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

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

CONSOLIDATED ANNUAL REPORT FOR 12 MONTHS OF THE YEAR 2012

(AUDITED)

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONTENT

Information about the parent Company	3
Management report	4
Profit and loss account	5
Balance sheet	6
Cash flow statement	8
Statement of changes in equity	9
Notes to financial statements	10
Management confirmation report	20

INFORMATION ABOUT THE PARENT 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	
The parent Company Council :		
Chairperson of the Council	Oleg Domskiy	from 12.07.12
	Mikhail Khromov	until 12.07.12.
Vice-Chairperson of the Council	Andrey Petrov	from 12.07.12.
	Oleg Domskiy	until 12.07.12.
Council Members	Andrey Isaev	
	Ekaterina Chamkina	from 12.07.12.
	Sergey Goncharov	until 12.07.12.
	Andrey Petrov	until 12.07.12.
	Yaroslav Kolesnik	until 12.07.12.
The parent Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
	Mihails Morozs	until 15.03.11.
Board Members	Aleksandrs Suvorkins	from 19.04.10.
	Fedor Dudkin	from 21.06.11 until 27.06.12.
	Rita Kargina	from 21.06.11 until 27.06.12.
	Aleksandra Dormidontova	until 21.06.11.
	Igor Rulev	until 21.06.11.
	Olga Pētersone	from 27.06.12.
	Maxim Savenkov	from 27.06.12.
	Mihails Morozs	from 15.03.11 until 22.11.12.
Accounting period	1 January 2012 – 31 December 2012	
Auditor	SIA "Rīgas audits", licence No. 103 Skolas iela 11-501, Riga, LV-1010, Latvia Certified auditor Ē. Figurnovs Certified auditor's certificate No. 38	
Subsidiary (daughter) companies	SIA „LatTransKomplekt", reģ. Nr. 40103287324 Ganību dambis 31, Riga, the Republic of Latvia Fixed capital LVL 2 000 (2 846 EUR) Shares – 100 %	
	AS „Latvo", reģ. Nr. 40003184975 Ganību dambis 31, Riga, the Republic of Latvia Fixed capital LVL 3 925 300 (5 585 199 EUR) Shares – 98.5 %	

MANAGEMENT REPORT

Business activities of the Holding Company in 2012

Basic business activities of the Holding Company 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 Holding Company accounted for LVL 26 458 628 (EUR 37 647 236).
The Holding Company has concluded the financial year 2012 with profit amounting to LVL 4 464 360 (EUR 6 352 211) before tax and profit amounting to LVL 4 296 934 (EUR 6 113 985) after tax.

The economic indicators of the Holding Company

In 2012 the Autonomy indicator (equity / entire capital) was 0.38, Proportion coefficient of loans and equity (loans / equity) was 1.67, Total liquidity indicator (current assets / short-term liabilities) was 1.03, Profitability indicator of the basic business activities (profit from the basic business activities / net turnover, %) was 20.17%, Net profitability indicator (net profit / net turnover, %) was 16.24%.

Other indicators

In 2012 the average number of employees was 979 people. In 2012 the average monthly salary was LVL 557 (EUR 793).

The Holding Company 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 Holding Company

Financial risks have been characterized on pages 12 and 13 in notes to financial statements of the annual report 2012.

Significant events in 2012

On December 14, the extraordinary meeting of shareholders of JSC "Riga Electric Machine Building Works" took the resolution for reorganization commitment of subsidiary company "LatTransKomplekt" Ltd. Therefore, 'LatTransKomplekt' Ltd, is associated to JSC "Riga Electric Machine Building Works".

In December 2012 JSC "Riga Electric Machine Building Works" acquired 98.5% shares of JSC "Latvo", reg. No. 40003184975 capitalizing debt obligations of JSC "Latvo" to JSC 'Riga Electric Machine Building Works'.

Further development of the Holding Company

In 2013 you Holding Company continue conversion of manufacture of asynchronous traction drive rolling stock. The Holding Company is also going update its equipment in order to provide release of new production having proper quality.

