

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

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

**CONSOLIDATED ANNUAL REPORT FOR 12 MONTHS  
OF THE YEAR 2012  
(NON-AUDITED)**

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

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## 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'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 26 611 318 (EUR 37 864 494). The Holding Company has concluded the financial year 2012 with profit amounting to LVL 4 521 723 (EUR 6 433 830) before tax and profit amounting to LVL 4 353 417 (EUR 6 194 352) 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 1.65, 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 23.50%, Net profitability indicator (net profit / net turnover, %) was 16.34%.

### *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

28 February 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	26611318	22739803	37864494	32355825
2	Production costs of the goods sold	020	2	(19819330)	(18574609)	(28200366)	(26429288)
3	<b>Gross profit or loss</b>	030		<b>6791988</b>	<b>4165194</b>	<b>9664128</b>	<b>5926537</b>
4	Selling expenses	040	3	(584701)	(618639)	(831955)	(880244)
5	Administration expenses	050	4	(2218726)	(1951403)	(3156963)	(2776596)
6	Other operating income	060	5	729576	345889	1038093	492154
7	Other operating expenses	070	6	(2079941)	(752185)	(2959490)	(1070263)
8	Other interest income and similar income	100	7	98098	10362	139581	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	(480918)	(604205)	(684285)	(859706)
11	Consolidation difference	121		2266347		3224721	
12	Profit or loss before extraordinary items and taxes	130		4521723	562423	6433830	800255
13	Profit or loss before tax	160		4521723	562423	6433830	800255
14	Retained corporate income tax	180	10	(56780)	79437	(80791)	113029
15	Other taxes	190	11	(111526)	(117606)	(158687)	(167338)
16	Profit or loss of the accounting period	200		<b>4353417</b>	<b>524254</b>	<b>6194352</b>	<b>745946</b>

EPS (earnings per share)	0.75	0.09	1.07	0.13
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**CONSOLIDATED BALANCE SHEET FOR 12 MONTHS OF 2012**

<b>A S S E T S</b>	<b>Line code</b>	<b>Note</b>	<b>31.12.12. LVL</b>	<b>31.12.11. LVL</b>	<b>31.12.12. EUR</b>	<b>31.12.11. EUR</b>
<b>1. LONG-TERM INVESTMENTS</b>		12				
<b>I. Intangible investments</b>						
1. Development costs	010			68254		97117
2. Other intangible investments	021		5085	9191	7235	13078
I. Total	050		<b>5085</b>	<b>77445</b>	<b>7235</b>	<b>110195</b>
<b>II. Fixed assets</b>						
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		<b>7953582</b>	<b>7697454</b>	<b>11316926</b>	<b>10952490</b>
<b>III. Long-term financial investments</b>						
1. Other securities and investments	170		10227		14552	
2. Other long-term debtors	180		5052390		7188903	
III. Total	210		<b>5062617</b>		<b>7203455</b>	
<b>I. PART TOTAL AMOUNT</b>	<b>220</b>		<b>13021284</b>	<b>7774899</b>	<b>18527616</b>	<b>11062685</b>
<b>2. CURRENT ASSETS</b>						
<b>I. Stocks</b>						
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		367601	38481	523049	54754
4. Prepayments for goods	270		338598	163051	481782	232001
I. Total	290		<b>4479535</b>	<b>3776443</b>	<b>6373805</b>	<b>5373395</b>
<b>II. Debtors</b>						
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	75969	71851	108094	102235
II. Total	370		<b>1810859</b>	<b>4309777</b>	<b>2576620</b>	<b>6132259</b>
<b>IV. Cash</b>	420	16	64656	7799	91997	11097
<b>II. PART TOTAL AMOUNT</b>	<b>430</b>		<b>6355050</b>	<b>8094019</b>	<b>9042422</b>	<b>11516751</b>
<b>B A L A N C E</b>	<b>440</b>		<b>19376334</b>	<b>15868918</b>	<b>27570038</b>	<b>22579436</b>

