

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

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

**ANNUAL REPORT
2008
(AUDITED)**

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INFORMATION ABOUT THE COMPANY

Name of the Company	AS (Joint Stock Company) "Rīgas elektromašīnbūves rūpnīca" (AS "RER")
Legal status of the Company	Joint Stock Company
Registration No. in the Register of Enterprises, date and place of registration	No. 000304200, Riga, 29 November 1991
Unified Registration No. in the Commercial Register, date and place of registration	No. 40003042006, Riga, 29 September 2004
Registered office	Ganību dambis 31, Riga, LV-1005, the Republic of Latvia
Institution in charge of the Company	General meeting of shareholders
Chair of the Board	Grigorijs Uspenskis (from 29.08.2006)
Board Members	Aleksejs Maksimovs (from 25.07.2008)
	Vladimirs Antjufejevs (from 15.05.2006)
	Anatolijs Ostaščenko (from 07.05.2007)
	Andrejs Zujevs (from 07.05.2007)
Accounting period	1 January 2008 – 31 December 2008
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 2008

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.

In 2008 the Company maintained its position both in Eastern and Western markets by successfully competing with other companies due to the quality of the Company's products, the broad line of the products and possibilities to develop new designs.

The rise of the prices for power resources, materials and services, especially for the non-ferrous and ferrous metals, that was observed the first six months of the 2008 and the following economical crisis negatively influenced not only the financial situation of the joint-stock company "RER", but also the financial situation of our foreign partners.

Despite all the difficulties, AS "RER" continued developing. Net turnover of the Company accounted for LVL 22470252 (EUR 31972288), which is 92.1 % when compared with the data of 2007.

AS "RER" has concluded the financial year 2008 with loss amounting to LVL 825885 (EUR 1175128) before tax and loss amounting to LVL 964450 (1372289) after tax.

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

Indicators of financial stability

Indicator	31.12.2008.	31.12.2007.
Autonomy indicator (equity / entire capital)	0,32	0.46
Proportion coefficient of loans and equity (loans / equity)	2,12	1.17

Liquidity indicators

Indicator	31.12.2008.	31.12.2007.
Total liquidity indicator (current assets / short-term liabilities)	1,02	1.28
Fast liquidity indicator (short-term debtors and cash / short-term liabilities)	0,63	0.82

Other indicators

In 2008 the average number of employees was 1021 people, which has decreased by 14.6 % when compared with 2007. In 2008 the average monthly salary was LVL 675.18 (EUR 960.69), and this number has increased by 14.8% when compared with 2007.

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 2008.

Company development measures

The 2009 was characterized by the decrease of production amounts for the tradition product types. It was because of the devaluation of the Russian rouble and the Ukraine grivnathe value of our production decreased as it is pegged to Latvian lat. But the acquirement of new types of production will let the joint-stock company "RER" to broaden the market, turning to rapidly developing markets in Western Asia, as well as expanding the sale amounts in European markets.

Events after date of balance sheet

From 20th of April 2009 till 12th of June 2009 the customs duty audit will be carried out for the time period from 1st of January 2007 till 31st of December 2007.

Chair of the Board

G. Uspenskis

Board Members:

A. Berezins

V. Antjufejevs

A. Ostaščenko

A. Zujevs

09 April 2009

PROFIT AND LOSS ACCOUNT FOR TWELVE MONTHS OF 2008

No.	Items	Line code	Note	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
1	Net turnover	010	1	22470252	24389044	31972288	34702483
2	Production costs of the goods sold	020	2	(18147808)	(18588635)	(25822004)	(26449245)
3	Gross profit or loss	030		4322444	5800409	6150284	8253238
4	Selling expenses	040	3	(776545)	(415303)	(1104924)	(590923)
5	Administration expenses	050	4	(3523437)	(2977947)	(5013399)	(4237237)
6	Other operating income	060	5	344350	256130	489966	364440
7	Other operating expenses	070	6	(670598)	(557052)	(954175)	(792614)
8	Income from participation in capital of related and affiliated companies	080	7	441	1500	627	2134
9	Other interest income and similar income	100	8	18450	510	26252	726
10	Other interest payments and similar expenses	120	9	(540990)	(377462)	(769759)	(537080)
11	Profit or loss before extraordinary items and taxes	130		(825885)	1730785	(1175128)	2462684
12	Profit or loss before tax	160		(825885)	1730785	(1175128)	2462684
13	Corporate income tax	170			(252354)		(359067)
14	Retained corporate income tax	180	10	(27409)	(27295)	(38999)	(38836)
15	Other taxes	190	11	(111156)	(198818)	(158162)	(282893)
16	Profit or loss of the accounting period	200		(964450)	1252318	(1372289)	1781888

