**11546333**
III. Long-term financial investments						
1. Participation in capital of affiliated companies	150		59927	59927	85268	85268
III. Total	210		**59927**	**59927**	**85268**	**85268**
I. PART TOTAL AMOUNT	220		**7986645**	**8346122**	**11363972**	**11875462**
2. CURRENT ASSETS						
I. Stocks						
1. Raw materials, direct materials and auxiliary materials	230		2053850	2189971	2922365	3116048
2. Unfinished products	240		1371529	1271996	1951510	1809887
3. Finished products and goods for sale	250		41506	244765	59058	348269
4. Prepayments for goods	270		254676	234970	362371	334332
I. Total	290		**3721561**	**3941702**	**5295304**	**5608536**
II. Debtors						
1. Debts of buyers and customers	300	12	3202921	4532554	4557346	6449243
2. Other debtors	330	13	68570	97718	97567	139040
3. Deferred expenses	360	14	71457	175984	101674	250403
II. Total	370		**3342948**	**4806256**	**4756587**	**6838686**
III. Securities and participation in capitals						
1. Other securities	400	15	1702505	2009786	2422446	2859667
III. Total	410		**1702505**	**2009786**	**2422446**	**2859667**
IV. Cash	420	16	41911	77188	59634	109829
II. PART TOTAL AMOUNT	430		**8808925**	**10834932**	**12533971**	**15416718**
B A L A N C E	440		**16795570**	**19181054**	**23897943**	**27292180**

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

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2010

L I A B I L I T I E S	Line code	Note	31.12.10. LVL	31.12.09. LVL	31.12.10. EUR	31.12.09. EUR
1. SHAREHOLDERS' EQUITY						
1. Share capital (capital stock)	450	17	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	470		264632	264632	376537	376537
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		(1863452)	(4190893)	(2651453)	(5963104)
1. PART TOTAL AMOUNT	550		**2013027**	**3876479**	**2864279**	**5515732**
2. PROVISIONS						
1. Other provisions	580	18	184531	184707	262564	262814
2. PART TOTAL AMOUNT	590		**184531**	**184707**	**262564**	**262814**
3. CREDITORS						
I. Long-term creditors						
1. Other loans	630	20	292474	553886	416153	788109
2. Deferred tax liabilities	731		295432	248198	420362	353154
I. Total	740		**587906**	**802084**	**836515**	**1141263**
II. Short-term creditors						
1. Loans from credit institutions	770	19	7323318	8187027	10420143	11649090
2. Other loans	780	20	476766	574567	678377	817535
3. Advance payments received from buyers	790	21	94066		133844	
4. Debts to suppliers and contractors	800	22	2826586	2363089	4021870	3362373
5. Debts to affiliated companies	830		3623	2489	5155	3541
6. Taxes and social security payments	840	23	2918632	2524497	4152839	3592036
7. Other creditors	850	24	367115	666115	522357	947796
II. Total	890		**14010106**	**14317784**	**19934585**	**20372371**
3. PART TOTAL AMOUNT	900		**14598012**	**15119868**	**20771100**	**21513634**
B A L A N C E	910		**16795570**	**19181054**	**23897943**	**27292180**

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

I. Cash flow from operating activities

	Items	31.12.10. LVL	31.12.09. LVL	31.12.10. EUR	31.12.09. EUR
1	Profit or loss before extraordinary items and taxes	(1725223)	(4106215)	(2454771)	(5842617)
	ADJUSTMENTS				
	Depreciation of fixed assets	346759	378441	493394	538473
	Amortization of intangible investment value	672	4138	956	5888
	Gain from sales of fixed assets	(7128)		(10142)	
	Profit or loss from fluctuations of currency exchange rates	(318337)	84014	(452953)	119541
	Amounts written off fixed assets	727	2906	1034	4135
	Reserve for revaluation of long-term investments		77132		109749
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	**(1702530)**	**(3559584)**	**(2422482)**	**(5064831)**
	ADJUSTMENTS				
	Increase or decrease of balance of receivables	1980052	3030251	2817360	4311659
	Increase or decrease of balance of inventories	239847	2486597	341272	3538109
	Increase or decrease of deferred expenses	104527	1450	148729	2063
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	624901	(1003840)	889154	(1428336)
	Increase or decrease of accruals	(176)	(15446)	(250)	(21978)
	Expenses for tax payments	(86191)	(71403)	(122639)	(101597)
3	Gross cash flow from operating activities	**1160430**	**868025**	**1651144**	**1235089**
4	Cash flow before extraordinary items	1160430	868025	1651144	1235089
I	**NET CASH FLOW FROM OPERATING ACTIVITIES**	**1160430**	**868025**	**1651144**	**1235089**

