



JOINT STOCK COMPANY

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

**Annual report for the year 2007**

**(Not audited)**

## **CONTENT**

	page
Information about the company	2
Management report	3
Statement of Management Responsibility	7
Balance sheet	8
Profit or loss account	10
Statement of cash flows	11
Statement of exchanges in equity	13
Notes to financial statements:	14
1. Notes to the balance sheet	14
2. Notes to the profit or loss account	21

## 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>
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"> <li><i>1. JSC „Baltijas Holdings”-36.7 % Reg.Nr.40003148033, 2, Klijanu street, Riga</i></li> <li><i>2. „Tehprojekts”,Ltd.- 35.5% Reg.Nr. 40103020397, 12,Unijas street, Riga</i></li> <li><i>3. State social security agency- 4.6%</i></li> <li><i>4. Other physical and legal persons- 23.2%</i></li> </ol>
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 autoelektroraparātu 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	<b>4425814</b>

**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 1<sup>st</sup> of April till the 1<sup>st</sup> of April of the following year therefore the delivery volumes will be known in the second quarter of the year.

***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”  
Annual report for the year 2007*

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*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

## **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,

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Alfrēds Auziņš  
Chairman of the Board

February 28, 2008



*JSC „Rīgas autoelektroaparātu rūpnīca”  
Annual report for the year 2007*

**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
<b>A. LONG-TERM INVESTMENTS</b>						
<b>1. Intangible assets</b>						
1.1. Patents, licenses and similar rights	<b>3</b>	010	1548	12654	2202	18000
<b>1. TOTAL</b>		<b>020</b>	<b>1548</b>	<b>12654</b>	<b>2202</b>	<b>18000</b>
<b>2. Fixed assets</b>						
2.1. Land, buildings and constructions	<b>4</b>	030	508310	905869	723058	1288576
2.2. Equipment and machinery	<b>5</b>	040	366516	514107	521360	731304
2.3. Other fixed assets and inventory	<b>5</b>	050	18204	18585	25895	26437
2.4. Advance payments for fixed assets	<b>5</b>	060	0	1779		2531
<b>2. TOTAL</b>		<b>070</b>	<b>893030</b>	<b>1440340</b>	<b>1270313</b>	<b>2048848</b>
<b>A. TOTAL</b>		<b>080</b>	<b>894578</b>	<b>1452994</b>	<b>1272515</b>	<b>2066848</b>
<b>B. CURRENT ASSETS</b>						
<b>1. Inventory</b>						
1.1. Raw materials, direct materials and auxiliary materials	<b>6.1.</b>	090	529135	579875	752681	824858
1.2. Work in progress	<b>6.2.</b>	100	91894	122321	130717	173999
1.3. Finished goods and goods for sale	<b>6.3.</b>	110	499992	655871	711226	932960
1.4. Advance payments for goods	<b>6.4.</b>	120	52394	15549	74529	22118
<b>1. TOTAL</b>		<b>130</b>	<b>1173415</b>	<b>1373616</b>	<b>1669153</b>	<b>1953935</b>
<b>2. Receivables</b>						
2.1. Trade receivables	<b>7.1.</b>	140	780027	1124791	1109569	1599987
2.2. Other receivables	<b>7.2.</b>	150	39516	49728	56210	70736
2.3. Short-term loans	<b>7.3.</b>	160	21835		31060	
2.4. Deferred expenses	<b>7.4.</b>	170	4684	4627	6663	6582
<b>2. TOTAL</b>		<b>180</b>	<b>846062</b>	<b>1179146</b>	<b>1203502</b>	<b>1677305</b>
<b>3. Cash</b>	<b>8</b>	190	750093	414375	1066989	589438
<b>B. TOTAL</b>		<b>200</b>	<b>2769570</b>	<b>2967137</b>	<b>3939644</b>	<b>4220678</b>
<b>TOTAL ASSETS</b>		<b>210</b>	<b>3664148</b>	<b>4420131</b>	<b>5212159</b>	<b>6287526</b>

*JSC „Rīgas autoelektroaparātu rūpnīca”  
Annual report for the year 2007*

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

*JSC „Rīgas autoelektroaparātu rūpnīca”  
Annual report for the year 2007*

**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		3	4	4	6	
1	Net turnover		010	4425814	5299344	6295610	7538185
2	Cost of sales		020	5003839	5293902	7117836	7530444
<b>3</b>	<b>Gross profit or loss</b>		<b>030</b>	<b>-578025</b>	<b>5442</b>	<b>-822226</b>	<b>7741</b>
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	<b>Profit or loss before taxes</b>		110	<b>-666010</b>	<b>72758</b>	<b>-947383</b>	<b>103497</b>
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
<b>14</b>	<b>Profit or loss for the period</b>		<b>140</b>	<b>-666815</b>	<b>79299</b>	<b>-948528</b>	<b>112801</b>