EPS (earnings per share)	(0.17)	0,22	(0.24)	0,31
The number of shares is 5799005				

BALANCE SHEET FOR TWELVE MONTHS OF 2008

A S S E T S	Line code	Note	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
1. LONG-TERM INVESTMENTS		12				
I. Intangible investments						
1.	010		341271		485585	
2. Concessions, licences and similar rights	020		417	797	593	1134
3. Other intangible investments	021		3971	4906	5650	6981
I. Total	050		345659	5703	491828	8115
II. Fixed assets						
1. Land plots, buildings, constructions	060		4353002	4385783	6193764	6240407
2. Equipment and machinery	080		3358734	1973758	4779048	2808405
3. Other fixed assets and inventory	090		66075	110360	94016	157028
4. Creation of fixed assets	100		724287	460239	1030568	654861
5. Prepayments for fixed assets	110		36856	396945	52441	564802
II. Total	120		8538954	7327085	12149837	10425503
III. Long-term financial investments						
1. Participation in capital of related companies	130					
2. Participation in capital of affiliated companies	150		59927	59927	85268	85268
III. Total	210		59927	59927	85268	85268
I. PART TOTAL AMOUNT	220		8944540	7392715	12726933	10518886
2. CURRENT ASSETS						
I. Stocks						
1. Raw materials, direct materials and auxiliary materials	230		3011995	2723374	4285683	3875012
2. Unfinished products	240		2853405	1359704	4060030	1934684
3. Finished products and goods for sale	250		226610	501789	322437	713981
4. Prepayments for goods	270		59474	62849	84624	89426
I. Total	290		6151484	4647716	8752774	6613103
II. Debtors						
1. Debts of buyers and customers	300	13	7353961	6656413	10463744	9471222
2. Debts of affiliated companies	320		466	388	663	552
3. Other debtors	330	14	375755	80323	534651	114289
4. Deferred expenses	360	15	177434	9139	252466	13004
II. Total	370		7907616	6746263	11251524	9599067
III. Securities and participation in capitals						
1. Other securities	400	16	1600000	1600000	2276595	2276595
III. Total	410		1600000	1600000	2276595	2276595
IV. Cash	420	17	523272	11713	744549	16666
II. PART TOTAL AMOUNT	430		16182372	13005692	23025442	18505431
B A L A N C E	440		25126912	20398407	35752375	29024317

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

BALANCE SHEET FOR TWELVE MONTHS OF 2008

LIABILITIES	Line code	Note	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
1. SHAREHOLDERS' EQUITY						
1. Share capital (capital stock)	450	18	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	470		187500	199438	266788	283775
3. Other provisions	510		192922	192922	274503	274503
4. Undivided profit:						
a) Undivided profit of previous years	530		2775263	1522945	3948844	2166956
b) Undivided profit of the accounting year	540		(964450)	1252318	(1372289)	1781888
1. PART TOTAL AMOUNT	550		7990240	8966628	11369087	12758363
2. PROVISIONS						
1. Other provisions	580	19	200153	412822	284792	587393
2. PART TOTAL AMOUNT	590		200153	412822	284792	587393
3. CREDITORS						
I. Long-term creditors						
1. Loans from credit institutions	620	20		657746		935888
2. Other loans	630	21	822619	10832	1170481	15413
3. Deferred tax liabilities	731		254776	227367	362514	323514
I. Total	740		1077395	895945	1532995	1274815
II. Short-term creditors						
1. Loans from credit institutions	770	20	8613505	6871091	12255913	9776682
2. Other loans	780	21	422215	229958	600758	327201
3. Advance payments received from buyers	790	22	2499	10507	3556	14950
4. Debts to suppliers and contractors	800	23	3983254	1745326	5667660	2483373
5. Debts to affiliated companies	830		3395	1713	4831	2437
6. Taxes and social security payments	840	24	1577784	696564	2244984	991121
7. Other creditors	850	25	1256472	567853	1787799	807982
II. Total	890		15859124	10123012	22565501	14403746
3. PART TOTAL AMOUNT	900		16936519	11018957	24098496	15678561
BALANCE	910		25126912	20398407	35752375	29024317

