



JOINT STOCK COMPANY

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

Annual report for the year 2007

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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 (from 1998) Zigurds Kalniņš (from 1998) Maksims Araslanovs (from 2003)</i>
Supervisory Board	<i>Ēriks Kaža – Chairman Gunārs Lubis Viktors Rojs Kristina Kaža Tatjana Ļevenkova</i>
Reporting year	<i>01.01.2007 - 31.12.2007</i>
Main shareholders	Basing on the list of shareholders prepared for the shareholders' meeting on April 18,2007: <ol style="list-style-type: none"> <i>1. JSC „Baltijas Holdings”-36.7 % Reg.Nr.40003148033, 2, Klijanu street, Riga</i> <i>2. „Tehprojekts”,Ltd.- 35.5% Reg.Nr. 40103020397, 12,Unijas street, Riga</i> <i>3. State social security agency- 4.6%</i> <i>4. Other physical and legal persons- 23.2%</i>
Auditor	<i>“Auditorfirma „Grāmatvedis””Ltd Reg Nr. 42803007531 Commercial license No37 58, Brīvības street, Riga, LV-1011</i>

Management report

1. Information about the company and its basic activities

The company was found 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 2007 the personnel continues to perfect the quality management system.

Average number of employees in the reporting year is 340.

2. Statements

The total volume of production and sales is 83.5 % if compared with the year 2006.

**Net turnover in 2007 was 4425814 LVL
in 2006 – 5299344 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 depending on the planned production volumes of automobiles’ producers and from the per cent of the production of our enterprise in total delivery volumes.

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 2007 were 2.1 thousand LVL.

According to amendments to laws of the Republic of Latvia the real estate tax will increase in 2007-2008. 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.

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.

The result of economic activities of the JSC “RAR” in 2007 is losses:

Losses after taxes are 666815 LVL.

The rapid growth of prices that broke out in 2006 and in 2007 had a negative influence upon the economic activities of the enterprise while the price level of company’s produced goods is limited by severe competition in the definite market.

Business of the enterprise is closely related with the operational environment.

The operational environment of the enterprise is formed by the legislation on taxes and minimal wages, on the protection of environment and on labour safety. The enterprise is obliged to increase the costs to ensure the demands of laws. Year by year the prices of all kind of energy resources (thermal energy, gas, electric energy, water supply and sewage treatment) are increasing.

The other elements of the operational environment are suppliers, creditors, buyers and competitors. The suppliers are striving for profitable prices and guaranteed payments. The buyers are expecting a product of complying price, quality and warranty. The competitors and market conditions are limiting the price level and profit.

Estimate of efficiency.

The balance sheet and profit or loss account items are used to analyze the performance of the company.

Due to the complicated economic situation and high inflation the result of economic activities in 2007 are losses. The production and selling was not rentable.

Solvency, capability of the company to cover its current liabilities at any time, is described by liquidity ratios.

Item	01.01.2007	31.12.2007
Total liquidity ratio (current assets/current liabilities)	6.5	5.8
Absolute liquidity ratio (cash/ current liabilities)	0.9	1.6

The ratio “*Turnover of all assets*” reveals the effectiveness of assets.

From “Profit of loss account”

Item	Total LVL
Net turnover	4425814

From the balance sheet (average value)

Item	Total LVL	Turnover ratio	Turnover in days
All assets	4042140	1.1	327
Current assets	2868354	1.5	240
Inventory	1273516	3.5	103
Receivables	1012604	4.4	82

Events after the balance sheet date

There have not been any significant or extraordinary events between the last day of the 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

The Management Board predicts that the volumes of production and sales in 2008 may reduce as the producers of automobiles in Russia and Ukraine are going to reduce the volumes of production of the old models.

The company participated in the tender for the delivery of new informative systems for OAO „GAZ”, Niznij Novgorod, but it is difficult to stand the competition because the production costs of their local producers are lower than those in Latvia. Several contracts are operating from the 1st of April till the 1st of April of the following year therefore the delivery volumes will be known in the second quarter of the year.

The Managing board is analyzing all costs and the performance of 2007 to carry out economic activities in 2008. The Managing board is developing measures to change and improve the organizational structure and to diminish fixed costs.

Risks for the economic activities of the company:

1) Risk for technological innovations

Developing and introducing of new technologies is an expensive process. If it is necessary to obtain new machinery, equipment, punch press or introduce new technologies, it may cost from tens of thousands EUR up to hundred of thousands EUR. It is hard to return this money because the new product takes part in a tender where design, functions, quality as well as price are evaluated. As the products are intended for complete set of definite automobiles there is a risk that a contract will not be signed for any of reasons.

