

JOINT STOCK COMPANY
"RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA"

Reg. No. 40003042006
Taxpayer's Reg. No. 40003042006
Riga, Ganību dambis 31, LV-1005, Phone: 7046903

**ANNUAL AUDITED CONSOLIDATED
FINANCIAL REPORT FOR YEAR 2006**

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Company information

Company name	JSC „Rīgas Elektromašīnbūves rūpnīca"
Company's legal status	Joint Stock Company
Registration number at RE, place and date	No. 000304200, Riga, 29 November, 1991
Common registration number Commercial Register No., place and date registered	No. 40003042006, Riga, 29 September, 2004
Legal address	Ganību dambis 31, Riga, LV-1005, Latvia
Institution supervising the company	General meeting of shareholders
First name, last name of the Chairman of the Board	Grigorijs Uspenskis
First and last names of the Board Members	Aleksandrs Berezins Vladimirs Antjufejevs
Reporting period	1 January, 2006 – 31 December 2006
Auditor's first name, last name, identity number and address	Jānis Mežiels Identity number: 011059-11009 Sworn auditor's certificate No. 127 Skolas iela 11 - 501, Riga, LV-1010, Latvia
Joint stock company "RER" has a daughter company for liquidation and an associated company. Daughter companies 1. "Ražošana Enerģētika Zinātne" Ltd. 96 % investment (for liquidation)	
Associated companie 1. "Lovato - REZ" Ltd.	50 % investment

JSC „Rīgas Elektromašīnbūves rūpnīca”
CONSOLIDATED REPORT

Companies involved in consolidation:

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca" with the main way of activity in manufacture of electric equipment and devices;

Limited Liability Company "LOVATO - REZ" with the main way of activity in sale of low-voltage current equipment for control purposes of electric systems;

Limited Liability Company "Ražošana Enerģētika Zinātne" with the main way of activity in supply of power resources until initiation of the liquidation process was involved in consolidation. Revenue gained until initiation of the liquidation process was included in the consolidated Profit and loss statement.

Total main activity results of the companies involved in consolidation in 2006 **account for LVL 1904434** profit before taxes and **LVL 1599578** profit after taxes, as regards JSC "Rīgas elektromašīnbūves rūpnīca".

Total net turnover in 2006 accounted for **LVL 14591235**.

Average total number of employees in 2006 was **806** people, average salary accounted for **LVL 334,52**.

Holding company development measures

In 2006 considerably increased the volumes of production manufacture and sale, influencing the number of employees and the increase of salaries.

In 2007 it is expected to modernize the complex of technological equipment and machinery by 30% and invest in computerization of the company administration.

Distribution of profit for the year 2006

Shareholders of JSC "Rīgas elektromašīnbūves rūpnīca" will be offered to keep the profit for 2006 retained.

In March 2007 at JSC "Rīgas elektromašīnbūves rūpnīca" there was the complex tax audit for the years 2004 and 2005 initiated. Until signing the Annual report of 2006 the final audit result is not clear, thus the accrual for possible tax surcharges has not been made.

Chairman of the Board

G. Uspenskis

Board Members:

A. Berezins

V. Antjufejevs

16 April, 2007

JSC "RER" Consolidated Balance Sheet as of 31 December, 2006

0,702804

A S S E T S	Row code	Notes	31.12.06. LVL	31.12.05. LVL	31.12.06. EUR	31.12.05. EUR
<i>I. Long-term investments</i>		9				
I. Intangible assets						
1. Intangible assets	20		1334	917	1898	1305
2. Positive consolidated difference	21					
I total	50		1334	917	1898	1305
II. Fixed assets						
1. Pieces of land, buildings, constructions	60		4091984	1589353	5822369	2261446
2. Long-t. inv. in leased fixed assets	70				0	
3. Equipment and machine	80		1714033	826882	2438849	1176547
4. Other fixed assets and inventory	90		68993	32990	98168	46941
5. Formation of fixed assets	100		136483	203306	194198	289278
6. Advance payments for fixed assets	110		172126	129534	244913	184310
II total			6183619	2782065	8798497	3958522
III. Long-term financial investment						
1. Share in capital of related undertakings	130		448093		637579	
2. Share in capital of associated companies	150					
III total			448093	0	637579	0
<i>Section 1 total</i>	220		6633046	2782982	9437974	3959827
<i>2. Current assets</i>						
I. Stock						
1. Raw material, direct and aux. mat.	230		2211850	1530937	3147179	2178327
2. Unfinished production	240		1035959	877965	1474037	1249232
3. Finished prod. and goods for sale	250		89474	92691	127310	131887
4. Advance payments for goods	270		328443	119744	467332	170380
I total	290		3665726	2621337	5215858	3729826
II. Debtors		10				
1. Debts of buyers and clients	300		1324780	233867	1884992	332763
2. Debts of related undertakings	310				0	0
3. Debts of associated companies	320		443	238	630	339
4. Other debtors	330		98831	200660	140624	285513
5. Next periods expenses	360		24838	84856	35341	120739
II total			1448892	519621	2061587	739354
IV. Funds	420	11	440611	1941530	626933	2762548
<i>Section 2 total</i>	430		5555229	5082488	7904378	7231728
B A L A N C E	440		12188275	7865470	17342352	11191555

