

JOINT- STOCK COMPANY
“RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA”
(RIGA ELECTRIC MACHINE BUILDING WORKS)

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

UNAUDITED FINANCIAL STATEMENTS
FOR TWELVE 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 – 31 December 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 associated companies	“Lovato - REZ” LTD. Reg. No. 40003072180 Share capital 115200 LVL JSC “RER” contribution is 50%

**JSC “RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA”
STATEMENT MANAGEMENT**

Business activities of the Company in 2007

Basic business activities of AS „Rīgas elektromašīnbūves rūpnīca” (hereinafter – AS „RER”) are manufacturing of electric machines and machinery.

In 2007 AS “RER” continued developing and growing. The Company has concluded the reporting period with profit amounting to LVL 1730785 before tax and LVL 1252318 after tax. The Company's net turnover was LVL 24389044, which is 169,7 % when compared with 2006. The average number of employees in 2007 was 1193 which has increased by 52,4 %when compared with 2006. The average monthly salary in 2007 was LVL 598.82, and this number has increased by 47,9 % when compared with 2006.

Proportion of loan assets increased in asset structure of the Company in 2007.

In November 2007 liquidation of the Company's subsidiary company SIA „Ražošana Enerģētika Zinātne” was completed. As at 31.12.2007 the only investment of AS RER” remained in the affiliated company SIA „Lovato-REZ”. Information about partnership in the capital, profit and loss of SIA „Lovato-REZ” is of no high importance. Therefore in January 2008 the Board of AS „RER” took decision no to prepare a consolidated annual report 2007.

Development activities of the Company

AS „RER” will continue to modernize technological equipment and machinery and develop social sphere.

Distribution of profit made 2007

Shareholders of AS „RER” will be asked to consider a possibility to maintain earnings made in 2007 and amounting to LVL 1252318 retained.

Chairman of the Board

G. Uspenskis

25 February 2008

Joint – stock company “Riga electric machine buildings works”
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PROFIT AND LOSS ACCOUNT FOR TWELVE MONTHS OF 2007

No.	Items	Line code	Note	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
1	Net turnover	010	1	24389044	14373305	34702483	20451371
2	Production costs of the goods sold	020	2	(18588635)	(10325695)	(26449245)	(14692140)
3	Gross profit or loss	030		5800409	4047610	8253238	5759231
4	Selling expenses	040	3	(415303)	(249982)	(590923)	(355692)
5	Administration expenses	050	4	(2977947)	(1695792)	(4237237)	(2412895)
6	Other operating income	060	5	256130	117600	364440	167330
7	Other operating expenses	070	6	(557052)	(376199)	(792614)	(535283)
8	Income from participation in capital of related and affiliated companies	080	7	1500	1453	2134	2067
9	Other interest income and similar income	100		510	720	726	1024
10	Other interest payments and similar expenses	120	8	(377462)	(22077)	(537080)	(31413)
11	Profit or loss before extraordinary items and taxes	130		1730785	1823333	2462684	2594369
12	Profit or loss before tax	160		1730785	1823333	2462684	2594369
13	Corporate income tax	170		(252354)	(230262)	(359067)	(327633)
14	Retained corporate income tax	180		(27295)	(40670)	(38836)	(57869)
15	Other taxes	190	9	(198818)	(31961)	(282893)	(45476)
16	Profit or loss of the accounting period	200		1252318	1520440	1781888	2163391

EPS (earnings per share)	0,22	0,26	0,31	0,37
The number of shares is 5799005				

Joint – stock company “Riga electric machine buildings works”
Unaudited financial statements for twelve months of 2007