2) Quality risk and responsibility

The company has introduced quality management system corresponding to ISO 9001:2000. According to technical demands the guarantee period is two years from the production date. The producer guarantees substitution of faulty devices during guarantee period. According to contract the producer is responsible for the quality of the product. The supplier is to pay fine for delivery of imperfect goods therefore additional expenses may arise because of substitution of the products in guarantee period.

3) Exchange risk

There are different currencies denoted in contracts with the suppliers of materials and sub-components as well as contracts for deliveries of the company's production. The most often is EUR. 90% of net turnover is export. Before signing of contracts the company evaluates the exchange risk and tries to avoid it. The rapid decrease in the exchange rate of USD that broke out in the last quarter of 2007 has a negative influence upon the economic activities of the enterprise. The fall in the exchange rate of USD causes losses for the company.

4) Economic and market risk

Growth of prices for materials, services and fuel as well as energy resources raises costs of production. There are three main factors which must be taken into account when setting the price – costs of production, demand and prices of competitors. 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.

5) *Political risk*

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.

JSC “Rīgas autoelektroaparātu rūpnīca” has neither foreign mission nor branch.

The Managing Board of JSC „RAR” proposes to cover the losses of the reporting year from the reserves and earnings of previous years and the remaining losses cover during the next years.

Management Board: _____	A.Auziņš
_____	Z.Kalniņš
_____	M. Araslanovs

_____, 2008

The annual report is approved at the shareholders' meeting on April 24, 2008.

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 8 to 24 are prepared in accordance with underlying accounting records and source documents and present fairly the financial position of the Company as on December 31, 2007 and the results of its operations and cash flows for the period ended on December 31, 2007.

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

April , 2008

*JSC „Rīgas autoelektroaparātu rūpnīca”
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BALANCE SHEET

For the year 2007

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	
			31.12.07	01.01.07	31.12.07	01.01.07	
1	2	3	4	5	6	7	
A. LONG-TERM INVESTMENTS							
1. Intangible assets							
1.1. Patents, licenses and similar rights	3	010	1548	12654	2202	18000	
1. TOTAL		020	1548	12654	2202	18000	
2. Fixed assets							
2.1. Land, buildings and constructions	4	030	508310	905869	723058	1288576	
2.2. Equipment and machinery	5	040	366516	514107	521360	731304	
2.3. Other fixed assets and inventory	5	050	18204	18585	25895	26437	
2.4. Advance payments for fixed assets	5	060	0	1779		2531	
2. TOTAL		070	893030	1440340	1270313	2048848	
A. TOTAL		080	894578	1452994	1272515	2066848	
B. CURRENT ASSETS							
1. Inventory							
1.1. Raw materials, direct materials and auxiliary materials	6.1.	090	529135	579875	752681	824858	
1.2. Work in progress	6.2.	100	91894	122321	130717	173999	
1.3. Finished goods and goods for sale	6.3.	110	499992	655871	711226	932960	
1.4. Advance payments for goods	6.4.	120	52394	15549	74529	22118	
1. TOTAL		130	1173415	1373616	1669153	1953935	
2. Receivables							
2.1. Trade receivables	7.1.	140	780027	1124791	1109569	1599987	
2.2. Other receivables	7.2.	150	39516	46888	56210	66696	
2.3. Short-term loans	7.3.	160	21835	2840	31060	4040	
2.4. Deferred expenses	7.4.	170	4684	4627	6663	6582	
2. TOTAL		180	846062	1179146	1203502	1677305	
3. Cash	3. TOTAL	8	190	750093	414375	1066989	589438
B. TOTAL		200	2769570	2967137	3939644	4220678	
TOTAL ASSETS		210	3664148	4420131	5212159	6287526	

*JSC „Rīgas autoelektroaparātu rūpnīca”
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BALANCE SHEET		For the year 2007				k=0.703	
		LVL		LVL	EUR		
LIABILITIES	Notes	Row code	At the end of the period	At the beginning of the year	At the end of the period	At the beginning of the year	
			31.12.07	01.01.07	31.12.07	01.01.07	
1	2	3	4	5	6	7	
A. Equity capital							
1. Share capital	9	220	3565509	3565509	5071848	5071848	
2. Reserves:	10	230	34050	34050	48436	48436	
a) other reserves		240	34050	34050	48436	48436	
TOTAL		250	3599559	3599559	5120284	5120284	
3. Retained profit:							
a) brought forward from previous years		260	218200	289510	310384	411821	
b) for the current year		270	-666815		-948528		
A. TOTAL		280	3150944	3889069	4482140	5532105	
B. CREDITORS							
1. Long-term liabilities							
1.1. Deferred tax liabilities	11.1.	290	32269	72015	45902	102440	
1. TOTAL:		300	32269	72015	45902	102440	
2. Current liabilities							
2.1. Advance payments from customers	12.1.	310	19485	53436	27717	76011	
2.2. Trade creditors	12.2.	320	242920	204029	345547	290226	
2.3. Taxes and social security payments	12.3.	330	42578	34518	60566	49100	
2.4. Other creditors	12.5.	340	74578	73078	106085	103951	
2.5. Unpaid dividends	12.6.	350	6000		8535		
2.6. Accrued liabilities	12.7.	360	95374	93986	135667	133693	
2. TOTAL		370	480935	459047	684117	652981	
B. TOTAL		380	513204	531062	730019	755421	
TOTAL LIABILITIES		390	3664148	4420131	5212159	6287526	