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

**CONSOLIDATED BALANCE SHEET FOR 12 MONTHS OF 2012**

LIABILITIES	Line code	Note	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
<b>1. SHAREHOLDERS' EQUITY</b>						
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		4353417	524254	6194352	745946
<b>1. PART TOTAL AMOUNT</b>	<b>550</b>		<b>6835171</b>	<b>2487507</b>	<b>9725570</b>	<b>3539403</b>
<b>2. PROVISIONS</b>						
1. Other provisions	580	18	487006	256095	692947	364390
<b>2. PART TOTAL AMOUNT</b>	<b>590</b>		<b>487006</b>	<b>256095</b>	<b>692947</b>	<b>364390</b>
<b>3. CREDITORS</b>						
<b>I. Long-term creditors</b>						
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		269916	215995	384056	307333
I. Total	740		<b>5913751</b>	<b>5613037</b>	<b>8414510</b>	<b>7986632</b>
<b>II. Short-term creditors</b>						
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	1743446	1795074	2480700	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		<b>6140406</b>	<b>7512279</b>	<b>8737011</b>	<b>10689011</b>
<b>3. PART TOTAL AMOUNT</b>	<b>900</b>		<b>12054157</b>	<b>13125316</b>	<b>17151521</b>	<b>18675643</b>
<b>BALANCE</b>	910		<b>19376334</b>	<b>15868918</b>	<b>27570038</b>	<b>22579436</b>

**CONSOLIDATED CASH FLOW STATEMENT FOR 9 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	4521723	562423	6433830	800255
	<b>ADJUSTMENTS</b>				
	Depreciation of fixed assets	336043	328778	478146	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	313420	(1460)	445956	(2077)
	Consolidation difference	(2266347)		(3224721)	
	Other interest income and similar income	(98098)	(10031)	(139581)	(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	<b>2820445</b>	<b>863226</b>	<b>4013129</b>	<b>1228259</b>
	<b>ADJUSTMENTS</b>				
	Increase or decrease of balance of receivables	3608150	673380	5133935	958133
	Increase or decrease of balance of inventories	503458	(146507)	716356	(208461)
	Increase or decrease of deferred expenses	3140	(394)	4468	(561)
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	(3828792)	(946792)	(5447880)	(1347164)
	Increase or decrease of accruals	213545	71564	303847	101826
	Expenses for tax payments	(150709)	(136183)	(214440)	(193771)
3	Gross cash flow from operating activities	<b>3169237</b>	<b>378294</b>	<b>4509415</b>	<b>538261</b>
4	Expenses from company tax payments	(86492)		(123067)	
5	Cash flow before extraordinary items	<b>3082745</b>	<b>378294</b>	<b>4386348</b>	<b>538261</b>
I	<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>3082745</b>	<b>378294</b>	<b>4386348</b>	<b>538261</b>

**II. Cash flow from investing activities**

	Items	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
1	Stocks or shares purchase from related undertakings	(936000)		(1331808)	
2	Purchase of fixed assets and intangible investments	(610694)	(230210)	(868939)	(327559)
3	Income from sales of fixed assets and intangible investments	9048	11634	12874	16554
4	Income from loan repayments	131360		186908	
5	Interest income received	98098	205198	139581	291970
II	<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(1308188)</b>	<b>(13378)</b>	<b>(1861384)</b>	<b>(19035)</b>

**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	(1498288)	(977742)	(2131872)	(1391202)
3	Expenses for repurchase of leased fixed assets	(220675)	(237306)	(313992)	(337656)
III	<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(1478963)</b>	<b>(437495)</b>	<b>(2104374)</b>	<b>(622500)</b>

**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	3082745	378294	4386348	538261
II	Net cash flow from investing activities	(1308188)	(13378)	(1861384)	(19035)
III	Net cash flow from financing activities	(1478963)	(437495)	(2104374)	(622500)
	Result of fluctuations of currency exchange rates	(276582)	38467	(393539)	54737
	Net cash flow of the accounting period	<b>19012</b>	<b>(34112)</b>	<b>27051</b>	<b>(48537)</b>
	Cash and its equivalents in the beginning of the accounting period	<b>45644</b>	<b>41911</b>	<b>64946</b>	<b>59634</b>
	Cash and its equivalents at the end of the accounting period	<b>64656</b>	<b>7799</b>	<b>91997</b>	<b>11097</b>