II. Cash flow form investing activities

	Items	31.12.10. LVL	31.12.09. LVL	31.12.10. EUR	31.12.09. EUR
1	Purchase of fixed assets and intangible investments	(22808)	(95877)	(32453)	(136421)
2	Repaid loans		(409786)		(583073)
3	Income from sales of fixed assets and intangible investments	7128		10142	
II	**NET CASH FLOW FROM INVESTING ACTIVITIES**	**(15680)**	**(505663)**	**(22311)**	**(719494)**

III. Cash flow from financing activities

	Items	31.12.10. LVL	31.12.09. LVL	31.12.10. EUR	31.12.09. EUR
1	Loans received	771036	260037	1097085	369999
2	Expenses for repayment of loans	(1728220)	(864798)	(2459036)	(1230497)
3	Expenses for repurchase of leased fixed assets	(254351)	(221325)	(361937)	(314917)
III	**NET CASH FLOW FROM FINANCING ACTIVITIES**	**(1211555)**	**(826086)**	**(1723888)**	**(1175415)**

IV. Summary of cash inflow and outflow

	Items	31.12.10. LVL	31.12.09. LVL	31.12.10. EUR	31.12.09. EUR
I	Net cash flow from operating activities	1160430	868025	1651144	1235089
II	Net cash flow from investing activities	(15680)	(505663)	(22311)	(719494)
III	Net cash flow from financing activities	(1211555)	(826086)	(1723888)	(1175415)
	Result of fluctuations of currency exchange rates	31528	17640	44860	25100
	Net cash flow of the accounting period	**(35277)**	**(446084)**	**(50195)**	**(634720)**
	Cash and its equivalents in the beginning of the accounting period	**77188**	**523272**	**109829**	**744549**
	Cash and its equivalents at the end of the accounting period	**41911**	**77188**	**59634**	**109829**

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2010, LVL

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balanse as of 31.12.2008.g.	**5799005**	**187500**	**192922**	**1810813**	**7990240**
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		 (2392) 79524			 (2392) 79524
3. Income or loss of the accounting period in accordance with the profit and loss account				(4190893)	(4190893)
4. Balanse as of 31.12.2009.g.	**5799005**	**264632**	**192922**	**(2380080)**	**3876479**
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					
6. Income or loss of the accounting period in accordance with the profit and loss account				(1863452)	(1863452)
7. Balanse as of 31.12.2010.g.	**5799005**	**264632**	**192922**	**(4243532)**	**2013027**

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2010, EUR

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balanse as of 31.12.2008.g.	**8251241**	**266788**	**274503**	**2576555**	**11369087**
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		 (3403) 113152			 (3403) 113152
3. Income or loss of the accounting period in accordance with the profit and loss account				(5963104)	(5963104)
4. Balanse as of 31.12.2009.g.	**8251241**	**376537**	**274503**	**(3386549)**	**5515732**
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					
6. Income or loss of the accounting period in accordance with the profit and loss account				(2651453)	(2651453)
7. Balanse as of 31.12.2010.g.	**8251241**	**376537**	**274503**	**(6038002)**	**2864279**

NOTES

ACCOUNTING POLICY

Basis for report preparation

Annual report has been prepared in accordance with the Laws of the Republic of Latvia "On Accounting" and "On the Annual Accounts of Undertakings", as well as pursuant to the existing Accounting standards of Latvia.

