



JOINT STOCK COMPANY

**„Rīgas autoelektroaparātu rūpnīca”
(reg.Nr. 4 0003030454)**

Annual report for the year 2006

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Information about the company

Name of the company	<i>Rīgas autoelektroaparātu rūpnīca</i>
Legal form	<i>Joint stock company</i>
Registration number in the Register of Enterprises, place and date	<i>000303045, Riga, 22.04.1998</i>
Registration number in Commercial Register, place and date	<i>40003030454, Riga, 30.06.2004</i>
Address	<i>2, Klijanu street, Riga, Latvia, LV-1013</i>
Management Board	<i>Alfrēds Auziņš - Chairman Zigurds Kalniņš Maksims Araslanovs</i>
Reporting year	<i>01.01.2006 - 31.12.2006</i>
Main shareholders	<p>Basing on the list of shareholders prepared for the shareholders' meeting on April 20,2006:</p> <ol style="list-style-type: none"><i>1. JSC „Baltijas Holdings”-31.1 % Reg.Nr.40003148033, 2, Klijanu street, Riga</i><i>2. „Tehprojekts”,Ltd.- 30.7% Reg.Nr. 40103020397, 12,Unijas street, Riga</i><i>3. State social security agency- 5,0%</i><i>4. Other physical and legal persons</i>
Auditor	<i>Ēvalds Figurnovs, Executive certified auditor Certificate No 38 AUDITORFIRMA „SARGUNS”Ltd Commercial license No18 13, Malnavas street, Riga, LV-1057</i>

Management report

1. Information about the company and its basic activities

The company was founded in 1946 under the Ministry of Automotive industry of the USSR as a manufacturer of electric equipment and other goods for automobiles and agricultural machinery. At now the joint stock company “Rīgas autoelektroaparātu rūpnīca” has the same profile of production and basic activities:

- production of control and measuring devices for motorcars and tractors, automotive accessories and different locks;
- designing of new devices as well as designing and manufacturing of tooling and instruments

The following technological processes are used in the manufacturing: metal machining and punching, pressure casting of zinc alloys, moulding of plastics, electroplating and paint coating and assembling of finished products.

Since 2003 the company has introduced quality management system corresponding to ISO 9001:2000. In 2006 the personnel continues to perfect the quality management system.

Expenses for the certification of production in 2006 were 24,3 t. LVL.

Average number of employees in the reporting year – 395.

2. Statements

The total volume of production and sales is 99.9 % if compared with the year 2005.

**Net turnover in 2006 was 5299344 LVL
in 2005 – 5303358 LVL**

The products of the enterprise are specific and are intended mainly for complete set of automobiles and agricultural machinery in Russia, Ukraine and Belarus. Therefore the production and delivery volumes are greatly depending on the planned production volumes of automobiles’ producers and from the per cent of the production of our enterprise in total delivery volumes.

JSC “RAR” used SEB Unibanka bank credit LVL 400 000 to carry out economic activities in 2005 and 2006. The credit was used for repairing works and for obtaining new machinery for modernization of electroplating shop and purification plant to improve the quality of produced goods and to meet the demands of environmental protection. The credit is repaid.

The company is arranging its territory – selling the equipment that is no more necessary for production, gathering and selling the used packing materials and scrap. Expenses for the protection of environment and utilization of different substances in 2006 were 19.8 thousand LVL.

According to amendments to laws of the Republic of Latvia the real estate tax will increase in 2007. The JSC “RAR” took the decision to concentrate production in smaller territory and to sell part of the vacant buildings and areas of land. Income was used as investments in the development of the enterprise and for repayment of credit. Credit was repaid in October, 2006.

The property of the society is insured in the Insurance JSC “Nordens”.

Cash holdings in bank guarantee the ability to execute the contracts.

Customers’ debts are real. According to the signed contracts customers shall pay for the delivered production in 30 up to 60 days.

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The result of economic activities of the JSC “RAR“in 2006 is profit:

Profit after taxes – 79299 LVL.

According to the statement of income tax of the enterprise there is no tax for “RAR”. Advance payments of income tax in 2006 after submitting of annual report will be transferred to other taxes.

In 2006 the company obtained new technological machinery for 350.1 ths.LVL. According to law about income tax of enterprise preferential discounts are given to companies for new technological machinery.

Events after the balance sheet date

There have not been any significant or extraordinary events between the last day of reporting year and the day when the management signed the report that could essentially influence data or financial position of the company.

