

**JOINT-STOCK COMPANY
“RIGA ELECTRIC MACHINE BUILDING WORKS”**

Reg. No. 40003042006
31 Ganību Dambis, Riga, LV-1005

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR SIX MONTHS OF 2007**

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INFORMATION ON THE COMPANY

Name of the company	JSC "Rīgas elektromašīnbūves rūpnīca" (JSC "RER")
Legal status of the company	Joint-stock company
Registration number in the Register of Enterprises, place and date	No. 000304200, Riga, 29 November 1991
Unified registration number in the Commercial Registry, place and date	No. 40003042006, Riga, 29 September 2004
Legal address	31 Ganību Dambis, Riga, LV-1005, the Republic of Latvia
The company is under supervision of:	General meeting of shareholders
Name, last name of chairman of the Board	Grigorijs Uspenskis
Names, last names of members of the Board	Aleksandrs Berezins Vladimirs Antjufejevs Anatolijs Ostaščenko Andrejs Zujevs
Accounting period	1 January 2007 – 30 June 2007
Auditor's name, last name, identity No. and address	Jānis Mežiels Identity No.: 011059-11009 Sworn auditor's certificate No. 127 11-501 Skolas Street, Riga, LV-1010, Latvia
Information on daughter companies	"Ražošana Enerģētika Zinātne" Ltd., to be liquidated Reg. No. 40003532962 JSC "RER" contribution is 96%
Information on associated companies	"Lovato - REZ" LTD. Reg. No. 40003072180 JSC "RER" contribution is 50%

**JSC "RIGA ELECTRIC MACHINE BUILDING WORKS"
CONSOLIDATED STATEMENT**

Companies included in consolidation:

Joint-stock company "Riga Electric Machine Building Works", core business of which is manufacture of electric machinery and apparatus;

Limited liability company "Lovato – REZ", core business of which is sales of low-voltage equipment for the needs of control of electrical systems.

Companies not included in consolidation:

Limited liability company "Ražošana Enerģētika Zinātne", core business of which is supply of power resources. From September 2006, this company is in a process of liquidation. Liquidation is planned to be completed in the second half of 2007.

Total operational results of the companies included in consolidation for six months of 2007: profit before tax amounted to **LVL 1929372** and profit after tax amounted to **LVL 1825664**.

Total net turnover for six months of 2007 amounted to **LVL 12560312**.

An average number of employees for six months of 2007 were **1137** persons, average salary was **LVL 431.15**.

Measures for development of the Concern

In the second half of 2007, there is planned to begin optimization and modernization of some production units (electroplating production unit, stamping and welding shop).

In the second half of 2007, there is planned to increase expenses related to professional development of employees.

Chairman of the Board of JSC "RER"

G. Uspenskis

21 August 2007

JSC "RER" CONSOLIDATED BALANCE SHEET FOR SIX MONTHS OF 2007

A S S E T S	Line code	Note	30.06.07 LVL	30.06.06 LVL	30.06.07 EUR	30.06.06 EUR
1. LONG-TERM INVESTMENTS						
I. Intangible investments						
1. Intangible assets	020		4429	798	6302	1135
I. Total	050		4429	798	6302	1135
II. Fixed assets						
1. Land plots, buildings, constructions	060		4062641	1574638	5780617	2240508
2. Long-terms investments in hired fixed assets	070			14312		20364
3. Equipment and machinery	080		1777098	1016529	2528583	1446390
4. Other fixed assets and inventory	090		93156	34461	132549	49034
5. Creation of fixed assets	100		455611	465047	648276	661702
6. Prepayments for fixed assets	110		386258	29784	549596	42379
II. Total	120		6774764	3134771	9639621	4460377
III. Long-term financial investments						
1. Participation in the capital of related companies	130		448093		637579	
III. Total			448093		637579	
I. PART TOTAL AMOUNT	220		7227286	3135569	10283502	4461512
2. CURRENT ASSETS						
I. Inventories						
1. Raw materials, direct materials and auxiliary materials	230		2751869	1662072	3915557	2364915
2. Unfinished products	240		880677	985557	1253090	1402321
3. Finished products and goods for sale	250		72645	112069	103365	159460
4. Prepayments for goods	270		272675	462850	387982	658576
I. Total	290		3977866	3222548	5659994	4585272
II. Debtors		6				
1. Debts of buyers and customers	300		5980798	213767	8509909	304163
2. Debts of associated companies	320		137	18	195	26
3. Other debtors	330		179948	155215	256042	220851
4. Deferred expenses	360		813	30560	1157	43483
II. Total	370		6161696	399560	8767303	568523
III. Securities and participation in capitals						
1. Other securities	400		1600000		2276595	
III. Total	410		1600000		2276595	
IV. Cash	420	7	9394	434622	13366	618411
II. PART TOTAL AMOUNT	430		11748956	4056730	16717258	5772206
B A L A N C E	440		18976242	7192299	27000760	10233718