BALANCE SHEET FOR TWELVE MONTHS OF 2007

A S S E T S	Line code	Note	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
1. LONG-TERM INVESTMENTS		10				
I. Intangible investments						
1. Concessions, licences and similar rights	020		797	1303	1134	1854
2. Other intangible investments	021		4906	31	6981	44
I. Total	050		5703	1334	8115	1898
II. Fixed assets						
1. Land plots, buildings, constructions	060		4385783	4080263	6240407	5805691
2. Equipment and machinery	080		1973758	1707980	2808405	2430237
3. Other fixed assets and inventory	090		110360	66209	157028	94207
4. Creation of fixed assets	100		460239	136483	654861	194198
5. Prepayments for fixed assets	110		396945	172126	564802	244913
II. Total	120		7327085	6163061	10425503	8769246
III. Long-term financial investments						
1. Participation in capital of related companies	130			448093		637579
2. Participation in capital of affiliated companies	150		59927	59927	85268	85268
III. Total	210		59927	508020	85268	722847
I. PART TOTAL AMOUNT	220		7392715	6672415	10518886	9493991
2. CURRENT ASSETS						
I. Stocks						
1. Raw materials, direct materials and auxiliary materials	230		2723374	2210255	3875012	3144910
2. Unfinished products	240		1359704	1035959	1934684	1474037
3. Finished products and goods for sale	250		501789	38656	713981	55003
4. Prepayments for goods	270		62849	328432	89426	467317
I. Total	290		4647716	3613302	6613103	5141267
II. Debtors						
1. Debts of buyers and customers	300	11	6656413	1317002	9471222	1873925
2. Debts of affiliated companies	320		388	429	552	610
3. Other debtors	330	12	80323	32801	114289	46672
4. Deferred expenses	360	13	9139	24452	13004	34792
II. Total	370		6746263	1374684	9599068	1955999
III. Securities and participation in capitals						
1. Other securities	400	14	1600000		2276595	
III. Total	410		1600000		2276595	
IV. Cash	420	15	11713	416020	16666	591943
II. PART TOTAL AMOUNT	430		13005692	5404006	18505432	7689209
B A L A N C E	440		20398407	12076421	29024317	17183200

Appendices to financial statements on pages 10 – 16 are an integral part of the financial statements.

Joint – stock company “Riga electric machine buildings works”
Unaudited financial statements for twelve months of 2007

BALANCE SHEET FOR TWELVE MONTHS OF 2007

LIABILITIES	Line code	Note	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
1. SHAREHOLDERS' EQUITY		16				
1. Share capital (capital stock)	450	17	5799005	5799005	8251241	8251241
2. Reserve for revaluation of long-term investments	470		199438	161271	283775	229468
3. Other provisions	510		192922	192922	274503	274503
4. Undivided profit:						
a) Undivided profit of previous years	530		1522945	2505	2166955	3564
b) Undivided profit of the accounting year	540		1252318	1520440	1781888	2163391
1. PART TOTAL AMOUNT	550		8966628	7676143	12758362	10922167
2. PROVISIONS						
1. Other provisions	580	18	412822	186566	587393	265460
2. PART TOTAL AMOUNT	590		412822	186566	587393	265460
3. CREDITORS						
I. Long-term creditors						
1. Loans from credit institutions	620	19	657746	1534736	935888	2183733
2. Other loans	630	20	10832	15107	15413	21495
3. Deferred tax liabilities	731		227367	200072	323514	284677
I. Total	740		895945	1749915	1274815	2489905
II. Short-term creditors						
1. Loans from credit institutions	770	19	6871091	1527667	9776682	2173674
2. Other loans	780	20	229958	19221	327201	27349
3. Advance payments received from buyers	790		10507	5639	14950	8024
4. Debts to suppliers and contractors	800		1745326	325841	2483375	463630
5. Debts to affiliated companies	830		1713	1445	2437	2056
6. Taxes and social security payments	840	21	696564	292036	991121	415530
7. Other creditors	850	22	567853	291948	807981	415405
II. Total	890		10123012	2463797	14403747	3505668
3. PART TOTAL AMOUNT	900		11018957	4213712	15678562	5995573
BALANCE	910		20398407	12076421	29024317	17183200

CASH FLOW STATEMENT FOR TWELVE MONTHS OF 2007 (prepared by indirect method)

I. Cash flow from operating activities

	Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
1	Profit or loss before extraordinary items and taxes	1730785	1823333	2462684	2594369
	ADJUSTMENTS				
	Depreciation of fixed assets	276590	155651	393552	221471
	Amortization of intangible investment value	1512	769	2151	1094
	Gain from sales of fixed assets	(2100)	(8859)	(2988)	(12605)
	Profit or loss from fluctuations of currency exchange rates	96265	134265	136974	191042
	Income from participation in capital of related and affiliated companies	(1500)	(1453)	(2134)	(2067)
	Amounts written off investments	448093		637579	
	Corporate income tax surcharge and penalty	29904		42550	
	Reserve for revaluation of long-term investments	38167	(8001)	54307	(11384)
2	Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	2617716	2095705	3724675	2981920
	ADJUSTMENTS				
	Increase or decrease of balance of receivables	(5347635)	(1011339)	(7608999)	(1439006)
	Increase or decrease of balance of inventories	(1299997)	(1053156)	(1849729)	(1498506)
	Increase or decrease of deferred expenses	15313	60252	21788	85731
	Increase or decrease of balance of debts to be paid to suppliers, contractors and other creditors	7664235	1576785	10905224	2243563
	Increase or decrease of accruals	226257	71459	321935	101677
	Expenses for tax payments	(200465)	(31867)	(285236)	(45343)
3	Gross cash flow from operating activities	3675424	1707839	5229658	2430036
4	Expenses for corporate income tax payments	(312766)	(385276)	(445026)	(548198)
5	Cash flow before extraordinary items	3362658	1322563	4784632	1881838
I	NET CASH FLOW FROM OPERATING ACTIVITIES	3362658	1322563	4784632	1881838