Future prospects and further development

In 2007 the company schedules to start production of new informative systems for OAO „GAZ”, Niznij Novgorod.

The volumes of production and sales in 2007 are planned to be the same as in 2006.

The company expects that profit from basic activities in 2007 will be minimal as the price level is limited by great competition in the market.

Profit can be gained from other economic activities, i.e., from selling of estate property.

Risks for the economic activities of the company:

1) economic and market risks

Growth of prices for materials, services and fuel as well as energy resources raises costs of production. If the level of prices for materials and services remain lower for the internal market of NVS (Commonwealth of Independent States) it may create essential problems for competitiveness of goods manufactured by the company.

There is lack of new specialists with appropriate technical education.

2) political risks

Political relationships among Latvia, Russia and Belarus can have an impact on the activities of the company. At the moments of ice jam economic sanctions against Latvia are possible.

The Managing Board of JSC „RAR” proposes following distribution of the earnings of the year:

To pay dividends 0.02 LVL per one share (total 71310.18 LVL)

Management Board: _____

A.Auziņš

Z.Kalniņš

M. Araslanovs

_____, 2007

The annual report is approved at the shareholders' meeting on April 18, 2007.

Chairperson of the shareholders meeting _____

Statement of Management Responsibility

The Management Board of JSC „Rīgas autoelektroaparātu rūpnīca” (the Company) is responsible for the preparation of the financial statements of the Company.

The financial statements on pages 7 to 23 are prepared in accordance with underlying accounting records and source documents and present fairly the financial position of the Company as on December 31, 2006 and the results of its operations and cash flows for the period ended on December 31, 2006.

The financial statements are prepared in accordance with laws “On accountancy”, “On the annual reports” and Latvian Accounting Standards on a going company basis. Appropriate accounting policies have been applied on a consistent basis. Judgements and estimates made by the Management Board in the preparation of the financial statements have been prudent and reasonable.

The Management Board of JSC “RAR” is responsible for the maintenance of proper accounting records, the safeguarding of the Company’s assets and the prevention and detection of fraud and other irregularities in the Company. The Management Board is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

On behalf of the Management Board,

Alfrēds Auziņš
Chairman of the Board

February 28, 2007

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BALANCE SHEET

For the year 2006

k=0.703

ASSETS	Notes	Row code	LVL	LVL	EUR	EUR
			At the end of the period	At the beginning of the year	At the end of the period	At the beginning of the year
			31.12.06.	01.01.06.	31.12.06.	01.01.06.
1	2	3	4	5	6	7
A. LONG-TERM INVESTMENTS						
1. Intangible assets						
1.1. Patents, licenses and similar rights	3	010	12654	29936	18000	42583
1. TOTAL		020	12654	29936	18000	42583
2. Fixed assets						
2.1. Land, buildings and constructions	4	030	905869	1031293	1288576	1466989
2.2. Equipment and machinery		040	514107	151092	731304	214925
2.3. Other fixed assets and inventory		050	18585	25266	26437	35940
2.4. Advance payments for fixed assets	5	060	1779	213969	2531	304366
2. TOTAL		070	1440340	1421620	2048848	2022220
A. TOTAL		080	1452994	1451556	2066848	2064803
B. CURRENT ASSETS						
1. Inventory						
1.1. Raw materials, direct materials and auxiliary materials	6.1.	090	579875	629036	824858	894788
1.2. Work in progress	6.2.	100	122321	100125	173999	142425
1.3. Finished goods and goods for sale	6.3.	110	655871	579983	932960	825011
1.4. Advance payments for goods	6.4.	120	15549	29894	22118	42524
1. TOTAL		130	1373616	1339038	1953935	1904748
2. Receivables						
2.1. Trade receivables	7.1.	140	1124791	1156058	1599987	1644464
2.2. Other receivables	7.2.	150	49728	114269	70736	162545
2.3. Deferred expenses	7.3.	160	4627	4500	6582	6401
2. TOTAL		170	1179146	1274827	1677305	1813410
3. Cash						
3. TOTAL	8.	180	414375	667555	589438	949580
B. TOTAL		190	2967137	3281420	4220678	4667738
TOTAL ASSETS		200	4420131	4732976	6287526	6732541