**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
<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		(49774)			(49774)
b) increase of fixed assets					
3. Income or loss of the accounting period in accordance with the profit and loss account				524254	524254
<b>4. Balance as of 31.12.2011.g.</b>	<b>5799005</b>	<b>214858</b>	<b>192922</b>	<b>(3719278)</b>	<b>2487507</b>
5. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(5753)			(5753)
b) increase of fixed assets					
6. Income or loss of the accounting period in accordance with the profit and loss account				4353417	4353417
<b>7. Balance as of 31.12.2012.g.</b>	<b>5799005</b>	<b>209105</b>	<b>192922</b>	<b>634139</b>	<b>6835171</b>

**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
<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		(70822)			(70822)
b) increase of fixed assets					
3. Income or loss of the accounting period in accordance with the profit and loss account				745946	745946
<b>4. Balance as of 31.12.2011.g.</b>	<b>8251241</b>	<b>305715</b>	<b>274503</b>	<b>(5292056)</b>	<b>3539403</b>
5. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(8185)			(8185)
b) increase of fixed assets					
6. Income or loss of the accounting period in accordance with the profit and loss account				6194352	6194352
<b>7. Balance as of 31.12.2012.g.</b>	<b>8251241</b>	<b>297530</b>	<b>274503</b>	<b>902296</b>	<b>9725570</b>

## 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
<b>Total</b>	<b>346884</b>	<b>766559</b>	<b>493571</b>	<b>1090715</b>

#### 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 be 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	228959	4347522	325779	6185966
Russia	25324476	16981454	36033483	24162432
Ukraine	224807	239470	319872	340735
United Kingdom	150592	377085	214273	536544
Byelorussia	213987	119659	304476	170259
Georgia		541440		770400
New Zealand		105582		150230
Slovakia	445463		633837	
Other	23034	27591	32774	39259
<b>Total</b>	<b>26611318</b>	<b>22739803</b>	<b>37864494</b>	<b>32355825</b>

**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	4825612	4259497	6866227	6060718
Social insurance contributions	1128615	1008728	1605874	1435291
Costs of materials	11057217	11578003	15733002	16474014
Energy resources	1201367	992821	1709391	1412657
Depreciation of capital assets and intangible assets	288522	291005	410530	414063
Business trip costs	69257	47752	98544	67945
Repair costs and remuneration for works from outside	203628	195944	289737	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	170749	63799
<b>Total</b>	<b>19819330</b>	<b>18574609</b>	<b>28200366</b>	<b>26429288</b>

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	352538	311864	501616	443742
Salaries	118909	70914	169192	100902
Social insurance contributions	25031	16905	35616	24054
Other selling costs	9458	474	13459	674
<b>Total</b>	<b>584701</b>	<b>618639</b>	<b>831955</b>	<b>880244</b>

**Note No. 4 – Administrative costs**

Indicators	31.12.12. LVL	31.12.11. LVL	31.12.12. EUR	31.12.11. EUR
Communications costs	26516	26538	37729	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	11473	7705	16325	10963
Salaries	1467501	1303459	2088066	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	70142	45670	99804	64984
<b>Total</b>	<b>2218726</b>	<b>1951403</b>	<b>3156963</b>	<b>2776597</b>

**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)	222933	230176	317205	327509
Penalty and contractual penalties	4150		5905	
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	422172		600697	
Other income	18068	27185	25708	38681
<b>Total</b>	<b>729576</b>	<b>345889</b>	<b>1038093</b>	<b>492154</b>

**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	138535	413022	197118	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	313420		445956	
Removal of capital assets	20600	8708	29311	12390
Write-off of bad debtors	1027928	229	1462610	326
Inventory deficit		9383		13351
Increase in provisions for doubtful debtors	56617	40600	80559	57769
Increase in holiday provision	23338	71564	33207	101826
Provisions for stocks of slow-turnover	164109		233506	
Other provisions	199443		283782	
Other costs	22174	1423	31551	2025
<b>Total</b>	<b>2079941</b>	<b>752185</b>	<b>2959490</b>	<b>1070263</b>

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	98098	331	139581	471
<b>Total</b>	<b>98098</b>	<b>10362</b>	<b>139581</b>	<b>14744</b>

**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	470619	345999	669631	492312
Leasing agreements	10299	25306	14654	36007
Credit line agreements		232900		331387
<b>Total</b>	<b>480918</b>	<b>604205</b>	<b>684285</b>	<b>859706</b>