Appendices to financial statements on pages 14 – 18 are an integral part of the financial statements.

JSC "RER" CONSOLIDATED BALANCE SHEET FOR SIX MONTHS OF 2007

LIABILITIES	Line code	Note	30.06.07 LVL	30.06.06 LVL	30.06.07 EUR	30.06.06 EUR
1. SHAREHOLDERS' EQUITY		8				
1. Share capital (capital stock)	450	9	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	470		159408	164749	226817	234417
3. Other provisions	510		192922	192922	274503	274503
4. Undivided profit:						
a) Undivided profit of previous years	530		1522945	2505	2166956	3564
b) Undivided profit of the accounting year	540		1825664	-262741	2597686	-373847
1. PART TOTAL AMOUNT	550		9499944	5896440	13517203	8389878
2. PROVISIONS	580		186566	302861	265460	430932
2. PART TOTAL AMOUNT	590		186566	302861	265460	430932
3. CREDITORS		10				
I. Long-term creditors						
1. Loans from credit institutions	620		1534736	517	2183733	736
2. Other loans	630		15107		21495	
3. Deferred tax liabilities	731		201584		286828	
I. Total	740		1751427	517	2492056	736
II. Short-term creditors						
1. Loans from credit institutions	770		5605494		7975899	
2. Other loans	780		125772	3514	178957	5000
3. Advance payments received from buyers	790		10896	364365	15504	518445
4. Debts to suppliers and contractors	800		1014902	276867	1444075	393946
5. Debts to associated companies	830		3270	1699	4653	2417
6. Taxes and social security payments	840		357043	147713	508026	210177
7. Other creditors	850		419428	178249	596793	253625
8. Unpaid dividends of previous years	880		1500	1453	2134	2067
II. Total	890		7538305	973860	10726041	1385677
3. PART TOTAL AMOUNT	900		9289732	974377	13218097	1386413
4. MINORITY INTEREST				18621		26495
B A L A N C E	910		18976242	7192299	27000760	10233718

**JSC "RER" CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR SIX MONTHS OF 2007**

No.	Items	Line code	Note	30.06.07. LVL	30.06.06. LVL	30.06.07. EUR	30.06.06. EUR
1	Net turnover	010	1	12560312	5727589	17871714	8149626
2	Production costs of the goods sold	020	2	-9007832	-4562469	-12816990	-6491809
3	Gross profit or loss	030		3552480	1165120	5054724	1657817
4	Selling expenses	040		-193907	-100848	-275905	143494
5	Administration expenses	050		-1230243	-1108728	-1750478	-1577578
6	Other operating income	060	3	131976	58000	187785	82527
7	Other operating expenses	070	4	-204151	-202605	-290481	-288281
8	Other interest income and similar income	100		471	547	670	778
9	Other interest payments and similar expenses	120		-141503	-128	-201341	-182
10	Loss from consolidation	121			-64320		-91519
11	Income from consolidation	122		14249	15837	20275	22534
12	Profit or loss before extraordinary items and taxes	130		1929372	-237125	2745249	-337398
13	Profit or loss before tax	160		1929372	-237125	2745249	-337398
14	Other taxes	190	5	-103708	-22985	-147563	-32705
15	Minority interest	200			-2631		-3744
16	Consolidated profit or loss of the accounting period	210		1825664	-262741	2597686	-373847