Profit and loss account has been prepared according to the turnover cost method. Cash flow statement has been prepared in accordance with the indirect method. The annual report presents fairly and clearly financial position of the Company, as well as its assets and liabilities.

Accounting principles applied

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

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

Income recognition and net turnover

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

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

Capital assets and intangible assets

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

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

Intangible assets:	
- Licences	20%
- Software	50%
Capital assets:	
- Premises, buildings	1.1 – 1.9 %
- Equipment and machinery	2 – 20 %
- Other capital assets and inventory	10 – 50 %

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

Notes (cont.)
Accounting policy (cont.)

Unfinished construction and costs of capital asset creation

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

	31.12.2010 LVL	**31.12.2009 LVL**	**31.12.2010 EUR**	**31.12.2009 EUR**
Unfinished construction objects	118011	118011	167915	167915
Costs of capital asset creation	476575	512379	678105	729049
Total	**594586**	**630390**	**846020**	**896964**

Long-term financial investments

As at 31.12.2010 AS "RER" has an investment in the associated company SIA "Lovato-REZ".

No. of registration certificate and date of registration	**Name**	**Registered office**	**Invest ment, %**	**Amount invested**	**Part of the profit for 1996-2001**	**Total Column 5 + column 6**	**Founders**
1	2	3	4	5	6	7	8
000307218 04.1992	SIA "Lovato-REZ"	Ganību dambis 31, Riga, the Republic of Latvia	50	57600.00 LVL 81957.00 EUR	2327.00 LVL 3311.00 EUR	59927.00 LVL 85268.00 EUR	1. AS "RER", Latvia 2. "Lovato" S.A., Italy

Since March 12, 2010 "Lovato-REZ" Ltd is in the process of winding up. At the time of signature of the annual report liquidation quotes have not been fixed yet, so returnable investment value can not be forecasted precisely.

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

Notes (cont.)
Accounting policy (cont.)

Latvia set on the last day of the reporting period – 31.12.2010. 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.

	31.12.2010, LVL	**31.12.2009, LVL**
1 EUR	0.702804	0.702804
1 USD	0.535	0.489
1 RUB	0.0176	0.0164
1 SEK	0.0782	0.0678

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 2010 warranty repair costs accounted for LVL 17707 (EUR 25195), which is only 0.13% 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 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 been significant.

Notes (cont.)
Accounting policy (cont.)

Interest rate risk
The Company is at the interest rate risk due to its short-term and long-term loans and financial leasing transactions. In 2009 the average rate of the Company's loans and financial leasing transactions was 6.578%, in 2010 – 6.686%.

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

Credit risk
The Company is at the credit risk due to its debts of customers and clients. Debts of customers and clients of AS "RER" have decreased – by 29.34% – when compared with 2009.
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 2010

Note No. 1 – Net turnover

Country	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Latvia	4367257	2405673	6214047	3422964
Russia	8480295	7985890	12066373	11362898
Ukraine	264467	72647	376303	103367
Sweden	72770	96804	103542	137740
British Virgin Islands		210841		300000
Estonia	85269		121327	
Belarus	27131		38604	
Georgia	141962		201994	
Other	17709	17737	25197	25237
Total	**13456860**	**10789592**	**19147387**	**15352206**

Note No. 2 – Production costs of products sold

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Salaries	3026146	3276364	4305818	4661846
Social insurance contributions	713465	774395	1015169	1101865
Costs of materials	7399682	5769112	10528799	8208707
Energy resources	841670	820071	1197589	1166856
Depreciation of capital assets and intangible assets	319136	352500	454090	501562
Business trip costs	32477	24554	46211	34937
Repair costs and remuneration for works from outside	159719	175744	227260	250061
Development costs	136509	170636	194235	242793
Expenses on product certification	65443		93117	
Losses due to rejects	18002	41094	25615	58471
Environmental protection costs	14519	12030	20659	17117
Other costs	31558	70003	44903	99606
Total	**12758326**	**11486503**	**18153465**	**16343821**

Note No. 3 – Selling costs

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Packing material and package	179000	164519	254693	234089
Transportation expenses	155254	248119	220907	353042
Salaries	46729	49409	66489	70303
Social insurance contributions	11258	11827	16019	16828
Other selling costs	359	340	511	484
Total	**392600**	**474214**	**558619**	**674746**

Notes (cont.)