On behalf of the Holding Company,

Chairperson of the Board N. Erohovs

10 April 2013

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR 12 MONTHS OF 2012

No.	Items	Line code	Note	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
1	Net turnover	010	1	26458628	22739803	37647236	32355825
2	Production costs of the goods sold	020	2	(19522195)	(18574609)	(27777581)	(26429288)
3	**Gross profit or loss**	030		**6936433**	**4165194**	**9869655**	**5926537**
4	Selling expenses	040	3	(567727)	(618639)	(807803)	(880244)
5	Administration expenses	050	4	(2156260)	(1951403)	(3068082)	(2776596)
6	Other operating income	060	5	545138	345889	775661	492154
7	Other operating expenses	070	6	(956613)	(752185)	(1361138)	(1070263)
8	Other interest income and similar income	100	7		10362		14744
9	Writing-off long-term financial investments and short-term securities	110	8		(32590)		(46371)
10	Other interest payments and similar expenses	120	9	(460093)	(604205)	(654653)	(859706)
11	Consolidation difference	121		1123482		1598571	
12	Profit or loss before extraordinary items and taxes	130		4464360	562423	6352211	800255
13	Profit or loss before tax	160		4464360	562423	6352211	800255
14	Retained corporate income tax	180	10	(55900)	79437	(79539)	113029
15	Other taxes	190	11	(111526)	(117606)	(158687)	(167338)
16	Profit or loss of the accounting period	200		**4296934**	**524254**	**6113985**	**745946**

EPS (earnings per share)	0.74	0.09	1.05	0.13

CONSOLIDATED BALANCE SHEET FOR 12 MONTHS OF 2012

A S S E T S	Line code	Note	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
1. LONG-TERM INVESTMENTS		12				
I. Intangible investments						
1. Development costs	010			68254		97117
2. Other intangible investments	021		5085	9191	7235	13078
I. Total	050		**5085**	**77445**	**7235**	**110195**
II. Fixed assets						
1. Land plots, buildings, constructions	060		4508211	4220861	6414606	6005744
2. Equipment and machinery	080		3041625	2680908	4327842	3814588
3. Other fixed assets and inventory	090		56862	29126	80907	41443
4. Creation of fixed assets	100		346884	766559	493571	1090715
II. Total	120		**7953582**	**7697454**	**11316926**	**10952490**
III. Long-term financial investments						
1. Own shares	170		10227		14552	
2. Other long-term debtors	180		5052390		7188903	
3. Deferred tax assets	201		1979		2816	
III. Total	210		**5064596**		**7206271**	
I. PART TOTAL AMOUNT	220		**13023263**	**7774899**	**18530432**	**11062685**
2. CURRENT ASSETS						
I. Stocks						
1. Raw materials, direct materials and auxiliary materials	230		2332933	1686324	3319465	2399423
2. Unfinished products	240		1440403	1888587	2049509	2687217
3. Finished products and goods for sale	250		374975	38481	533542	54754
4. Prepayments for goods	270		338598	163051	481782	232001
I. Total	290		**4486909**	**3776443**	**6384298**	**5373395**
II. Debtors						
1. Debts of buyers and customers	300	13	1520132	3986329	2162953	5672035
2. Other debtors	330	14	214758	251597	305573	357989
3. Deferred expenses	360	15	78032	71851	111030	102235
II. Total	370		**1812922**	**4309777**	**2579556**	**6132259**
IV. Cash	420	16	64656	7799	91997	11097
II. PART TOTAL AMOUNT	430		**6364487**	**8094019**	**9055851**	**11516751**
B A L A N C E	440		**19387750**	**15868918**	**27586283**	**22579436**

Appendices to financial statements on pages 10 – 19 are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET FOR 12 MONTHS OF 2012

