

**JSC "VEF Radiotehnika RRR"**  
**Unified Registration Nr. 40003286712**  
**Address: Kurzemes prospekts 3, Riga, LV-1067**

**Main activities:**  
**production**

**Measurement units: Ls (LVL)**

## ***2006 Annual Report***

**Submission date:** \_\_\_\_\_

**Date of receipt:** \_\_\_\_\_

***Riga, Latvia***

## ***TABLE OF CONTENTS***

	<b>Page</b>
<b>Information about the company</b>	<b>3</b>
<b>Management report</b>	<b>4</b>
<b>Notification of management's responsibility</b>	<b>6</b>
<b>Profit and Loss Statement</b>	<b>7</b>
<b>Balance Sheet</b>	
<b>Assets</b>	<b>8</b>
<b>Liabilities</b>	<b>9</b>
<b>Statement of Cash Flows</b>	<b>10</b>
<b>Statement of Changes in Share Capital</b>	<b>11</b>
<b>Addendums to the Annual Report:</b>	
<b>1. Accounting policies and methods of usage</b>	<b>12</b>
<b>2. Notes to Profit and Loss statement entries</b>	<b>18</b>
<b>3. Notes to Balance Sheet entries</b>	<b>21</b>
<b>4. General information</b>	<b>27</b>
<b>5. Profit and Loss PL reduction for taxation</b>	<b>28</b>
<b>Auditor's Statement</b>	<b>29</b>

### ***INFORMATION about the COMPANY***

<b>Full name of the Company</b>	<i>JSC "VEF Radiotehnika RRR"</i>			
<b>Legal status of the Company</b>	<i>Public Joint-Stock Company</i>			
<b>Unified Registration Nr., place and date of issue datums</b>	<i>40003286712 11/12/1998</i>			
<b>Legal address of the Company</b>	<i>Kurzemes prospekts 3, Riga, LV-1067</i>			
<b>Telephone</b>	<i>67418087</i>			
<b>Postal address</b>	<i>Kurzemes prospekts 3, Riga, LV-1067</i>			
<b>Bank name and Company's bank accounts</b>	<i>AS "SEB Latvijas Unibanka" LV57UNLA0050006466330 (LVL) LV55UNLA0050006466366 (EUR) LV32UNLA0050006466392 (USD)</i>			
<b>Council members of the JSC</b>				
Chairman of the Council	<i>Vladimirs Martinsons</i>			
Council Member	<i>Andris Prikass</i>			
Council Member	<i>Janis Salenieks</i>			
Council Member	<i>Ausma Smiltneiece</i>			
Council Member	<i>Juris Voins</i>			
<b>Boar members of the JSC</b>				
Chairman of the Board	<i>Eduards Malejevs</i>			
Board Member	<i>Jurijs Malejevs</i>			
Board Member	<i>Inga Spruga</i>			
<b>Reporting year</b>	<i>from</i>	<i>01/01/2006</i>	<i>till</i>	<i>31/12/2006</i>
<b>Previous reporting period</b>	<i>from</i>	<i>01/01/2005</i>	<i>till</i>	<i>31/12/2005</i>
<b>Chief Accountant</b>	<i>Gunars Lacis</i>			
<b>Telephone:</b>				
<b>Auditor:</b>	Auditing Company "Finansists" Ltd. Talavas gatve 11-4, Riga, LV- 1029 Reg. Nr.LV-40002046180  Nelli Jermolicka sworn auditor (Latvian Association of Sworn Auditors' Certificate Nr.102)			

## ***Management Report***

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### **Types of activities**

During the 12 months of 2006, the main types of JSC "VEF Radiotehnika RRR" activities were:

1. Development of acoustic systems and casings, organisation of production, production and sales;
2. Production and sales of electronic blocks and Elektronisko bloku un components;
3. Production and sales of pressed circuit boards, galvanization services;
4. Provision of real estate rental services

All of the above-mentioned activities had been performed also in year 2005. New types of activities have not been performed.

### **Operation of the company in the reporting year**

When analysing performance indicators of JSC "VEF Radiotehnika RRR" for the year 2006, it can be concluded that the year has been successful and stable, with certain economical development. During the reporting year, the number of prospective customers (buyers) has grown both in the Baltic region as well as across European Union states, which is due to the audio equipment upgrade and development project implemented by the Company.

The Company has finished the financial year with the following results:

Result for the year before extraordinary items and taxes:	24380 LVL
Deferred corporate income tax:	142733 LVL
Other taxes:	-19079 LVL
Net result:	148034 LVL

Net turnover for the year 2006 is 1 889 399 Ls and has grown by 6.3 % in comparison with 2005.

There were no other significant events which could directly influence performance for the reporting year.

Current liabilities of the Company do not exceed current assets.

Total liabilities did not exceed total assets of the Company.

#### ***Company's profitability:***

Gross profit margin (%)	7.83
Operating profit margin (%)	2.31
Gross profit margin (%)	13.63

#### ***Financial profitability (%)***

Return on capital	3.90
Return on equity	7.22

A number of major works and activities on improvement of working environment, production technology and competitiveness have been performed in 2006:

- 1) refurbishment works commenced in production block I-2;
- 2) new technological equipment aimed to increase audio production quality and efficiency has been purchased for the total amount of 1 813 641 Ls, out of which grant aid was in the region of 1 000 000 Ls;
- 3) computer equipment upgrade has continued in order to replace old computers as well as to create new computerised working areas.

### **Company's development activities**

Further development of the Company lies in research of both local and export markets, offering new products to customers with aims to retain existing customers and to attract new ones.

In 2007, the Company is planning to retain the current rate of sales growth, which shall be done by using the features of the new equipment to its full potential.

### **Conditions and events after Balance Sheet completion**

From the end of the reporting year to this date there have been no events which could directly influence the value of this report.

**Proposals for distribution of profits**

During the reporting year, JSC "VEF Radiotehnika RRR" has ensured incomes which allowed to perform significant development activities, timely payment of all taxes as well as receipt of significant profits. The profit of the Company shall be used to cover losses from previous years.

**Chairman of the Board**

**Eduards Malejevs**

**Member of the Board**

**Jurijs Malejevs**

**Member of the Board**

**Inga Spruga**

April 16, 2007

**Annual report accepted at the Shareholders' Meeting on April 30, 2007**

### ***Notification of management's responsibility***

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Company's management is responsible for the preparation of the financial statements for each reporting period on the basis of the accounting principles and which reflect true and fair view of the company's financial situation as well as operating results.

The management confirms that in preparation of the report for the period ended December 31, 2004, the corresponding accounting principles have been applied, their use was consistent and the protective and logical decisions had been made.

Management is responsible for application of the necessary accounting principles, safeguarding company's assets as well as protection from misrepresentation and unlawful

Management confirms that for the purposes of carrying out the audit the necessary information and explanations have been given.

**Chairman of the Board**

**Eduards Maļejevs**

**Member of the Board**

**Jurijs Maļejevs**

**Member of the Board**

**Inga Sprūga**

April 16, 2007

***PROFIT AND LOSS STATEMENT  
 FOR THE PERIOD ENDED  
 31.12.2006 (per turnover (period) costs method)***

	Note	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
	nr.	LVL	EUR	LVL	EUR
Net turnover	1	1,889,399	2,688,373	1,777,802	2,529,584
Cost of sales	2	(1,631,968)	(2,322,081)	(1,423,808)	(2,025,896)
<b>Gross profit or loss</b>		<b>257,431</b>	<b>366,292</b>	<b>353,994</b>	<b>503,688</b>
Selling expenses	3	(57,994)	(82,518)	(51,309)	(73,006)
Administrative expenses	4	(184,926)	(263,126)	(178,828)	(254,449)
Other operating income	5	125,680	178,827	239,223	340,384
Other operating expenses	6	(102,308)	(145,571)	(274,314)	(390,314)
Interest income and similar income	7	5,783	8,228	127	181
Interest expense and similar expenses	8	(19,286)	(27,442)	(45,473)	(64,702)
<b>Profit or loss before extraordinary items and taxes</b>		<b>24,380</b>	<b>34,690</b>	<b>43,420</b>	<b>61,782</b>
<b>Profit or loss after extraordinary items and before taxes</b>		<b>24,380</b>	<b>34,690</b>	<b>43,420</b>	<b>61,782</b>
Deferred corporate income tax for the reporting period	9	142,733	203,091	(138)	(196)
Other taxes	10	(19,079)	(27,147)	(20,525)	(29,204)
<b>Profit or loss for the period</b>		<b>148,034</b>	<b>210,634</b>	<b>22,757</b>	<b>32,382</b>
Earnings per share (EPS coefficient)		0.058	0.083	0.009	0.013