Note No. 4 – Administrative costs

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Communications costs	27962	34350	39786	48876
Reimbursement for legal services		12834		18261
Cash circulation and expense and extra costs	29331	23330	41734	33196
Transportation expenses	15924	15401	22658	21914
Representation expenses	7365	9165	10479	13041
Salaries	1129540	1295090	1607191	1842747
Social insurance contributions	265323	298583	377521	424845
Costs of materials		4932		7018
Energy resources	35002	62020	49803	88247
Depreciation of capital assets	31736	46328	45156	65919
Business trip costs	27826	50773	39593	72243
Security services	132754	143942	188892	204811
Year's payment to Stock Exchange of Riga	5845	5000	8317	7114
Market research	41360		58850	
Consulting service	14232		20250	
Other administrative costs	39457	29277	56143	41656
Total	**1803657**	**2031025**	**2566373**	**2889888**

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

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Profit gained as a result of other sales (materials, lease, other)	220356	156222	313538	222284
Penalty and contractual penalties	94	13629	134	19392
Remaining amounts of removal of capital assets, materials	656	2316	933	3295
Income from sales of fixed assets	7128		10142	
Deposited salaries	1880	15	2675	21
Income related to maintenance of social sphere	28206	35105	40134	49950
Income from fluctuations of exchange rates	318337		452953	
Decrease in holiday provision		15446		21978
Other income	355	5128	505	7297
Total	**577012**	**227861**	**821014**	**324217**

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

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Penalty and contractual penalties	306760	113160	436480	161012
Costs related to maintenance of social sphere	43529	53994	61936	76827
Costs not related to operating activities of the Company	70565	268864	100405	382559
Losses from converting currency		212		302
Losses from fluctuations of exchange rates		83802		119240
Removal of capital assets	727	2906	1034	4135
Increase in revaluation reserve of capital assets		77132		109749
Write-off material values		4398		6258
Loss from previous year	1518		2160	
Write-off of bad debtors	133		189	
Other costs	1325	3139	1886	4465
Total	**424557**	**607607**	**604090**	**864547**

Notes (cont.)

Note No. 7 - Other interest income and similar income

Indicator	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Interest income	195167	23038	277698	32780
Other interest income	8	65	11	93
Total	**195175**	**23103**	**277709**	**32873**

Note No. 8 – Other interest payments and similar costs

Indicator	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Loan agreements	213554	113327	303860	161250
Leasing agreements	35137	66015	49995	93931
Credit line agreements	326439	368080	464481	523730
Total	**575130**	**547422**	**818336**	**778911**

Note No. 9 – Deferred corporate income tax

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Deferred tax liabilities as at the beginning of accounting year	248198	254776	353154	362513
Deferred tax expenditure in profit and loss account of accounting year	47234	(6578)	67208	(9359)
Deferred tax liabilities as at the end of accounting year	295432	248198	420362	353154

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Deferred tax liabilities : Temporary difference of depreciation of capital assets	295406	245881	420325	349857
Deferred tax assets: Temporary differences of costs of holidays not used	26	2317	37	3297
Deferred tax liabilities	295432	248198	420362	353154

Note No. 10 – Other taxes

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Real estate tax on premises (buildings)	74163	61709	105524	87805
Real estate tax on land	16832	29547	23950	42042
Total	**90995**	**91256**	**129474**	**129847**