**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	213136	295432	303265	420362
Deferred tax expenditure in profit and loss account of accounting year	56780	(79437)	80791	(113029)
Deferred tax liabilities as at the end of accounting year	269916	215995	384056	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	(67167)	(16825)	(95570)	(23940)
Deferred tax liabilities	<b>269916</b>	<b>215995</b>	<b>384056</b>	<b>307333</b>

**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
<b>Total</b>	<b>111526</b>	<b>117606</b>	<b>158687</b>	<b>167338</b>

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	Removed	Remaining amount as at 31.12.12	Remaining amount as at 01.01.12	Calculated	Removed	Remaining amount as at 31.12.12	01.01.12	31.12.12
<b>Intangible investments</b>										
Devel.costs	68254		(68254)						68254	
Licenses and other	2526			2526	2526			2526		
Software	23732	2700	(50)	26382	14057	7290	(50)	21297	9675	5085
<b>Total</b>	<b>94512</b>	<b>2700</b>	<b>(68304)</b>	<b>28908</b>	<b>16583</b>	<b>7290</b>	<b>(50)</b>	<b>23823</b>	<b>77929</b>	<b>5085</b>
<b>Capital assets</b>										
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	275150	41125	(8041)	308234	239997	18162	(6787)	251372	35153	56862
Creation of capital assets	766559	550124	(969799)	346884					766559	346884
<b>Total</b>	<b>13553673</b>	<b>1577793</b>	<b>(1058436)</b>	<b>14073030</b>	<b>5850192</b>	<b>336043</b>	<b>(66787)</b>	<b>6119448</b>	<b>7703481</b>	<b>7953582</b>
<b>Long-term fin. investm.</b>										
Other securities	10227			10227					10227	10227
<b>Other debtors</b>	<b>3631449</b>	<b>1420941</b>		<b>5052390</b>					<b>3631449</b>	<b>5052390</b>
<b>Total</b>	<b>3641676</b>	<b>1420941</b>		<b>5062617</b>					<b>3641676</b>	<b>5062617</b>
<b>In total</b>	<b>17289861</b>	<b>3001434</b>	<b>(1126740)</b>	<b>19164555</b>	<b>5866775</b>	<b>343333</b>	<b>(66837)</b>	<b>6143271</b>	<b>11423086</b>	<b>13021284</b>

**Note No. 12 – 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 31.12.12	Remaining amount as at 01.01.12	Calculated	Removed	Remaining amount as at 31.12.12	01.01.12	31.12.12
<b>Intangible assets</b>										
Devel.costs	97117		(97117)						97117	
Licenses and other	3594			3594	3594			3594		
Software	33768	3842	(71)	37539	20000	10375	(71)	30304	13768	7235
<b>Total</b>	<b>134479</b>	<b>3842</b>	<b>(97188)</b>	<b>41133</b>	<b>23594</b>	<b>10375</b>	<b>(71)</b>	<b>33898</b>	<b>110885</b>	<b>7235</b>
<b>Capital assets</b>										
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	391503	58516	(11441)	438578	341485	25842	(9656)	357671	50018	80907
Creation of capital assets	1090715	782756	(1379900)	493571					1090715	493571
<b>Total</b>	<b>19285139</b>	<b>2244998</b>	<b>(1506019)</b>	<b>20024118</b>	<b>8324074</b>	<b>478146</b>	<b>(95028)</b>	<b>8707192</b>	<b>10961065</b>	<b>11316926</b>
<b>Long-term fin. investm.</b>										
Other securities	14552			14552					14552	14552
<b>Other debtors</b>	<b>5167086</b>	<b>2021817</b>		<b>7188903</b>					<b>5167086</b>	<b>7188903</b>
<b>Total</b>	<b>5181638</b>	<b>2021817</b>		<b>7203455</b>					<b>5181638</b>	<b>7203455</b>
<b>In total</b>	<b>24601256</b>	<b>4270657</b>	<b>(1603207)</b>	<b>27268706</b>	<b>8347668</b>	<b>488521</b>	<b>(95099)</b>	<b>8741090</b>	<b>16253588</b>	<b>18527616</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. 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)
<b>Total</b>	<b>1520132</b>	<b>3986329</b>	<b>2162953</b>	<b>5672035</b>

**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
<b>Total</b>	<b>214758</b>	<b>251597</b>	<b>305573</b>	<b>357989</b>