*JSC „Rīgas autoelektroaparātu rūpnīca”
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PROFIT OR LOSS ACCOUNT

For the year 2007

(LVL) (LVL)

EUR

EUR

K=0,703

No	Item	Notes	Row code	2007	2006	2006	2005
1	Net turnover		010	4425814	5299344	6295610	7538185
2	Cost of sales		020	5003839	5293902	7117836	7530444
3	Gross profit or loss		030	-578025	5442	-822226	7741
4	Selling expenses		040	195230	230920	277710	328478
5	Administrative expenses		050	330709	310969	470425	442346
6	Other operating income		060	1052844	1271382	1497644	1808509
7	Other operating expenses		070	639248	642957	909315	914590
8	Interest receivable and similar income		080	24358	1846	34649	2626
9	Interest payable and similar expenses		90	0	21066	0	29965
10	Profit or loss before extraordinary items and taxes		100	-666010	72758	-947383	103497
11	Profit or loss before taxes		110	-666010	72758	-947383	103497
12	Income tax		120	0	0		0
12.1.	Deferred income tax		121	-39746	-19107	-56538	-27179
13	Other taxes (Real estate tax)		130	40551	12566	57683	17875
14	Profit or loss for the period		140	-666815	79299	-948528	112801

Earnings per share

-0,187

0,0222

-0,27

0,032

STATEMENT OF CASH FLOWS for the year 2007

A. Cash flow from operating activities

K=0.703

No	ITEMS	2007 LVL	2006 LVL	2007 EUR	2006 EUR
1	Income from sales and services	4839441	5347122	6883984	7606148
2	Payments to suppliers for goods and services	-3335842	-4557264	-4745152	-6482594
3	Payments to employees and in their interests or to the third persons according to their orders	-1248274	-1152177	-1775639	-1638943
4	Other expenses for economic activities	-51019	-59378	-72573	-84464
5	Income from other economic activities	36510	42198	51935	60025
6	Tax payments	-512789	-277864	-729430	-395254
7	VAT paid	-2482	-18495	-3530	-26309
8	Deferred expenses	-11169	-9548	-15888	-13582
	Cash flow from gross operating activities	-285624	-685406	-406293	-974973
9	Interest expenses	0	-22737		-32343
10	Income tax payments	0	-2694		-3832
11	Real estate tax payments	-40430	-12661	-57510	-18010
	TOTAL	-326054	-723498	-463803	-1029158
A.	Net cash flow from operating activities	-326054	-723498	-463803	-1029158

B. Cash flow from investment activities

No	ITEMS	2007 LVL	2006 LVL	2007 EUR	2006 EUR
1	Purchase of intangible and fixed assets	-26801	-602123	-38124	-856505
2	Sales of intangible and fixed assets	773475	993470	1100249	1413186
3	Issued loans	-102000	-4100	-145092	-5832
4	Repaid loans	83780	7360	119175	10470
5	Received interest	2044		2907	
	TOTAL	730498	394607	1039115	561319
B.	Net cash from investment activities	730498	394607	1039115	561319

C. Cash flow from financing

No	ITEMS	2007 LVL	2006 LVL	2007 EUR	2006 EUR
1	Income from issue of shares		300000		426743
2	Received loans		200000		284495
3	Repaid loans		-400000		-568990
4	Paid dividends	-65310		-92902	
5	Received interest for deposit	21539	1846	30639	2625
	TOTAL	-43771	101846	-62263	144873
C.	Net cash flow from financing	-43771	101846	-62263	144873

SUMMARY OF CASH INCOME AND EXPENDITURE

No	ITEMS	2007 LVL	2006 LVL	2007 EUR	2006 EUR
A	The result from operating activities	-326054	-723498	-463803	-1029158
B	The result from investment activities	730498	394607	1039115	561319
C	The result from financing	-43771	101846	-62263	144873
D	The result from currency rate fluctuations	-24955	-26135	-35498	-37176
	Cash increase or decrease	335718	-253180	477551	-360142
	Cash and cash equivalents at the beginning of the reporting period	414375	667555	589438	949580
	Cash and cash equivalents at the end of the reporting period	750093	414375	1066989	589438

STATEMENT OF EXCHANGES IN EQUITY
for the year 2007

(LVL)

	Share capital	Reserves	Profit from previous years	Profit of the reporting year	Total
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
Calculated dividends for 2006			-71310		-71310
Profit (+) or losses (-) of the reporting year				-666815	-666815
On Dec. 31, 2007	3565509	34050	218200	-666815	3150944

K=0,703 EUR

	Share capital	Reserves	Profit from previous years	Profit of the reporting year	Total
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
Calculated dividends for 2006			-101437		-101437
Profit (+) or losses (-) of the reporting year				-948528	-948528
On Dec. 31, 2007	5071848	48436	310384	-948528	4482140

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, 2007 till December 31, 2007.