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BALANCE SHEET

For the year 2006

k=0.703

LIABILITIES	Notes	Row code	LVL	LVL	EUR	EUR
			At the end of the period	At the beginning of the year	At the end of the period	At the beginning of the year
1	2	3	4	5	6	7
A. Equity capital						
1. Share capital	9.	210	3565509	3265509	5071848	4645105
2. Reserves:	10.	220	34050	165625	48436	235598
a) other reserves		230	34050	165625	48436	235598
TOTAL		240	3599559	3431134	5120284	4880703
3. Retained profit:						
a) brought forward from previous years		250	210211	78636	299020	111858
b) for the current year		260	79299		112801	
A. TOTAL		270	3889069	3509770	5532105	4992561
B. CREDITORS						
1. Long-term liabilities						
1.1. Debts to suppliers and contractors	11.1.	280	0	300037	0	426795
1.2. Deferred tax liabilities	11.2.	290	72015	91122	102440	129619
1. TOTAL:		300	72015	391159	102440	556414
2. Current liabilities						
2.1. Loans from credit institutions	12.1.	310	0	200000	0	284495
2.2. Advance payments from customers	12.2.	320	53436	25544	76011	36336
2.3. Trade creditors	12.3.	330	204029	370958	290226	527678
2.4. Taxes and social security payments	12.4.	340	34518	36797	49100	52343
2.5. Other creditors	12.6.	350	73078	72088	103951	102543
2.6. Accrued liabilities	12.7.	360	93986	126660	133693	180171
2. TOTAL		370	459047	832047	652981	1183566
B. TOTAL		380	531062	1223206	755421	1739980
TOTAL LIABILITIES		390	4420131	4732976	6287526	6732541

STATEMENT OF CASH FLOWS for the year 2006

A. Cash flow from operating activities

K=0.703

No	ITEMS	2006 LVL	2005 LVL	2006 EUR	2005 EUR
1	Income from sales and services	5347122	5578189	7606148	7934835
2	Payments to suppliers for goods and services	-4557264	-4303792	-6482594	-6122037
3	Payments to employees and in their interests or to the third persons according to their orders	-1152177	-995776	-1638943	-1416466
4	Other expenses for economic activities	-59378	-42083	-84464	-59862
5	Income from other economic activities	42198	26056	60025	37064
6	Tax payments	-277864	-186230	-395254	-264908
7	VAT paid	-18495	18776	-26309	26708
8	Deferred expenses	-9548	-11845	-13582	-16849
	Cash flow from gross operating activities	-685406	83295	-974973	118485
9	Interest expenses	-22737	-18040	-32343	-25661
10	Income tax payments	-2694	-18533	-3832	-26363
11	Real estate tax payments	-12661	-15569	-18010	-22147
	TOTAL	-723498	31153	-1029158	44314
A.	Net cash flow from operating activities	-723498	31153	-1029158	44314

B. Cash flow from investment activities

No	ITEMS	2006 LVL	2005 LVL	2006 EUR	2005 EUR
1	Purchase of intangible and fixed assets	-602123	-254530	-856505	-362063
2	Sales of intangible and fixed assets	993470	267563	1413186	380602
3	Issued loans	-4100	-8250	-5832	-11735
4	Repaid loans	7360	1190	10470	1692
	TOTAL	394607	5973	561319	8496
B.	Net cash from investment activities	394607	5973	561319	8496

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C. Cash flow from financing

No	ITEMS	2006 LVL	2005 LVL	2006 EUR	2005 EUR
1	Income from issue of shares	300000	141	426743	201
2	Received loans	200000	400000	284495	568990
3	Repaid loans	-400000	-200000	-568990	-284495
4	Received interest for deposit	1846	3809	2625	5418
	TOTAL	101846	203950	144873	290114
C.	Net cash flow from financing	101846	203950	144873	290114

SUMMARY OF CASH INCOME AND EXPENDIT

No	ITEMS	2006 LVL	2005 LVL	2006 EUR	2005 EUR
A	The result from operating activities	-723498	31153	-1029158	44314
B	The result from investment activities	394607	5973	561319	8496
C	The result from financing	101846	203950	144873	290114
D	The result from currency rate fluctuations	-26135	15172	-37176	21582
	Cash increase or decrease	-253180	256248	-360142	364506
	Cash and cash equivalents at the beginning of the reporting period	667555	411307	949580	585074
	Cash and cash equivalents at the end of the reporting period	414375	667555	589438	949580

STATEMENT OF EXCHANGES IN EQUITY
for the year 2006

(LVL)