**Notes to the statements (pages 13 to 28) form an inseparable part to these financial statements**

**Chairman of the Board**

**Eduards Maļejevs**

**Member of the Board**

**Jurijs Maļejevs**

**Member of the Board**

**Inga Sprūga**

April 16, 2007

***BALANCE SHEET as on 31.12.2006.***

<b>ASSETS</b>		Note nr.	<b>2006</b> <b>LVL</b>	<b>2006</b> <b>EUR</b>	<b>2005</b> <b>LVL</b>	<b>2005</b> <b>EUR</b>
<b>1. Non-current assets</b>						
<b>I. Intangible assets:</b>						
Concessions, patents, licenses, trade marks and similar rights	11	2,005	2,853	1,601	2,278	
<b>Total intangible assets:</b>		<b>2,005</b>	<b>2,853</b>	<b>1,601</b>	<b>2,278</b>	
<b>II. Fixed assets:</b>						
Land, buildings and constructions		1,239,649	1,763,862	1,301,697	1,852,148	
Equipment and vehicles		2,048,277	2,914,436	218,271	310,572	
Other fixed assets		191,104	271,916	188,798	268,635	
Construction of fixed assets and unfinished construction objects		38,052	54,143	38,052	54,143	
Advance payments for fixed assets		576	820			
<b>Total fixed assets:</b>	12	<b>3,517,658</b>	<b>5,005,177</b>	<b>1,746,818</b>	<b>2,485,498</b>	
<b>III. Investment properties</b>						
<b>Total investment properties:</b>		-		-		
<b>IV. Biological assets</b>						
<b>Total biological assets</b>		-		-		
<b>V. Long-term financial investments:</b>						
Other loans and other long-term debtors		1,120	1,594	1,120	1,594	
Deferred taxation assets		72,195	102,724	-	-	
<b>Total long-term financial investments:</b>		<b>73,315</b>	<b>104,318</b>	<b>1,120</b>	<b>1,594</b>	
<b>Total non-current assets:</b>		<b>3,592,978</b>	<b>5,112,348</b>	<b>1,749,539</b>	<b>2,489,370</b>	
<b>2. Current assets</b>						
<b>I. Inventory:</b>						
Raw materials	13	288,587	410,622	244,085	347,302	
Work in process	14	9,261	13,177		-	
Finished goods	14	157,601	224,246	198,798	282,864	
Advance payments for materials	15	185,165	263,466	144,785	206,010	
<b>Total inventory:</b>		<b>640,614</b>	<b>911,511</b>	<b>587,668</b>	<b>836,176</b>	
<b>II. Sales-deferred long-term investments</b>						
<b>Total sales-deferred long-term investments:</b>		-	-	-	-	
<b>III. Receivables:</b>						
Trade receivables	16	404,829	576,020	431,521	613,999	
Other receivables	17	93,076	132,435	126,024	179,316	
Deferred expenses	18	481,753	685,473	107,515	152,980	
<b>Total receivables:</b>		<b>979,658</b>	<b>1,393,928</b>	<b>665,060</b>	<b>946,295</b>	
<b>IV. Short-term financial investments:</b>						
Other securities and capital participation		14	20	14	20	
<b>Total short-term financial investments:</b>		<b>14</b>	<b>20</b>	<b>14</b>	<b>20</b>	
<b>V. Cash</b>	19	<b>31,368</b>	<b>44,633</b>	<b>339,132</b>	<b>482,541</b>	
<b>Total currents assets:</b>		<b>1,651,654</b>	<b>2,350,092</b>	<b>1,591,874</b>	<b>2,265,032</b>	
<b>TOTAL ASSETS:</b>		<b>5,244,632</b>	<b>7,462,439</b>	<b>3,341,413</b>	<b>4,754,402</b>	



***BALANCE SHEET as on 31.12.2006.***

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	Note nr.	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
		<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
<b>1. Shareholders' equity:</b>					
Share capital	20	2,549,084	3,627,020	2,549,084	3,627,020
Reserves:					
Total reserves:		-	-	-	-
Retained earnings:					
a) previous years' retained earnings	21	- 573,033	- 815,353	- 595,789	- 847,731
b) current year profit/(loss)	21	148,034	210,634	22,757	32,381
<b>Total shareholders' equity:</b>		<b>2,124,085</b>	<b>3,022,301</b>	<b>1,976,052</b>	<b>2,811,670</b>
<b>2. Provisions:</b>					
<b>Total provisions:</b>		-	-	-	-
<b>3. Liabilities:</b>					
<b>I. Non-current liabilities:</b>					
Loans from lending institutions	22	1,124,360	1,599,820	352,681	501,820
Other loans	23	122,806	174,737	82,752	117,745
Deferred income	24	772,185	1,098,720	-	-
Deferred tax liabilities	25	-	-	70,538	100,366
<b>Total non-current liabilities:</b>		<b>2,019,351</b>	<b>2,873,277</b>	<b>505,971</b>	<b>719,931</b>
<b>II. Current liabilities:</b>					
Loans from lending institutions	26	115,975	165,018	9,277	13,200
Other loans	27	106,084	150,944	107,171	152,491
Advances from customers	28	240,090	341,617	300,376	427,397
Trade accounts payable	29	191,797	272,903	264,444	376,270
Taxes and social security liabilities	30	69,401	98,749	13,072	18,600
Other liabilities	31	74,663	106,236	18,088	25,737
Deferred income	32	231,556	329,475	98,936	140,772
Accrued liabilities	33	71,630	101,920	48,026	68,334
<b>Total current liabilities:</b>		<b>1,101,196</b>	<b>1,566,862</b>	<b>859,390</b>	<b>1,222,801</b>
<b>Total liabilities:</b>		<b>3,120,547</b>	<b>4,440,139</b>	<b>1,365,361</b>	<b>1,942,732</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		<b>5,244,632</b>	<b>7,462,439</b>	<b>3,341,413</b>	<b>4,754,402</b>

Notes to the statements (pages 13 to 28) form an inseparable part to these financial statements