Accounts in 2007 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 01.10.2007 until 31.12.2007**.

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	31.12.2007	31.12.2006
USD	0.484	0.536
EUR	0.702804	0.702804
RUR	0.0197	0.0203

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.

2.9. In compliance with the law „On annual reports” deferred taxation liabilities were calculated for the beginning of the year 2007 and at the end of it and included in balance sheet. Changes in liabilities of deferred income tax are revealed in profit or loss account. Deferred income tax is calculated by liability method including all temporary differences between asset and liability values in financial statements and their values in the calculations for taxes.

3. Long term investments. Balance sheet –row code 010

At the end of the year the total value of patents, licenses and similar rights was 1548 LVL. (Paid design works carried out by other enterprises according with contracts. Those permit the enterprise to make equipment for manufacturing process and to produce devices for motorcars and tractors. The purchased design documentation is hold in the design office).

Statement of changes in intangible assets in 2007

	Licenses and patents	Similar rights	Total
	LVL	LVL	LVL

Historical cost

On January 1, 2007	80	86390	86470
Additions			
Disposals		72169	72169
On December 31, 2007	80	14221	14301

Depreciation

On January 1, 2007	48	73768	73816
Charge for the year	16	11090	11106
Disposals		72169	72169
On December 31, 2007	64	12689	12753

Net book value on January 1, 2007	32	12622	12654
Net book value on December 31, 2007	16	1532	1548

Profit or loss account includes depreciation; balance sheet reveals net book value.

4. Buildings, constructions and land are registered in Land Register and is the property of “RAR”. Balance sheet –row code 030

Balance value as on December 31, 2007:	508310 LVL
Including: buildings and constructions -	375236 LVL;
land -	133074 LVL.
Balance value as on January 1, 2007:	905869 LVL
Including: buildings and constructions -	751446 LVL;
land -	154423 LVL.
Cadastral value as on December 31, 2007 -	2493804 LVL;
Including cadastral value of buildings -	2391640 LVL;
land -	102164 LVL.
Cadastral value of buildings in 2008 is 2422808 LVL; land -2093315 LVL.	
Information from October 1, 2007 in www.vzd.gov.lv	

In compliance with the taken decision JSC “RAR” concentrated production in smaller territory and sold part of the vacant buildings and areas of land.

5. Statement of changes in fixed assets in 2007

	Land	Buildings and constructions	Equipment and machinery	Other fixed assets and inventory	Advance payments for fixed assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL

Historical or re-valued cost

Historical or re-valued cost on January 1, 2007	154423	1158776	2267853	167429	1779	3750260
Additions		7964	70	6070	14863	28967
Reclassified		5402	7040	4200	-16642	0
Disposals	-21349	-505264	-126399	-15575		-668587
Historical or re-valued cost on December 31, 2007	133074	666878	2148564	162124	0	3110640

Depreciation

On January 1, 2007	0	407330	1753746	148844		2309920
Charge for the year	0	9679	154591	10650		174920
Disposals	0	-125367	-126289	-15574		-267230
On December 31, 2007	0	291642	1782048	143920		2217610

Net book value on January 1, 2007	154423	751446	514107	18585	1779	1440340
Net book value on December 31, 2007	133074	375236	366516	18204	0	893030

Profit or loss account includes depreciation; balance sheet reveals net book value.

Total depreciation of long term investments in finances: (11106+174920=186026 LVL)

6. Inventory. Balance sheet –row code 090; 100; 110; 120.

6.1. On December 31, 2007 the total value of raw materials and sub-components in the warehouses is 501785 LVL, and they provide the process of production for two months. The value of other inventory (material and outfit) for auxiliary bays is 27350 LVL.

On January 1, 2007 the stocks of materials and sub-components for basic production were 527292 LVL and other inventory (material and outfit) for auxiliary bays – 52583 LVL.

6.2. On December 31, 2007 the stock of work in progress (parts) 91894 LVL provide the process of production for one month.

On January 1, 2007 the stock of work in progress (parts) amounted to 122321 LVL.