	Share capital	Reserves	Profit or losses	Total
On Dec.31, 2004	3265368	165625	210211	3641204
Issue of shares reg. on June 10, 2005	141			141
Profit (+) or losses (-) for the previous periods			-131575	-131575
On Dec. 31, 2005	3265509	165625	78636	3509770
Losses of 2005 written- off from reserves		-131575	131575	0
Issue of shares reg. on Sept. 20, 2006	300000			300000
Profit (+) or losses (-) of the reporting period			79299	79299
On Dec. 31, 2006	3565509	34050	289510	3889069

K=0.703

EUR

	Share capital	Reserves	Profit or losses	Total
On Dec.31, 2004	4644904	235598	299020	5179522
Issue of shares reg. on June 10, 2005	201			201
Profit (+) or losses (-) for the previous periods			-187162	-187162
On Dec. 31, 2005	4645105	235598	111858	4992561
Losses of 2005 written- off from reserves		-187162	187162	0
Issue of shares reg. on Sept. 20, 2006	426743			426743
Profit (+) or losses (-) of the reporting period			112801	112801
On Dec. 31, 2006	5071848	48436	411821	5532105

NOTES TO FINANCIAL STATEMENTS

1. General principles

The annual report is prepared in accordance with the law „On accountancy”, „On the annual reports” and Latvian accounting standards.

Profit or loss account is prepared in accordance with methods of turnover expenses.

Statement of cash flows is prepared using the direct method.

The financial statements include comparable information of the same period of the previous year.

The financial statements are presented in the national currency of Latvia, the lat (LVL) and in euro (EUR).

2. Accounting policy

The accounting policy of the Company was developed to ensure that the information is:

- applicable for decision making;
- is credible and fairly presents the results of activities and the financial position;
- reveals economic essence of a deal;
- is not prejudiced;
- is prudent;
- is complete is all essential aspects.

The reporting period is

January 1, 2006 till December 31, 2006.

Accounts in 2006 are kept according to the approved chart of accounts of the enterprise.

2.1. The synthetic register of accounting is general ledger. The entries in it are made from the grouping reports of economic operations. Registers of analytic accounting are accounting entry books, lists and cards.

2.2. Computers and software developed by “Bilance”, Ltd. are used to compile accounting registers.

2.3. Balances of assets were checked-up in an inventory **from 01.10.2006 until 31.12.2006**.

2.4. Depreciation of fixed assets is calculated using the straight-line method applying the depreciation rates set by management.

2.5. Stock of materials and purchased parts is estimated using weighted average prices.

2.6. Stock of finished goods is estimated using the production cost.

2.7. Foreign currency in bank accounts and in treasury is translated into Lats in accordance with the official Bank of Latvia exchange rate for the last day of reporting period.

Foreign currency	31.12.2006	31.12.2005
USD	0.536	0.593
EUR	0.702804	0.702804
RUR	0.0203	0.0206

2.8. All debts are real and reconciled with debtors and creditors. Debts in foreign currency are translated into Lats in accordance with the official Bank of Latvia exchange rate for the last day of reporting period. The resulting profit or loss is revealed in profit or loss account of the period.

7. Receivables

7.1. Trade receivables. Balance sheet –row code 140

<i>Business partner</i>	<i>Debt</i>	<i>Total in LVL</i>	<i>Estimation</i>
Enterprises of Russia	For the goods	410268.06	Real debt
Enterprises of Belarus	For the goods	658903.98	Real debt
Enterprises of Latvia	For the goods	55619.03	Real debt
Total:		1124791.07	

Customers' debts are real. According to the signed contracts customers shall pay for the delivered production in 30 up to 60 days.

7.2. Other receivables. Balance sheet –row code 150.

<i>Business partner</i>	<i>Debt</i>	<i>Total in LVL</i>	<i>Date of repayment</i>
Enterprises of Latvia	Agreement of lease	3402.57	January, 2007
Enterprise of Latvia	For electric power	342.85	January, 2007
Enterprise of Latvia	For transport services	913.65	January, 2007
Enterprise of Latvia	For materials	1096.28	January, 2007
Other enterprises of Latvia	Other debts	279.39	January, 2007
Employees of the enterprise	Settlements for business trips and other operating expenses	3596.30	January, 2007
Enterprise of Latvia	Scrap-metal sales	2711.96	January, 2007
State Revenue Service	Overpaid taxes (Real estate tax)	119.40	February, 2007
State Revenue Service	Overpaid taxes (Business risk fee)	9.55	January, 2007
State Revenue Service	Overpaid taxes (VAT)	30362.77	January, 2007
State Revenue Service	Overpaid taxes (Income tax)	3455.45	May, 2007
Enterprises of Latvia	VAT on unpaid invoices	3437.77	January, 2007
Total:		49727.94	