**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	6099	2001	8678	2847
<b>Total</b>	<b>75969</b>	<b>71851</b>	<b>108094</b>	<b>102235</b>

**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 Depository:

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
<b>Total</b>	<b>5799005</b>	<b>5799005</b>	<b>8251241</b>	<b>8251241</b>

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	
<b>Total</b>	<b>487006</b>	<b>256095</b>	<b>692947</b>	<b>364390</b>

**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
<b>Latvian credit institutions, loan agreement, including</b>	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
<b>Leasing agreements, including</b>	<b>55169</b>	<b>371435</b>	<b>78498</b>	<b>528504</b>
Long-term debt		55169		78498
Short-term debt	55169	316266	78498	450006
<b>Other loans, including</b>	<b>677153</b>	<b>687709</b>	<b>963502</b>	<b>978522</b>
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
<b>Long-term creditors, including</b>	<b>800394</b>		<b>1138858</b>	
Interest	64394		91624	
Settlement of the debts of other companies	736000		1047234	
<b>Short-term creditors, including</b>	<b>393057</b>	<b>526557</b>	<b>559270</b>	<b>749224</b>
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
<b>Total</b>	<b>37072</b>	<b>35398</b>	<b>52749</b>	<b>50367</b>

**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	983038	1426971	1398737	2030397
Foreign suppliers	760408	368103	1081963	523763
<b>Total</b>	<b>1743446</b>	<b>1795074</b>	<b>2480700</b>	<b>2554160</b>

Notes (cont.)

**Note No. 24 – Taxes and social insurance contributions**

**LVL**

Indicators	Personal income tax	Mandatory social insurance contributions	Income tax	Value added tax	Natural resource tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
<b>31.12.11. debt</b>	<b>1052906*</b>	<b>1742195*</b>	<b>69108</b>	<b>3736</b>	<b>1787</b>	<b>7013*</b>	<b>32170*</b>	<b>242</b>
<b>31.12.11. overpayment</b>			<b>10649</b>	<b>379964</b>				<b>1</b>
Calculated	1284075	2198884	10524	1834306**	31172	26299	85227	2917
Penalty calculated	63400	63448					1624	
Allocated to other taxes				1294931				
Paid	1208113	1603777	63279	2873021	30632	33312	117397	2894
Penalty paid	59229	96995					1624	
Tax debt is settled from excess payment of other tax	211289	1050770	32826					46
<b>31.12.12. debt</b>	<b>925616*</b>	<b>1258999*</b>	<b>30677</b>		<b>2327</b>	<b>0</b>	<b>0</b>	<b>235</b>
<b>31.12.12. overpayment</b>	<b>3866</b>	<b>6014</b>	<b>57799</b>	<b>120012</b>				<b>17</b>

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

\*\* In the reporting period the company has been repaid from the budget value added tax amount LVL 262 325 (EUR 373 255). In 2012 the time-limited non-recoverable overpaid VAT amount was written-off LVL 225 306 (EUR 320 582).

**EUR**

Indicators	Personal income tax	Mandatory social insurance contributions	Income tax	Value added tax	Natural resource tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
<b>31.12.11. debt</b>	<b>1498150*</b>	<b>2478920*</b>	<b>98332</b>	<b>5316</b>	<b>2543</b>	<b>9979*</b>	<b>45774*</b>	<b>344</b>
<b>31.12.11. overpayment</b>			<b>15152</b>	<b>540640</b>				
Calculated	1827074	3128730	14974	2609982**	44354	37420	121267	4151
Penalty calculated	90210	90278					2311	
Allocated to other taxes				1842521				
Paid	1718990	2281969	90038	4087941	43585	47399	167041	4118
Penalty paid	84276	138011					2311	
Tax debt is settled from excess payment of other tax	300638	1495111	46707					65
<b>31.12.12. debt</b>	<b>1317031*</b>	<b>1791394*</b>	<b>43649</b>		<b>3312</b>	<b>0</b>	<b>0</b>	<b>336</b>
<b>31.12.12. overpayment</b>	<b>5501</b>	<b>8557</b>	<b>82240</b>	<b>170762</b>				<b>24</b>

On behalf of the Holding Company,

Chairperson of the Board

Nikolajs Erohovs

## **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 performance 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

28 February 2013