6.3. On December 31, 2007 the stock of finished goods 499992 LVL doesn't exceed volume of production of a month and a half. The stock of finished goods is evaluated in production costs. The stock of finished goods ensures deliveries in time according to the signed contracts.

Average monthly delivery in 2007 is 368.8 thousand LVL.

On January 1, 2007 the stock of finished goods amounted to 655871 LVL.

6.4. Advance payments for goods.

<i>Business partner</i>	<i>Advance payment</i>	<i>Total in LVL As on December 31, 2007</i>	<i>Total in LVL As on January 1, 2007</i>
Enterprises of Russia	For materials	25084.21	9958.60
Enterprises of Germany	For materials	237.27	3117.09
Enterprises of China	For materials	26858.13	284.08
Enterprise of Great Britain	For materials	0	1379.87
Enterprises of France	For materials	0	9.91
Enterprises of Latvia	For materials	213.93	624.01
Enterprise of Latvia	For labour safety	0	175.81
Total:		52393.54	15549.37

7. Receivables

7.1. Trade receivables. Balance sheet –row code 140

<i>Business partner</i>	<i>Debt</i>	<i>Total in LVL As on December 31, 2007</i>	<i>Total in LVL As on January 1, 2007</i>
Enterprises of Russia	For the goods	260828.77	410268.06
Enterprises of Belarus	For the goods	426041.49	658906.98
Enterprises of Lithuania	For the goods	1632.73	0
Enterprises of Latvia	For the goods	91523.62	55619.03
Total:		780026.61	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 As on December 31, 2007</i>	<i>Total in LVL As on January 1, 2007</i>
Enterprises of Latvia	Agreement of lease, el. power, water, thermal energy and services	2868.27	3745.42
Enterprises of Latvia	For materials	1707.10	1096.28
Enterprises of Latvia	For transport services	0	913.65
Enterprise of Latvia	Sales of metal	1611.41	2711.96
State treasury	Accounts in customs	150.97	0
Enterprise of Latvia	Waste disposal	216.17	0
Other enterprises of Latvia	Other debts	192.52	279.39
Employees of the enterprise	Settlements for business trips and other operating expenses	835.31	756.30
State Revenue Service	Overpaid taxes (VAT)	29872.73	30362.77
State Revenue Service	Overpaid taxes (income tax)	0	3455.45
State Revenue Service	Other overpaid taxes	0	128.95
Enterprises of Latvia	VAT on unpaid invoices	2061.85	3437.77
Total:		39516.33	46887.94

Date of repayments is January 2008.

7.3. Short term loans. Balance sheet –row code 160.

<i>Business partner</i>	<i>Debt</i>	<i>Total in LVL As on December 31, 2007</i>	<i>Total in LVL As on January 1, 2007</i>
Enterprise of Latvia	Agreement: Repayment date – April 1, 2008	20775.00	0.00
Employees of the enterprise	Short term loans to the employees of the enterprise	1060.00	2840.00
Total:		21835.00	2840.00

Interest rate according to the agreement with the enterprise of Latvia is 7.2%.

In 2006 the short term interest-free loans to employees of the enterprise were included in the balance sheet item “Other receivables”. To retain the principle of comparability of data along different reporting periods the figure is split.

<i>Items</i>	<i>2006 more exact</i>	<i>as in the report of 2006</i>
Other receivables	46887.94	49727.94
Short term loans	2840.00	
Total	49727.94	49727.94

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7.4. Deferred expenses. Balance sheet –row code 170.

<i>Business partner</i>	<i>Year of the deal</i>	<i>Total in LVL As on December 31, 2007</i>	<i>Total in LVL As on January 1, 2007</i>
Enterprises of Latvia	Subscription to newspapers for 2008, special literature, Tax system in Latvia and other	973.97	1122.97
Transport insurance	2008	560.51	419.05
Auditing firm of Latvia	2008	1770.00	885.00
“T.U.I”, Ltd.	2008	1292.00	0.00
“Atlas tours”, Ltd	Tickets in 2007	0.00	724.84
Riga Stock exchange	Contract for 2007	0.00	1475.00
Enterprises of Latvia	Subscriber’s fee	87.69	0.00
Total:		4684.17	4626.86

8. Cash and cash equivalents. Balance sheet –row code 190.

<i>Cash location</i>	<i>Currency</i>	<i>Balance in currency</i>	<i>Exchange rate of the Bank of Latvia</i>	<i>Balance as on December 31, 2007 LVL</i>	<i>Balance as on January 1, 2007 LVL</i>
Treasury	LVL			7945.57	5546.34
Shop-warehouse	LVL			47.97	39.74
	EUR	10652.00	0.702804	7486.27	4805.07
	USD	1111.00	0.484	537.72	2219.04
	Total: 1			16017.53	12610.19

Current accounts	LVL			48172.92	106487.55
	USD	269502.97	0.484	130439.44	226301.03
	EUR	189272.55	0.702804	133021.50	36624.97
	RUR	3871274.1 6	0.0197	76264.10	6350.88
Deposit account	LVL			51000.00	26000.00
	EUR	420000.00	0.702804	295177.68	0
	Total: 2			734075.64	401764.43
	Total:1+2			750093.17	414374.62

9. Share capital.

The share capital in 2007 is 3565509 LVL.