7.3. Deferred expenses. Balance sheet –row code 160.

<i>Business partner</i>	<i>Year of the deal</i>	<i>Total in LVL</i>
Riga Stock exchange	Contract for 2007	1475.00
Newspaper „Diena”	2007	133.45
Applied information service	2007	622.91
Transport insurance	2007	419.05
Auditing firm of Latvia	2007	885.00
„Atlas turs”,Ltd.	2007	724.84
Other enterprises of Latvia	2007	366.61
Total:		4626.86

8. Cash and cash equivalents.

<i>Cash location</i>	<i>Currency</i>	<i>Balance In currency</i>	<i>Exchange rate of the Bank of Latvia</i>	<i>Balance LVL</i>
Treasury	LVL			5546.34
Shop-warehouse	LVL			39.74
	EUR	6837.00	0.7028	4805.07
	USD	4140.00	0.536	2219.04
	Total: 1			12610.19
Current accounts	LVL			106487.55
	USD	422203.43	0.536	226301.03
	EUR	52112.65	0.7028	36624.97
	RUR	312851.13	0.0203	6350.88
Deposit account	LVL			26000.00
	Total: 2			401764.43
	Total: 1+2.			414374.62

9. Share capital. According to the rules of privatization the increase in shares in September was 300000 LVL and the share capital reached 3565509 LVL.
Nominal value of a share is 1.00 LVL.

The shareholders as on April 20, 2006:

JSC “BALTIJAS HOLDINGS “	31.1 %;
“Tehprojekts”, Ltd	30.7 %;
SJSC “VSAA”	5.0 %;
Other physical and legal persons	33.2 %.

10. Reserves. Balance sheet row code - 220.

The shareholders’ meeting in 2003 took a decision to diminish the share capital and to create reserves. The losses of the previous years are written off of the reserves. Balance of the reserves on December 31, 2006 – 34049.62 LVL.

11. Long-term liabilities.

11.1. Balance sheet row code - 280.

On January 1, 2006 the debt for obtained machinery from “BH-autoaparāts” was 265037.02 LVL. According to the agreement it was to be paid in 2007. 35000LVL were transferred to JSC„RAR” in the previous years as investments according to the rules of privatization. So at the beginning of the year the total debt was 300037.02 LVL.

On August, 2006 “BH-autoaparāts” applied for the shares of the new issue in sum total of 300000 LVL.

On September, 2006 “RAR” and “BH-autoaparāts” agreed about offsetting of mutual debts in sum total of 300000 LVL thus paying for obtained shares of the new issue.

The increase in share capital of “RAR” is registered in the Register of Enterprises of Latvia on September 20, 2006.

11.2. Balances rindas kods- 290.

In 2006 deferred taxation liabilities were calculated as at the end of the year and included in balance sheet.

	31.12.2006 (LVL)	1.01.2006 (LVL)
Deferred taxation liabilities	72015	91122

12. Current liabilities.

12.1. Loans from credit institutions. Balance sheet row code - 310.

JSC “RAR“used SEB Unibanka bank credit to carry out economic activities in 2006. The company accomplished repairing works of buildings, heat line and gas line as well as obtained new machinery for modernization of electroplating shop and purification plant. Credit was repaid in October, 2006.

12.2. Advance payments from customers. Balance sheet row code - 320.

<i>Business partner</i>	<i>Advance payments</i>	<i>Total LVL</i>
Enterprise of Russia	For goods	2951.78
Enterprises of Latvia	For goods	483.89
Enterprises of Latvia	Preliminary contract of real estate’s sale	50000.00
Total:		53435.67