JSC "RER" Consolidated Balance Sheet as of 31 December, 2006

LIABILITIES	Row code	Notes	31.12.06. LVL	31.12.05. LVL	31.12.06. EUR	31.12.05. EUR
<i>1. Equity capital</i>		12				
1. Share capital (equity capital)	450	13	5799005	5799005	8251241	8251241
2. Long-t. investm. revaluation reserve	470		161271	165909	229468	236067
3. Other reserves	510		192922	192922	274503	274503
4. Retained profit						
a) retained profit from previous years	530		2505	236736	3564	336845
b) retained profit of the reporting year	540		1602219	171409	2279752	243893
<i>Section 1 total</i>	550		7757922	6565981	11038528	9342549
<i>2. Accruals</i>	580	14	186566	302861	265460	430932
<i>Section 2 total</i>	590		186566	302861	265460	430932
<i>3. Creditors</i>		15				
<i>I. Long-term creditors</i>	740		1749915	1365	2489905	1942
I total			1749915	1365	2489905	1942
<i>II. Short-term creditors</i>						
1. Loans from credit institutions	770		1529179		2175826	
2. Other loans	780		19221	3514	27349	5000
3. Advance payments from purchasers	790		5639	339559	8024	483149
4. Debts to suppliers and contractors	800		346601	124194	493169	176712
5. Debts to related undertakings	820				0	0
6. Debts to associated companies	830		1660	777	2362	1106
7. Taxes and social insurance payments	840		296438	324269	421793	461393
8. Other creditors	850		295134	182667	419936	259912
9. Unpaid dividends from previous years	780				0	0
II total	890		2493872	974980	3548460	1387272
<i>Section 3 total</i>	900		4243787	976345	6038364	1389214
<i>4. Minority share</i>				20283		28860
<i>5. Negative consolidation difference</i>					0	0
BALANCE	910		12188275	7865470	17342352	11191555

Appendices to the Financial Statement on pages 17 to 26 are an indispensable part to the Financial Report.

**JSC "RER" Consolidated Profit and Loss Statement
for year 2006**

0,702804

No.	Items	Row code	Note	31.12.06. LVL	31.12.05. LVL	31.12.06. EUR	31.12.05. EUR
1	Net turnover	10	1	14591235	15863256	20761458	22571381
2	Sales production operating costs	20	2	-10529316	-12413586	-14981867	-17662942
3	Gross profit or loss	30		4061919	3449670	5779591	4908439
4	Sales costs	40		-252573	-192741	-359379	-274246
5	Administrative expenses	50		-1697965	-1511599	-2415987	-2150812
6	Other operating charges	60	3	118995	138219	169315	196668
7	Other expenses of the company economic activity	70	4	-383442	-760617	-545589	-1082260
8	Revenue from share in the holding company daughter and associated companies capitals	80	5	1453	132506	2067	188539
10	Other interest received and related income	100		730	1117	1039	1589
12	Other interest payment and related expenses	120		-22138	-3221	-31500	-4583
13	Revenue from liquidation of daughter company	121		63389	-586672	90194	-834759
13.1	Consolidation loss	122			-101265	0	-144087
13.2	Consolidation revenue	123		14066	15110	20014	21500
14	Profit or loss before extraordinary items and taxes	130		1904434	580507	2709765	825988
15	Extraordinary income	140	6		132	0	188
16	Profit or loss before taxes	160		1904434	580639	2709765	826176
17	Corporate income tax	170		-231263	-214843	-329058	-305694
18	Retained corporate income tax	180	7	-41455	-167794	-58985	-238749
19	Other taxes	190	8	-32138	-24629	-45728	-35044
20	Minority interest	200		2641	-1964	3758	-2796
21	Consolid. profit and loss of the reporting year	210		1602219	171409	2279752	243893

EPS coefficient or equity per share		0,28	0,03	0,39	0,04
Number of shares	5799005				

JSC "RER" Consolidated Balance Sheet as of 31 December, 2006 (in lats)

ASSETS	JSC "RER"	JSC "Lova- to - REZ" 50%	Consolidation Book		Consolidated Balance
			Dt	Ct	
I. Long-term investments					
I. Intangible assets					
1. Intangible assets	1303			0	1303
2. Intangible value	31				31
I total	1334	0	0	0	1334
II. Fixed assets					
1. Pieces of land, buildings, constructions	4080263	23442		11721	4091984
2. Long-t. inv. in leased fixed assets					0
3. Equipment and machine	1707980	12105		6052,5	1714032,5
4. Other fixed assets and inventory	66209	5569		2784,5	68993,5
5. Formation of fixed assets	136483			0	136483
6. Advance payments for fixed assets	172126			0	172126
II total	6163061	41116	0	20558	6183619
III. Long-term financial investment					
1. Share in capital of associated companies	59927			59927	0
2. Share in capital of related undertakings	448093				448093
III total	508020	0	0	59927	448093
Section 1 total	6672415	41116	0	80485	6633046
2. Current assets					
I. Stock					
1. Raw material, direct and aux. mat.	2210255	3190		1595	2211850
2. Unfinished production	1035959			0	1035959
3. Finished prod. and goods for sale	38656	101637		50818,5	89474,5
4. Advance payments for goods	328432	22		11	328443
I total	3613302	104849	0	52424,5	3665726,5
II. Debtors					
1. Debts of buyers and clients	1317002	15556		7778	1324780
2. Debts of related undertakings					0
3. Debts of associated companies	429	29		14,5	443,5
4. Other debtors	32801		66030	0	98831
5. Next periods expenses	24452	771		385,5	24837,5
II total	1374684	16356	66030	8178	1448892
IV. Funds	416020	49181		24590,5	440610,5
Section 2 total	5404006	170386	66030	85193	5555229
BALANCE	12076421	211502	66030	165678	12188275

JSC "RER" Consolidated Balance Sheet as of 31 December, 2006 (in lats)

LIABILITIES	JSC "RER"	JSC "Lova- to - REZ" 50%	Consolidation Book		Consolidated Balance
			Dt	Ct	
<i>1. Equity capital</i>					
1. Share capital (equity capital)	5799005	115200	115200		5799005
3. Long-t. investm. revaluation reserve	161271	31984	31984		161271
5. Other reserves	192922	802	802		192922
6. Retained profit					
a) retained profit from previous years	2505		0		2505
b) retained profit of the reporting year	1520440	3366	1683	80096	1602219
<i>Section 1 total</i>	7676143	151352	149669	80096	7757922
<i>2. Accruals</i>	186566		0		186566
<i>Section2 total</i>	186566	0	0	0	186566
<i>3. Creditors</i>					
<i>I. Long-term creditors</i>	1749915		0		1749915
I total	1749915	0	0	0	1749915
<i>II. Short-term creditors</i>					
1. Loans from credit institutions	1527667	3023	1511,5		1529178,5
2. Other loans	19221		0		19221
3. Advance payments from purchasers	5639		0		5639
4. Debts to suppliers and contractors	325841	41521	20760,5		346601,5
5. Debts to related undertakings					0
6. Debts to associated companies	1445	429	214,5		1659,5
7. Taxes and social insurance payments	292036	8805	4402,5		296438,5
8. Other creditors	291948	6372	3186		295134
9. Unpaid dividends from previous years			0		0
II total	2463797	60150	30075	0	2493872
<i>Section 3 total</i>	4213712	60150	30075	0	4243787
<i>4. Minority share</i>					0
<i>5. Negative consolidation difference</i>					0
B A L A N C E	12076421	211502	179744	80096	12188275
Total consolidation corrections			245774	245774	