II. Cash flow from investing activities

	Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
1	Purchase of stock or shares of related or associated companies		(4695)		(6680)
2	Purchase of fixed assets and intangible investments	(1169733)	(3837282)	(1664380)	(5459960)
3	Income from sales of fixed assets and intangible investments	2100	8859	2988	12605
4	Dividends received	1500	1453	2134	2067
II	NET CASH FLOW FROM INVESTING ACTIVITIES	(1166133)	(3831665)	(1659258)	(5451968)

III. Cash flow from financing activities

	Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
1	Loans received		1549843		2205228
2	Expenses for repayment of loans	(876990)		(1247844)	
3	Expenses for repurchase of leased fixed assets	(36244)	(8978)	(51571)	(12775)
4	Dividends paid out		(408646)		(581451)
5	Expenses for purchase of short-term securities (bill of exchange)	(1600000)		(2276595)	
III	NET CASH FLOW FROM FINANCING ACTIVITIES	(2513234)	1132219	(3576010)	1611002

IV. Summary of cash inflow and outflow

	Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
I	Net cash flow from operating activities	3362658	1322563	4784632	1881838
II	Net cash flow from investing activities	(1166133)	(3831665)	(1659258)	(5451968)
III	Net cash flow from financing activities	(2513234)	1132219	(3576010)	1611002
	Result of fluctuations of currency exchange rates	(87598)	(128653)	(124640)	(183057)
	Net cash flow of the accounting period	(404307)	(1505536)	(575277)	(2142185)
	Cash and its equivalents in the beginning of the accounting period	416020	1921556	591943	2734128
	Cash and its equivalents at the end of the accounting period	11713	416020	16666	591943

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2007, LVL

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balanse as of 31.12.2005.g.	5799005	165909	192922	454827	6612663
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(8001)			(8001)
b) increase of fixed assets		3363			3363
3. Distribution of profit (dividends calculated for 2005)				(452322)	(452322)
4. Income or loss of the accounting period in accordance with the profit and loss account				1520440	1520440
5. Balanse as of 31.12.2006.g.	5799005	161271	192922	1522945	7676143
6. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(2461)			(2461)
b) increase of fixed assets		40628			40628
7. Income or loss of the accounting period in accordance with the profit and loss account				1252318	1252318
8. Balanse as of 31.12.2007.g.	5799005	199438	192922	2775263	8966628

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY FOR TWELVE MONTHS OF 2007, EUR

Kind of changes	Share capital	Reserve for revaluation of long-term investments	Other provisions	Undivided profit	Total
1. Balanse as of 31.12.2005.g.	8251241	236067	274503	647161	9408972
2. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(11384)			(11384)
b) increase of fixed assets		4785			4785
3. Distribution of profit (dividends calculated for 2005)				(643597)	(643597)
4. Income or loss of the accounting period in accordance with the profit and loss account				2163391	2163391
5. Balanse as of 31.12.2006.g.	8251241	229468	274503	2166955	10922167
6. Income or loss of the accounting period that is not included in the profit and loss account:					
a) decrease of fixed assets		(3502)			(3502)
b) increase of fixed assets		57809			57809
7. Income or loss of the accounting period in accordance with the profit and loss account				1781888	1781888
8. Balanse as of 31.12.2007.g.	8251241	283775	274503	3948843	12758362

APPENDICES

APPENDICES TO THE PROFIT AND LOSS ACCOUNT FOR TWELVE MONTHS 2007

Note No. 1 - Net turnover

Country	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Latvia	10976465	5990520	15618102	8523742
Estonia		1115556		1587293
Russia	1264527	2906007	1799260	4134875
Lithuania		3375		4802
Germany	424		603	
Ukraine	1191170	4275207	1694882	6083072
Sweden	46940	74473	66790	105966
Kazakhstan		8167		11621
Byelorussia	20386		29007	
Great Britain	10875293		15474148	
Gibraltar	13839		19691	
Total	24389044	14373305	34702483	20451371