12.3. Trade creditors. Balance sheet row code - 330

<i>Business partner</i>	<i>Substantiation</i>	<i>Total LVL</i>	<i>Date of payment</i>
PSJSC „Latvenergo”	Contract	11239.84	January, 2007
JSC „Lattelekom”	Contract	1157.82	January, 2007
JSC „Rīgas siltums”	Contract	11397.03	January, 2007
ME „Rīgas ūdens”	Contract	685.45	January, 2007
Enterprise of Latvia	Transport services	492.00	January, 2007
Enterprise of Latvia	Marketing services	9995.08	January, 2007
Other enterprises of Latvia	For services	1584.95	January, 2007
Enterprise of Latvia	For delivery of electronic plates	142836.27	January, 2007
Enterprise of Latvia	For materials	40.32	January, 2007
Enterprise of Russia	Marketing services	8040.00	January, 2007
Enterprise of Russia	For goods	34.00	January, 2007
Enterprises of Germany	For materials	16305.05	January, 2007
Enterprise of Great Britain	For materials	221.65	January, 2007
Total:		204029.46	

12.4. Taxes and social security payments. Balance sheet row code - 340.

<i>Tax</i>	<i>Total LVL</i>	<i>Date of payment</i>
Personal income tax	26593.09	January, 2007
Social security payments	6167.51	January, 2007
Income tax (withhold from services by non-residents)	801.95	January, 2007
Natural resource tax (NRT)	955.90	January, 2007
Total:	34518.45	

12.5. Taxes: (LVL)

Item	At 31.12.2005. Overpaid (-) Debt(+)	Calculated in 2006	Fine	Paid in 2006	At 31.12.2006. Overpaid (-) Debt(+)
			NRT Use over limit		
Personal income tax	25416.38	333984.25	1.30	332808.84	26593.09
Social security payments	11042.17	514829.28		519703.94	6167.51
Real estate tax:					
Buildings and constructions	-3.40	10638.00		10754.00	-119.40
land	-21.29	1928.44		1907.15	0.00
NRT for packing	49.84	210.39		218.41	41.82
NRT for water resources	151.77	178.67	2647.68	2064.04	914.08
Business risk fee	136.55	1258.00		1404.10	-9.55
Income tax of the enterprise		0		3455.45	-3455.45
	-10265.39	0		10265.39	0
Income tax (withhold from services by non-residents)		801.95			801.95
Value added tax	-73234.12	-525721.71		568593.06	-30362.77

12.6. Other creditors. Balance sheet row code - 350.

<i>Debt</i>	<i>Total LVL</i>	<i>Date of payment</i>
Salary	72525.38	January, 2007
Other creditors	552.42	January, 2007
Total:	73077.80	

12.7. Accrued liabilities. Balance sheet row code - 360.

In accordance with the law „On the annual reports” provisions for vacations of 2006 are calculated in total 93986.40 LVL. The provisions for vacations are revealed in Income tax Statement.

STATEMENT OF CHANGES IN LONG-TERM INVESTMENTS in 2006
Unit: LVL

Kinds of long-term investments	Historical cost					Amortization (depreciation)					Residual value	
	01.01. 2006	Purchase and production	Revaluation (+,-)	Transfer and withdrawal (+,-)	31.12. 2006	01.01. 2006	Calculated for the reporting year (+)	Corrections (transfer) (+,-)	Withdrawal (-)	31.12. 2006	01.01. 2006	31.12. 2006
1. Intangible assets (total), including:	86557			87	86470	56621	17282		87	73816	29936	12654
1.1 Patents, licences and similar rights	86557			87	86470	56621	17282		87	73816	29936	12654
2. Fixed assets (total), including:	4005507	634379		889626	3750260	2583887	104223		378190	2309920	1421620	1440340
2.1. Land	204206			49783	154423						204206	154423
2.2 Buildings and construction	1322849	139232		303305	1158776	495762	12143		100575	407330	827087	751446
2.3. Equipment and machinery	2089262	444202		265611	2267853	1938170	81087		265511	1753746	151092	514107
2.4. Other fixed assets and inventory	175221	4312		12104	167429	149955	10993		12104	148844	25266	18585
2.5. Advance payments for fixed assets	213969	46633		258823	1779	0				0	213969	1779
Long-term investments (total)	4092064	634379		889713	3836730	2640508	121505		378277	2383736	1451556	1452994

13. Notes to profit or loss account

Net turnover is income from basic economic activities of the Company. It consists of total value of sold goods and delivered services without discounts and value added tax. Production costs of sold goods are expenses for used materials, all kind of services and energy, costs for personnel, amortization of tangible assets and writing-off of intangible assets as well as other expenses (expenses for labour safety, certification of the goods, business trips etc.)