JSC "RER" Consolidated Profit and Loss Statement as of 31 December, 2006 (in lats)

	JSC "RER"	JSC "Lova- to - REZ" 50%	Consolidation Book		Consolidated P/L Statement
			Dt	Ct	
Net turnover	14373305	435860	217930		14591235
Sold production costs	-10325695	-407243		203621,5	-10529316,5
Gross profit or loss	4047610	28617	217930	203621,5	4061918,5
Sales costs	-249982	-5181		2590,5	-252572,5
Administrative expenses	-1695792	-4346		2173	-1697965
Other commercial activity income	117600	2789	1394,5		118994,5
Other commercial activity expenses	-376199	-14485		7242,5	-383441,5
Other interest received and related income	720	21	10,5		730,5
Income from participation in capitals	1453				1453
Interest payment and related expenses	-22077	-123		61,5	-22138,5
Consolidation revenue					14066
Revenue from liq. of daughter company				63389	63389
Profit or loss before extraordinary items and taxes	1823333	7292	219335	279078	1904434
Extraordinary income					0
Extraordinary costs					0
Profit or loss before taxes	1823333	7292	219335	279078	1904434
Corporate income tax	-230262	-2002		1001	-231263
Retained corporate income tax	-40670	-1570		785	-41455
Other taxes	-31961	-354		177	-32138
Reporting period profit/loss (net income)	1520440	3366	219335	281041	1599578
Minority interest				2641	2641
Consolidated profit	1520440	3366	219335	281041	1602219

Company name: JSC "Rīgas elektromašīnbūves rūpnīca"

Registration number: 40003042006

Consolidated Cash Flow Statement for the year 2006
(applying indirect method)

Operating cash flow

0,702804

	Items	Year 2006	Year 2005	Year 2006	Year 2005
		31.12. LVL	31.12. LVL	31.12. EUR	31.12. EUR
1	Profit or loss before extraordinary income/costs and taxes	1904434	580507	2709765	825988
	Corrections:				
	Fixed assets depreciation	157889	143204	224656	203761
	Write-offs of investment value	0	98	0	139
	Intangible assets value write-off	769	930	1094	1323
	Profit from fixed assets sales	-8859	-3231	-12605	-4597
	Accruals formation (excluding accruals from unsafe debts)	0	135067	0	192183
	Profit or loss from foreign currency fluctuations	134265	54312	191042	77279
	Income from participation in the equity of the holding daughter and associated companies	-1453	-132506	-2067	-188539
	Revenues from securities and loans that make long-term investment	0			
	Other interest received and related income	0		0	0
	Long-term financial investment and short-term security value write-off	0	144560	0	205690
	Interest paid and related costs			0	0
	Consolidation loss	-14172	86155	-20165	122588
	Consolidation corrections	-77455	137603	-110209	195791
	Long-term investment revaluation reserve	-8001	-10103	-11384	-14375
2	Profit and loss before current assets short-term liabilities balance changes influence corrections	2087417	1136596	2970127	1617231
	Corrections				
	Increase or decrease of account receivable	-1004936	-371676	-1429895	-528847
	Increase or decrease of reserves balance	-1047612	337881	-1490618	480761
	Increase or decrease of next period costs	59881	110920	85203	157825
	Increase or decrease of debt balance payable to suppliers, contractors and other creditors	1579591	440776	2247556	627168
	Increase or decrease of accruals	71459		101677	0
	Expenses for tax payments	-32044	-30330	-45595	-43156
	Increase or decrease of debt balance to other creditors	0	-55627	0	-79150
3	Gross cash flow from basic activity	1713756	1568540	2438455	2231832
4	Expenses from interest payments	0		0	0
5	Expenses from company tax payments	-387062	-4914	-550740	-6992
6	Cash flow before extraordinary items	1326694	1563626	1887715	2224840
7	Cash flow from extraordinary items	0	132	0	188
I		1326694	1563758	1887715	2225028

II. Cash Flow from Investment

	Items	Year 2006	Year 2005	Year 2006	Year 2005
		31.12. LVL	31.12. LVL	31.12. EUR	31.12. EUR
1	Stocks or shares purchase from related or associated undertakings	-4695		-6680	
2	Revenues from share alienation of related undertakings or associated companies	0			
3	Purchase of fixed and intangible assets	-3837446	-325076	-5460194	-462541
4	Revenues from sales of fixed and intangible assets	14559	10788	20716	15349
5	Loans	0			
6	Revenues from loan repayments	0			
7	Costs for sale of fixed assets	-2232		-3176	
8	Interest received	0			
9	Dividends received	1453	132506	2067	188539
II	NET CASH FLOW FROM INVESTMENT ACTIVITY	-3828361	-181782	-5447267	-258653

III. Cash Flow from Financing

	Items	Year 2006	Year 2005	Year 2006	Year 2005
		31.12. LVL	31.12. LVL	31.12. EUR	31.12. EUR
1	Revenues from stocks and shares emission or capital interest investment	0			
2	Paid to equity capital	0		0	0
3	Income and expenses from long-term loans	0		0	0
4	Investment revaluation reserve increase	0		0	0
5	Loans received	1548478	-1556	2203286	-2214
6	Received subsidies, grants, gifts or donations	0		0	0
7	Loan repayment costs	0		0	0
8	Increase of long-term debts to creditors	0		0	0
9	Leased fixed assets redemption costs	-8978		-12775	0
10	Dividends disbursed	-410099	-1055	-583518	-1501
III	NET CASH FLOW FROM FINANCING ACTIVITY	1129401	-2611	1606993	-3715