L I A B I L I T I E S	Line code	Note	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
1. SHAREHOLDERS' EQUITY						
1. Share capital (capital stock)	450	17	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	470		209105	214858	297530	305715
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		4296934	524254	6113985	745946
1. PART TOTAL AMOUNT	550		**6778688**	**2487507**	**9645203**	**3539403**
2. PROVISIONS						
1. Other provisions	580	18	487006	256095	692947	364390
2. PART TOTAL AMOUNT	590		**487006**	**256095**	**692947**	**364390**
3. CREDITORS						
I. Long-term creditors						
1. Loans from credit institutions	620	19	4166288	5341873	5928094	7600801
2. Other loans	630	20	677153	55169	963502	78498
3. Other creditors	700	21	800394		1138858	
4. Deferred tax liabilities	731		271895	215995	386872	307333
I. Total	740		**5915730**	**5613037**	**8417326**	**7986632**
II. Short-term creditors						
1. Loans from credit institutions	770	19	1693808	1335468	2410072	1900200
2. Other loans	780	20	55169	1003975	78498	1428528
3. Advance payments received from buyers	790	22	37072	35398	52749	50367
4. Debts to suppliers and contractors	800	23	1809366	1795074	2574496	2554160
5. Taxes and social security payments	840	24	2217854	2815807	3155722	4006532
6. Other creditors	850	21	393057	526557	559270	749224
II. Total	890		**6206326**	**7512279**	**8830807**	**10689011**
3. PART TOTAL AMOUNT	900		**12122056**	**13125316**	**17248133**	**18675643**
B A L A N C E	910		**19387750**	**15868918**	**27586283**	**22579436**

CONSOLIDATED CASH FLOW STATEMENT FOR 12 MONTHS OF 2012 (prepared by indirect method)

I. Cash flow from operating activities

	Items	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
1	Profit or loss before extraordinary items and taxes	4464360	562423	6352211	800255
	ADJUSTMENTS				
	Depreciation of fixed assets	335981	328778	478058	467809
	Amortization of intangible investment value	7290	3163	10373	4501
	Gain from sales of fixed assets	(8433)	(11634)	(11999)	(16554)
	Profit or loss from fluctuations of currency exchange rates	197689	(1460)	281286	(2077)
	Consolidation difference	(1086420)		(1545836)	
	Other interest income and similar income		(10031)		(14273)
	Writing-off long-term financial investments		32590		46371
	Amounts written off fixed assets	20600	9170	29311	13048
	Reserve for revaluation of long-term investments	(5753)	(49773)	(8186)	(70821)
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	**3925314**	**863226**	**5585218**	**1228259**
	ADJUSTMENTS				
	Increase or decrease of balance of receivables	2182022	673380	3104738	958133
	Increase or decrease of balance of inventories	559336	(146507)	795863	(208461)
	Increase or decrease of deferred expenses	(1955)	(394)	(2782)	(561)
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	(15597)	(946792)	(22193)	(1347164)
	Increase or decrease of accruals	208052	71564	296031	101826
	Expenses for tax payments	(150709)	(136183)	(214440)	(193771)
3	Gross cash flow from operating activities	**6706463**	**378294**	**9542435**	**538261**
4	Expenses from company tax payments	(63504)		(90358)	
5	Cash flow before extraordinary items	**6642959**	**378294**	**9452077**	**538261**
I	**NET CASH FLOW FROM OPERATING ACTIVITIES**	**6642959**	**378294**	**9452077**	**538261**

II. Cash flow form investing activities

	Items	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
1	Stocsk or shares purchase from related undertakings	(4785233)		(6808773)	
2	Purchase of fixed assets and intangible investments	(610340)	(230210)	(868436)	(327559)
3	Income from sales of fixed assets and intangible investments	9048	11634	12874	16554
4	Expenses for sales of fixed assets	(806)		(1147)	
5	Interest income received		205198		291970
II	**NET CASH FLOW FROM INVESTING ACTIVITIES**	**(5387331)**	**(13378)**	**(7665482)**	**(19035)**