CASH FLOW STATEMENT FOR TWELVE MONTHS OF 2008 (prepared by indirect method)

I. Cash flow from operating activities

	Items	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
1	Profit or loss before extraordinary items and taxes	(825885)	1730785	(1175128)	2462685
	ADJUSTMENTS				
	Depreciation of fixed assets	328934	253975	468031	361374
	Amortization of intangible investment value	4654	1512	6622	2151
	Gain from sales of fixed assets		(2100)		(2988)
	Profit or loss from fluctuations of currency exchange rates	319576	96265	454715	136973
	Income from participation in capital of related and affiliated companies	(441)	(1500)	(627)	(2134)
	Amounts written off investments		448093		637579
	Amounts written off fixed assets	2862	22615	4072	32178
	Reserve for revaluation of long-term investments	(11938)	38167	(16986)	54307
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	(182238)	2587812	(259301)	3682125
	ADJUSTMENTS				
	Increase or decrease of balance of receivables	(685493)	(5347635)	(975369)	(7608999)
	Increase or decrease of balance of inventories	(1507143)	(1299997)	(2144471)	(1849729)
	Increase or decrease of deferred expenses	(168295)	15313	(239462)	21788
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	6091503	7664234	8667428	10905223
	Increase or decrease of accruals	(212669)	226257	(302601)	321935
	Expenses for tax payments	(86723)	(200370)	(123396)	(285101)
3	Gross cash flow from operating activities	3248942	3645614	4622828	5187242
4	Expenses for corporate income tax payments	(213694)	(282956)	(304059)	(402610)
5	Cash flow before extraordinary items	3035248	3362658	4318769	4784632
I	NET CASH FLOW FROM OPERATING ACTIVITIES	3035248	3362658	4318769	4784632

II. Cash flow from investing activities

	Items	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
1	Purchase of fixed assets and intangible investments	(1097312)	(1169733)	(1561334)	(1664380)
2	Income from sales of fixed assets and intangible investments		2100		2988
3	Dividends received	441	1500	627	2134
II	NET CASH FLOW FROM INVESTING ACTIVITIES	(1096871)	(1166133)	(1560707)	(1659258)

III. Cash flow from financing activities

	Items	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
1	Loans received	266590		379323	
2	Expenses for repayment of loans	(1534735)	(876990)	(2183731)	(1247844)
3	Expenses for repurchase of leased fixed assets	(103163)	(36244)	(146788)	(51571)
4	Dividends paid out				
5	Expenses for purchase of short-term securities (bill of exchange)		(1600000)		(2276595)
III	NET CASH FLOW FROM FINANCING ACTIVITIES	(1371308)	(2513234)	(1951196)	(3576010)

IV. Summary of cash inflow and outflow

	Items	31.12.08. LVL	31.12.07. LVL	31.12.08. EUR	31.12.07. EUR
I	Net cash flow from operating activities	3035248	3362658	4318769	4784632
II	Net cash flow from investing activities	(1096871)	(1166133)	(1560707)	(1659258)
III	Net cash flow from financing activities	(1371308)	(2513234)	(1951196)	(3576010)
	Result of fluctuations of currency exchange rates	(55510)	(87598)	(78983)	(124641)
	Net cash flow of the accounting period	511559	(404307)	727883	(575277)
	Cash and its equivalents in the beginning of the accounting period	11713	416020	16666	591943
	Cash and its equivalents at the end of the accounting period	523272	11713	744549	16666

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2008, LVL

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 31.12.2006.g.	5799005	161271	192922	1522945	7676143
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(2461)			(2461)
b) increase of fixed assets		40628			40628
3. Income or loss of the accounting period in accordance with the profit and loss account				1252318	1252318
4. Balance as of 31.12.2007.g.	5799005	199438	192922	2775263	8966628
5. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(11938)			(11938)
b) increase of fixed assets					
6. Income or loss of the accounting period in accordance with the profit and loss account				(964450)	(964450)
7. Balance as of 31.12.2008.g.	5799005	187500	192922	1810813	7990240

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2008, EUR

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 31.12.2006.g.	8251241	229468	274503	2166956	10922168
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(3502)			(3502)
b) increase of fixed assets		57809			57809
3. Income or loss of the accounting period in accordance with the profit and loss account				1781888	1781888
4. Balance as of 31.12.2007.g.	8251241	283775	274503	3948844	12758363
5. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(16987)			(16987)
b) increase of fixed assets					
6. Income or loss of the accounting period in accordance with the profit and loss account				(1372289)	(1372289)
7. Balance as of 31.12.2008.g.	8251241	266788	274503	2576555	11369087

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.