**Chairman of the Board**

**Eduards Malejevs**

**Member of the Board**

**Jurijs Malejevs**

**Member of the Board**

**Inga Spruga**

April 16, 2007

**CASH FLOW STATEMENT FOR THE PERIOD ENDED**

**31.12.2006 (per indirect method)**

**I. Cash flow from operating activity**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
<i>Profit or loss before extraordinary items and taxes</i>	24,380	34,690	43,420	61,781
<i>Adjustments for:</i>				
a) depreciation of fixed assets	197,283	280,708	129,702	184,549
b) amortisation of goodwill	947	1,347	793	1,128
c) provisions (except for provisions for bad debts)	17,981	25,585	22,998	32,723
d) Profit or loss from the exchange rate fluctuations	7,142	10,162	32,441	46,159
f) income from subsidies, grants, gifts or donations	(46,468)	(66,118)		-
g) other income from interest or similar income	(4,130)	(5,876)	(127)	(181)
h) profit/loss from sale of fixed assets	8,800	12,521	(104,143)	(148,182)
i) interest payments and similar activities	11,482	16,337	45,473	64,702
k) other taxes	(19,079)	(27,147)	(20,525)	(29,204)
<i>Profit or loss before current assets and short-term liabilities corrections</i>	<b>198,338</b>	<b>282,210</b>	<b>150,032</b>	<b>213,476</b>
<i>Adjustments for:</i>				
a) trade receivables increase (-) or decrease (+)	(336,512)	(478,813)	(20,457)	(29,108)
b) inventory increase (-) or decrease (+)	(53,592)	(76,255)	(21,753)	(30,952)
c) accounts payable to suppliers and other creditors increase (+) or decrease (-)	(53,111)	(75,570)	357,983	509,364
<i>Gross cash flow from operating activities</i>	<b>(244,877)</b>	<b>(348,428)</b>	<b>465,805</b>	<b>662,781</b>
Interest payments	(11,779)	(16,760)	(6,886)	(9,798)
<i>Cash flow before extraordinary items</i>	<b>(256,656)</b>	<b>(365,188)</b>	<b>458,919</b>	<b>652,983</b>
<i>Net cash flow from operating activity</i>	<b>(256,656)</b>	<b>(365,188)</b>	<b>458,919</b>	<b>652,983</b>
<b>II. Cash flow from investing activities</b>				
Acquisition of fixed assets	(1,942,246)	(2,763,567)	(79,713)	(113,421)
Income from fixed assets sale	32,447	46,168	254,910	362,704
Loans issued	(7,466)	(10,623)		-
Loans repaid	18,808	26,761	15,506	22,063
Interest received	4,130	5,876	127	181
<i>Net cash flow from investing activities</i>	<b>(1,894,327)</b>	<b>(2,695,384)</b>	<b>190,830</b>	<b>271,527</b>
<b>III. Cash flow from financing activities</b>				
Loans received	2,355,422	3,351,464	533,710	759,401
Received subsidies, grants, gifts or donations	1,000,000	1,422,872		-
Loans repaid	(1,487,735)	(2,116,856)	(783,997)	(1,115,527)
Rented asset buyout expenses	(24,037)	(34,202)	(29,958)	(42,626)
Interest paid		-	(38,587)	(54,904)
<i>Net cash flow from financing activities</i>	<b>1,843,650</b>	<b>2,623,278</b>	<b>(318,832)</b>	<b>(453,657)</b>
<b>IV. Foreign exchange rate differences</b>	<b>(431)</b>	<b>(613)</b>	<b>(3,670)</b>	<b>(5,222)</b>
<b>V. Net cash flow for the year</b>	<b>(307,764)</b>	<b>(437,908)</b>	<b>327,247</b>	<b>465,630</b>
<b>VI. Cash and cash equivalents at the beginning of the period</b>	<b>339,132</b>	<b>482,541</b>	<b>11,885</b>	<b>16,911</b>
<b>VII. Cash and cash equivalents at the end of the period</b>	<b>31,368</b>	<b>44,633</b>	<b>339,132</b>	<b>482,541</b>

Notes to the statements (pages 13 to 28) form an inseparable part to these financial statements

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga

April 16, 2007

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE 2006 YEAR**

	Subscribed share capital	Ilgtermiņa ieguldījumu pārvērtēšanas rezerve	Statutory reserves	Profit for the year	Previous year's retained earnings	Total share capital and reserves
	LVL	LVL	LVL	LVL	LVL	LVL
<b>Balance as on December 31, 2004</b>	<b>2,549,084</b>	<b>-</b>	<b>-</b>	<b>39,805</b>	<b>- 635,594</b>	<b>1,953,295</b>
Profit carried over				- 39,805	39,805	-
Profit for the year				22,757		22,757
<b>Balance as on December 31, 2005</b>	<b>2,549,084</b>	<b>-</b>	<b>-</b>	<b>22,757</b>	<b>- 595,789</b>	<b>1,976,052</b>
Profit carried over				- 22,757	22,757	-
Profit for the year				148,034		148,034
<b>Balance as on December 31, 2006</b>	<b>2,549,084</b>	<b>-</b>	<b>-</b>	<b>148,034</b>	<b>- 573,033</b>	<b>2,124,085</b>

	Subscribed share capital	Ilgtermiņa ieguldījumu pārvērtēšanas rezerve	Statutory reserves	Profit for the year	Previous year's retained earnings	Total share capital and reserves
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Balance as on December 31, 2004</b>	<b>3,627,020</b>	<b>-</b>	<b>-</b>	<b>56,637</b>	<b>- 904,369</b>	<b>2,779,288</b>
Profit carried over				- 56,637	56,637	-
Profit for the year				32,380		32,380
<b>Balance as on December 31, 2005</b>	<b>3,627,020</b>	<b>-</b>	<b>-</b>	<b>32,380</b>	<b>- 847,732</b>	<b>2,811,668</b>
Profit carried over				- 32,380	32,380	-
Profit for the year				210,633		210,633
<b>Balance as on December 31, 2006</b>	<b>3,627,020</b>	<b>-</b>	<b>-</b>	<b>210,633</b>	<b>- 815,352</b>	<b>3,022,301</b>

*Notes to the statements (pages 13 to 28) form an inseparable part to these financial statements*

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga

April 16, 2007

## ***Notes to the Financial Statements***

### **1. Accounting Policies**

**Data in the Financial Statements is in the national currency of Latvian Republic - Lats (LVL), shortened - Ls.**

#### **General Principles**

The Annual Report is prepared in accordance with the Republic of Latvia "Law On Accounting" and "Law on Annual Reports" and in accordance with Latvian accounting standards. In preparation of this Annual Report the following Latvian accounting standards were applied: (LAS): 1. LAS "Financial Report base preparation approach", 2. LAS "Cash Flow Statement", 3. LAS "Events after Balance Sheet date", 4. LAS "Change of accounting policy, change of accounting calculations and errors of previous periods", 5. LAS "Long-term Agreements".

Profit and Loss Statement is prepared using turnover (period) costs method.

Cash Flow Statement is prepared using indirect method.

Financial Statements provides true and fair view of the Company's assets, liabilities, financial standing and profits or losses.

Accounting policies ensure that the Financial Statements provide information, which is:

1. Acceptable to Financial Statements' users for making decisions;

2. Is valid in the way that it:

\* correctly reflects Company's results and financial standing - not only the legal form but also the economic nature, is neutral, i.e. non-biased nor deliberate;

\* fully represents all real aspects.

#### **Changes to the accounting policies**

Compared to the previous year, the accounting policy has not changed.

Should the application of the new external legislation and the Latvian Accounting Standard requirements' or voluntary accounting policy affect the reporting period or any previous periods, the LAS Nr.4 shall be applied.

Changes to the accounting policy are to be applied with reversed date effect, thus the Company shall change every balance entry of affected share capital item for all previous periods shown in the Financial Statements, as well as in other comparative tables for all shown periods in a way, as if the new accounting policy had always been used, except when it is not practically possible to evaluate the influence of the change in the accounting policy for the previous period or its overall influence.

#### **Error correction**

Literal errors for the previous periods are to be corrected by the Company with reversed date effect in the first financial statement after the error has been discovered:

1) by correcting comparable indicators for the periods in which the error has occurred; or

2) should the error get discovered prior the latter financial reporting period, by amending the asset, liability and share capital starting figures for the latter reporting period's.

#### **Adapted accounting principles**

Items of the Annual Report are valued in accordance with the following accounting principles:

a) it is assumed that the Company continues operations;

b) the same valuation methods as for the previous reporting year shall be used;

c) item valuation is performed with due attention, taking into account the following provisions:

- only profit received prior to the Balance Sheet date is used;

- all foreseen risk amounts and losses which have arisen in the reporting year or in the previous years, are included, even when they became known between the Balance Sheet date and the Annual Report preparation date;

- all value depreciations and reductions are considered and calculated regardless of whether the reporting year had profits or losses;

d) all incomes and expenses related to the reporting year are included in the Profit and Loss Statement regardless of payment date, invoice receipt or issuance dates. Expenses are compared with incomes in the corresponding reporting period;

e) assets and liabilities items are valued separately;

f) reporting year's beginning balance is matching the previous year's ending balance;

g) all items which may influence Annual Report's users decision making or valuation, are included;

h) operating activities for the reporting period are reflected taking into account their economic meaning and contents, not legal form.

**Reporting period: from 01.01.2006. to 31.12.2006.**

### Transactions in foreign currency

Data in the Financial Statements is in the national currency of Latvian Republic - Lats (LVL).