III. Cash flow from financing activities

	Items	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
1	Loans received	240000	777553	341490	1106358
2	Expenses for repayment of loans	(1057245)	(977742)	(1504324)	(1391202)
3	Expenses for repurchase of leased fixed assets	(220675)	(237306)	(313992)	(337656)
III	**NET CASH FLOW FROM FINANCING ACTIVITIES**	**(1037920)**	**(437495)**	**(1476826)**	**(622500)**

IV. Summary of cash inflow and outflow

	Items	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
I	Net cash flow from operating activities	6642959	378294	9452077	538261
II	Net cash flow from investing activities	(5387331)	(13378)	(7665482)	(19035)
III	Net cash flow from financing activities	(1037920)	(437495)	(1476826)	(622500)
	Result of fluctuations of currency exchange rates	(160851)	38467	(228869)	54737
	Net cash flow of the accounting period	**56857**	**(34112)**	**80900**	**(48537)**
	Cash and its equivalents in the beginning of the accounting period	**7799**	**41911**	**11097**	**59634**
	Cash and its equivalents at the end of the accounting period	**64656**	**7799**	**91997**	**11097**

CONSOLIDATED STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 12 MONTHS OF 2012, LVL

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balanse as of 31.12.2010.g.	**5799005**	**264632**	**192922**	**(4243532)**	**2013027**
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		(49774)			(49774)
3. Income or loss of the accounting period in accordance with the profit and loss account				524254	524254
4. Balanse as of 31.12.2011.g.	**5799005**	**214858**	**192922**	**(3719278)**	**2487507**
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		(5753)			(5753)
6. Income or loss of the accounting period in accordance with the profit and loss account				4296934	4296934
7. Balanse as of 31.12.2012.g.	**5799005**	**209105**	**192922**	**577656**	**6778688**

CONSOLIDATED STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR 12 MONTHS OF 2012, EUR

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balanse as of 31.12.2010.g.	**8251241**	**376537**	**274503**	**(6038002)**	**2864279**
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		(70822)			(70822)
3. Income or loss of the accounting period in accordance with the profit and loss account				745946	745946
4. Balanse as of 31.12.2011.g.	**8251241**	**305715**	**274503**	**(5292056)**	**3539403**
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		(8185)			(8185)
6. Income or loss of the accounting period in accordance with the profit and loss account				6113985	6113985
7. Balanse as of 31.12.2012.g.	**8251241**	**297530**	**274503**	**821929**	**9645203**

NOTES

GENERAL INFORMATION

Since 31.08.2012 after acquiring 100% shares of "LatTransKomplekt" Ltd, reg.No.40103287324, JSC "Riga Electric Machine Building Works" has become a holding company.

In December 2012 JSC "Riga Electric Machine Building Works" acquired 98.5% shares of JSC "Latvo", reg. No. 40003184975 capitalizing debt obligations of JSC "Latvo" to JSC 'Riga Electric Machine Building Works'.

Consolidated financial reports include the balance data of both (the Holding) JSC "Riga Electric Machine Building Works' (hereinafter referred to as JSC "RER") and its subsidiary companies of "LatTransKomplekt" Ltd, "Latvo" JSC.

The main activities of the holding company are electric machinery and equipment manufacturing.

ACCOUNTING POLICY

Principles of preparing the financial statement

The holding company's financial statement was prepared in compliance with the International Financial Reporting Standards (IFRS). To apply these standards there were not made any significant changes in the Holding's financial principles.

The balance data of the consolidated financial report of the holding company, the parent company's financial report and the subsidiary company's financial reports are identical. Processing the financial report the subsidiary company of the Holding applies the same accounting methods and other regulations of valuation as the parent company of the Holding does.

In the course of consolidation all both mutual transactions and residual values that are in the frames of the Holding have been excluded.

The share of JSC 'RER' in the own capital of the subsidiary company as well as the investment of JSC 'RER' into the subsidiary company's capital have been mutually excluded. The negative equity arisen out from that mutual exclusion is included into the calculations of consolidated profit or of loss.

The share belonging to the minority group of shareholders of subsidiary company JSC 'Latvo' is not separately displayed because such shareholders of the minority group are shareholders of the parent company.