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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.

	31.12.2008 LVL	31.12.2007 LVL	31.12.2008 EUR	31.12.2007 EUR
Unfinished construction objects	118011	118,011	167915	167,915
Costs of capital asset creation	606276	342,228	862653	486,946
Total	724287	460,239	1030568	654,861

Long-term financial investments

As at 31.12.2008 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, Rīga, the Republic of Latvia	50	57,600.00 LVL 81,957.00 EUR	2,327.00 LVL 3,311.00 EUR	59,927.00 LVL 85,268.00 EUR	1. AS "RER", Latvia 2. "Lovato" S.A., Italy

Financial leasing

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

Receivables

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

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

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

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

Debts of debtors

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

Currency unit and recalculation of foreign currency

Indicators reflected in the annual report have been given in the national currency of the Republic of Latvia – lats (LVL). All transactions carried out in foreign currencies have been recalculated in lats according to the exchange rate of the Bank of Latvia set on day when the relevant transaction is takes place. Assets and liabilities in the foreign currency have been recalculated in lats according to the exchange rate of the Bank of Latvia set on the last day of the reporting period – 31.12.2008. Profit made or loss incurred as a result of fluctuations of exchange rates has been reflected in the profit and loss account of the corresponding period.

Notes (cont.)
Accounting policy (cont.)

	31.12.2008, LVL	31.12.2007, LVL
1 EUR	0.702804	0.702804
1 USD	0.495	0.484
1 RUB	0.0171	0.0197
1 SEK	0.0635	0.0744

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 2008 warranty repair costs accounted for LVL 90596 (EUR 128906), which is only 0.40% 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 euros, 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 2007 the average rate of the Company's loans and financial leasing transactions was 6.162%, in 2008 – 6.597%.

Liquidity risk

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

Credit risk

The Company is at the credit risk due to its debts of customers and clients. Debts of customers and clients of AS "RER" have increased – by 10.5% – when compared with 2007.

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 2008

Note No. 1 – Net turnover

Country	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Latvia	10296490	10,976,465	14650585	15,618,102
Russia	11046391	1,264,527	15717599	1,799,260
Ukraine		1,191,170		1,694,882
Sweden	71116	46,940	101189	66,790
Great Britain	981892	10,875,293	1397106	15,474,148
Other	74363	34,649	105809	49,301
Total	22470252	24,389,044	31972288	34,702,483

Note No. 2 – Production costs of products sold

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Salaries	6688629	6120568	9517062	8708784
Social insurance contributions	1564541	1410784	2226141	2007365
Costs of materials	8350823	9926109	11882151	14123581
Energy resources	776835	571006	1105337	812468
Depreciation of capital assets and intangible assets	250350	186109	356216	264809
Business trip costs	46495	66417	66156	94503
Repair costs and remuneration for works from outside	190297	148746	270768	211647
Services of experts	92275		131295	
Losses due to rejects	93806	78723	133474	112013
Environmental protection costs	20561	14741	29256	20975
Other costs	73196	65432	104148	93100
Total	18147808	18588635	25822004	26449245

Note No. 3 – Selling costs

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Packing material and package	255183	250131	363093	355904
Transportation expenses	374349	22171	532651	31546
Salaries	118545	115160	168674	163858
Social insurance contributions	28020	26970	39869	38375
Other selling costs	448	871	637	1240
Total	776545	415303	1104924	590923

Notes (cont.)