All monetary assets and liabilities are translated at the Bank of Latvia rate of exchange on last day of the reporting year.

Differences in exchange rates, arising from foreign currency transactions or when representing asset and liability items, between the exchange rate originally recorded, are to be reflected by their starting net value in the Profit and Loss Statement. Profit or loss, resulted due to the fluctuation of the foreign currency rate, is reflected in the Profit and Loss Statement for the corresponding period.

Currency rates at the last reporting date for the past two years have been the following:

	31/12/2006	31/12/2005	31/12/2004
USD	0.536	0.593	0.516
EUR	0.702804	0.702804	0.703

### Long-term and short-term items

The following amount are shown in the current assets:

- \* that shall be used or realised during the usual working cycle of the Company;
- \* that are mainly for trading purposes or are of short-term nature and can be realised within 12 months after the Balance Sheet date;
- \* that are cash or cash equivalents, possessing unlimited usage options.

Other assets are classified as long-term.

The following current liabilities are shown:

- \* that will be paid off during the usual working cycle of the Company;
- \* that will be paid off within 12 months after the Balance Sheet date;

Other liabilities are classified as long-term.

Company's non-current liabilities (long-term liabilities) are also those which pay-off term is less than one year but:

- \* original liability term was longer than one year;

### Intangible assets and fixed assets depreciation

Intangible asset is an asset that:

*is believed to bring operating benefits to the Company, related to this asset; which costs can be evaluated.*

Only acquired for reward/compensation "concessions, patents, licenses, trade marks and similar rights" can be shown.

In the Balance Sheet all intangible assets are shown at the historical cost less depreciation.

Depreciation is calculated by straight-line method, using the following depreciation rates:

#### Intangible assets

Software	20-35	%
Licenses	20	%
Trade Marks	20	%
Non-material value	20	%

Intangible asset with specified useful life is systematically depreciated during the rounded up useful life period.

Intangible asset with unlimited useful life is checked for value decrease every year.

Computer software and licenses, commercial licenses, trade marks, patents, certificates and advance payments for the non-material investments are considered as intangible assets. Intangible assets are shown using their net value, computer software used together with licenses and ownership rights.

#### Fixed Assets:

Fixed assets are physical objects with useful life over 12 calendar months and acquisition value of 50,- LVL and more.

Work tools, production accessories and obligatory work clothes, shoes and other items are not classified as fixed assets, regardless of their acquisition value or useful life.

All fixed assets are valued by their acquisition value.

Fixed assets are shown using their acquisition or revaluations value, less depreciation. Depreciation is calculated using

Financial Statements for the period from 01.01.2006 to 31.12.2006.

the straight-line method, reducing the net book value of the asset at the end of useful life using the following rates:

* Buildings and constructions	5	%
* Technological equipment	10-20	%
* Transport vehicles	10-20	%
* Furniture	10-20	%
* Other fixed assets	10-20	%
* Mobile phones	35	%
* Computers and other data storage units	15-35	%
* Depreciation on land plots is not calculated.		

Unfinished construction object's historic cost is increased by the interest paid on the loan taken for construction of the fixed asset and on other costs arising in relation to the given object until it is completed and accepted for usage.

Unfinished construction object's historic cost is, however, not increased by the interest paid on the loan taken for construction of the fixed asset should the construction work during the periods when the construction is not taking place.

### **Rent**

In cases when fixed assets are rented, repair and improvement costs are reflected in the account "Long-term investments in rented fixed assets" and are gradually written off during the rental period.

### **Hire-purchase (Financial leasing)**

In cases when fixed asset are taken on financial lease basis along with risks and returns, these fixed assets are recorded in immediate purchase cost basis. Leasing interest payment and related costs are included in the Profit and Loss Statement for the corresponding period, when they occurred.

### **Long-term financial investments**

Long-term financial investments are purchase of a company (or shares of it), long-term loans, long-term investments. Long-term investments are investments with pay-off date of over one year and are outside the reporting year.

### **Investments in subsidiaries and related Company shareholding.**

Investments in subsidiaries and in capital of the related companies are treated as costs. Company recognises incomes only when they are received from the related company as distribution of its profits. Should the investment exceed the profit received, then it is reflected as investment expenditure reduction. Should there be sufficient ground to believe that the capital value of the company has decreased, then losses from the decrease are calculated as the difference between the original investment and the ending value of the investment. The ending value is calculated as the larger of the following indicators: investment's true value, form which the sales costs are deducted and company's usage value. Losses resulting from investment value's decrease can be reversed, if after the last time the losses from value decrease were recognised they have changed which was used for determining the decreased value.

### **Inventory valuation**

Paragraph 40 of the Provisions of the Latvian Republic Cabinet of Ministers Nr.312 "Regulations on organisation of wholesale and retail" dated 31.08.1999 shall serve as the basis for goods inventory movement. Received and issued goods management is performed with help of computer software "DAIS". Uninterrupted inventory method is applied in monitoring wholesale movement of goods. During the reporting year, warehouse management software reflected every movement of inventory- sale, internal movement, return of goods to the supplier, return of goods from buyers. The goal of annual inventory is to check the correctness of inventory movement management system. Inventories are valued using FIFO method.

In case of necessity, outdated, slow turnover or damaged inventories' values decrease is written-off, or provisions are made. Unused material values and stocks at the end of reporting period are valued on historic cost basis, with addition of additional costs (Customs' duties, transport costs, delivery services etc) proportion which is related to the stocks valued.

### **Write-off of purchased inventory's values:**

Inventory items are recorded in the actual volumes at historical cost in the sub account specially dedicated for these purposes. Inventory balances are checked during annual inventory.

### **Debtors**

Financial Statements for the period from 01.01.2006 to 31.12.2006.

Accounts receivable are valued on precautionary basis in the balance sheet, showing only real debtors. Actual accounts receivable amounts comply with the contracts and other documents presented. The accounts receivable comparison is performed and bad debts are written off as well as provisions for doubtful debts have been made, based on evaluation of individual client's financial standing and operating activity analysis.

Accounts receivables are shown in the Balance Sheet on a net (purchase) value, with special provisions for doubtful debts subtracted. The necessary amount of provisions has been set by analysing each debtor and by performing debt comparison.

Bad debts are written off when the likelihood of recovering the debt becomes unrealistic and impossible.

Debtor and creditor liabilities are checked in the 4th quarter of every reporting year, and reconciliation statement is issued.

The debtor and creditor mutual reconciliation has been performed with mutual reconciliation acts.

Differences, discovered during comparison of accounting data are to be resolved in the annual report for the reporting year.

### **Net turnover**

Turnover is the total of goods sold during the year less Value Added Tax.

### **Income and expenses acknowledgement**

1. Income from sale of goods is recognised when the transaction complies with the following requirements:

- a) The Company has handed over to the buyer distinctive risks and rewards together with ownership rights of the goods;
- b) The Company no longer executes holding rights or control related to the ownership rights over the goods sold;
- c) can credibly evaluate the income amount;
- d) it is believed that as a result of the transaction, the Company will receive commercial benefits;
- e) can credibly evaluate costs arisen or arising related to the transaction.

Sale of goods is reflected, considering transaction's economic nature, not only legal form.

2. Result of the service supply transaction can credibly calculate, if the following conditions are met:

- a) can credibly evaluate the income amount;
- b) it is believed that as a result of the transaction, the Company will receive commercial benefits;
- c) can credibly evaluate, what is service supply volume in percentage at the Balance Sheet date;
- d) can credibly evaluate costs arisen or arising related to the transaction.

3. Incomes which arise if other parties use Company's assets and thus receive interest, royalties or dividends, can be recognised using the following methods, if:

- a) it is believed that as a result of the transaction, the Company will receive commercial benefits;
- b) can credibly evaluate the income amount;

Incomes are recognised, using the following methods:

- \* interest, based on the proportional division of time, taking into account actual profitability;
- \* royalties are recognised in accordance with accumulation principle in connection with the corresponding agreement;
- \* dividends are recognised when the Company has legal grounds to receive them.