EPS (earnings per share)	0.31	-0.05	0.45	-0.06
The number of shares is 5799005				

JSC "RER" CONSOLIDATION REGISTRY

BALANCE SHEET FOR SIX MONTHS OF 2007, LVL

ASSETS	JSC "RER"	"Lovato- REZ" LTD.	Consolidation Registry: Debit	Consolidation Registry: Credit	Consolidated Balance
1. LONG-TERM INVESTMENTS					
I. Intangible investments					
1. Intangible assets	4429				4429
I. Total	4429				4429
II. Fixed assets					
1. Land plots, buildings, constructions	4050987	23307		11653.50	4062640.50
2. Long-terms investments in hired fixed assets					
3. Equipment and machinery	1771427	11343		5671.50	1777098.50
4. Other fixed assets and inventory	90554	5205		2602.50	93156.50
5. Creation of fixed assets	455611				455611
6. Prepayments for fixed assets	386258				386258
II. Total	6754837	39855		19927.50	6774764.50
III. Long-term financial investments					
1. Participation in the capital of related companies	448093				448093
2. Participation in the capital of associated companies	59927			59927	
III. Total	508020			59927	448093
I. PART TOTAL AMOUNT	7267286	39855		79854.50	7227286.50
2. CURRENT ASSETS					
I. Inventories					
1. Raw materials, direct materials and auxiliary materials	2750274	3190		1595	2751869
2. Unfinished products	880677				880677
3. Finished products and goods for sale	19463	106364		53182	72645
4. Prepayments for goods	272664	22		11	272675
I. Total	3923078	109576		54788	3977866
II. Debtors					
1. Debts of buyers and customers	5931657	98281		49140.50	5980797.50
2. Debts of associated companies	137				137
3. Other debtors	179459	979		489.50	179948.50
4. Deferred expenses	491	644		322	813
II. Total	6111744	99904		49952	6161696
III. Securities and participation in capitals					
1. Other securities	1600000				1600000
III. Total	1600000				1600000
IV. Cash	8065	2658		1329	9394
II. PART TOTAL AMOUNT	11642887	212138		106069	11748956
BALANCE	18910173	251993		185923.50	18976242.50

JSC "RER" CONSOLIDATION REGISTRY

BALANCE SHEET FOR SIX MONTHS OF 2007, LVL

LIABILITIES	JSC "RER"	"Lovato- REZ" LTD.	Consolidation Registry: Debit	Consolidation Registry: Credit	Consolidated Balance
1. SHAREHOLDERS' EQUITY					
1. Share capital (capital stock)	5799005	115200	115200		5799005
2. Reserve for revaluation of long-term investments	159408	31984	31984		159408
3. Other provisions	192922	1168	1168		192922
4. Undivided profit:					
a) Undivided profit of previous years	1522945				1522945
b) Undivided profit of the accounting year	1813951	-5071	-2535.50	14249	1825664.50
1. PART TOTAL AMOUNT	9488231	143281	145816.50	14249	9499944.50
2. PROVISIONS	186566				186566
2. PART TOTAL AMOUNT	186566				186566
3. CREDITORS					
I. Long-term creditors					
1. Loans from credit institutions	1534736				1534736
2. Other loans	15107				15107
3. Deferred tax liabilities	200072	3023	1511.50		201583.50
I. Total	1749915	3023	1511.50		1751426.50
II. Short-term creditors					
1. Loans from credit institutions	5605494				5605494
2. Other loans	125772				125772
3. Advance payments received from buyers	10896				10896
4. Debts to suppliers and contractors	970909	87987	43993.50		1014902.50
5. Debts to associated companies	3270				3270
6. Taxes and soc. security payments	352413	9260	4630		357043
7. Other creditors	416707	5442	2721		419428
8. Unpaid dividends of previous years		3000	1500		1500
II. Total	7485461	105689	52844.50		7538305.50
3. PART TOTAL AMOUNT	9235376	108712	54356		9289732
BALANCE	18910173	251993	200172.50	14249	18976242.50
Consolidation adjustments Total			200172.50	200172.50	