**Earnings per share**

**-0,187**

**0,0222**

**-0,27**

**0,032**

**STATEMENT OF CASH FLOWS for the year 2007**

<b>A. Cash flow from operating activities</b>					<b>K=0.703</b>	
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	
	<b>Cash flow from gross operating activities</b>	<b>-285624</b>	<b>-685406</b>	<b>-406293</b>	<b>-974973</b>	
9	Interest expenses	0	-22737		-32343	
10	Income tax payments	0	-2694		-3832	
11	Real estate tax payments	-40430	-12661	-57510	-18010	
	<b>TOTAL</b>	<b>-326054</b>	<b>-723498</b>	<b>-463803</b>	<b>-1029158</b>	
A.	Net cash flow from operating activities	<b>-326054</b>	<b>-723498</b>	<b>-463803</b>	<b>-1029158</b>	

<b>B. Cash flow from investment activities</b>					
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	
	<b>TOTAL</b>	<b>730498</b>	<b>394607</b>	<b>1039115</b>	<b>561319</b>
B.	Net cash from investment activities	<b>730498</b>	<b>394607</b>	<b>1039115</b>	<b>561319</b>

*JSC „Rīgas autoelektroaparātu rūpnīca”  
Annual report for the year 2007*

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**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
	<b>TOTAL</b>	<b>-43771</b>	<b>101846</b>	<b>-62263</b>	<b>144873</b>
<b>C.</b>	Net cash flow from financing	<b>-43771</b>	<b>101846</b>	<b>-62263</b>	<b>144873</b>

**SUMMARY OF CASH INCOME AND EXPENDIT**

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	<b>414375</b>	<b>667555</b>	<b>589438</b>	<b>949580</b>
	Cash and cash equivalents at the end of the reporting period	<b>750093</b>	<b>414375</b>	<b>1066989</b>	<b>589438</b>

**STATEMENT OF EXCHANGES IN EQUITY**  
for the year 2007

(LVL)

	Share capital	Reserves	Profit from previous years	Profit of the reporting year	Total
<b>On Dec. 31, 2005</b>	<b>3265509</b>	<b>165625</b>	<b>78636</b>		<b>3509770</b>
Losses of 2005 written-off from reserves		-131575	131575		0
Issue of shares <b>reg. on Sept. 20, 2006</b>	300000				300000
Profit (+) or losses (-) of the reporting period			<b>79299</b>		79299
<b>On Dec. 31, 2006</b>	<b>3565509</b>	<b>34050</b>	<b>289510</b>		<b>3889069</b>
Calculated dividends for 2006			<b>-71310</b>		<b>-71310</b>
Profit (+) or losses (-) of the reporting year				<b>-666815</b>	<b>-666815</b>
<b>On Dec. 31, 2007</b>	<b>3565509</b>	<b>34050</b>	<b>218200</b>	<b>-666815</b>	<b>3150944</b>

K=0,703

EUR

	Share capital	Reserves	Profit from previous years	Profit of the reporting year	Total
<b>On Dec. 31, 2005</b>	<b>4645105</b>	<b>235598</b>	<b>111858</b>		<b>4992561</b>
Losses of 2005 written-off from reserves		-187162	187162		0
Issue of shares <b>reg. on Sept. 20, 2006</b>	426743				426743
Profit (+) or losses (-) of the reporting period			112801		112801
<b>On Dec. 31, 2006</b>	<b>5071848</b>	<b>48436</b>	<b>411821</b>		<b>5532105</b>
Calculated dividends for 2006			<b>-101437</b>		<b>-101437</b>
Profit (+) or losses (-) of the reporting year				<b>-948528</b>	<b>-948528</b>
<b>On Dec. 31, 2007</b>	<b>5071848</b>	<b>48436</b>	<b>310384</b>	<b>-948528</b>	<b>4482140</b>

## 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 in 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**

<b>On January 1, 2007</b>	<b>80</b>	<b>86390</b>	<b>86470</b>
Additions			
Disposals		72169	72169
<b>On December 31, 2007</b>	<b>80</b>	<b>14221</b>	<b>14301</b>

#### **Depreciation**

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

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

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 at the end of the period:	508310 LVL
Including: buildings and constructions -	375236 LVL;
land -	133074 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](http://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**

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

**Depreciation**

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

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

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. 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.