Summary of Cash Income and Expenses

	Items	Year 2006	Year 2005	Year 2006	Year 2005
		31.12. LVL	31.12. LVL	31.12. EUR	31.12. EUR
I	Net flow from basic activity	1326694	1563758	1887715	2225028
II	Cash flow from investments	-3828361	-181782	-5447267	-258653
III	Net cash flow from financing	1129401	-2611	1606993	-3715
IV	Result of foreign currency rate fluctuation	-128653	-67386	-183056	-95882
V	Net cash flow of reporting period	-1500919	1311979	-2135615	1866778
VI	Cash and cash equivalents at the beginning of reporting year	1941530	629551	2762548	895770
VII	Cash and cash equivalents at the end of reporting year	440611	1941530	626933	2762548

Company name: JSC "Rīgas elektromašīnbūves rūpnīca"

Registration number: 40003042006

Consolidated Cash Flow Statement for the Year 2006
(applying indirect method)

I. Operating cash flow

	Items	50%				Cons. correct.	Total
		AS"RER"	"Lo- vato-rez" Ltd.				
1	Profit or loss before extraordinary income/costs and taxes	1823333	3646			77455	1904434
	Corrections						
	Fixed assets depreciation	155651	2238				157889
	Write-offs of investment value						0
	Intangible assets value write-off	769					769
	Profit from fixed assets sales	-8859					-8859
	Accruals formation (excluding accruals from unsafe debts)						0
	Profit or loss from foreign currency fluctuations	134265					134265
	Income from participation in the equity of the holding daughter and associated companies	-1453					-1453
	Revenues from securities and loans that make long-term investment						0
	Other interest received and related income						0
	Long-term financial investment and short-term security value write-off						0
	Interest paid and related costs						0
	Consolidation loss					-14172	-14172
	Consolidation corrections					-77455	-77455
	Long-term investment revaluation reserve	-8001					-8001
2	Profit and loss before current assets short-term liabilities balance changes influence corrections	2095705	5884	0	0	-14172	2087417
	Corrections						
	Increase or decrease of account receivable	-1011339	6403				-1004936
	Increase or decrease of reserves balance	-1053156	5544				-1047612
	Increase or decrease of next period costs	60252	-371				59881
	Increase or decrease of debt balance payable to Long-term investment revaluation reserve	1576785	2806				1579591
	Increase or decrease of accruals	71459					71459
	Expenses for tax payments	-31867	-177				-32044
	Increase or decrease of debt balance to other creditors						0
3	Gross cash flow from basic activity	1707839	20089	0	0	-14172	1713756
4	Expenses from interest payments						0
5	Expenses from company tax payments	-385276	-1786				-387062
6	Cash flow before extraordinary items	1322563	18303	0	0	-14172	1326694
7	Cash flow from extraordinary items						0
I	NET CASH FLOW FROM OPERATING ACTIVITY	1322563	18303	0	0	-14172	1326694

II. Cash flow from investment

	Items	50%					Total
		JSC "RER"	"Lo- vato-rez" Ltd.				
1	Stocks or shares purchase from rel. or assoc. undertakings	-4695					-4695
2	Revenues from share alienation of related undertakings or associated companies						0
3	Purchase of fixed and intangible assets	-3837282	-164				-3837446
4	Revenues from sales of fixed and intangible assets	8859	5700				14559
5	Loans						0
6	Revenues from loan repayments						0
7	Costs for sale of fixed assets		-2232				-2232
8	Interest received						0
9	Dividends received	1453					1453
II	NET CASH FLOW FROM INVESTMENT ACTIVITY	-3831665	3304	0	0	0	-3828361

III. Cash Flow from Financing

	Items	50%					Total
		JSC "RER"	"Lo- vato-rez" Ltd.				
1	Revenues from stocks and shares emission or capital interest investment						0
2	Paid to equity capital						0
3	Income and expenses from long-term loans						0
4	Investment revaluation reserve increase						0
5	Loans received	1549843	-1365				1548478
6	Received subsidies, grants, gifts or donations						0
7	Loan repayment costs						0
8	Increase of long-term debts to creditors						0
9	Leased fixed assets redemption costs	-8978					-8978
10	Dividends disbursed	-408646	-1453				-410099
III	NET CASH FLOW FROM FINANCING ACTIVITY	1132219	-2818	0	0	0	1129401

Summary of Cash Income and Expenses

	Items	50%					Total
		JSC "RER"	"Lo- vato-rez" Ltd.				
I	Net flow from basic activity	1322563	18303	0	0	-14172	1326694
II	Cash flow from investments	-3831665	3304	0	0	0	-3828361
III	Net cash flow from financing	1132219	-2818	0	0	0	1129401
IV	Result of foreign currency rate fluctuation	-128653					-128653
V	Net cash flow of reporting period	-1505536	18789	0	0	-14172	-1500919
VI	Cash and cash equivalents at the beginning of rep. year	1921556	5802			14172	1941530
VII	Cash and cash equivalents at the end of reporting year	416020	24591				440611

Consolidated Statement of Changes in Equity for the Year 2006, LVL

Type of changes	Share capital	Long-t. investm. reval. res.	Other reserves	Retained earnings	Total
1. Balance as of 31.12.2004	5799005	176012	340625	-161365	6154277
2. Reporting period profit or loss not included in the profit and loss statement:					
a) fixed assets value decrease (-) or increase (+)		-10103			-10103
3. Corrections			-147703	398101	250398
4. Shares emission surcharge decrease (-) or increase (+)					0
5. Supplementing reserves from profit according to the company Statutes					0
6. Reporting period profit or loss (amended due to change of the accounting policy)				171409	171409
7. Balance as of 31.12.2005	5799005	165909	192922	408145	6565981
8. Reporting period profit or loss not included in the profit and loss statement:					
a) fixed assets value decrease (-) or increase (+)		-8001 3363			-8001 3363
9. Corrections				-405640	-405640
10. Reporting period profit or loss according to the profit and loss statement				1602219	1602219
11. Balance as of 31.12.2006	5799005	161271	192922	1604724	7757922