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.

Comparable Information

On 31.12.11 the non-consolidated data of JSC 'Riga Electric Machine Building Works' were submitted.

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.

Notes (cont.)
Accounting policy (cont.)

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.

	31.12.2012., LVL	**31.12.2011., LVL**	**31.12.2012., EUR**	**31.12.2011., EUR**
Unfinished construction objects	118011	118011	167915	167915
Costs of capital asset creation	228873	648548	325656	922800
Total	**346884**	**766559**	**493571**	**1090715**

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. The reserves at the amount of LVL 164109 have been established for stocks of slow-turnover.

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.

Notes (cont.)
Accounting policy (cont.)

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 31.12.2012. : 1 EUR – 0.702804.

	31.12.2012., LVL	**31.12.2011., LVL**
1 EUR	0.702804	0.702804
1 USD	0.531	0.544
1 RUB	0.0174	0.0170

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 2012 warranty repair costs accounted for LVL 113 446 (EUR 68 571), which is only 0.43% 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 holding companies. Risk management in the holding companies is controlled by the Council and the Board of the parent company. In its activities holding companies 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

Notes (cont.)

asset fraudulence and protection, efficiency of actions and information system and their compliance with regulatory documents, procedures and agreements.

The most substantial risks holding companies is exposed to in the course of commercial activities, are financial risks:

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 been significant.

Interest rate risk

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

Liquidity risk

The Holding 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 Holding 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 CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR 12 MONTHS OF 2012

Note No. 1 – Net turnover

Country	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Latvia	1651553	4347522	2349948	6185966
Russia	24417519	16981454	34742999	24162432
Ukraine	147766	239470	210252	340735
United Kingdom	150592	377085	214273	536544
Byelorussia	82839	119659	117869	170259
Georgia		541440		770400
New Zealand		105582		150230
Other	8359	27591	11895	39259
Total	**26458628**	**22739803**	**37647236**	**32355825**

Note No. 2 – Production costs of products sold

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Salaries	4780265	4259497	6801704	6060718
Social insurance contributions	1128615	1008728	1605874	1435291
Costs of materials	10831056	11578003	15411204	16474014
Energy resources	1201367	992821	1709391	1412657
Depreciation of capital assets and intangible assets	288522	291005	410530	414063
Business trip costs	65399	47752	93054	67945
Repair costs and remuneration for works from outside	181859	195944	258762	278803
Costs of production quality control	724721		1031185	
Development costs	68254	68254	97117	97117
Expenses of product`s certification	33173	32184	47201	45794
Losses due to rejects	62684	48356	89191	68804
Environmental protection costs	36277	7227	51618	10283
Other costs	120003	44838	170750	63799
Total	**19522195**	**18574609**	**27777581**	**26429288**

Notes (cont.)

Note No. 3 – Selling costs

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Packing material and package	78765	218482	112072	310872
Transportation expenses	340306	311864	484212	443742
Salaries	107974	70914	153633	100902
Social insurance contributions	25031	16905	35616	24054
Other selling costs	15651	474	22270	674
Total	**567727**	**618639**	**807803**	**880244**

Note No. 4 – Administrative costs

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Communications costs	24296	26538	34570	37760
Reimbursement for legal services	27794	3984	39547	5669
Cash circulation and expense and extra costs	10075	12399	14335	17642
Transportation expenses	18857	14248	26831	20273
Representation expenses	11422	7705	16252	10963
Salaries	1416849	1303459	2015995	1854655
Social insurance contributions	329453	303139	468769	431328
Energy resources	39704	39811	56494	56646
Depreciation of capital assets	40618	32533	57794	46290
Business trip costs	28611	17564	40710	24991
Security services	147982	144353	210559	205396
Other administrative costs	60599	45670	86226	64984
Total	**2156260**	**1951403**	**3068082**	**2776597**