JSC "RER" CONSOLIDATION REGISTRY

PROFIT AND LOSS ACCOUNT FOR SIX MONTHS OF 2007, LVL

No.	Items	JSC "RER"	"Lovato- REZ" LTD.	Consolidation adjustments	Consolidation Registry: Debit	Consolidation Registry: Credit	Consolidated P&L Account
1	Net turnover	12455950	208725		104362.50		12560312.50
2	Production costs of the goods sold	-8903445	-208774			104387	-9007832
3	Gross profit or loss	3552505	-49		104362.50	104387	3552480.50
4	Selling expenses	-192126	-3562			1781	-193907
5	Administration expenses	-1229037	-2413			1206.50	-1230243.50
6	Other operating income	131392	1169		584.50		131976.50
7	Other operating expenses	-204036	-231			115.50	-204151.50
8	Other interest income and similar income	464	15		7.50		471.50
9	Other interest payments and similar expenses	-141503					-141503
10	Income from consolidation			14249			14249
11	Profit or loss before extraordinary items and taxes	1917659	-5071	14249	104954.50	107490	1929372.50
12	Profit or loss before tax	1917659	-5071	14249	104954.50	107490	1929372.50
13	Other taxes	-103708					-103708
14	Consolidated profit or loss of the accounting period	1813951	-5071	14249	104954.50	107490	1825664.50

**JSC "RER" CONSOLIDATED CASH FLOW STATEMENT
FOR SIX MONTHS OF 2007 (prepared by indirect method)****I. Cash flow from operating activities**

	Items	30.06.07 LVL	30.06.06 LVL	30.06.07 EUR	30.06.06 EUR
1	Profit or loss before extraordinary items and taxes	1929372	-237125	2745249	-337398
	ADJUSTMENTS				
	Depreciation of fixed assets	118433	78275	168515	111375
	Amortization of investment value	-1147	1208	-1632	1719
	Amortization of intangible investment value	274	469	390	667
	Gain from sales of fixed assets		-3339		-4751
	Profit or loss from fluctuations of currency exchange rates	42608	82253	60626	117035
	Loss from consolidation		48483		68985
	Consolidation adjustments	-14249	-9945	-20277	-14150
	Reserve for revaluation of long-term investments	-1864	-1160	-2652	-1651
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	2073427	-40881	2950219	-58169
	ADJUSTMENTS				
	Increase or decrease of balance of receivables	-4902307	160762	-6975354	228744
	Increase or decrease of balance of inventories	-367908	-601212	-523486	-855448
	Increase or decrease of deferred expenses	24025	54158	34184	77060
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	5525142	170924	7861569	243203
	Expenses for tax payments	-100951	-23034	-143640	-32774
3	Gross cash flow from operating activities	2251428	-279283	3203492	-397384
4	Expenses for corporate income tax payments	-95048	-218877	-135241	-311434
5	Cash flow before extraordinary items	2156380	-498160	3068251	-708818
I	NET CASH FLOW FROM OPERATING ACTIVITIES	2156380	-498160	3068251	-708818

II. Cash flow from investing activities

	Items	30.06.07 LVL	30.06.06 LVL	30.06.07 EUR	30.06.06 EUR
1	Purchase of stock or shares of related or associated companies		-4695		-6680
2	Purchase of fixed assets and intangible investments	-498833	-532290	-709775	-757380
3	Income from sales of fixed assets and intangible investments	1165	3339	1658	4750
II	NET CASH FLOW FROM INVESTING ACTIVITIES	-497668	-533646	-708117	-759310

III. Cash flow from financing activities

	Items	30.06.07 LVL	30.06.06 LVL	30.06.07 EUR	30.06.06 EUR
1	Paid in capital stock		10000		14229
2	Income and expenses from long-term loans		-848		-1207
3	Expenses for repayment of loans	-438495		-623922	
4	Expenses for repurchase of leased fixed assets	-9482		-13492	
5	Dividends paid out	-1500	-408646	-2134	-581451
6	Expenses for purchase of short-term securities (bill of exchange)	-1600000		-2276595	
III	NET CASH FLOW FROM FINANCING ACTIVITIES	-2049477	-399494	-2916143	-568429