NOTES TO BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2010

Note No. 11 – 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 31.12.10**	**Remaining amount as at 01.01.10**	**Calcu-lated**	**Removed**	**Remaining amount as at 31.12.10**	**01.01.10**	**31.12.10.**
Intangible investments										
Devel.costs	170636		(34128)	136508					170636	136508
Licences and other	1137		(836)	301	1041	81	(836)	286	96	15
Software	10765			10765	10111	591		10702	654	63
Total	**182538**		**(34964)**	**147574**	**11152**	**672**	**(836)**	**10988**	**171386**	**136586**
Capital assets										
Land, premises, buildings*	6980378	11967		6992345	2684028	56650		2740678	4296350	4251667
Equipment and machinery	5904076	41898	(28888)	5917086	2755661	276725	(28352)	3004034	3148415	2913052
Other capital assets	269623	4747	(7030)	267340	229969	13384	(6840)	236513	39654	30827
Creation of capital assets	630390	21344	(57148)	594586					630390	594586
Total	**13784467**	**79956**	**(93066)**	**13771357**	**5669658**	**346759**	**(35192)**	**5981225**	**8114809**	**7790132**
Long-term fin. investm.										
Partnership in capital of associated companies	59927			59927					59927	59927
Total	**59927**			**59927**					**59927**	**59927**
In total	**14026932**	**79956**	**(128030)**	**13978858**	**5680810**	**347431**	**(36028)**	**5992213**	**8346122**	**7986645**

Note No. 11 – 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 31.12.10**	**Remaining amount as at 01.01.10**	**Calculated**	**Removed**	**Remaining amount as at 31.12.10**	**01.01.10**	**31.12.10**
Intangible assets										
Devel.costs	242793		(48560)	194233					242793	194233
Licences and other	1618		(1190)	428	1481	116	(1190)	407	137	21
Software	15317			15317	14386	841		15227	931	90
Total	**259728**		**(49750)**	**(209978)**	**15867**	**957**	**(1190)**	**15634**	**243861**	**194344**
Capital assets										
Land, premises, buildings*	9932183	17028		9949211	3819028	80606		3899634	6113155	6049577
Equipment and machinery	8400743	59615	(41104)	8419254	3920952	393743	(40341)	4274354	4479791	4144900
Other capital assets	383639	6754	(10003)	380390	327216	19043	(9732)	336527	56423	43863
Creation of capital assets	896964	30370	(81314)	846020					896964	846020
Total	**19613529**	**113767**	**(132421)**	**19594875**	**8067196**	**493392**	**(50073)**	**8510515**	**11546333**	**11084360**
Long-term fin. investm.										
Partnership in capital of associated companies	85268			85268					85268	85268
Total	**85268**			**85268**					**85268**	**85268**
In total	**19958525**	**113767**	**(182171)**	**19890121**	**8083063**	**494349**	**(51263)**	**8526149**	**11875462**	**11363972**

In 2010 assessed value of the premises accounted for LVL 5740348 (EUR 8167779), assessed value of the plot accounted for LVL 2319907 (EUR 3300930).

Notes (cont.)

Note No. 12 – Debts of customers and clients

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Debts of customers and clients	3213685	4542584	4572662	6463514
Provisions for doubtful debtors	(10764)	(10030)	(15316)	(14271)
Total	**3202921**	**4532554**	**4557346**	**6449243**

Note No. 13 – Other debtors

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Demand calculations for personnel	3160	7739	4496	11012
Taxes paid in advance	1264	5940	1799	8452
Overpaid taxes	37045	60117	52710	85539
Rental debts	24599	19027	35001	27073
Other	2502	4895	3561	6964
Total	**68570**	**97718**	**97567**	**139040**

Note No. 14 – Costs of the following periods

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Insurance	1052	4247	1497	6044
Annual anti-virus program licences	649	623	923	886
Expenses for development of new techniques	68254	170636	97117	242793
Other	1502	478	2137	680
Total	**71457**	**175984**	**101674**	**250403**

Note No. 15 – Other securities and partnership in capitals

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Short-term loan	1702505	2009786	2422446	2859667

Note No. 16 – Cash

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Current accounts in banks	41911	77188	59634	109829

Note No. 17 – Stock capital (fixed capital)

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

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

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 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
Total	**5799005**	**5799005**	**8251241**	**8251241**

Notes (cont.)

Note No. 18 – Other provisions

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Holiday provisions	184531	184707	262564	262814

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

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Latvian credit institutions, loan agreement, including	**2374576**	**3238673**	**3378717**	**4608217**
Short-term debt	2374576	3238673	3378717	4608217
Latvian credit institutions, credit line agreement, including	**4948741**	**4948354**	**7041424**	**7040873**
Short-term debt	4948741	4948354	7041424	7040873

As on 31/12/2010 all assets of JSC "RER" have been pledged as security for a loan.