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

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Profit gained as a result of other sales (materials, lease, other)	227140	230176	323191	327509
Remaining amounts of removal of capital assets, materials	24285	15	34554	21
Sale of capital assets	8433	11634	11999	16554
Inventory surplus		2473		3519
Income related to maintenance of social sphere	23782	23173	33839	32972
Income from fluctuations of exchange rates		1460		2077
Decrease in revaluation reserve of capital assets	5753	49773	8186	70821
Writing off debts to suppliers and contractors	249016		354318	
Other income	6729	27185	9574	38681
Total	**545138**	**345889**	**775661**	**492154**

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

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Penalty and contractual penalties	138500	413022	197068	587677
Costs related to maintenance of social sphere	43210	44084	61482	62726
Costs not related to operating activities of the Company	70567	70450	100408	100241
Re-accreditation costs		92722		131932
Loss from fluctuations of exchange rates	197689		281286	
Removal of capital assets	20600	8708	29311	12390
Write-off of bad debtors	36161	229	51452	326
Inventory deficit		9383		13351
Increase in provisions for doubtful debtors	56617	40600	80559	57769
Increase in holiday provision	17867	71564	25422	101826
Provisions for stocks of slow-turnover	164109		233506	
Other provisions	199443		283782	
Other costs	11850	1423	16862	2025
Total	**956613**	**752185**	**1361138**	**1070263**

Notes (cont.)

Note No. 7 - Other interest income and similar income

Indicator	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Interest income (short-term loans)		10031		14273
Other interest income		331		471
Total		**10362**		**14744**

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

Indicator	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Write-off of investment costs to the associated society		32590		46371

Note No. 9 – Other interest payments and similar costs

Indicator	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Loan agreements	449794	345999	639999	492312
Leasing agreements	10299	25306	14654	36007
Credit line agreements		232900		331387
Total	**460093**	**604205**	**654653**	**859706**

Note No. 10 – Deferred corporate income tax

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Deferred tax liabilities as at the beginning of accounting year	215995	295432	307333	420362
Deferred tax expenditure in profit and loss account of accounting year	55900	(79437)	79539	(113029)
Deferred tax liabilities as at the end of accounting year	271895	215995	386872	307333

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Deferred tax liabilities : Temporary difference of depreciation of capital assets	337083	232820	479626	331273
Deferred tax assets: Temporary differences of costs of holidays and of other costs not used	(65188)	(16825)	(92754)	(23940)
Deferred tax liabilities	**271895**	**215995**	**386872**	**307333**

Note No. 11 – Other taxes

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Real estate tax on premises (buildings)	85227	96567	121267	137402
Real estate tax on land	26299	21039	37420	29936
Total	**111526**	**117606**	**158687**	**167338**

Notes (cont.)

NOTES TO CONSOLIDATED BALANCE SHEET FOR THE 12 MONTHS OF 2012

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

	Initial value					Depreciation					Remaining value	
	Remaining amount as at 01.01.12	**Purchase**	**Consol.** difference	**Removed**	**Remaining amount as at 31.12.12**	**Remaining amount as at 01.01.12**	**Calcu-lated**	**Consol.** difference	**Removed**	**Remaining amount as at 31.12.12**	**01.01.12**	**31.12.12**
Intangible assets												
Devel.costs	68254			(68254)							68254	
Licenses and other	301		2225		2526	301		2225		2526		
Software	23041	2700	691	(50)	26382	13850	7290	207	(50)	21297	9191	5085
Total	**91596**	**2700**	**2916**	**(68304)**	**28908**	**14151**	**7290**	**2432**	**(50)**	**23823**	**77445**	**5085**
Capital assets												
Land, premises, buildings*	7018451	351666			7370117	2797590	64316			2861906	4220861	4508211
Equipment and machinery	5493513	634878		(80596)	6047795	2812605	253565		(60000)	3006170	2680908	3041625
Other capital assets	258354	40771	17150	(8041)	308234	229228	18100	10831	(6787)	251372	29126	56862
Creation of capital assets	766559	550124		(969799)	346884						766559	346884
Total	**13536877**	**1577439**	**17150**	**(1058436)**	**14073030**	**5839423**	**335981**	**10831**	**(66787)**	**6119448**	**7697454**	**7953582**
Long-term fin. investm.												
Own shares			**10227**		**10227**							**10227**
Other debtors			**5054369**		**5054369**							**5054369**
Total			**5064596**		**5064596**							**5064596**
In total	**13628473**	**1580139**	**5084662**	**(1126740)**	**19166534**	**5853574**	**343271**	**13263**	**(66837)**	**6143271**	**7774899**	**13023263**