Note No. 2 - Production costs of the goods sold

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Wages and salaries of personnel	6120568	2517955	8708784	3582727
Social security contributions	1410784	588372	2007365	837178
Costs of materials	9926109	5552676	14123581	7900746
Energy resources	571006	1089470	812468	1550176
Depreciation and amortization of fixed assets and intangible investments	186109	128941	264809	183467
Travelling expenses	66417	89179	94503	126840
Repair expenses	60599	190863	86225	271574
Other expenses	247043	168239	351510	239382
Total	18588635	10325695	26449245	14692140

Note Nr. 3 – Selling expenses

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Packing material and package	250131	124599	355904	177288
Transportation expenses	22171	78392	31546	111542
Wages and salaries of personnel	115160	37443	163858	53277
Social security contributions	26970	8823	38375	12554
Other selling costs	871	725	1240	1031
Total	415303	249982	590923	355692

Note Nr. 4 – Administration expenses

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Communication costs	45030	21958	64072	31243
Office costs	15627	6001	22235	8539
Reimbursement for legal services	1564	7017	2225	9984
Annual report and auditing services	4897	3850	6968	5478
Cash circulation expenses and extra costs	78753	16675	112055	23726
Transportation expenses	21694	21732	30868	30922
Representation expenses	24791	19597	35274	27884
Wages and salaries of personnel	2020060	1243624	2874286	1769518
Social security contributions	391621	188416	557226	268092
Material value costs	24848	24941	35356	35488
Energy resources	89649	68676	127559	97717
Repair expenses	5562	10670	7914	15182
Depreciation of fixed assets	60805	32625	86518	46421
Travelling expenses	60678		86337	
Other administrative costs	132368	30010	188344	42701
Total	2977947	1695792	4237237	2412895

Joint – stock company “Riga electric machine buildings works”
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Note No. 5 – Other income from business activities

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Profit from other disposal (materials, lease)	221160	72369	314682	102972
Penalty received		137		195
Fixed asset liquidation residuals, materials	779	875	1108	1245
Sale of fixed assets	2100	8859	2988	12605
Deposited wages and salaries	5	72	7	102
Income connected with maintaining social sphere	29585	24276	42096	34542
Decrease of revaluation of fixed asset reserve	2461	8001	3502	11384
Other income	40	3011	57	4285
Total	256130	117600	364440	167330

Note No. 6 - Other expenses of business activities

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Penalty and contractual penalties	11551	859	16436	1222
Expenses connected with maintaining social sphere	112251	93873	159719	133569
Expenses not connected with business activities of the company	161866	139183	230315	198040
Loss from currency conversion	86469	117399	123034	167044
Loss from fluctuations of currency exchange rates	9796	16866	13938	23998
Fixed asset liquidation	22615	7916	32178	11263
Loss from written off investments	65468		93153	
Provisions for doubtful debts	12188		17342	
Write-off of bad debts	5120		7285	
Tax surcharge	28507		40562	
Increase of revaluation of fixed asset reserve	40628		57808	
Loss of the previous year		103	147	
Other expenses	593		844	
Total	557052	376199	792614	535283

Note Nr. 7 – Income from participation in capital of related and affiliated companies

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Dividends of affiliated companies	1500	1453	2134	2067

Note Nr. 8 – Other interest payments and similar expenses

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Loans agreements	122415	18911	174181	26908
Leasing agreements	6838	549	9730	781
Credit facility agreements	248209	2617	353169	3724
Total	377462	22077	537080	31413

Note No. 9 – Other taxes

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Real estate tax for buildings (constructions)	190200	19274	270631	27424
Real estate tax on land	8618	12687	12262	18052
Total	198818	31961	282893	45476

Joint – stock company “Riga electric machine buildings works”
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APPENDICES TO THE BALANCE SHEET FOR TWELVE MONTHS OF 2007

Note Nr. 10 – Long-term investment movement report for twelve months of 2007, LVL