4. Incomes from rent - at the moment of coming into existence;

All significant cost items are processed per accumulation principle.

### **Incomes are recognised as such (LR standard Nr.1):**

- \*income from goods' sale or handover;
- \* income after supply of services or handover;
- \* incomes from rent - at the moment of it coming into existence;
- \* income from fines and penalties - at the time of receipt;
- \* dividends - when the are legal grounds to receive them.

### **Cash and cash equivalents**

Cash and cash equivalents consist from cash on hand and current balances in the bank accounts.

### **Financial Asset's or Liability's real value**

The real value of financial assets and liabilities reflect the cash quantity, for which the asset can be sold or liabilities can be paid off between two independent parties. Should in Management's view, financial asset and liability real value is different from the Balance Sheet values, then that real value of assets and liabilities can be separately reflected in the Notes to the Financial Statements.

### **Accounts Payable**

Accounts payable are shown in the Balance Sheet on the basis of corresponding documents and entries in the accounting registers, which are compared with creditors' own data.

Financial Statements for the period from 01.01.2006 to 31.12.2006.

These liabilities are correspondingly separated into long-term debts (liabilities) and short-term liabilities. Short-term liabilities - liabilities which arise during the usual operating of the company and which should be settled not later than 12 months after the Balance Sheet date. Long-term liabilities - liabilities, settlement of which should start not earlier than one year after end of the reporting year. Loan or leasing liabilities are divided accordingly into short-term and long-term parts.

### **Reserves**

Reserves are formed in order to cover certain liabilities, which are related to the reporting period or previous periods, can be foreseen at the time of preparation of the Annual Report or known not to exceed these amounts. The level of the reserves is set in accordance with the methods, adopted by the Company.

### **Provisions for unused vacations**

Amount of the provisions is calculated by dividing the total salaries for 2006 by 12 months.

### **Loans received and loans issued**

Loans received and loans issued are initially shown in their original amount, which is stated in corresponding Loan Agreement at the transaction date.

Amounts of loans issued from the lending institutions are to be compared with the written statements with acceptance from lending institutions at the end of the reporting year. For loans received in foreign currency, the remaining principal amount is calculated per Bank of Latvia exchange rate on the last day of the reporting year.

### **Deferred Liabilities**

All invoices, received or issues after the reporting year yet related to the expenses which have arisen during the reporting year, the costs of which are known at the end of the reporting year, are treated as deferred liabilities.

Deferred liabilities are shown in the Balance Sheet in a separate row.

### **Taxes**

Corporate Income Tax for the reporting year is included in the Financial Statements, based on the known tax rates at the date of the Balance Sheet, in accordance with calculations performed in compliance with the tax legislation of the Republic of Latvia.

Deferred tax is calculated in accordance with the liabilities method in relation to all temporary discrepancies between assets and liability amounts in the Financial Statements and their values for the purpose of tax calculations. Tax rate used for calculation of deferred tax, is a rate which is expected to be during the period in which the temporary discrepancies are resolved based on the tax rates effective on the date of the Balance Sheet. Temporary discrepancies mainly arise due to usage of different fixed asset depreciation rates, as well as from tax losses, which are transferred to the future taxation periods.

The total deferred tax result is shown in the Asset part of the Balance Sheet and is to be entered in the Financial Statements only in cases when the return of the tax is definite.

The reconciliation of tax liability data with State Revenue Service is performed.

### **Calculations**

Preparation of the Financial Statements Management is basing on the known calculations and approaches, which affect certain definitions and amounts in the Financial Statements. Thus actual results may differ from these calculations.

Legislation of the Republic of Latvia states that when preparing Financial Statements, Company's management has to evaluate and to draft assumptions, which affect both Balance Sheet and off-Balance Sheet assets and liabilities on the Balance Sheet date, as well as shown incomes and expenses for the reporting period. Actual results may differ from these assumptions (for example, deferred Corporate Income Tax liabilities, vacation provisions etc).

### **Possible liabilities and assets**

In these Financial Statements possible liabilities are not displayed but are reflected in the Notes to Financial Statements. As liabilities are recognised only when, if possibility that the funds will be paid out becomes founded. Possible assets in these Financial Statements are not recognised. Possible assets are shown in the Financial Statements only when there is enough proof that the economical benefits will reach the company.

### **Events after the end of the reporting year**

Certain events which give additional information about Company's financial standing at the Balance Sheet date (correcting factors) have been considered during the preparation of the Financial Statements. If post Balance Sheet date events are not correcting factors, they are included in the Financial Statements only if they are substantial.

### **Related parties**

The following sides are treated as "related parties": shareholders of the Company, Board Members, their close family members and companies which are under control or significant influence to the aforementioned related parties.



JSC "VEF Radiotehnika RRR"  
unified Reg.Nr.40003286712  
Financial Statements for the period from 01.01.2006 to 31.12.2006.

**Entry re-classification**

In 2006, in accordance with changes in legislation and Management's view, in order to improve comparability of the Profit and Loss Statement and Balance Sheet, certain entry re-classifications (entry merge) have been done, when compared to the Financial Statements for the year 2005. (Re-classification (entry merge) has no influence on the financial results. Comparative indicators from year 2005 data have been classified per 2006 year approaches in the Annual Report 2006 and are fully comparable). The following data was re-grouped in the liability section of the Balance sheet as on 31.12.2005.

Re-grouped items	After re-grouping		Before re-grouping	
<b>Liabilities:</b>				
<b>Deferred tax liabilities:</b>				
long-term	70,538	100,367	66,261	94,281
short-term		-	4,277	6,086
<b>Total:</b>	<b>70,538</b>	<b>100,367</b>	<b>70,538</b>	<b>100,367</b>

Re-classification has been done in accordance with the para. 20.1 of the "Law on Annual Reporting".

## 2. Notes to the Profit and Loss statement entries

### Note Nr.1

#### Net Turnover

Net turnover is income from main activity of the Company, sale of goods and supply of services from which trade discounts and other assigned discounts are subtracted, as well as Value Added Tax, Excise Tax and other taxes, directly related to sales.

Type of activity	2006	2006	2005	2005
	LVL	EUR	LVL	EUR
Income from export sale of finished goods	631,652	898,760	591,622	841,802
Income from rent of premises	440,744	627,122	384,048	546,451
Income from sale of finished goods in the local market	247,273	351,838	329,483	468,812
Income from utility services	371,779	528,994	285,917	406,823
Income from galvanization services	81,831	116,435	92,983	132,303
Income from sale of materials	116,120	165,224	93,749	133,393
<b>Total</b>	<b>1,889,399</b>	<b>2,688,373</b>	<b>1,777,802</b>	<b>2,529,584</b>

#### Net turnover by geographical markets

Latvia	1,257,747	1,789,613	1186180	1,687,782
Estonia	15,890	22,609	31879	45,360
Germany	5,819	8,280	30941	44,025
Russian Federation	46,795	66,583	41643	59,253
Finland	11,754	16,724	5119	7,284
Italy	489,336	696,263	383161	545,189
Belarus	22,366	31,824	16726	23,799
Ukraine	15,306	21,779	13045	18,561
Singapore		-	15911	22,639
Sweden	558	795	743	1,057
Lithuania	17,870	25,427	34501	49,091
Kazakhstan		-	13822	19,667
Czech Republic	1,382	1,966	1554	2,211
USA	384	546		-
United Kingdom	2,714	3,861		-
Hungary	1,478	2,103		-
The Netherlands		-	2577	3,667
<b>Total</b>	<b>1,889,399</b>	<b>2,688,373</b>	<b>1,777,802</b>	<b>2,529,585</b>

### Note Nr. 2

#### Cost of goods sold

Costs of production or purchasing in order to perform sale of goods or supply of services

#### Cost type

Cost type	2006	2006	2005	2005
	LVL	EUR	LVL	EUR
Personnel costs	399,587	568,561	209,827	298,557
Provisions for vacations and Social Security	16,763	23,852	16,366	23,287
Depreciation of fixed assets	150,814	214,589	130,495	185,678
Depreciation of fixed assets (project 124000075)	46,468	66,118	-	-
Write-off of current assets	4,583	6,521	10,486	14,920
Changes in finished goods inventory	- 38,119	- 54,238	- 1,156	- 1,645
Changes in purchased materials and goods inventory	695,201	989,182	664,287	945,195
Services for productions	30,744	43,745	143,059	203,555
Ongoing maintenance and repair	12,060	17,160	6,333	9,011
Real estate property maintenance	309,177	439,919	231,975	330,071
Other costs	4,690	6,673	12,136	17,268
<b>Total</b>	<b>1,631,968</b>	<b>2,322,082</b>	<b>1,423,808</b>	<b>2,025,897</b>

JSC "VEF Radiotehnika RRR"  
unified Reg.Nr.40003286712  
Financial Statements for the period from 01.01.2006 to 31.12.2006.