Note No. 20 – Other loans

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Leasing agreements, including	**608740**	**868416**	**866159**	**1235645**
Long-term debt	292474	553886	416153	788109
Short-term debt	316266	314530	450006	447536
Other loans, including	**160500**	**260037**	**228371**	**369999**
Short-term debt	160500	260037	228371	369999

Note No. 21 – Advance payments received from buyers

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Local customers	7307		10397	
Foreign customers	86759		123447	
Total	**94066**		**133844**	

Note No. 22 – Debts to suppliers and contractors

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Local suppliers	2118036	1837064	3013694	2613907
Foreign suppliers	708550	526025	1008176	748466
Total	**2826586**	**2363089**	**4021870**	**3362373**

Note No. 23 – Taxes and social insurance contributions

Indicators	31.12.09 LVL debt (840.b.r.)	31.12.09 LVL overpayment (330.b.r.)	Calculated, LVL	Penalty calculated, LVL	Paid, LVL	Penalty paid, LVL	31.12.10 LVL debt (840.b.r.)	31.12.10 LVL overpayment (330.b.r.)
Personal income tax	969657		874933	78474	662200	41457	1219407	
Mandatory social insurance contributions	1504972		1345371	168498	1277149	102371	1639321	
Value added tax		60117	1975671	358	1952599	358		37045
Natural resources tax	3458		10853	123	12360	123	1951	
Real estate tax on land	6759		16832	464	19383	464	4208	
Real estate tax on premises (buildings)	39050		74164	6681	66082	262	53551	
State business risk fee	601		2340	19	2747	19	194	
Total	**2524497**	**60117**	**4300164**	**254617**	**3992520**	**145054**	**2918632**	**37045**

Notes (cont.)

Indicators	31.12.09. EUR debt (840.b.r.)	31.12.09. EUR overpayment (330.b.r.)	Calculated, EUR	Penalty calculated, EUR	Paid, EUR	Penalty paid EUR	31.12.10. EUR debt (840.b.r.)	31.12.10. EUR overpayment (330.b.r.)
Personal income tax	1379699		1244918	111658	942226	58987	1735062	
Mandatory social insurance contributions	2141382		1914290	239751	1817219	145661	2332543	
Value added tax		85539	2811127	509	2778298	509		52710
Natural resources tax	4920		15442	175	17587	175	2775	
Real estate tax on land	9617		23950	660	27580	660	5987	
Real estate tax on premises (buildings)	55563		105526	9506	94026	373	76196	
State business risk fee	855		3330	27	3909	27	276	
Total	**3592036**	**85539**	**6118583**	**362286**	**5680845**	**206392**	**4152839**	**52710**

Note No. 24 – Other creditors

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Salary debt	353386	651057	502822	926370
Support payments	3053	3551	4344	5053
Trade union membership fee	10676	11507	15191	16373
Total	**367115**	**666115**	**522357**	**947796**

Note No. 25 – Number of the Company's employees

Indicators	31.12.10	31.12.09
Average number of employees	780	929

Note No. 26 – Information about remuneration to the Council and Board Members

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Remuneration calculated to the Council Members	7450	7700	10600	10956
Remuneration calculated to the Board Members	7450	6862	10600	9764
Total	**14900**	**14562**	**21200**	**20720**

Note No. 27 – Information about remuneration for services of the commercial company of certified auditors (amounts given including VAT)

Indicators	31.12.10 LVL	31.12.09 LVL	31.12.10 EUR	31.12.09 EUR
Remuneration for auditing annual report	3660	4114	5208	5854

Chair of the Board N. Erohovs

Board Members: M. Morozs

I. Ruļovs

A. Dormidontova

A. Suvorkins

11 April 2011

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 2010 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.

Chair of the Board	N. Erohovs
Board Members:	M. Morozs
	I. Ruļovs
	A. Dormidontova
	A. Suvorkins

11 April 2011