6.2. The stock of work in progress (parts) 91894 LVL provide the process of production for one month.

6.3. 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.

6.4. Advance payments for goods.

<i>Business partner</i>	<i>Advance payment</i>	<i>Total in LVL</i>
Enterprises of Russia	For materials	25084.21
Enterprises of Germany	For materials	237.27
Enterprises of China	For materials	26858.13
Enterprises of Latvia	For materials	213.93
<b>Total:</b>		<b>52393.54</b>

**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	260828.77	Real debt
Enterprises of Belarus	For the goods	426041.49	Real debt
Enterprises of Lithuania	For the goods	1632.73	Real debt
Enterprises of Latvia	For the goods	91523.62	Real debt
<b>Total:</b>		<b>780026.61</b>	

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, el. power, water, thermal energy and services	2868.27	January, 2008
Enterprises of Latvia	For materials	1707.10	January, 2008
Enterprise of Latvia	Scrap-metal sales	1611.41	January, 2008
State treasury	Accounts in customs	112.37	
Enterprise of Latvia	Waste disposal	216.17	January, 2008
Other enterprises of Latvia	Other debts	192.52	January, 2008
Employees of the enterprise	Settlements for business trips and other operating expenses	835.31	January, 2008
State Revenue Service	Overpaid taxes ( VAT)	29911.33	January, 2008
Enterprises of Latvia	VAT on unpaid invoices	2061.85	January, 2008
<b>Total:</b>		<b>39516.33</b>	

*JSC „Rīgas autoelektroaparātu rūpnīca”  
Annual report for the year 2007*

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

<i>Business partner</i>	<i>Debt</i>	<i>Total in LVL</i>
Enterprise of Latvia	Agreement: Repayment date –April 1, 2008	20775.00
Employees of the enterprise	Short term loans to the employees of the enterprise	1060.00
<b>Total:</b>		<b>21835.00</b>

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

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

<i>Business partner</i>	<i>Year of the deal</i>	<i>Total in LVL</i>
Enterprises of Latvia	Subscription to newspapers for 2008	70.23
Newspaper „Diena”	Subscription to newspapers for 2008	113.74
Applied information service	2008	790.00
Transport insurance	2008	560.51
Auditing firm of Latvia „T.U.I”, Ltd.	2008	1770.00
Enterprises of Latvia	Subscriber’s fee	1292.00
<b>Total:</b>		<b>4684.17</b>

**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 LVL</i>
Treasury	LVL			7945.57
Shop-warehouse	LVL			47.97
	EUR	10652.00	0.702804	7486.27
	USD	1111.00	0.484	537.72
	<b>Total: 1</b>			<b>16017.53</b>
Current accounts	LVL			48172.92
	USD	269502.97	0.484	130439.44
	EUR	189272.55	0.702804	133021.50
	RUR	3871274.16	0.0197	76264.10
Deposit account	LVL			51000.00
	EUR	420000.00	0.702804	295177.68
	<b>Total: 2</b>			<b>734075.64</b>
	<b>Total: 1+2</b>			<b>750093.17</b>

**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” 5.6 %;

Other physical and legal persons 23.2 %.

Including: each member of Managing Board owns 180 shares.

**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.

**11. Long-term liabilities.**

**11.1. Balance sheet row code - 290 .**

In 2007 deferred taxation liabilities were calculated as at the end of the year and included in balance sheet and profit or loss account.

	<b>31.12.2007 (LVL)</b>	<b>1.01.2007 (LVL)</b>
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 LVL</i>
Enterprise of Switzerland	For equipment	11596.26
Enterprise of Latvia	For equipment	480.00
Enterprise of Ukraine	For goods	5217.85
Enterprises of Latvia	For goods	2190.75
<b>Total:</b>		<b>19484.86</b>