Note No. 4 – Administrative costs

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Communications costs	56953	45030	81037	64072
Office costs	11462	15627	16309	22235
Cash circulation and expense and extra costs	36952	80198	52578	114111
Transportation expenses	32597	21694	46381	30868
Representation expenses	13667	24791	19446	35274
Salaries	2286213	2020060	3252988	2874286
Social insurance contributions	487189	391621	693207	557226
Costs of materials	15894	24848	22615	35356
Energy resources	115151	89649	168114	127559
Repair costs		5562		7914
Depreciation of capital assets	70713	60805	100616	86518
Business trip costs	92697	60678	131896	86337
Security services	185587	66707	264067	94916
Year's payment to Stock Exchange of Riga	5000		7114	
Computer's network service	13064		18588	
Consulting service and business management services	55682	28171	79228	40084
Other administrative costs	41616	42506	59215	60481
Total	3523437	2977947	5013399	4237237

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Profit gained as a result of other sales (materials, lease, other)	60825	221160	86546	314682
Inventory surplus	12253		17434	
Remaining amounts of removal of capital assets, materials	5723	779	8143	1108
Sale of capital assets		2100		2988
Deposited salaries		5		7
Income related to maintenance of social sphere	36475	29585	51899	42096
Decrease in revaluation reserve of capital assets	11938	2461	16986	3502
Decrease in holiday provision	212669		302601	
Other income	4467	40	6357	57
Total	344350	256130	489966	364440

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Penalty and contractual penalties	86415	11551	122957	16436
Costs related to maintenance of social sphere	133655	112251	190174	159719
Costs not related to operating activities of the Company	121649	161866	173091	230315
Losses from converting currency	56594	86469	80526	123034
Losses from fluctuations of exchange rates	262982	9796	374190	13938
Removal of capital assets	2862	22615	4072	32178
Losses caused by write-off of investment value of related companies		65468		93153
Provisions for doubtful debts		12188		17342
Write-off of bad debtors		5120		7285
Tax surcharge		28507		40562
Increase in revaluation reserve of capital assets		40628		57808
Loss from previous year	1525		2170	
Inventory deficit	3238		4607	
Other costs	1678	593	2388	844
Total	670598	557052	954175	792614

Notes (cont.)

Note No. 7 – Income from partnership in capitals of the Concern's subsidiary companies and associated companies

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Associated company dividends	441	1500	627	2134

Note No. 8 - Other interest income and similar income

Indicator	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Interest income (bill of exchange)	18400		26180	
Other interest income	50	510	72	726
Total	18450	510	26252	726

Note No. 9 – Other interest payments and similar costs

Indicator	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Loan agreements	78417	122415	111577	174181
Leasing agreements	46950	6838	66804	9730
Credit line agreements	415623	248209	591378	353169
Total	540990	377462	769759	537080

Note No. 10 – Deferred corporate income tax

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Deferred tax liabilities as at the beginning of accounting year	227367	200072	323514	284678
Deferred tax expenditure in profit and loss account of accounting year	27409	27295	38999	38836
Deferred tax liabilities as at the end of accounting year	254776	227367	362513	323514

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Deferred tax liabilities :				
Temporary difference of depreciation of capital assets	222876	261305	317124	371804
Deferred tax assets:				
Temporary differences of costs of holidays not used	31900	(33938)	45389	(48290)
Deferred tax liabilities	254776	227367	362513	323514

Note No. 11 – Other taxes

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Real estate tax on premises (buildings)	100384	190200	142835	270631
Real estate tax on land	10772	8618	15327	12262
Total	111156	198818	158162	282893

NOTES TO BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2008

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

	Initial value				Depreciation				Remaining value	
	Remaining amount as at 01.01.08	Purchase	Removed	Remaining amount as at 31.12.08	Remaining amount as at 01.01.08	Calculated	Removed	Remaining amount as at 31.12.08	01.01.08	31.12.08.
Intangible investments										
		341271		341271						341271
Licences and other	1360		(223)	1137	563	380	(223)	720	797	417
Software	6926	3339		10265	2020	4274		6294	4906	3971
Total	8286	344610	(223)	352673	2583	4654	(223)	7014	5703	345659
Capital assets										
Land, premises, buildings*	7256001	28608		7284609	2870218	61389		2931607	4385783	4353002
Equipment and machinery	4369920	1589663	(111564)	5848019	2396162	204687	(111564)	2489285	1973758	3358734
Other capital assets	245409	21435	(2166)	264678	135049	65720	(2166)	198603	110360	66075
Creation of capital assets	460239	1827372	(1563324)	724287					460239	724287
Advance payments for capital assets	396945	1450265	(1810354)	36856					396945	36856
Total	12728514	4917343	(3487408)	14158449	5401429	331796	(113730)	5619495	7327085	8538954
Long-term fin. investm.										
Partnership in capital of associated companies	59927			59927					59927	59927
Total	59927			59927					59927	59927
In total	12796727	5261953	(3487631)	14571049	5404012	336450	(113953)	5626509	7392715	8944540