Nominal value of a share is 1.00 LVL.

The shareholders as on April 18, 2007:

JSC “BALTIJAS HOLDINGS “ 36.7 %;
 “Tehprojekts”, Ltd 35.5 %;
 SJSC “VSAA” 4.6 %;
 Other physical and legal persons 23.2 %.

Including: each member of Managing Board owns 180 shares.

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10. Reserves. Balance sheet row code - 230.

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, 2007 – 34050 LVL.

Balance of the reserves on January 1, 2007 - 34050 LVL.

11. Long-term liabilities.

11.1. Balance sheet row code - 290 .

In 2007 deferred taxation liabilities were calculated as on December 31 and included in balance sheet and profit or loss account.

	31.12.2007 (LVL)	1.01.2007 (LVL)
Deferred taxation liabilities	32269	72015

12. Current liabilities.

12.1. Advance payments from customers. Balance sheet row code - 310 .

<i>Business partner</i>	<i>Advance payments</i>	<i>Total in LVL As on December 31, 2007</i>	<i>Total in LVL As on January 1, 2007</i>
Enterprise of Switzerland	For equipment	11596.26	0.00
Enterprise of Russia	For goods	0.00	2951.78
Enterprise of Latvia	For equipment	480.00	0.00
Enterprise of Ukraine	For goods	5217.85	0.00
Enterprises of Latvia	For goods	2190.75	483.89
Enterprise of Latvia	Preliminary contract of real estate's sale	0.00	50000.00
Total:		19484.86	53435.67

12.2. Trade creditors. Balance sheet row code – 320

<i>Business partner</i>	<i>Substantiation</i>	<i>Total in LVL on December 31, 2007</i>	<i>Total in LVL on January 1, 2007</i>
PSJSC „Latvenergo”	Contract	12445.18	11239.84
JSC „Lattelekom”	Contract	902.09	1157.82
JSC „Rīgas siltums”	Contract	15762.48	11397.03
ME „Rīgas ūdens”	Contract	650.77	685.45
Enterprise of Latvia	Communication services	294.70	0.00
Enterprise of Latvia	Transport services	0.00	492.00
Enterprise of Russia	Marketing services	0.00	8040.00
Enterprise of Latvia	Marketing services	0.00	9995.08
Enterprise of Russia	For goods	0.00	34.00
Enterprise of Latvia	For materials	1913.96	0.00
Enterprise of Latvia	For delivery of electronic plates	189729.00	142836.27
Enterprise of Latvia	For materials	40.33	40.32
Enterprise of Latvia	Program maintenance for accountancy	194.70	0.00
Enterprise of Latvia	For goods	500.00	0.00
Enterprises of Germany	For materials	20013.04	16305.05
Other enterprises of Latvia	Different services	0.00	221.65
Enterprise of Latvia	For materials	474.41	1584.95
Total:		242920.66	204029.46

Date of repayment – January 2008.

12.3. Taxes and social security payments. Balance sheet row code - 330.

<i>Tax</i>	<i>Date of payment</i>	<i>Total in LVL on December 31, 2007</i>	<i>Total in LVL on January 1, 2007</i>
Personal income tax	January, 2008	25681.08	26593.09
Social security payments	January, 2008	12812.79	6167.51
Income tax (withhold from services by non-residents)	January, 2008	3910.10	801.95
Business risk fee	January, 2008	66.97	0.00
Natural resource tax (NRT)	January, 2008	107.70	955.90
Total:		42578.64	34518.45

12.4. Taxes: (LVL)

Item	On Dec.31,2006 Overpaid (-) Debt(+)	Calculated in 2007	Fine	Paid in 2007	On Dec.31,2007 Overpaid (-) Debt(+)
			NRT Use over limit		
Personal income tax	26593.09	349947.25		350859.26	25681.08
Social security payments	6167.51	546663.00		540017.72	12812.79
Real estate tax: Buildings and constructions	-119.40	38973.57		38854.17	0
land	0	1577.40		1577.40	0
NRT for packing	41.82	329.05		370.87	0
NRT for water resources	914.08	331.36	1069.13	2206.87	107.70
Business risk fee	-9.55	1088.75		1012.23	66.97
Income tax of the enterprise	-3455.45			* 3455.45	0
Income tax (withhold from services by non-residents)	801.95	8130.64		5022.49	3910.10
Value added tax	-30362.77	-374354.96		* 374845.00	-29872.73

Shifted for payments of other taxes.