**12.2. Trade creditors. Balance sheet row code - 320**

<i>Business partner</i>	<i>Substantiation</i>	<i>Total LVL</i>	<i>Date of payment</i>
PSJSC „Latvenergo”	Contract	12445.18	January, 2008
JSC „Lattelekom”	Contract	902.09	January, 2008
JSC „Rīgas siltums”	Contract	15762.48	January, 2008
ME „Rīgas ūdens”	Contract	650.77	January, 2008
Enterprise of Latvia	Communication services	294.70	January, 2008
Enterprise of Latvia	For materials	1913.96	January, 2008
Enterprise of Latvia	For delivery of electronic plates	189729.00	January, 2008
Enterprise of Latvia	For materials	40.33	January, 2008
Enterprise of Latvia	Program maintenance for accountancy	194.70	January, 2008
Enterprise of Latvia	For goods	500.00	January, 2008
Enterprises of Germany	For materials	20013.04	January, 2008
Other enterprises of Latvia	Different services	474.41	January, 2008
<b>Total:</b>		<b>242920.66</b>	

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

<i>Tax</i>	<i>Total LVL</i>	<i>Date of payment</i>
Personal income tax	25681.08	January, 2008
Social security payments	12812.79	January, 2008
Income tax (withhold from services by non-residents )	3910.10	January, 2008
Business risk fee	66.97	January, 2008
Natural resource tax (NRT)	107.70	January, 2008
<b>Total:</b>	<b>42578.64</b>	

**12.5. 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 land	-119.40 0	38973.57 1577.40		38854.17 1577.40	0 0
NRT for packing NRT for water resources	41.82 914.08	329.05 331.36	<b>1069.13</b>	370.87 2206.87	0 107.70
Business risk fee	-9.55	1088.75		1012.23	66.97
Income tax of the enterprise Income tax (withhold from services by non-residents )	-3455.45 801.95			* 3455.45 5022.49	0 3910.10
Value added tax	-30362.77	-374393.56		* 374845.00	-29911.33

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>Total LVL</i>	<i>Date of payment</i>
Salary	72941.86	January, 2008
DHL – processing of goods	812.13	January, 2008
Other creditors	824.59	January, 2008
<b>Total:</b>	<b>74578.58</b>	

**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. The provisions for vacations are 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>
<b>4425814</b>	<b>4302138</b>	<b>77913</b>	<b>45763</b>
<b>100</b>	<b>97.21</b>	<b>1.76</b>	<b>1.03</b>

#### 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>
<b>4425814</b>	<b>2237023</b>	<b>1277357</b>	<b>540713</b>	<b>68875</b>	<b>301846</b>
<b>100</b>	<b>50.54</b>	<b>28.86</b>	<b>12.22</b>	<b>1.56</b>	<b>6.82</b>

<i>Row code</i>	<i>Item</i>	<i>2007 LVL</i>	<i>2006. LVL</i>	<i>% vs. 2006</i>
<b>010</b>	Net turnover	4425814	5299344	<b>83.5</b>
<b>020</b>	Cost of sales	5003839	5293902	
<b>030</b>	<b>Gross profit or loss</b>	<b>-578025</b>	<b>5442</b>	
	<b>Costs for 1 LVL of net turnover (sant.)</b>	<b>113.06</b>	<b>99.90</b>	

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

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.

<b>Row code</b>	<b>Item</b>	<b>2007 LVL</b>	<b>2006 LVL</b>
	<b>Net turnover, including</b>	<b>4425814</b>	<b>5299344</b>
	Account 6110- income from basic activities, liable to 18% VAT	301846	326696
<b>10</b>	Account 6112- income, liable to 0% VAT	4123968	4972648
<b>20</b>	<b>Cost of sales</b>	<b>5003839</b>	<b>5293902</b>
	Account 7.1-costs of materials and sub-components including transport expenses, custom fees and import duties	2655379	3134883
	Account 7.2,7.3-salaries and social security payments	1776299	1595751
	<b>7210;7310 – provisions for vacations</b>	<b>89940</b>	<b>87843</b>

*JSC „Rīgas autoelektroaparātu rūpnīca”  
Annual report for the year 2007*

<b>Row code</b>	<b>Item</b>	<b>2007 LVL</b>	<b>2006 LVL</b>
	Account 7171;7172 –electric power	217707	207046
	Account 7170 -contracts (for repairing works and maintenance of different systems)	20819	32450
	<b>Account 7.4- amortization: total</b>	<b>219129</b>	<b>162537</b>
	Including 7410;7420 – amortization of intangible and fixed assets	<b>186026</b>	<b>121505</b>
	Account 7.440- write-off from current assets	33103	41032
	<b>Account 7.5 – operating costs total:</b>	<b>24566</b>	<b>73392</b>
	<b>Incl. 7510 - expenses for protection of environment</b>	2089	19823
	7551 - expenses for certification of the production	5676	24278
	7540- - insurance expenses (goods, buildings, equipment and machinery)	713	1706
	7570- expenses for business trips	6848	16118
	7550; 7560;7580 - expenses for work safety and other operating expenses	9239	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.