Consolidated Statement of Changes in Equity for the Year 2006, EUR

0,702804

Type of changes	Share capital	Long-t. investm. reval. res.	Other reserves	Retained earnings	Total
1. Balance as of 31.12.2004	8251241	250443	484666	-229602	8756748
2. Reporting period profit or loss not included in the profit and loss statement:					
a) fixed assets value decrease (-) or increase (+)		-14376			-14376
3. Corrections			-210163	566447	356284
4. Shares emission surcharge decrease (-) or increase (+)					0
5. Supplementing reserves from profit according to the company Statutes			0		0
6. Reporting period profit or				243893	243893

loss (amended due to change of the accounting policy)					
7. Balance as of 31.12.2005	8251241	236067	274503	580738	9342549
8. Reporting period profit or loss not included in the profit and loss statement:					
a) fixed assets value					
decrease (-) or		-11384			-11384
increase (+)		4785			4785
9. Corrections				-577174	-577174
10. Reporting period profit or loss according to the profit and loss statement				2279752	2279752
11. Balance as of 31.12.2006	8251241	229468	274503	2283316	11038528

APPENICES TO PROFIT AND LOSS STATEMENT FOR YEAR 2006

Note No. 1 0,702804
Net turnover

	As of 31.12.06	As of 31.12.06	As of 31.12.05	As of 31.12.05
	LVL	EUR	LVL	EUR
Latvia	6190142	8807780	4749861	6758444
Estonia	1120250	1593972	1214164	1727600
Russia	2914305	4146682	2371824	3374802
Lithuania	8352	11884	9934	14135
Serbia		0	19101	27178
Slovakia		0	4813	6848
Ukraine	4275207	6083072	2129871	3030533
Sweden	74473	105966	111420	158536
Kazakhstan	8167	11620		0
Finland	339	482		0
European Union and export		0	5252268	7473305
Total	14591235	20761458	15863256	22571381

Note No. 2
Sales production operating costs

	As of 31.12.06	As of 31.12.06	As of 31.12.05	As of 31.12.05
	LVL	EUR	LVL	EUR
Staff salaries	2554402	3634587	1934781	2752945
Social insurance payments	596905	849319	429875	611657
Material costs	5705615	8118359	8329919	11852407
Power resources	1089470	1550176	281429	400437
Depreciation of fixed assets, rent, intang, assets depreciation	131180	186652	104307	148415
Costs for business trips	89657	127570	68464	97415
Repair costs	190863	271574	786377	1118914
Other expenditure	171224	243630	478434	680752
Total	10529316	14981867	12413586	17662942

Note No. 3
Other operating charges

	As of 31.12.06	As of 31.12.06	As of 31.12.05	As of 31.12.05
	LVL	EUR	LVL	EUR
Profit gained as a result of material and inventory sale	72369	102972	36070	51323
Fines received	137	195		
Fixed assets liquidation remains, materials	875	1245	231	329
Fixed assets sale	8859	12605	2782	3958
Deposited salary	72	102	44	63
Revenue related to social area maintenance	24276	34542	21969	31259
Currency exchange rate difference - net	3	4	15339	21825
Currency exchange result - net	19	27		0
Revaluation of fixed assets	8000	11383	10103	14375
Other proceeds	3559	5065	51681	73536
Overpaid soc.ins.tax return	826	1175		0
Total	118995	169315	138219	196668

Note No. 4**Other expenses of the company economic activity**

	As of 31.12.06	As of 31.12.06	As of 31.12.05	As of 31.12.05
	LVL	EUR	LVL	EUR
Overdue fines for outstanding invoices	859	1222	63	90
Expenses related to social area maintenance	93873	133569	65710	93497
Expenses not related to the company commercial activity	139768	198872	61812	87951
Depreciation of material values	6060	8623	284624	404983
Write-off of material values		0	540	768
Currency exchange result - net	117404	167051	69343	98666
Currency exchange rate difference - net	16870	24004		0
Liquidation of fixed assets	7916	11263	9272	13193
Write-off of sold equity shares balance value		0	144560	205690
Accruals of doubtful debtors		0	5950	8466
Bad debts write-off		0	65	92
Damaged goods write-off		0	1000	1423
Goods revaluation expenses		0	5845	8317
Last year losses	103	147		0
Other	589	838	111833	159124
Total	383442	545589	760617	1082260

Note No. 5**Income from participation in the equity daughter and associated companies of the holding company**

	As of 31.12.06	As of 31.12.06	As of 31.12.05	As of 31.12.05
	LVL	EUR	LVL	EUR
Dividends of related undertakings		0	131451	187038
Dividends of associated companies	1453	2067	1055	1501
Total	1453	2067	132506	188539

Note No. 6

	As of 31.12.06	As of 31.12.06	As of 31.12.05	As of 31.12.05
	LVL	EUR	LVL	EUR
Extraordinary income (compensation of losses caused as a result of storm and floods)		0	28645	40758
Extraordinary expenses (expenses related to elimination of consequences caused by storm and floods)		0	-28513	-40570
Total extraordinary income	0	0	132	188

Note No. 7**Retained corporate income tax**

	As of 31.12.06	As of 31.12.06	As of 31.12.05	As of 31.12.05
	LVL	EUR	LVL	EUR
1. Retained tax expenses in the Profit and Loss Statement	41455	58985	167794	238749

Note No. 8**Other taxes**

	As of 31.12.06	As of 31.12.06	As of 31.12.05	As of 31.12.05
	LVL	EUR	LVL	EUR
Real estate tax on buildings (constructions)	19451	27676	23959	34091
Real estate tax on land	12687	18052	670	953
Total	32138	45728	24629	35044

**APPENDIX TO THE BALANCE SHEET FOR YEAR 2006
ASSETS**

Note No. 9

See pages No.21,22, 23 of the Consolidated long-term investment movement report for the year 2006.