Type of long-term assets	Initial value				Depreciation				Balance value	
	As of 01.01.07.	Purchase	Excluded	As of 31.12.07.	As of 1.01.07.	Calculated	Excluded	As of 31.12.07.	As of 01.01.07.	As of 31.12.07.
Intangible assets										
Licences and sim. rights	1827		(467)	1360	524	506	(467)	563	1303	797
Other invest.	1060	5881	(15)	6926	1029	1006	(15)	2020	31	4906
Total	2887	5881	(482)	8286	1553	1512	(482)	2583	1334	5703
Fixed assets										
Lands, buildings constructions	6951304	379932	(75235)	7256001	2871041	74412	(75235)	2870218	4080263	4385783
Equipment and machinery	4014291	422429	(66800)	4369920	2306311	156651	(66800)	2396162	1707980	1973758
Other FA	159131	89678	(3400)	245409	92922	45527	(3400)	135049	66209	110360
Formation of fixed assets	136483	683495	(359739)	460239					136483	460239
Advance payments for FA	172126	1511045	(1286226)	396945					172126	396945
Total	11433335	3086579	(1791400)	12728514	5270274	276590	(145435)	5401429	6163061	7327085
Long-term fin. investments										
Particip. in rel. companies	448093		(448093)						448093	
Particip. in aff. companies	59927			59927					59927	59927
Total	508020		(448093)	59927					508020	59927
Total long-term investm.	11944242	3092460	(2239975)	12796727	5271827	278102	(145917)	5404012	6672415	7392715

Note Nr. 10 – Long-term investment movement report for twelve months of 2007, EUR

Type of long-term assets	Initial value				Depreciation				Balance value	
	As of 01.01.07.	Purchase	Excluded	As of 31.12.07.	As of 1.01.07.	Calculated	Excluded	As of 31.12.07.	As of 01.01.07.	As of 31.12.07.
Intangible assets										
Licences and sim. rights	2600		(664)	1936	746	720	(664)	802	1854	1134
Other invest.	1508	8368	(21)	9855	1464	1431	(21)	2874	44	6981
Total	4108	8368	(685)	11791	2210	2151	(685)	3676	1898	8115
Fixed assets										
Lands, buildings constructions	9890815	540595	(107050)	10324360	4085124	105879	(107050)	4083953	5805691	6240407
Equipment and machinery	5711822	601062	(95048)	6217836	3281585	222894	(95048)	3409431	2430237	2808405
Other FA	226423	127600	(4838)	349185	132216	64779	(4838)	192157	94207	157028
Formation of fixed assets	194198	972526	(511863)	654861					194198	654861
Advance payments for FA	244913	2150023	(1830134)	564802					244913	564802
Total	16268171	4391806	(2548933)	18111044	7498925	393552	(206936)	7685541	8769246	10425503
Long-term fin. investments										
Particip. in rel. companies	637579		(637579)						637579	
Particip. in aff. companies	85268			85268					85268	85268
Total	722847		(637579)	85268					722847	85268
Total long-term investm.	16995126	4400174	(3187197)	18208103	7501135	395703	(207621)	7689217	9493991	10518886

Note Nr. 11 – Debts of buyers and customers

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Debts of buyers and customers	6668462	1317002	9488366	1873925
Provisions for doubtful debtors	(12049)		(17144)	
Total	6656413	1317002	9471222	1873925

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Note Nr. 12 – Other debtors

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Personnel accounts receivable	6926	851	9855	1211
Taxes paid in advance	14133	4770	20109	6787
Overpaid taxes	41542		59109	
Advance payments for services	12001	24437	17076	34771
Other debtors	5721	2743	8140	3903
Total	80323	32801	114289	46672

Note Nr. 13 – Deferred expenses

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Press subscription	1980	1443	2817	2053
Insurance	2722	11048	3873	15720
Exhibition visits		10282		14630
Annual anti-virus program licences	3267		4649	
Other deferred expenses	1170	1679	1665	2389
Total	9139	24452	13004	34792

Note Nr. 14 – Other securities

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Simple bill of exchange	1600000		2276595	

Note Nr. 15 – Cash assets

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Current account in banks	11713	416020	16666	591943

Note Nr. 16 – Shareholders' equity

See “Statement of changes of shareholders equity for twelve months of 2007”, page 9.