IV. Summary of cash inflow and outflow

	Items	30.06.07 LVL	30.06.06 LVL	30.06.07 EUR	30.06.06 EUR
I	Net cash flow from operating activities	2156380	-498160	3068251	-708818
II	Net cash flow from investing activities	-497668	-533646	-708117	-759310
III	Net cash flow from financing activities	-2049477	-399494	-2916143	-568429
	Result of fluctuations of currency exchange rates	-40452	-75608	-57558	-107580
	Net cash flow of the accounting period	-431217	-1506908	-613567	-2144137
	Cash and its equivalents in the beginning of the accounting period	440611	1941530	626933	2762548
	Cash and its equivalents at the end of the accounting period	9394	434622	13366	618411

**JSC "RER" STATEMENT OF CHANGES OF CONSOLIDATED SHAREHOLDERS' EQUITY
FOR SIX MONTHS OF 2007, LVL**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 31.12.2005	5799005	165909	192922	408145	6565981
2. Income or loss of the accounting period that is not included in the profit and loss account:		-1160			-1160
a) decrease of fixed asset value					
3. Adjustments				-405640	-405640
4. Income or loss of the accounting period in accordance with the profit and loss account				-262741	-262741
5. Balance as of 30.06.2006	5799005	164749	192922	-260236	5896440
6. Balance as of 31.12.2006	5799005	161271	192922	1604724	7757922
7. Income or loss of the accounting period that is not included in the profit and loss account:		-1863			-1863
a) decrease of fixed asset value					
8. Adjustments				-81779	-81779
9. Income or loss of the accounting period in accordance with the profit and loss account				1825664	1825664
10. Balance as of 30.06.2007	5799005	159408	192922	3348609	9499944

**JSC "RER" STATEMENT OF CHANGES OF CONSOLIDATED SHAREHOLDERS' EQUITY
FOR SIX MONTHS OF 2007, EUR**

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balance as of 31.12.2005	8251241	236067	274503	580738	9342549
2. Income or loss of the accounting period that is not included in the profit and loss account:		-1650			-1650
a) decrease of fixed asset value					
3. Adjustments				-577174	-577174
4. Income or loss of the accounting period in accordance with the profit and loss account				-373847	-373847
5. Balance as of 30.06.2006	8251241	234417	274503	-370283	8389878
6. Balance as of 31.12.2006	8251241	229468	274503	2283316	11038528
7. Income or loss of the accounting period that is not included in the profit and loss account:		-2651			-2651
a) decrease of fixed asset value					
8. Adjustments				-116360	-116360
9. Income or loss of the accounting period in accordance with the profit and loss account				2597686	2597686
10. Balance as of 30.06.2007	8251241	226817	274503	4764642	13517203

APPENDICES

APPENDICES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR SIX MONTHS 2007

Note No. 1 - Net turnover

Country	30.06.07, LVL	30.06.07, EUR	30.06.06, LVL	30.06.06, EUR
Latvia	5572971	7929624	2430654	3458509
Estonia	3010	4283	1101275	1566973
Russia	1240423	1764963	706446	1005182
Lithuania	4614	6565	2206	3140
Germany	424	603		
Great Britain	4509656	6416662		
Ukraine	1176868	1674532	1438949	2047440
Sweden	31960	45475	39892	56761
Kazakhstan			8167	11621
Byelorussia	20386	29007		
Total	12560312	17871714	5727589	8149626

Note No. 2 - Production costs of the goods sold

Items	30.06.07, LVL	30.06.07, EUR	30.06.06, LVL	30.06.06, EUR
Wages and salaries of personnel	2846857	4050713	1124788	1600429
Social security contributions	645690	918734	264313	376084
Costs of materials	4916087	6994962	2430885	3458838
Energy resources	313483	446046	207119	294704
Depreciation and amortization of fixed assets and intangible investments	89866	127868	65578	93309
Travelling expenses	29065	41356	41547	59116
Repair expenses	45409	64611	340231	484105
Other expenses	121375	172700	88008	125224
Total	9007832	12816990	4562469	6491809