Note No. 10

0,702804

JSC "RER" consolidated debtors' debts as of 31 December, 2006

	As of 31.12.06 LVL	As of 31.12.06 EUR	As of 31.12.05 LVL	As of 31.12.05 EUR
1. Debts of purchasers and customers (r.c. 300)	1324780	1884992	233867	332763
2. Debts of related undertakings (r.c. 310)				
3. Debts of associated companies (r.c. 320)	443	630	238	339
4. Other debtors (r.c. 330)	98831	140624	200660	285513
incl.				
staff request calculations	851	1211	4499	6402
taxes paid in advance	4770	6787	12890	18341
overpaid taxes		0	148169	210825
advance payments for services	24437	34771	24545	34924
VAT for not paid invoices		0	10557	15021
other	2743	3903		0
revenue by the moment of the daughter company liq.	66030	93952		
5. Next periods expenses	24838	35341	84856	120739
Total debtors debts	1448892	2061587	519621	739354

Note No. 11

Funds

	As of 31.12.06 LVL	As of 31.12.06 EUR	As of 31.12.05 LVL	As of 31.12.05 EUR
Cash	341	485	22256	31667
Current account	440270	626448	1919274	2730881
Total	440611	626933	1941530	2762548

LIABILITIES

Note No. 12

See page No. 15 of the Consolidated statement of changes in equity for year 2006.

Note No. 13

Description of shares fixed capital

The total number of the company shares - 5799005 units at a nominal value of LVL 1,00.

Fixed capital accounts for LVL 5799005, divided in the following way:

LVL 5799005 ordinary shares with the vote.

	As of 31.12.06 LVL	As of 31.12.06 EUR	As of 31.12.05 LVL	As of 31.12.05 EUR
Residents, incl.	199525	283899	4782859	6805395
natural persons	174322	248038	4757656	6769534
legal entities	25203	35861	25203	35861
Non-residents, incl.	5599480	7967342	1016146	1445846
Russia	1011027	1438562	1011027	1438562
Canada	5119	7284	5119	7284
Estonia (nominal holder)	4583334	6521496		0
Total fixed capital	5799005	8251241	5799005	8251241

Note No. 14
Other accruals

	As of 31.12.06 LVL	As of 31.12.06 EUR	As of 31.12.05 LVL	As of 31.12.05 EUR
Accrual for the deferred corporate income tax		0	167794	238749
Accruals for current vacations	186566	265460	135067	192183
Other accruals				0
Total	186566	265460	302861	430932

Accruals for the deferred corporate income tax for the year 2006 are presented as a long-term debt (740 r.c.)

Note No. 15
JSC "RER" Consolidated creditors' debts as of 31 December, 2006

	As of 31.12.06 LVL	As of 31.12.06 EUR	As of 31.12.05 LVL	As of 31.12.05 EUR
1. Long-term debts (r.c. 740)	1749915	2489905	1365	1942
2. Loans from credit institutions (r.c.770)	1529179	2175826		
3. Other loans (r.c.780)	19221	27349	3514	5000
4. Advance payments received from purchasers (r.c. 790)	5639	8024	339559	483149
5. Debts to suppliers and contractors (r.c. 800)	346601	493169	124194	176712
7. Debts to related undertakings (r.c. 820)				
8. Debts to associated companies (r.c. 830)	1660	2362	777	1106
9. Tax debts (r.c. 840)	296438	421793	324269	461393
10. Other creditors (r.c. 850)	295134	419936	182667	259912
incl.				
wages debt	292254	415838	179992	256106
alimony	1224	1742	1055	1501
settlement of debt payments to staff	1635	2326	1354	1927
other	21	30	266	378
Total creditor's debts (r.c. 900)	4243787	6038364	976345	1389214

JSC "RER" Consolidated Long-term Investment Movement Report for the Year 2006, LVL

Type of long-term investments	Initial value					Depreciation (value write-offs)				Balance value	
	As of 01.01.06.	Purchase and manufacture (+)	Consolidated result (+, -)	Transfer and withdrawal (+, -)	As of 31.12.06.	As of 01.01.06.	Calculated in the reporting year (+)	Excluded due to withdrawal (-)	As of 31.12.06.	As of 01.01.06.	As of 31.12.06.
1	2	3	4	5	6	7	8	9	10	11	12
I. Intangible assets (total), including	2001	1186	0	-300	2887	1084	769	-300	1553	917	1334
1. Licenses and other	2001	1186		-300	2887	1084	769	-300	1553	917	1334
2. Positive cons.dif.					0				0	0	0
II. Fixed assets (total) Including	8058726	8778819	0	-5364952	11472593	5276661	157889,5	-145576,5	5288974	2782065	6183619
1. Pieces of land, buildings, construc	4428702	2835469		-299446	6964725	2839349	58698	-25306	2872741	1589353	4091984
2. Equipment and machinery	3164581,5	1055572		-188886	4031267,5	2337699,5	87855,5	-108320	2317235	826882	1714032,5
3. Other FA and inventory	132602,5	52105		-16716	167991,5	99612,5	11336	-11950,5	98998	32990	68993,5
4. Formation of FA and expenses of unfin. constr.objects	203306	744219		-811042	136483					203306	136483
5. Advance payments for fixed assets	129534	4091454		-4048862	172126					129534	172126
III. Long-term financial investments (total) Including	0	0	448093	0	448093					0	448093
1. Particip. in rel. undert. capital			448093		448093					0	448093
2. Particip. in assoc.comp. capital					0					0	0
3. Other investment					0					0	0
4. Own stocks and shares					0					0	0
Total long-t. investm.	8060727	8780005	448093	-5365252	11923573	5277745	158658,5	-145876,5	5290527	2782982	6633046