Note Nr. 17 – Share capital (capital stock)

The total number of AS “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	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Residents, including	199525	283898	283898	283898
- natural persons	174322	248037	248037	248037
- legal persons	25203	35861	35861	35861
Non-residents, including	5599480	7967343	7967343	7967343
- Russia	1011027	1438562	1438562	1438562
- Canada	5119	7284	7284	7284
- Estonia (nominal holder)	4583334	6521497	6521497	6521497
Total	5799005	5799005	8251241	8251241

Note Nr. 18 – Other provisions

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Provisions for current vacations	412822	186566	587393	265460

Note Nr. 19 – Long-term and short-term loans from credit institutions

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
AS “Hansabanka”, loan agreement, including	1534736	2411726	2183732	3431577
Long-term debt	657746	1534736	935888	2183733
Short-term debt	876990	876990	1247844	1247844
AS “Hansabanka”, credit facility, including	5994101	650677	8528838	925830
Short-term debt	5994101	650677	8528838	925830

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Note Nr. 20 – Other loans

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
SIA “Hansa Lizing”, leasing agreements, incl.	240790	34328	342614	48844
Long-term debt	10832	15107	15413	21495
Short-term debt	229958	19221	327201	27349

Note Nr. 21 – Taxes and social security payments

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Personal income tax	181790	97849	258664	139226
Mandatory social insurance contributions	505421	138198	719149	196638
Corporate income tax	5527	36129	7864	51407
Value added tax		16915		24068
Natural resources tax	3488	1152	4963	1639
Real estate tax on land		1390		1978
Real estate tax for buildings (constructions)		162		231
State business risk fee	338	241	481	343
Total	696564	292036	991121	415530

Note Nr. 22 – Other creditors

Items	31.12.07. LVL	31.12.06. LVL	31.12.07. EUR	31.12.06. EUR
Wages and salaries payable	559081	289068	795500	411307
Alimony	1143	1224	1626	1742
Trade union membership fee	7610	1635	10828	2326
Other creditors	19	21	27	30
Total	567853	291948	807981	415405

PRINCIPLES OF DRAWING UP OF FINANCIAL STATEMENTS FOR TWELVE MONTHS OF 2007

Preparation of annual report

The annual report is prepared in accordance with the Laws of the Republic of Latvia – „On Accounting” and „On the Annual Accounts of Undertakings”, as well as pursuant to the existing Accounting standards of Latvia, which basically conform to the International Accounting Standards.

Profit and loss account is prepared according to the turnover costs method.

Annual report presents fairly and clearly financial position of the Company, as well as its assets, liabilities and losses.

Cash flow statement is prepared in accordance with the indirect method.

In comparison with financial statements 2006, valuation method of materials and primary materials has been changed. Starting from 1 January 2007 materials and primary materials are evaluated by employing the FIFO method.

Annual report is prepared on the basis of the concept of activity continuation.

Currency unit and recalculation or foreign currency

The currency unit used in the annual report and accounting is lats, currency unit of the Republic of Latvia.

All the monetary items – monetary assets and liabilities – are recalculated in lats according to the exchange rate of the Bank of Latvia, which has been set on the last day of the reporting period (31.12.2007.). Annual report data reflected in euros are recalculated according to the exchange rate of the Bank of Latvia set as at 31.12.2007: 1 EUR – 0,702804 LVL.

Profit made or loss incurred as result of fluctuations of exchange rates is reflected in the profit and loss account of the corresponding period.

Fixed assets and intangible long-term assets

Fixed assets and intangible long-term assets are reflected on the balance sheet in their remaining value.

Depreciation of fixed assets and intangible assets are calculated according to the straight-line method. Depreciation of fixed assets is calculated by the following rates set by the Management:

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Unaudited financial statements for twelve months of 2007

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

Stocks

Evaluation of the remaining amounts of materials and primary materials is carried out by employing the FIFO method.

Low-value inventory is registered in its purchase price and written-off 100 % in expenses after putting it into operation.

Remaining amounts of finished products and unfinished products are assessed according to their cost price.

Debts of debtors and creditors

Debts of debtors and creditors are real. Debts amounts of debtors and creditors to be paid within a year and those to be paid later within the year after the date of the balance sheet are given on the balance sheet separately.

Remaining amounts of receivables are audited at the annual inventory as at:

Long-term assets – 01.11.2007.

Receivables – 01.10.2007.

Debtors and creditors – 01.01.2008.

All the items in the annual report have been compared with the date as 31.12.2006.

Chairman of the Board

G. Uspenskis

25 February 2008

AFFIRMATION OF MANAGEMENT

We confirm that the unaudited annual report 2007 has been prepared fairly. Information reflected in the annual report is correct, in all materials aspects, and does not unfairly present financial position of AS „Rīgas elektromašīnbūves rūpnīca”, as well as its assets and liabilities.

Chairman of the Board

G. Uspenskis

25 February 2008