Note No. 3 – Other income from business activities

Items	30.06.07, LVL	30.06.07, EUR	30.06.06, LVL	30.06.06, EUR
Profit from other disposal (materials, lease)	116541	165823	37415	53237
Fixed asset liquidation residuals, materials	243	346	124	176
Disposal of fixed assets			3339	4751
Deposited wages and salaries			72	102
Income connected with maintaining social sphere	12704	18076	12550	17857
Income from fluctuations of currency exchange rates			34	48
Income from currency conversion			13	19
Decrease of revaluation of fixed asset reserve	1864	2652	1160	1651
Other income	624	888	3293	4686
Total	131976	187785	58000	82527

Note No. 4 - Other expenses of business activities

Items	30.06.07, LVL	30.06.07, EUR	30.06.06, LVL	30.06.06, EUR
Penalty and contractual penalties	9818	13970	158	225
Expenses connected with maintaining social sphere	47963	68245	33380	47495
Expenses not connected with business activities of the company	72195	102724	81302	115682
Loss from fluctuations of currency exchange rates	3048	4337	17813	25346
Loss from currency conversion	39560	56289	64445	91697
Fixed asset liquidation			5305	7548
Tax surcharge	28507	40562		
Write-off of bad debts	2945	4190		
Loss of the previous year			103	147

Other expenses	115	164	99	141
Total	204151	290481	202605	288281

Note No. 5 – Other taxes

Items	30.06.07, LVL	30.06.07, EUR	30.06.06, LVL	30.06.06, EUR
Real estate tax for buildings (constructions)	95090	135301	12847	18280
Real estate tax for buildings for land	8618	12262	10138	14425
Total	103708	147563	22985	32705

APPENDICES TO THE CONSOLIDATED BALANCE SHEET FOR SIX MONTHS OF 2007

Note No. 6 - Debtors

Items	30.06.07, LVL	30.06.07, EUR	30.06.06, LVL	30.06.06, EUR
1. Debts of buyers and customers (line code 300)	5980798	8509909	213767	304163
2. Debts of associated companies (line code 320)	137	195	18	26
3. Other debtors (line code 330), including	179948	256042	155215	220851
- personnel accounts receivable	16819	23931	3773	5368
- taxes paid in advance	47120	67046	5411	7699
- overpaid taxes	68652	97683	91767	130573
- advance payments for services	44263	62981	45321	64486
- VAT of outstanding invoices			5063	7204
- others	3094	4401	3880	5521
4. Deferred expenses	813	1157	30560	43483
Total	6161696	8767303	399560	568523

Note No. 7 – Cash

Items	30.06.07, LVL	30.06.07, EUR	30.06.06, LVL	30.06.06, EUR
Cash office	85	121	24652	35077
Settlement account	9309	13245	409970	583334
Total	9394	13366	434622	618411

Note No. 8 – Shareholders' equity

See "Statement of changes of consolidated shareholders equity for six months of 2007", page 13.

Note No. 9 – Share capital (Capital stock)

The total number of JSC "RER" shares – 5799005 pieces of par value LVL 1.00.

Capital stock amounts to LVL 5799005, which is divided into 5799005 ordinary shares with voting right.

Items	30.06.07, LVL	30.06.07, EUR	30.06.06, LVL	30.06.06, EUR
Residents, including	199525	283899	199525	283899
- natural personas	174322	248038	174322	248038
- legal persons	25203	35861	25203	35861
Non-residents, including	5599480	7967342	5599480	7967342
- Russia	2454978	3493118	1011027	1438562
- Canada	5119	7284	5119	7284
- USA	1046461	1488980	1527778	2173832
- British Virgin Islands	2092922	2977960	3055556	4347664
Total	5799005	8251241	5799005	8251241