*Notes to the Profit and Loss statement entries (continued)*

Note Nr. 3 Sales costs	Cost type	2006	2006	2005	2005
		LVL	EUR	LVL	EUR
	Goods' transport costs	41,450	58,978	40147	57,124
	Sales costs	2,392	3,404	1701	2,420
	Bonuses, discounts	293	417	46	65
	Advertising costs	13,859	19,720	9415	13,396
	<b>Total</b>	<b>57,994</b>	<b>82,519</b>	<b>51,309</b>	<b>73,005</b>

Note Nr. 4 Administrative costs	Cost type	2006	2006	2005	2005
		LVL	EUR	LVL	EUR
	Personnel costs	97,505	138,737	80472	114,501
	Provisions for vacations and Social Security	1,218	1,733	6632	9,436
	Representation costs	5,012	7,131	4127	5,872
	Office expenses	9,601	13,661	7509	10,684
	Communication expenses	24,033	34,196	27827	39,594
	Bank expenses	7,460	10,615	18441	26,239
	Transport costs	31,839	45,303	25749	36,638
	Accounting and legal expenses	4,851	6,902	3959	5,633
	Annual report and auditing expenses	2,460	3,500	2900	4,126
	Other administrative costs	947	1,347	1212	1,725
	<b>Total</b>	<b>184,926</b>	<b>263,125</b>	<b>178,828</b>	<b>254,448</b>

Note Nr. 5 Other incomes from operating activity	Type on income	Income	Expenditure	Result	Result
		LVL	LVL	LVL	EUR
	Income from privatisation certificates	31,805	-	31,805	45,254
	Income from grant financing (project 124000075)	46,468	-	46,468	66,118
	Other income	47,407	-	47,407	67,454
	<b>Total</b>	<b>125,680</b>	<b>-</b>	<b>125,680</b>	<b>178,826</b>

Note Nr. 6 Other incomes/expenses from operating activity	Type of income/expense	Income	Expenditure	Result	Result
		LVL	LVL	LVL	EUR
	Difference in currency rates	4,603	12,916	- 8,313	- 11,828
	Sale of fixed assets	32,447	41,247	- 8,800	- 12,521
	Other expenses *		85,195	- 85,195	- 121,222
	<b>Total</b>	<b>37,050</b>	<b>139,358</b>	<b>- 102,308</b>	<b>- 145,571</b>

\* Sub-total of other expenses contains expenses not related with operating activity in the amount of 15840 LVL as well as bad debts in the amount of 18715 LVL.

Note Nr. 7 Other interest and similar income	Type of income	2006	2006	2005	2005
		LVL	EUR	LVL	EUR
	Interest received on account balances	4,130	5,876	101	144
	Received penalties / fines	482	686	26	37
	Net profit from foreign currency rate fluctuations	1,171	1,666	-	-
	<b>Total</b>	<b>5,783</b>	<b>8,228</b>	<b>127</b>	<b>181</b>

JSC "VEF Radiotehnika RRR"  
 unified Reg.Nr.40003286712  
 Financial Statements for the period from 01.01.2006 to 31.12.2006.

*Notes to the Profit and Loss statement entries (continued)*

**Note Nr. 8**

**Other interest and similar expenses**

Type of expense

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Interest paid on loans	11482	16,337	38587	54,904
Fines/penalties paid	7804	11,104	6886	9,798
<b>Total</b>	<b>19,286</b>	<b>27,441</b>	<b>45,473</b>	<b>64,702</b>

**Note Nr. 9**

**Deferred Corporate Income Tax**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
	- 142,733	- 203,091	138	196
<b>Total:</b>	<b>- 142,733</b>	<b>- 203,091</b>	<b>138</b>	<b>196</b>

**Note Nr. 10**

**Other taxes**

Real estate tax for land  
 Real estate tax for building and constructions

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Real estate tax for land	7,042	10,020	7134	10,151
Real estate tax for building and constructions	12,037	17,127	13391	19,054
<b>Total:</b>	<b>19,079</b>	<b>27,147</b>	<b>20,525</b>	<b>29,205</b>

## Notes to the Financial Statements

### Notes to the Balance Sheet as on December 31, 2006.

#### 11. Intangible assets

	Computer software	Patents and trade marks	Other licenses	Pre-payments for intangible assets	Intangible assets total, LVL	Intangible assets total, EUR
<b>Historical cost</b>						
<b>31.12.2005.</b>	4,003	-	-	-	<b>4,003</b>	<b>5,696</b>
Purchased	1,351	-	-	-	1,351	1,923
Relocated	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
<b>31.12.2006.</b>	<b>5,354</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,354</b>	<b>7,619</b>
<b>Depreciation</b>						
<b>31.12.2005.</b>	2,402	-	-	-	<b>2,402</b>	<b>3,418</b>
Calculated	947	-	-	-	947	1,348
Written-off	-	-	-	-	-	-
<b>31.12.2006.</b>	<b>3,349</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,349</b>	<b>4,766</b>
<b>Net book value</b>						
<b>31.12.2005.</b>	<b>1,601</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,601</b>	<b>2,278</b>
<b>Net book value</b>						
<b>31.12.2006.</b>	<b>2,005</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,005</b>	<b>2,853</b>

*Intangible assets are shown in the Balances Sheet as per their net book value.*

*Inventory of the balances of intangible assets has been performed on December 31, 2006*

#### 12. Fixed Assets

	Land	Buildings and constructions	Technological equipment	Other fixed assets	Total LVL	Total EUR
<b>Historical cost</b>						
<b>31.12.2005.</b>	<b>468,191</b>	<b>1,241,630</b>	<b>398,234</b>	<b>279,489</b>	<b>2,387,544</b>	<b>3,397,169</b>
Purchased			104,963	90,370	195,333	277,934
Written-off			- 4,854	- 55,216	- 60,070	- 85,472
<b>31.12.2006.</b>	<b>468,191</b>	<b>1,241,630</b>	<b>498,343</b>	<b>314,643</b>	<b>2,522,807</b>	<b>3,589,631</b>
<b>Depreciation</b>						
<b>31.12.2005.</b>	<b>-</b>	<b>408,124</b>	<b>179,963</b>	<b>90,691</b>	<b>678,778</b>	<b>965,814</b>
Calculated		62,048	41,410	47,356	150,814	214,589
Written-off		-	- 4,314	- 14,508	- 18,822	- 26,781
<b>31.12.2006.</b>	<b>-</b>	<b>470,172</b>	<b>217,059</b>	<b>123,539</b>	<b>810,770</b>	<b>1,153,622</b>
<b>Net book value</b>						
<b>31.12.2005.</b>	<b>468,191</b>	<b>833,506</b>	<b>218,271</b>	<b>188,798</b>	<b>1,708,766</b>	<b>2,431,355</b>
<b>Net book value</b>						
<b>31.12.2006.</b>	<b>468,191</b>	<b>771,458</b>	<b>281,284</b>	<b>191,104</b>	<b>1,712,037</b>	<b>2,436,009</b>

JSC "VEF Radiotehnika RRR"  
unified Reg.Nr.40003286712  
Financial Statements for the period from 01.01.2006 to 31.12.2006.