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

	Initial value				Depreciation				Remaining value	
	Remaining amount as at 01.01.08	Purchase	Removed	Remaining amount as at 31.12.08	Remaining amount as at 01.01.08	Calculated	Removed	Remaining amount as at 31.12.08	01.01.08	31.12.08
Intangible assets										
		485585		485585						485585
Licences and other	1936		(317)	1618	801	541	(317)	1025	1134	593
Software	9855	4751		14606	2874	6082		8956	6981	5650
Total	11791	490336	(317)	501809	3675	6623	(317)	9981	8115	491828
Capital assets										
Land, premises, buildings*	10324360	40706		10365065	4083952	87349		4171301	6240407	6193764
Equipment and machinery	6217836	2261887	(158741)	8320982	3409431	291244	(158741)	3541934	2808405	4779048
Other capital assets	349185	30499	(3082)	376603	192158	93511	(3082)	282587	157028	94016
Creation of capital assets	654861	2600116	(2224409)	1030568					654861	1030568
Advance payments for capital assets	564802	2063541	(2575902)	52441					564802	52441
Total	18111044	6996749	(4962134)	20145659	7685541	472104	(161823)	7995822	10425503	12149837
Long-term fin. investm.										
Partnership in capital of associated companies	85268			85268					85268	85268
Total	85268			85268					85268	85268
In total	18208103	7487085	(4962451)	20732736	7689216	478727	(162140)	8005803	10518886	12726933

In 2008 assessed value of the premises accounted for LVL 9,920,904 (EUR 14,116,175), assessed value of the plot accounted for LVL 16,372,912 (EUR 23,296,555).

Notes (cont.)

Note No. 13 – Debts of customers and clients

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Debts of customers and clients	7364419	6668462	10478624	9488367
Provisions for doubtful debtors	(10458)	(12049)	(14880)	(17145)
Total	7353961	6656413	10463744	9471222

Note No. 14 – Other debtors

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Demand calculations for personnel		6926		9855
Taxes paid in advance	6178	14133	8791	20109
Overpaid taxes	225353	41542	320648	59109
Advance payments for services	112509	12001	160086	17076
Interest income (bill of exchange)	18400		26181	
Rental debts	9126		12985	
Other	4189	5721	5960	8140
Total	375755	80323	534651	114289

Note No. 15 – Costs of the following periods

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Press subscription	140	1980	199	2817
Insurance	3617	2722	5147	3873
Annual anti-virus program licences	1585	3267	2255	4649
Expenses for development of new techniques	170636		242793	
Other	1456	1170	2072	1665
Total	177434	9139	252466	13004

Note No. 16 – Other securities and partnership in capitals

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Simple bill of exchange	1600000	1600000	2276595	2276595

Note No. 17 – Cash

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Current accounts in banks	523272	11713	744549	16666

Note No. 18 – Stock capital (fixed capital)

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

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Residents, including	199525	199525	283898	283898
- physical entities	174322	174322	248037	248037
- legal entities	25203	25203	35861	35861
Non-residents, including	5599480	5599480	7967343	7967343
- Russia	1011027	1011027	1438562	1438562
- Canada	5119	5119	7284	7284
- Estonia (nominal shareholder)	4583334	4583334	6521497	6521497
Total	5799005	5799005	8251241	8251241

Notes (cont.)

Note No. 19 – Other provisions

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Holiday provisions	200153	412822	284792	587393

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Latvian credit institutions, loan agreement, including	964479	1534736	1372330	2183732
Long-term debt		657746		935888
Short-term debt	964479	876990	1372330	1247844
Latvian credit institutions, credit line agreement, including	7649026	5994101	10883583	8528838
Short-term debt	7649026	5994101	10883583	8528838

Note No. 21 – Other loans

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Leasing agreements, including	982484	240790	1397949	342614
Long-term debt	822619	10832	1170481	15413
Short-term debt	159865	229958	227468	327201
Other loans, including	262350		373290	
Long-term debt				
Short-term debt	262350		373290	

Note No. 22 – Advances received from customers

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Local customers	2499	2804	3556	3990
Foreign customers		7703		10960
Total	2499	10507	3556	14950