13.1. Breakdown of net turnover by kind of production: (LVL and %)

<i>Net turnover Total:</i>	<i>Including</i>		
	<i>Control and measuring devices for vehicles</i>		<i>Control and measuring devices for vehicles</i>
5299344	5199134	61931	38279
100	98.11	1.17	0.72

13.2. Breakdown of net turnover by geographical markets: (LVL and %)

<i>Net turnover Total</i>	<i>including</i>				
	<i>Russia</i>		<i>Russia</i>		<i>Russia</i>
5299344	2116839	1837349	958058	60402	326696
100	39.95	34.67	18.08	1.14	6.16

<i>Row code</i>	<i>Item</i>	<i>2006 LVL</i>	<i>2005. LVL</i>	<i>% to 2005</i>
010	Net turnover	5299344	5303358	99.9
020	Cost of sales	5293902	4990972	
030	Gross profit or loss	5442	312386	
	Costs for 1 LVL of net turnover (sant.)	99.90	94.1	

The net turnover in 2006 has diminished if compared with that in the previous year and is 99.9% of it.

Due to the rapid rise of material, sub-component, energy and fuel prices the expenses per 1 LVL have increased by 6.2% if compared with the previous reporting period.

The rapid increase of material, sub-component, energy and fuel prices in 2005 that continued in 2006 have a negative impact on the results of economic activities because the prices of the goods produced in „RAR“ are limited by severe competition in the market.

The result of economic activities of the JSC “RAR“ in 2006 is profit 79299 LVL. Profit is gained from other economic activities due to sales of real estate.

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Row code	Item	2006 LVL	2005 LVL
	Net turnover, including	5299344	5303358
	Account 6110- income from basic activities, liable to 18% VAT	326696	256144
10	Account 6112- income, liable to 0% VAT	4972648	5047214
20	Cost of sales.	5293902	4990972
	Account 7.1-costs of materials and sub-components including transport expenses, custom fees and import duties	3134883	3129281
	Konts 7.2,7.3-darbinieku atalgojums un sociālā apdrošināšana	1595751	1351230
	Account 7.2,7.3-salaries and social security payments	87843	79438
	7210;7310 – provisions for vacations	207046	192261
	Account 7171;7172 –electric power	32450	25633
	Account 7170 -contracts (for repairing works and maintenance of different systems)	162537	162367
	Account 7.4- amortization: total	121505	99933
	Including 7410;7420 – amortization of intangible and fixed assets	41032	62434
	Account 7.440- write-off from current assets	73392	50762
	Incl. 7510 - expenses for protection of environment	19823	
	7551 - expenses for certification of the production	24278	21450
	7540- - insurance expenses (goods, buildings, equipment and machinery)	1706	3936
	7570- expenses for business trips	16118	12670
	7550; 7560;7580 - expenses for work safety and other operating expenses	11467	12706
40	Selling expenses, total:	230920	288686
	Incl. 7600- salaries and social security payments	37617	32547
	7600- provisions for vacations	2088	2142
	7601- power	2622	2312
	7610;7620- wrapping and transport costs	54309	47087
	7635 – write-off of a bad debt	15321	
	7650- other selling expenses	10534	10199
	7660- advertising expenditures	992	1109
	7670- marketing services according to contracts	107437	193290
50	Administrative expenses	310969	280218
	including 7700- salaries and social security payments	251766	216695
	7700- provisions for vacations	4055	3470
	7710- communication expenses	23203	23608
	7720- office expenses	1038	1755
	7730- legal services	4305	264
	7740- expenses due to annual report	1500	1500
	7750- bank services	6402	8058
	7760- transport expenses for administration	2125	1872
	7770- other administrative expenses	13535	20173
	7790- representation expenses	2868	2661
	7791- paid VAT -40% (representation expenses)	172	162