Notes to the Balance Sheet (continued)

	Technological equipment (project 124000075)	Pre-payments for fixed assets (project 124000075)	Pre-payments for fixed assets	construction of fixed assets	Total LVL	Total EUR
<b>Historical cost</b>						
<b>31.12.2005.</b>	-	-	-	<b>38,052</b>	<b>38,052</b>	<b>54,143</b>
Purchased	1,813,461	66,949	6,841	1,813,461	3,700,712	5,265,639
Written-off	-	66,949	6,265	1,813,461	1,886,675	2,684,497
<b>31.12.2006.</b>	<b>1,813,461</b>	-	<b>576</b>	<b>38,052</b>	<b>1,852,089</b>	<b>2,635,285</b>
<b>Depreciation</b>						
<b>31.12.2005.</b>	-	-	-	-	-	-
Calculated	46,468	-	-	-	46,468	66,118
Written-off	-	-	-	-	-	-
<b>31.12.2006.</b>	<b>46,468</b>	-	-	-	<b>46,468</b>	<b>66,118</b>
<b>Net book value</b>						
<b>31.12.2005.</b>	-	-	-	<b>38,052</b>	<b>38,052</b>	<b>54,143</b>
<b>Net book value</b>						
<b>31.12.2006.</b>	<b>1,766,993</b>	-	<b>576</b>	<b>38,052</b>	<b>1,805,621</b>	<b>2,569,167</b>

Fixed assets are shown in the Balances Sheet as per their net book value.

Balances of fixed assets as on 31.12.2006 have been checked during the inventory performed on December 31, 2006.

Buildings, constructions, technological equipments and auto vehicles are insured.

Fixed assets on financial lease:

Name of fixed asset	Lease company	Historical cost	Net book value	Unpaid lease as per lease agreement	Lease term
Auto vehicle Ford Transit	Hansa Līzings	15,039	5,765	5,686	15/10/2008
Tech.equip. HASL 204S	Hansa Līzings	25,984	19,488	15,250	15/06/2009
Auto vehicle Toyota RAV4	Unilīzings	15,486	11,356	11,734	15/07/2008
Equipment Weeke Venture 3	DnB Nord Līz.	59,422	52,490	48,977	15/10/2010
Auto vehicle Jaguar Daimler Super Eight	Parex Līzings	67,898	61,108	75,215	30/06/2013

**Result of written-off, disposed and sold fixed and intangible assets:**

	2006 LVL	2006 EUR	2005 LVL	2005 EUR
Historical cost	60,070	85,472	145,332	206,789
Accumulated depreciation	18,823	26,783	41,188	58,605
Net book value	<b>41,247</b>	<b>58,689</b>	<b>104,144</b>	<b>148,184</b>
Income from sale	<b>32,447</b>	<b>46,168</b>	<b>254,910</b>	<b>362,704</b>

**13. Raw materials**

	2006 LVL	2006 EUR	2005 LVL	2005 EUR
Raw materials	187,070	266,177	162,204	230,795
Inventory in use	101,517	144,446	81,881	116,506
<b>Total</b>	<b>288,587</b>	<b>410,623</b>	<b>244,085</b>	<b>347,301</b>

JSC "VEF Radiotehnika RRR"  
unified Reg.Nr.40003286712  
Financial Statements for the period from 01.01.2006 to 31.12.2006.

**Notes to the Balance Sheet (continued)**

**14. Work in progress**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Unfinished goods	9,261	13,177	-	-
finished goods and goods in warehouse	157,601	224,246	198,798	282,864
<b>Total</b>	<b>166,862</b>	<b>237,423</b>	<b>198,798</b>	<b>282,864</b>

**15. Avansa maksājumi par precēm**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Advance payments for materials	26,662	37,937	8,671	12,338
Advance payments to non-residents	32,288	45,942	24,938	35,484
Goods in bonded storage	126,215	179,588	111,176	158,189
<b>Total</b>	<b>185,165</b>	<b>263,467</b>	<b>144,785</b>	<b>206,011</b>

**16. Trade receivables**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Receivables (non-residents)	244,131	347,367	285,625	406,408
Receivables (residents)	160,698	228,653	145,896	207,591
<b>Book value of purchases and customers, total</b>	<b>404,829</b>	<b>576,020</b>	<b>431,521</b>	<b>613,999</b>
Provisions for doubtful debts	-	-	-	-
<b>Net trade receivables, total</b>	<b>404,829</b>	<b>576,020</b>	<b>431,521</b>	<b>613,999</b>

**17. Other receivables**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
VAT confirmed (unpaid invoices)	2,619	3,727	4,318	6,144
VAT overpaid to the state budget	-	-	11,457	16,302
Nature Resource tax overpaid to the state budget	338	481	338	481
Settlements with employees	29,596	42,111	35,924	51,115
Tax pre-payments for customs procedures	3,011	4,284	2,818	4,010
Loans to employees	3,987	5,673	3,727	5,303
Other loans	45,379	64,568	60,566	86,178
Others	8,146	11,591	6,876	9,784
<b>Total</b>	<b>93,076</b>	<b>132,435</b>	<b>126,024</b>	<b>179,317</b>

**18. Deferred expenses**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Insurance expenses	7,760	11,041	2,239	3,186
Expenses for repairs of buildings and premises	20,411	29,042	24,920	35,458
Expenses for implementation of project Nr.124000075	276,861	393,938	70,355	100,106
Expenses for reconstruction of block I-2	157,813	224,548	-	-
Other expenses	18,908	26,904	10,001	14,230
<b>Total</b>	<b>481,753</b>	<b>685,473</b>	<b>107,515</b>	<b>152,980</b>

**19. Cash and cash equivalents**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Cash on hand	22,315	31,751	122	174
Cash in bank accounts	9,053	12,881	339,010	482,368

JSC "VEF Radiotehnika RRR"  
unified Reg.Nr.40003286712  
Financial Statements for the period from 01.01.2006 to 31.12.2006.

<b>Total</b>	<b>31,368</b>	<b>44,632</b>	<b>339,132</b>	<b>482,542</b>
	<b>31,368</b>	<b>44,632</b>	<b>339,132</b>	<b>482,542</b>

**Notes to the Balance Sheet (continued)**

**20. Information about company's share capital**

On 31.12.2005 company's share capital consisted of 2549084 registered and fully paid shares with nominal value of 1 Ls. Large shareholders of JSC "VEF Radiotehnika RRR" are:

Shareholders	Number of shares		Value			
			LVL		EUR	
	31/12/2006	31/12/2005	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Baltlains Intern Ltd.	1270612	1223560	1270612	1223560	1807918	1740969
Riga City Council	0	47052	0	47052	0	66949
State Social Security A	192694	192694	192694	192694	274179	274179
Eduards Malejevs	423559	421872	423559	421872	602670	600270
Jurijs Malejevs	421871	421871	421871	421871	600268	600268
Inga Spruga	97042	97042	97042	97042	138078	138078
Others (<5%)	143306	144993	143306	144993	203906	206306
<b>Total:</b>	<b>2549084</b>	<b>2549084</b>	<b>2549084</b>	<b>2549084</b>	<b>3627020</b>	<b>3627020</b>

**21. Retained earnings/losses**

In accordance with decisions of Shareholders' meetings, losses of previous years remain uncovered, those shall be covered from the next years' profits.

	2006		2006		2005		2005
	LVL		EUR		LVL		EUR
previous years' retained earnings/losses	-573,033	-	815,353	-	595,789	-	847,731
current year profit/loss	148,034		210,633		22,757		32,380
<b>Total</b>	<b>- 424,999</b>	<b>-</b>	<b>604,720</b>	<b>-</b>	<b>573,032</b>	<b>-</b>	<b>815,351</b>

**22. Long-term loans from lending institutions**

	2006		2006		2005		2005
	LVL		EUR		LVL		EUR
Loan from JSC SEB Latvijas Unibanka (EUR)	1,124,360		1,599,820		352,681		501,820
<b>Total</b>	<b>1,124,360</b>		<b>1,599,820</b>		<b>352,681</b>		<b>501,820</b>

In accordance with Loan Agreement Nr.KD04277 from 24.11.2005, obligations are secured with primary pledge of the real estate property located in Riga at the address Kurzemes prospekts 3 (Landbook section Nr.18732) and primary commercial pledge on fixed assets, purchased under Project Nr.124000075 for the amount of 1813461 LVL.