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

	Initial value					Depreciation					Remaining value	
	Remaining amount as at 01.01.12	**Purchase**	**Consol.** difference		**Remaining amount as at 01.01.12**	**Purchase**	**Consol.** difference		**Remaining amount as at 01.01.12**	**Purchase**	**Consol.** difference	
Intangible assets												
Devel.costs	97117			(97117)							97117	
Licenses and other	428		3166		3594	428		3166		3594		
Software	32784	3842	983	(71)	37538	19706	10375	293	(71)	30303	13078	7235
Total	**130329**	**3842**	**4149**	**(97188)**	**41132**	**20134**	**10375**	**3459**	**(71)**	**33897**	**110195**	**7235**
Capital assets												
Land, premises, buildings*	9986356	500376			10486732	3980612	91514			4072126	6005744	6414606
Equipment and machinery	7816565	903350		(114678)	8605237	4001977	360790		(85372)	4277395	3814588	4327842
Other capital assets	367605	58012	24402	(11441)	438578	326162	25754	15411	(9656)	357671	41443	80907
Creation of capital assets	1090715	782756		(1379900)	493571						1090715	493571
Total	**19261241**	**2244494**	**24402**	**(1506019)**	**20024118**	**8308751**	**478058**	**15411**	**(95028)**	**8707192**	**10952490**	**11316926**
Long-term fin. investm.												
Own shares			**14552**		14552							14552
Other debtors			**7191719**		7191719							7191719
Total			**7206271**		7206271							7206271
In total	**19391570**	**2248336**	**7234822**	**(1603207)**	**27271521**	**8328885**	**488433**	**18870**	**(95099)**	**8741089**	**11062685**	**18530432**

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. 13 – Debts of customers and clients

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Debts of customers and clients	1584257	4037327	2254195	5744599
Provisions for doubtful debtors	(64125)	(50998)	(91242)	(72564)
Total	**1520132**	**3986329**	**2162953**	**5672035**

Note No. 14 – Other debtors

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Taxes paid in advance	14091	1164	20050	1656
Overpaid taxes	174717	82975	248600	118063
Rental debts	14921	28283	21231	40243
Claims settlement		132800		188957
Other	11029	6375	15692	9070
Total	**214758**	**251597**	**305573**	**357989**

Note No. 15 – Costs of the following periods

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Insurance	1616	1596	2299	2271
Expenses for development of new techniques	68254	68254	97117	97117
Other	8162	2001	11614	2847
Total	**78032**	**71851**	**111030**	**102235**

Note No. 16 – Cash

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Current accounts in banks	64656	7799	91997	11097

Note No. 17 – Parent Company's 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	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Residents, including	199135	199135	283343	283343
- physical entities	173927	173927	247475	247475
- legal entities	25208	25208	35868	35868
Non-residents, including	5599870	5599870	7967898	7967898
- Russia	1011027	1011027	1438562	1438562
- Canada	5119	5119	7284	7284
- British Virgin Islands	3249563	3249563	4623712	4623712
- Belize	1333771	1333771	1897785	1897785
- Lithuania	390	390	555	555
Total	**5799005**	**5799005**	**8251241**	**8251241**

Notes (cont.)

Note No. 18 – Other provisions

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Holiday provisions	281351	256095	400326	364390
Other provisions	205655		292621	
Total	**487006**	**256095**	**692947**	**364390**

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

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Latvian credit institutions, loan agreement, including	5860096	6677341	8338166	9501001
Long-term debt	4166288	5341873	5928094	7600801
Short-term debt	1693808	1335468	2410072	1900200

As on 31/12/2012 all assets of parent Company have been pledged as security for a loan.