Long-term Investment Movement Report for the Year 2006, LVL

Type of long-term investments	Initial value					Depreciation (value write-offs)				Balance value	
	As of 01.01.06.	Purchase and manufacture (+)	Consolidated result (+, -)	Transfer and withdrawal (+, -)	As of 31.12.06.	As of 01.01.06.	Calculated in the reporting year (+)	Excluded due to withdrawal (-)	As of 31.12.06.	As of 01.01.06.	As of 31.12.06.
1	2	3	4	5	6	7	8	9	10	11	12
II. Fixed assets (total)	8058726	8778819	0	-5364952	11472593	5276661	157889,5	-145576,5	5288974	2782065	6183619
JSC "RER"	7614669	8778655	0	-4959989	11433335	5214708	155651	-100085	5270274	2399961	6163061
JSC "REZ"	399263	0	0	-399263	0	44304	0	-44304	0	354959	0
"Lovato - REZ" Ltd.	44794	164	0	-5700	39258	17649	2238,5	-1187,5	18700	27145	20558
including											
<u>1. Pieces of land, buildings, constructions</u>											
JSC "RER"	4115835	2835469			6951304	2812477	58564		2871041	1303358	4080263
JSC "REZ"	299446			-299446	0	25306		-25306	0	274140	0
"Lovato - REZ" Ltd.	13421				13421	1566	134		1700	11855	11721
Total	4428702	2835469	0	-299446	6964725	2839349	58698	-25306	2872741	1589353	4091984
<u>3. Equipment and machinery</u>											
JSC "RER"	3050650	1055572		-91931	4014291	2311201	87041	-91931	2306311	739449	1707980
JSC "REZ"	96955			-96955	0	16389		-16389	0	80566	0
"Lovato - REZ" Ltd.	16976,5				16976,5	10109,5	814,5		10924	6867	6052,5
Total	3164581,5	1055572	0	-188886	4031267,5	2337699,5	87855,5	-108320	2317235	826882	1714032,5
<u>4. Other FA and inventory</u>											
JSC "RER"	115344	51941		-8154	159131	91030	10046	-8154	92922	24314	66209
JSC "REZ"	2862			-2862	0	2609		-2609	0	253	0
"Lovato - REZ" Ltd.	14396,5	164		-5700	8860,5	5973,5	1290	-1187,5	6076	8423	2784,5
Total	132602,5	52105	0	-16716	167991,5	99612,5	11336	-11950,5	98998	32990	68993,5
<u>5. Formation of FA and expenses of unif. constr.objects</u>											
JSC "RER"	203306	744219		-811042	136483				0	203306	136483
Total	203306	744219	0	-811042	136483	0	0	0	0	203306	136483
<u>6. Advance payments for fixed assets</u>											
JSC "RER"	129534	4091454		-4048862	172126				0	129534	172126
Total	129534	4091454	0	-4048862	172126	0	0	0	0	129534	172126

JSC "RER" Consolidated Long-term Investment Movement Report for the Year 2006, EUR

0,702804

Type of long-term investments	Initial value					Depreciation (value write-offs)				Balance value	
	As of 01.01.06.	Purchase and manufacture (+)	Consolidated result (+, -)	Transfer and withdrawal (+, -)	As of 31.12.06.	As of 01.01.06.	Calculated in the reporting year (+)	Excluded due to withdrawal (-)	As of 31.12.06.	As of 01.01.06.	As of 31.12.06.
1	2	3	4	5	6	7	8	9	10	11	12
I. Intangible assets (total), including	2847	1688	0	-427	4108	1542	1095	-427	2210	1305	1898
1. Licenses and other	2847	1688		-427	4108	1542	1095	-427	2210	1305	1898
2. Positive cons.dif.					0				0	0	0
II. Fixed assets (total) Including	11466533	12491136	0	-7633640	16324029	7508011	224657	-207136	7525532	3958522	8798497
1. Pieces of land, buildings, constru	6301475	4034509		-426073	9909911	4040029	83520	-36007	4087542	2261446	5822369
2. Equipment and machinery	4502794	1501944		-268761	5735977	3326247	125006	-154125	3297128	1176547	2438849
3. Other FA and inventory	188676	74139		-23785	239030	141735	16131	-17004	140862	46941	98168
4. Formation of FA and expenses of unfin. constr.objects	289278	1058929		-1154009	194198					289278	194198
5. Advance payments for fixed assets	184310	5821615		-5761012	244913					184310	244913
III. Long-term financial investments (total) Including	0	0	637579	0	637579					0	637579
1. Particip. in rel. undert. capital			637579		637579					0	637579
2. Particip. in assoc.comp. capital					0					0	0
3. Other investment					0					0	
4. Own stocks and shares					0					0	0
Total long-t. investm.	11469380	12492824	637579	-7634067	16965716	7509553	225752	-207563	7527742	3959827	9437974

General Development Principles of the Consolidated Financial Report for the Year 2006

Report preparation basis

The Financial report has been developed according to the Republic of Latvia Law on Accounting and the Law on Consolidated Annual Reports, as well as in conformity with main requirements of the International Accounting Standard No. 27.

The Profit and loss statement has been calculated by applying the turnover expenses method.

The Financial report provides for a true and plain notion of the company assets, liabilities, financial situation and losses.

Cash flow overview is prepared according to indirect method.

The accounting and evaluation methods applied in the company have not been changed if compared to the year 2005.

The accounting in 2006 has been recorded in the approved accounts of common accounting, representing in details the chart of account according to peculiarities of the commercial activity.

The synthetic accounting register is the general ledger where entries are made via grouping reports of commercial transactions. Types of analytical accounting registers are ledgers, cards and lists.

The Financial report has been developed on the basis of the further activity concept.

Currency unit and foreign currencies translation

In the Financial report and accounting for the currency unit measure there is used the RL currency unit - lat.

Data of the Financial report that are represented in EUR are recalculated in conformity with the exchange rate set by the Bank of Latvia as of 31.12.2006: **1 EUR - 0,702804**.

Profit or loss generated as a result of foreign exchange rate fluctuations are represented at the profit and loss statement for the particular period.

Fixed assets

Fixed assets and intangible investment in the Balance Sheet are represented at their balance value.

Depreciation of fixed assets and intangible investment has been calculated by applying the linear method.