In the third quarter of 2007 JSC „RAR” signed contract with „Zaļā josta”, Ltd for recovery of used wrapping materials. In 2007 the company met the obligations for regeneration and recovery volumes of used wrapping materials in compliance with Regulations No 65 issued by the Cabinet of Ministers in January 16, 2207.

12.5. Other creditors. Balance sheet row code - 340.

<i>Debt</i>	<i>Date of payment</i>	<i>Total in LVL on December 31, 2007</i>	<i>Total in LVL on January 1, 2007</i>
Salary	January, 2008	72941.86	72525.38
DHL – processing of goods	January, 2008	812.13	0.00
Other creditors	January, 2008	824.59	552.42
Total:		74578.58	73077.80

12.6. Calculated but unpaid dividends for the year 2006. Balance sheet row code - 350

In accordance with the decision of the meeting of shareholders of JSC”RAR” held on April 18, 2007 the payment date of dividends was July 9, 2007. The total amount of money for dividends was calculated 71310.18 LVL. On September 30, 2007 the balance of unpaid dividends for the year 2006 was 6000 LVL.

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

In accordance with the law „On the annual reports” provisions for vacations of 2007 are calculated in total 95373.81 LVL. Provisions for vacations of 2006 were calculated in total 93986.40 LVL. The increase of the provisions for vacations is revealed in Income tax Statement.

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>Locks</i>	<i>Different orders</i>
2007	4425814	4302138	77913	45763
%	100	97.21	1.76	1.03
2006	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>Belarus</i>	<i>Ukraine</i>	<i>EU</i>	<i>Latvia</i>
2007	4425814	2237023	1277357	540713	68875	301846
%	100	50.54	28.86	12.22	1.56	6.82
2006	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>2007 LVL</i>	<i>2006. LVL</i>	<i>% vs. 2006</i>
010	Net turnover	4425814	5299344	83.5
020	Cost of sales	5003839	5293902	
030	Gross profit or loss	-578025	5442	
	Costs for 1 LVL of net turnover (sant.)	113.06	99.90	

The net turnover in 2007 has diminished if compared with that in the previous year and is 83.5% of it.

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Due to increasing of wages, the rapid rise of material, sub-component, energy and fuel prices the expenses per 1 LVL have increased by 13.2% if compared with the previous reporting period.

The result of economic activities of the JSC “RAR“in 2006 is losses 666815 LVL.

Row code	Item	2007 LVL	2006 LVL
	Net turnover, including	4425814	5299344
	- income from basic activities, liable to 18% VAT	301846	326696
10	- income, liable to 0% VAT	4123968	4972648
20	Cost of sales	5003839	5293902
1	-costs of materials and sub-components including transport expenses, custom fees and import duties	2655379	3134883
2	-salaries and social security payments	1776299	1595751
3	- provisions for vacations	89940	87843
4	-electric power	217707	207046
5	-contracts (for repairing works and maintenance of different systems)	20819	32450
6	- amortization: total	219129	162537
	- amortization of intangible and fixed assets	186026	121505
	- write-off from current assets	33103	41032
7	- operating costs total:	24566	73392
	- expenses for protection of environment	2089	19823
	- expenses for certification of the production	5676	24278
	- insurance expenses (goods, buildings, equipment and machinery)	713	1706
	- expenses for business trips	6848	16118
	- expenses for work safety and other operating expenses	9240	11467

Because of substitution of faulty devices during guarantee period and protocols of reclamations, the cost of sales include written – off production over confirmed standard in amount of 7902.88 LVL. The calculated amount is included in the statement of income tax of the company.

Row code	Item	2007 LVL	2006 LVL
030	Gross profit or loss	-578025	5442
40	Selling expenses, total:	195230	230920
	Incl. - salaries and social security payments	40745	37617
	- provisions for vacations	2154	2088
	- power	396	2622
	- wrapping and transport costs	68301	54309
	- write-off of a bad debt	1119	15321
	- other selling expenses	7671	10534
	- advertising expenditures	1172	992
	- marketing services according to contracts	73672	107437

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Row code	Item	2007 LVL	2006 LVL
50	Administrative expenses	330709	310969
	including - salaries and social security payments	281810	251766
	- provisions for vacations	3280	4055
	- communication expenses	21371	23203
	- office expenses	1136	1038
	- legal services		4305
	- expenses due to annual report	1500	1500
	- bank services	4680	6402
	- transport expenses for administration	2829	2125
	- other administrative expenses	12292	13535
	- representation expenses	1719	2868
	- paid VAT -40% (representation expenses)	92	172