Note No. 20 – Other loans

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Leasing agreements, including	**55169**	**371435**	**78498**	**528504**
Long-term debt		55169		78498
Short-term debt	55169	316266	78498	450006
Other loans, including	**677153**	**687709**	**963502**	**978522**
Long-term debt	677153		963502	
Short-term debt		687709		978522

Note No. 21 – Long-term and short-term other creditors

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Long-term creditors, including	**800394**		**1138858**	
Other creditors	64394		91624	
Settlement of the debts of other companies	736000		1047234	
Short-term creditors, including	**393057**	**526557**	**559270**	**749224**
Salary debt	377086	511241	536545	727430
Support payments	3447	2346	4905	3338
Trade union membership fee	1906	11043	2712	15713
Other	10618	1927	15108	2743

Note No. 22 – Advances received from customers

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Local customers	35580	421	50626	599
Foreign customers	1492	34977	2123	49768
Total	**37072**	**35398**	**52749**	**50367**

Note No. 23 – Debts to suppliers and contractors

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Local suppliers	987803	1426971	1405517	2030397
Foreign suppliers	821563	368103	1168979	523763
Total	**1809366**	**1795074**	**2574496**	**2554160**

Notes (cont.)

Note No. 24 – Taxes and social insurance contributions

LVL

Indicators	Personal income tax	Mandatory social insurance contribu-tions	Income tax	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
31.12.11. debt	**1038015***	**1736580***			**1787**	**7013***	**32170***	**242**
31.12.11. overpayment				**82975**				
Calculated	1265923	2169320	650	1310751	31172	26299	85227	2887
Penalty calculated	63400	63448					1624	
Allocated to other taxes				1204931				
Consol. difference	33043	35179	68333	320302				29
Paid	1206240	1602484	63279	2533245	30632	33312	117397	2894
Penalty paid	59229	96995					1624	
Tax debt is settled from excess payment of other tax	189809	1015122						46
Consol. difference	23353	36941	32826	339776				
31.12.12. debt	**925616***	**1258999***	**30677**		**2327**	**0**	**0**	**235**
31.12.12. overpayment	**3866**	**6014**	**57799**	**120012**				**17**

* As for 31.12.2011 and for 31.12.2012 the Holding Company has no current tax debts. Tax liabilities have been restructured.

EUR

Indicators	Personal income tax	Mandatory social insurance contribu-tions	Income tax	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
31.12.11. debt	**1476962***	**2470931***			**2543**	**9979***	**45774***	**344**
31.12.11. overpayment				**118063**				
Calculated	1801246	3086664	925	1865031	44354	37420	121267	4108
Penalty calculated	90210	90278					2311	
Allocated to other taxes				1714462				
Consol. difference	47016	50055	97229	455749				41
Paid	1716325	2280129	90038	3604483	43585	47399	167041	4118
Penalty paid	84276	138011					2311	
Tax debt is settled from excess payment of other tax	270074	1444388	46706					
Consol. difference	33227	52561		483457				65
31.12.12. debt	**1317032***	**1791395***	**43649**		**3312**	**0**	**0**	**334**
31.12.12. overpayment	**5501**	**8557**	**82239**	**170761**				**24**

On behalf of the Holding Company,

Chairperson of the Board Nikolajs Erohovs

10 April 2013

MANAGEMENT CONFIRMATION REPORT

Consolidated financial statements are prepared to the best of our knowledge, in accordance with International Financial Reporting Standards adopted by the European Union. These financial statements give a true and fair view of the financial position of the Group and of its financial perfomance for the period ended 31 December 2012.

In preparing those financial statements, management selected suitable accounting policies, made judgments and estimates that are reasonable and prudent, prepared the financial statements on the going concern basis to presume that the Group will continue in business.

The Management Board is responsible for organizing accounting, they are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Holding Company,

Chairperson of the Board Nikolajs Erohovs

10 April 2013