To the fixed assets depreciation calculation the following rates set by the management are applied:

Buildings, constructions and long-term greeneries	1.1 - 1.9 %
Equipment and machinery	2 -20 %
Other fixed assets and inventory	10 - 50 %

Inferior inventory has been recorded at the purchase price and written-off to expenses in 100% after transfer to use.

Stocks

Balance of raw-materials and direct materials is evaluated by applying the average weighted cost-price.

Balance of ready production is evaluated in the actual cost-price.

Stock remains are checked in annual inventory.

The debts of debtors and creditors are real.

Balance of assets has been verified during stock-taking, according to the situation as of:

Long-term investment - 01.11.2006

stocks - as of 01.10.2006

debtors - as of 01.01.2007

creditors - as of 01.01.2007

Items of the Consolidated financial report were verified with the respective items of the Consolidated financial report for the year 2005.

I. Identification of Enterprises to be Involved in the Consolidation

1) As of 31.12.2006 JSC "Rīgas elektromašīnbūves rūpnīca" does not hold the decisive influence due to "Ražošana Enerģētika Zinātne" Ltd. That is why "Ražošana Enerģētika Zinātne" Ltd. is not included in the consolidation, but its activity results shown until the liquidation process initiation have been represented in the Consolidated profit and loss statement.

2) According to section 1 of paragraph 28 of the Law "Lovato - REZ" Ltd. is a jointly administered company. There is a possibility that the company might be included in the consolidation by applying the proportional consolidation or the method of equity capital.

I. Equity Capital Consolidation

"Lovato - REZ" Ltd. (50 %)

Only the proportional part of the holding company is summed, i.e. 50 % of assets, liabilities, income, expenditures.

	D	Sum	C	Sum
Fixed capital $115200 \cdot 0.5 = 57600$	3110	57600		
Long-t. inv. reval. reserve $31984 \cdot 0.5 = 15992$	3130	15992		
Oth. reserves $802 \cdot 0.5 = 401$	3360	401		
Rep. year profit $3366 \cdot 0.5 = 1683$	3410			
			1330	59927
Equity capital $151352 \cdot 0.5 = 75676$		73993		59927
Negative consolidation difference			3900	14066 (73993 - 59927)

Consolidated Annual Reports.

II. Liquidation of the Daughter Company

In September 2006 the liquidation process of "Ražošana Enerģētika Zinātne" Ltd. was initiated. As of 01.10.2006 "Ražošana Enerģētika Zinātne" Ltd. activity result shows a profit of 66030 LVL.

The share of JSC "Rīgas elektromašīnbūves rūpnīca" in the capital of "Ražošana Enerģētika Zinātne" Ltd. accounts for 96 %.

Income included in the Consolidated profit and loss statement accounts for 63389 LVL.

Minority share is 2641 LVL.

Chairman of the Board

G. Uspenskis

Board Members:

A. Berezins

V. Antjufejevs

16 April, 2007

Statement of the Management Responsibility

We acknowledge that the audited Consolidated financial report for the year 2006 has been developed as true. The information represented in the report is correct and does not give a deceptive notion of the holding company's assets and liabilities.

Chairman of the Board

G. Uspenskis

Board Members:

A. Berezins

V. Antjufejevs

INDEPENDENT AUDITORS'S REPORT

To members of JSC „Rīgas Elektromašīnbūves rūpnīca"

We have audited the Financial Report (represented on pages 5 to 23) of the enclosed Consolidated Annual Report for year 2006 of JSC „Rīgas Elektromašīnbūves rūpnīca". The audited Consolidated Financial Report includes Balance Sheet for the year ended 31 December, 2006, Profit or Loss Account for the year 2006, Statement of Changes in Equity and Cash Flow Statement, as well as summary of the main accounting principles and other explanatory information that is included in the appendix.

Management responsibility for development of the Financial Report

The management is responsible for development of the Consolidated Financial Report and true representation of the information contained therein, according to the Republic of Latvia Law on Annual Reports. The responsibility includes development, elaboration and maintenance of an internal control system that would prevent such information as fraud or significant inconsistencies resulting from mistakes to be included in the financial reports, and provide development and true representation of the financial reports, as well as selection and application of appropriate accounting policy and development of accounting estimates according to the circumstances in effect.

Auditor's responsibility

We are responsible for the statement that we make on the financial report on the basis of the audit performed by us. We have performed the audit according to international auditing standards approved in Latvia. The standards determine that we must respect the requirements of ethics, as well as plan and perform the audit in such a way in order to make sure that the financial reports do not contain any significant inconsistencies.

The audit includes such procedures that are performed in order to obtain auditing evidences on the sums represented in the financial reports and the discovered information. The procedures are selected on the basis of the auditor's professional assessment, including evaluation of the risk of fraud or significant inconsistencies resulting from mistakes in the Financial Report. When estimating the risk the auditor takes into account the internal control system developed for providing development of the Financial Report and true representation of the information contained therein, with the aim to determine auditing procedures appropriate to the circumstances, instead of making an opinion on the control efficiency. The audit also includes general evaluation of the applied accounting principles and validity of important management assumptions, as well as of the information provided in the Financial Report.

We believe that the audit evidences acquired by us are sufficient and suitable for making our audit statement.

Statement

In our opinion, the above-mentioned Consolidated Financial Report provides for a true and plain notion on JSC „Rīgas Elektromašīnbūves rūpnīca” financial condition for the year ended 31 December, 2006, as well as on the financial results of its activity and cash flows in the year 2006, according to the Republic of Latvia Law on Annual Reports.

Report on the Management Report Compliance

We have also reviewed the Management Report for the year 2006, represented on page 4, and we have not discovered any significant inconsistencies between the financial information represented in the Management Report and the Consolidated Financial Report for the year 2006.

„Rīgas Audits” Ltd.
Commercial Partnership of Sworn Auditors
Licence No 103

/Signature/ /Stamp/
Responsible Sworn Auditor
Jānis Mežiels
Certificate No. 127
Chairman of the Board

Riga, Latvia,
30 April, 2007