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60	Other operating income 6.5, 8150, 8310 :	1271382	550026
	including – income of foreign exchange rate revaluations - 8150, 8170	175969	206868
	- sales of materials -6540;6541	23037	8199
	- income from sales of fixed assets-8193; (land, buildings and constructions)	988323	271404
	- income from rent charges - 6551; 6552; 6550;	22069	13964
	- other income (selling of scrap, withhold for defective goods and others) 6320; 8180;8190;8196;6553	58326	45219
	- diminishing of taxes of the previous years (social payments) 6570;	2077	2117
	- income of other periods - 6710;		1837
	- inventory difference;	1581	418
70	Other operating expenses:	642957	344102
	- expenses for sales of current assets and scrap 7448-49;	40061	40334
	- from sales of foreign currency - 8250; 8270;	253707	155579
	- fines -8260 ;	201	95
	- over limit use of natural resources -8260;	2648	
	-expenses due to substitution of devices during guarantee period and write-off of devices (normative) account- 8280;	11570	7031
	-other expenses account- 8290 (bad debts)		2665
	- write-off of fixed assets because of selling-8293	252613	107164
	- costs for services due to sales of real estate 8296	46820	
	- movement of stocks of materials and goods -7190; 7191		39
	- VAT from written-off materials, outfit and finished goods -8291;	1	7
	- benefit in kind and payment for funeral services - 8294;	3385	2035
	- presents -8295;	1505	10170
	- other expenses (for operating activities) - 8296;	11070	7011
	-other expenses (unrelated with operating activities) - 8297 ; withheld personal income tax-25%	6074	9797
	-donation to Latvian Children foundation	10000	
	- other expenses (unrelated with operating activities) - 8297;	3302	2175
80	Interest receivable and similar income; account -8120	1846	3809
90	Interest payable and similar expenses; account 8220	21066	18040
100	Profit or loss before extraordinary items and taxes	72758	-64825
110	Profit or loss before taxes	72758	-64825
120	Income tax for the reporting period as in Income Tax Statement	0	0
121	Deferred income tax 8811	-19107	51138
130	Other taxes 8820, 8830	12566	15612
	- real estate tax for buildings and constructions;	10638	12245
	- real estate tax (land).	1928	3367
140	Profit or loss for the period after taxes (net income)	79299	-131575

14. Deals with affiliated companies.

The affiliated companies are JSC „Baltijas Holdings” and „Tehprojekts”, Ltd. There were no deals with JSC „Baltijas Holdings” in 2006.

In 2006 „Tehprojekts”, Ltd. obtained from JSC „RAR” materials for 2405.73LVL, goods for 5268.65 LVL. JSC „RAR” performed electroplating of parts for „Tehprojekts”, Ltd for 558.41 LVL.

JSC „RAR” obtained a die and outfit from „Tehprojekts”, Ltd. for 3518.76LVL

Values include VAT.

All transactions are executed for market prices.

15. Management remuneration in 2006

	<i>Number of members</i>	<i>Salary for 2006 LVL</i>	<i>Social security payments of employer LVL</i>
Supervisory Board	5	88051.54	20638.94
Management Board	3	63449.46	12153.64
Total		151501.00	32792.58

16. The company’s key figures in 2006:

- 1) balance total – 4420131 LVL
- 2) net turnover – 5299344 LVL
- 3) average number of employees - 395

Chief accountant Tamara Visocka – phone +371 7370268

Chairman of the
Management Board

A.Auzinsh

Members of the
Management Board

Z.Kalninch

M.Araslanovs

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF JSC „RĪGAS AUTOELEKTROAPARĀTU RŪPNĪCA”

Report on Financial Statements

We have audited the financial statements on pages 6 to 22 included in the annual report of JSC „RĪGAS AUTOELEKTROAPARĀTU RŪPNĪCA”. The audited financial statements include the balance sheet as on 31 December 2006, profit or loss account of 2006, statement of exchanges in equity and statement of cash flows as well as the review of significant accounting principles and other explanatory information in notes.

Responsibility of the Management for the preparation of Financial Statements

The management is responsible for preparation of this report and fair presentation of provided information in accordance with the law of the Republic of Latvia “On the annual reports”. This responsibility includes designing, implementation and maintaining of 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 of appropriate accounting policies as well as making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

We are responsible for the resolution we express on these financial statements basing on our audit. We conducted our audit in accordance with International Standards on Auditing adopted in Latvia. 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 professional judgement, 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 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the 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 accompanying financial statements give a true and fair view of the financial position of JSC „RĪGAS AUTOELEKTROAPARĀTU RŪPNĪCA” as on 31 December 2006 and of its financial performance and its cash flows for the year 2006 in accordance with the law of the Republic of Latvia “On the annual reports”.

Report on the Consistency of the Management Report

We have read the Management Report for the year 2006 set out on pages 3 to 4 and have not identified material inconsistencies between the financial information revealed in the Management Report and that in the financial statements for 2006.

SIA AUDITORFIRMA “SARGUNS”
Commercial company of certified auditors
Certificate No. 18

Ēvalds Figurnovs
Managing Certified auditor
Certificate No 38
Chairman of the Managing Board
Professor, habilitated doctor of economics

Riga, 2 April 2007