Note No. 23 – Debts to suppliers and contractors

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Local suppliers	3188061	1411726	4536202	2008705
Foreign suppliers	795193	333600	1131458	474670
Total	3983254	1745326	5667660	2483375

Note No. 24 – Taxes and social insurance contributions

Indicators	31.12.07 LVL debt (840.b.r.)	31.12.07 LVL overpay ment (330.b.r.)	Calculated, LVL	Penal- ty calcul ated, LVL	Paid, LVL	Penalty paid, LVL	31.12.08 LVL debt (840.b.r.)	31.12.08 LVL overpay ment (330.b.r.)
Personal income tax	181790		1942947	10602	1532609	4216	598514	
Mandatory social insurance contributions	505421		3065674	48075	2642169	28103	948898	
Corporate income tax	5527			3110	213694	2514		207571
Corporate income tax from non-residents			4790		2203		2587	
Value added tax		41542	2553983	1441	2532810	1441		20369
Natural resources tax	3488		19445	55	19006	55	3927	
Real estate tax on land			10772	147	10772	51	96	
Real estate tax on premises (buildings)			100383	1383	75951	136	25679	
State business risk fee	338		4116	4	3784	4	670	
Total	696564	41542	7702110	64817	7032998	36520	1580371	227940

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"
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Notes (cont.)

Indicators	31.12.07. EUR debt (840.b.r.)	31.12.07. EUR overpay ment (330.b.r.)	Calculated, EUR	Penal- ty calcul ated, EUR	Paid, EUR	Penalty paid EUR	31.12.08. EUR debt (840.b.r.)	31.12.08. EUR overpay ment (330.b.r.)
Personal income tax	258664		2764555	15085	2180706	5999	851609	
Mandatory social insurance contributions	719149		4362061	68405	3759468	39988	1350159	
Corporate income tax	7864			4425	304059	3577		295347
Corporate income tax from non-residents			6816		3135		3681	
Value added tax		59109	3633990	2050	3603863	2050		28982
Natural resources tax	4963		27668	78	27043	78	5588	
Real estate tax on land			15327	209	15327	72	137	
Real estate tax on premises (buildings)			142832	1968	108069	193	36538	
State business risk fee	481		5857	6	5385	6	953	
Total	991121	59109	10959116	92226	10007055	51963	2248665	324329

Note No. 25 – Other creditors

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Salary debt	1237254	559081	1760454	795501
Support payments	2631	1143	3744	1626
Trade union membership fee	11207	7610	15946	10828
Deposited salaries	5287		7523	
Other	93	19	132	26
Total	1256472	567853	1787799	807981

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

Indicators	31.12.08	31.12.07
Average number of employees	1021	1193

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

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Remuneration calculated to the Council Members	7450	7450	10600	10600
Remuneration calculated to the Board Members	7032	5612	10006	7985
Total	14482	13062	20606	18585

Note No. 28 – Information about remuneration for services of the commercial company of certified auditors (amounts given including VAT of 18%)

Indicators	31.12.08 LVL	31.12.07 LVL	31.12.08 EUR	31.12.07 EUR
Remuneration for auditing annual report	4074	4074	5797	5797
Remuneration for carrying out other auditing tasks		2950		4197
Total	4074	7024	5797	9994

Chair of the Board

G. Uspenskis

Board Members:

A. Maksimovs

V. Antjufjevs

A. Ostaščenko

A. Zujevs

09 April 2009

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 2008 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

G. Uspenskis

Board Members:

A. Maksimovs

V. Antjufjevs

A. Ostaščenko

A. Zujevs

09 April 2009



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying 2008 financial statements of JSC'' RIGA ELECTRIC MACHINERY FACTORY'' (further ''the Company''), which are set out on pages 6 through 20 of the accompanying 2008 Annual Report and which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Financial Statements of Companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the Republic of Latvia Annual Accounts Law .

Emphasis of Matter

Without qualifying our opinion, we would like to draw your attention to the fact listed in the Management Report that states that at the present passes SRS Custom audit for year 2007. At the present it is not possible to forecast precisely what could be detected in consequence of the audit.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2008 ,included on pages 4 through 5 of the accompanying 2008 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

Riga, 29 April 2009

“Rigas Audits” Ltd, certificate No 103,

Board of chairman , certificated auditor,

certificate No 127



Janis Meziels