Note No. 10 - Creditors

Items	30.06.07, LVL	30.06.07, EUR	30.06.06, LVL	30.06.06, EUR
1. Long-term creditors (line code 740). (Loan, credit line, leasing contracts; deferred tax liabilities)	1751427	2492056	517	736
2. Loans from credit institutions (line code 770) (Loan contract, credit line contract)	5605494	7975899		
3. Other loans (line code 780) (Leasing contracts)	125772	178957	3514	5000
4. Advance payments received from buyers (line code 790)	10896	15504	364365	518445
5. Debts to suppliers and contractors (line code 800)	1014902	1444075	276867	393946
6. Debts to associated companies (line code 830)	3270	4653	1699	2417
7. Tax payable (line code 840)	357043	508026	147713	210177
8. Other creditors (line code 850), including	419428	596793	178249	253625
- wages and salaries payable	416151	592130	175970	250383
- alimony	1290	1836	980	1394
- settlements with personnel for debts	1967	2799	1193	1697
- others	20	28	106	151
Unpaid dividends of previous years (line code 880)	1500	2134	1453	2067
Total	9289732	13218097	974377	1386413

**PRINCIPLES OF DRAWING UP OF CONSOLIDATED FINANCIAL STATEMENTS
FOR SIX MONTHS OF 2007**

Substantiation for preparation of financial statements

Financial statements are prepared in accordance with the Republic of Latvia Law on Accounting and Law on Consolidated Annual Accounts, as well as in accordance with basic requirements of the International Accounting Standard 27. Financial statements provide a true and clear idea of assets, liabilities and financial status of the companies involved in consolidation.

Financial statements are prepared on the grounds of a concept of continuation of activities.

Profit and Loss account is drawn up by cost-of-sales accounting.

Cash flow statement is prepared by indirect method.

In comparison with 2006, a method of evaluation of materials and raw materials was changed at JSC "RER". From 01 January 2007, materials and raw materials are evaluated using FIFO method.

Monetary unit and revaluation of foreign currencies

In the financial statements, as a monetary unit and measure of value, there is used the Republic of Latvia monetary unit – lats. Profit or loss received as result of fluctuations of currency exchange rates is presented in the profit and loss account for the respective period.

Data of financial statements, which are presented in euro, are recalculated using the exchange rate stated by the Bank of Latvia on **30.06.2007: 1 EUR – 0.702804**.

Fixed assets and intangible investments

Fixed assets and intangible investments are presented in the balance sheet by depreciated cost. Depreciation and amortisation of fixed assets and intangible investments is calculated by straight-line method.

For calculation of depreciation of fixed assets, there are used the following rates:

Buildings, constructions	1.1 – 1.9 %
Equipment and machinery	2 – 20 %
Other fixed assets and inventory	10 – 50 %

Depreciation of land is not calculated.

Inventories

Remaining balance of raw materials and materials is evaluated by purchase cost value using FIFO method.

Inventory of law value is entered by purchase cost value and is written off 100% as expenses after putting into operation.

Remaining balance of finished products and unfinished products are evaluated by cost of production.

Determination of companies to be involved in consolidation

"Ražošana Enerģētika Zinātne" LTD. is not included in consolidation, because on 30.06.2007, JSC "RER" has no decisive influence in accordance with liquidation of "Ražošana Enerģētika Zinātne" LTD.

"Lovato - REZ" LTD. is the company governed jointly. There is possibility to include this company in consolidation by performing proportional consolidation or applying equity method.

"Lovato – REZ" LTD. equity consolidation

There is added up only a proportional concern part 50% of assets, liabilities, income, and expenses.

		Debit of account, LVL	Amount, LVL	Credit of account, LVL	Amount, LVL
Capital stock	$115200 * 0.50 = 57600$	3110	57600		
Reserve for revaluation of long-term investments	$31984 * 0.50 = 15992$	3130	15992		
Other provisions	$1168 * 0.50 = 584$	3360	584		
Profit of the accounting period	$- 5071 * 0.50 = - 2535.50$				
				1330	59927
Shareholders' equity	$143281 * 0.50 = 71640.50$		74176		59927
Negative consolidation difference	$74176 - 59927 = 14249$			3900	14249
Negative consolidation difference was included in the profit and loss account according to part 3 of clause 18 of the Law on Consolidated Annual Accounts.					

21 August 2007

STATEMENT OF MANAGEMENT RESPONSIBILITY

We recognize that unaudited consolidated financial statements for six months of 2007 were prepared true. Information presented in the financial statements is true and does not give a misleading idea of the concern assets and liabilities.

JSC "RER" Chairman of the Board

G. Uspenskis

21 August 2007