<b>Row code</b>	<b>Item</b>	<b>2007 LVL</b>	<b>2006 LVL</b>
<b>030</b>	<b>Gross profit or loss</b>	<b>-578025</b>	<b>5442</b>
<b>40</b>	<b>Selling expenses, total:</b>	<b>195230</b>	<b>230920</b>
	Incl. 7600- salaries and social security payments	40745	37617
	7600- provisions for vacations	2154	2088
	7601- power	396	2622
	7610;7620- wrapping and transport costs	68301	54309
	7635 – write-off of a bad debt	1119	15321
	7650- other selling expenses	7671	10534
	7660- advertising expenditures	1172	992
	7670- marketing services according to contracts	73672	107437
<b>50</b>	<b>Administrative expenses</b>	<b>330709</b>	<b>310969</b>
	including 7700- salaries and social security payments	281810	251766
	7700- provisions for vacations	3280	4055
	7710- communication expenses	21371	23203
	7720- office expenses	1136	1038
	7730- legal services		4305
	7740- expenses due to annual report	1500	1500
	7750- bank services	4680	6402
	7760- transport expenses for administration	2829	2125
	7770- other administrative expenses	12292	13535
	7790- representation expenses	1719	2868
	7791- paid VAT -40% (representation expenses)	92	172

*JSC „Rīgas autoelektroaparātu rūpnīca”  
Annual report for the year 2007*

<b>Row</b>	<b>Item</b>	<b>2007</b>	<b>2006</b>
<b>code</b>		<b>LVL</b>	<b>LVL</b>
<b>60</b>	<b>Other operating income 6.5, 8150, 8310 :</b>	<b>1052844</b>	<b>1271382</b>
	including – income of foreign exchange rate revaluations - 8150, 8170	78082	175969
	- sales of materials -6540;6541	8638	23037
	- income from sales of fixed assets-8193; (land, buildings and constructions)	833585	988323
	- income from rent charges - 6551; 6552; 6550;	25034	22069
	- other income (selling of scrap, withhold for defective goods and others) 6320; 8180;8190;8196;6553	100568	58326
	- diminishing of taxes of the previous years (social payments ) 6570;	3379	2077
	- inventory difference;	3558	1581
<b>70</b>	<b>Other operating expenses:</b>	<b>639248</b>	<b>642957</b>
	- expenses for sales of current assets and scrap 7448-49;	48526	40061
	- from sales of foreign currency - 8250; 8270;	141765	253707
	- fines -8260 ;	1529	201
	- over limit use of natural resources -8260;	1069	2648
	-expenses due to substitution of devices during guarantee period and write-off of devices ( normative ) account- 8280;	7298	11570
	- write-off of fixed assets because of selling-8293	401357	252613
	- costs for services due to sales of real estate 8296	9666	46820
	- movement of stocks of materials and goods -7190; 7191	24	
	- VAT from written-off materials, outfit and finished goods -8291;	2	1
	- benefit in kind and payment for funeral services - 8294;	1875	3385
	- presents -8295;	5005	1505
	- other expenses (for operating activities) - 8296;	7170	11070
	-other expenses ( unrelated with operating activities) - 8297 ; withheld personal income tax-25%	8759	6074
	-donation to Latvian Children foundation	0	10000
	- other expenses ( unrelated with operating activities) - 8297;	5203	3302
<b>80</b>	Interest receivable and similar income; account -8120	24358	1846
<b>90</b>	Interest payable and similar expenses; account 8220	0	21066
<b>100</b>	Profit or loss before extraordinary items and taxes	<b>-666010</b>	<b>72758</b>
<b>110</b>	Profit or loss before taxes	<b>-666010</b>	<b>72758</b>
<b>120</b>	Income tax for the reporting period as in Income Tax Statement	0	0
<b>121</b>	Deferred income tax 8811	-39746	-19107
<b>130</b>	Other taxes 8820, 8830	<b>40551</b>	<b>12566</b>
	- real estate tax for buildings and constructions;	38974	10638
	- real estate tax (land).	1577	1928
<b>140</b>	<b>Profit or loss for the period after taxes ( net income )</b>	<b>-666815</b>	<b>79299</b>



**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.

Chairman of the  
Management Board

A.Auzinsh

Members of the  
Management Board

Z.Kalninch

M.Araslanovs