60	Other operating income	1052844	1271382
	including – income of foreign exchange rate revaluations	78082	175969
	- sales of materials	8638	23037
	- income from sales of fixed assets (land, buildings and constructions)	833585	988323
	- income from rent charges	25034	22069
	- other income (selling of scrap, withhold for defective goods and others)	100568	58326
	- diminishing of taxes of the previous years (social payments)	3379	2077
	- inventory difference;	3558	1581
70	Other operating expenses:	639248	642957
	- expenses for sales of current assets and scrap	48526	40061
	- from sales of foreign currency	141765	253707
	- fines	1529	201
	- over limit use of natural resources	1069	2648
	-expenses due to substitution of devices during guarantee period and write-off of devices (normative)	7298	11570
	- write-off of fixed assets because of selling	401357	252613
	- costs for services due to sales of real estate	9666	46820
	- movement of stocks of materials and goods	24	
	- VAT from written-off materials, outfit and finished goods	2	1
	- benefit in kind and payment for funeral services	1875	3385
	- presents	5005	1505
	- other expenses (for operating activities)	7170	11070
	-other expenses (unrelated with operating activities) withheld personal income tax-25%	8759	6074
	- donation to Latvian Children foundation	0	10000
	- other expenses (unrelated with operating activities)	5203	3302

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Row code	Item	2007 LVL	2006 LVL
80	Interest receivable and similar income	24358	1846
90	Interest payable and similar expenses	0	21066
100	Profit or loss before extraordinary items and taxes	-666010	72758
110	Profit or loss before taxes	-666010	72758
120	Income tax for the reporting period as in Income Tax Statement	0	0
121	Deferred income tax	-39746	-19107
130	Other taxes	40551	12566
	- real estate tax for buildings and constructions;	38974	10638
	- real estate tax (land).	1577	1928
140	Profit or loss for the period after taxes (net income)	-666815	79299

14. Deals with affiliated companies.

The affiliated companies are JSC „Baltijas Holdings” and „Tehprojekts”, Ltd.

There were no deals with JSC „Baltijas Holdings” in 2007.

In 2007 „Tehprojekts”, Ltd. obtained from JSC „RAR” materials for 575.25 LVL, goods for 7660.83 LVL. JSC „RAR” obtained outfit from „Tehprojekts”, Ltd. for 108.56 LVL

Values include VAT. All transactions are executed for market prices.

15. Management remuneration in 2007

	<i>Number of members</i>	<i>Salary for 2007 LVL</i>	<i>Social security payments of employer LVL</i>
Supervisory Board	5	114751.46	26547.18
Management Board	3	82088.94	14766.28
Total		196840.40	41313.46

16. The company’s key figures in 2007:

- 1) balance total – 3664148 LVL
- 2) net turnover – 4425814 LVL
- 3) average number of employees - 340

In compliance with the law “On qualified auditors” and “On the annual reports” the annual report must be audited by certified auditors. The recompense to the auditing company “Auditorfirma”Grāmatvedis” for auditing the annual report for the year 2007 is 3540.00 LVL including VAT.

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 7 to 24 included in the annual report of JSC „Rīgas Autoelektroaparātu rūpnīca”. The audited financial statements include the balance sheet as on 31 December 2007, profit or loss account of 2007, 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. Except as discussed in the paragraph “Substantiation for the opinion with remarks”, we conducted our audit in accordance with International Standards on Auditing as 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.

Substantiation for the opinion with remarks

The balance sheet of the company contains finished goods as a part of stock in amount LVL 499992 as on December 31, 2007 that is the cost price of this production. The company has not estimated the finished goods accordingly in lower market price or cost price as stated in article 32 of the “Law on annual reports”. If the stock of finished goods would be estimated in market prices which are lower than cost prices, the value of the stock of finished goods on December 31, 2007 would reduce and the losses of the year 2007 would increase by LVL 57757.

Opinion

In our opinion, except the possible impact of the conditions mentioned in the paragraph “Substantiation for the opinion with remarks”, the accompanying financial statements give a true and fair view of the financial position of JSC „Rīgas Autoelektroaparātu rūpnīca” as on 31 December 2007 as well as of its financial performance and its cash flows for the year 2007 in accordance with the “Law on the annual reports” of the Republic of Latvia.

Report on the demands of other laws and regulations

We have read the Management Report for the year 2007 set out on pages 2 to 6 and have not identified other material inconsistencies between the financial information revealed in the Management Report and that in the financial statements for 2007. Giving report with the remark we attract attention to pending description of future prospects and further development in Management report. Taking into account the scheduled measures of the company, the financial report is drawn up basing on the presumption that the company will continue its business.

SIA „Auditorfirma ”Grāmatvedis”
Commercial company of certified auditors
Certificate No. 37

Jānis Mežiels

Ernests Vēvers

Managing Certified auditor
Certificate No 127

Chairman of the Managing Board

Riga, Latvia
April 15, 2008