**23. Other loans (long-term)**

	2006		2006		2005		2005
	LVL		EUR		LVL		EUR
Financial lease from SIA Parex Līzings un Faktoring	65,059		92,571		-		-
Financial lease from SIA Nord/LB Līzings (EUR)	36,784		52,339		49,477		70,399
Financial lease from SIA Hansa Līzings (USD)	2,649		3,769		6,291		8,951
Financial lease from SIA Hansa Līzings (EUR)	9,407		13,385		15,250		21,699
Financial lease from SIA Unilīzings (EUR)	8,907		12,674		11,734		16,696
<b>Total</b>	<b>122,806</b>		<b>174,738</b>		<b>82,752</b>		<b>117,745</b>

**24. Deferred income (long-term)**

	2006		2006		2005		2005
	LVL		EUR		LVL		EUR
Income from grant financing (project Nr.124000075)	772,185		1,098,720		-		-



JSC "VEF Radiotehnika RRR"  
unified Reg.Nr.40003286712  
Financial Statements for the period from 01.01.2006 to 31.12.2006.

<b>Total</b>	<b>772,185</b>	<b>1,098,720</b>	-	-
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**Notes to the Balance Sheet (continued)**

**25. Deferred taxation**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Deferred Corporate Income Tax	-	-	70,538	100,367
<b>Total</b>	<b>-</b>	<b>-</b>	<b>70,538</b>	<b>100,367</b>

**26. Short-term loans from lending institutions**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Credit line from JSC SEB Latvijas Unibanka (LVL)	109,790	156,217	-	-
Loan from JSC SEB Latvijas Unibanka (EUR)	6,185	8,800	9,277	13,200
<b>Total</b>	<b>115,975</b>	<b>165,017</b>	<b>9,277</b>	<b>13,200</b>

In accordance with Loan Agreement Nr.KD04277 from 24.11.2005, obligations are secured with primary pledge of the real estate property located in Riga at the address Kurzemes prospekts 3 (Landbook section Nr.18732) and primary commercial pledge on fixed assets, purchased under Project Nr.124000075 for the amount of 1813461 LVL.

In accordance with Credit Line Agreement Nr.KD06369 from 17.11.2006, obligations are secured with Commercial Pledge on reserves and claim rights as a whole. Maximum amount of claim is 260000 LVL.

**27. Other loans (short-term)**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Financial lease from SIA Parex Līzins un Faktoring	10,155	14,449	-	-
Financial lease from SIA Nord/LB Līzings (EUR)	12,193	17,349	11,721	16,677
Financial lease from SIA Hansa Līzings (USD)	3,037	4,321	3,196	4,547
Financial lease from SIA Hansa Līzings (EUR)	5,843	8,314	5,523	7,859
Financial lease from SIA Unilīzings (EUR)	2,827	4,022	2,691	3,829
Factoring from JSC HVB Bank Latvija (EUR)	-	-	62,707	89,224
Faktoring SIA Unilīzings (EUR)	68,021	96,785	-	-
SIA Baltlains Plus (USD)	-	-	17,790	25,313
Credit cards	4,008	5,703	3,543	5,041
<b>Total</b>	<b>106,084</b>	<b>150,943</b>	<b>107,171</b>	<b>152,490</b>

**28. Advances from customers**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Advances from non-residents	5,205	7,406	4,264	6,067
Advances from residents	234,885	334,211	296,112	421,329
<b>Total</b>	<b>240,090</b>	<b>341,617</b>	<b>300,376</b>	<b>427,396</b>

**29. Due to suppliers and providers (short-term)**

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Trade accounts payable to non-residents	26,454	37,641	65,815	93,646
Trade accounts payable to residents	165,343	235,262	198,629	282,624
<b>Total</b>	<b>191,797</b>	<b>272,903</b>	<b>264,444</b>	<b>376,270</b>

JSC "VEF Radiotehnika RRR"  
unified Reg.Nr.40003286712  
Financial Statements for the period from 01.01.2006 to 31.12.2006.

**Notes to the Balance Sheet (continued)**

<b>30. Taxes and social insurance payments</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Personal Income Tax	28,239	40,180	7,986	11,363
State Social Insurance payments	32,526	46,280	4,715	6,709
Value Added Tax	8,182	11,642		-
Real estate tax for building and constructions	-	-	89	127
Real estate tax for land	-	-	-	-
Nature resources tax	441	627	251	357
Corporate risk tax	13	18	31	44
<b>Total</b>	<b>69,401</b>	<b>98,747</b>	<b>13,072</b>	<b>18,600</b>

<b>31. Other liabilities</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Salaries	39,810	56,645	13,361	19,011
Advance settlement amounts	1,031	1,467	702	999
Deposits	29,045	41,327	4,025	5,727
Other creditors	4,777	6,797		-
<b>Total</b>	<b>74,663</b>	<b>106,236</b>	<b>18,088</b>	<b>25,737</b>

<b>32. Deferred income (short-term)</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Next year's rent for premises	1878	2,672	18800	26,750
Income from privatisation certificates	48331	68,769	80136	114,023
income from grant financing (project Nr.124000075)	181,347	258,034	-	-
<b>Total</b>	<b>231,556</b>	<b>329,475</b>	<b>98,936</b>	<b>140,773</b>

<b>33. Accrued liabilities</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Auditoru firma "Finansists" SIA	2,460	3,500	-	-
CSC Telekom SIA	442	629	-	-
Ekos-M SIA	738	1,050	-	-
Lattelekom SIA	-	-	560	797
Latvenergo AS	14,562	20,720	15,156	21,565
Latvijas Gāze AS	10,370	14,756	1,616	2,299
Latvijas Mobilais Telefons SIA	280	398	172	245
Rīgas Ūdens SIA	922	1,312	91	129
Tele2 SIA	284	404	291	414
Telekom Baltija AS	490	697	556	791
Others	103	147	6,586	9,371
Provisions for vacations	33,024	46,989	18,533	26,370
Provisions for vacations (Social Security Payments)	7,955	11,319	4,465	6,353
<b>Total</b>	<b>71,630</b>	<b>101,921</b>	<b>48,026</b>	<b>68,334</b>

Provisions for vacations created in 2006	<b>LVL</b>	<b>EUR</b>
<b>provisions as on December 31, 2005</b>	<b>22,998</b>	<b>32,723</b>
increase	17,981	25,585
decrease	-	-
<b>provisions as on December 31, 2006</b>	<b>40,979</b>	<b>58,308</b>

## Notes to the Financial Statements

### General Notes

#### 1. Average number of employees during the year

Average number of employees during the year

year 2006	year 2005
131	92

#### 2. Total personnel costs

- salaries
- Social security payments
- Corporate risk tax

2006	2006	2005	2005
LVL	EUR	LVL	EUR
<b>497,092</b>	<b>707,299</b>	<b>289,879</b>	<b>412,461</b>
403,041	573,476	235,530	335,129
93,619	133,208	54,349	77,332
432	615	420	598

#### - including:

Management salaries

- salaries
- Social security payments
- Corporate risk tax

30,000	42,686	18,000	25,612
6,395	9,099	3,813	5,425
9	13	13	18
<b>36,404</b>	<b>51,798</b>	<b>21,826</b>	<b>31,055</b>

#### Taxes and social security payments

Type of tax	2006		2005	
	LVL	EUR	LVL	EUR
(-) underpayment, (+) overpayment				
Personal income tax	-28239	-40180	-7986	-11363
State social security obligatory payments	-32526	-46280	-4715	-6709
Value added tax	-8182	-11642	11457	16302
Real estate tax for building and constructions	0	0	-89	-127
Real estate tax for land	0	0	0	0
Nature resources tax	102	145	88	125
Corporate risk tax	-13	-18	-31	-44
	<b>-68858</b>	<b>-97975</b>	<b>-1276</b>	<b>-1816</b>

*Annual report is accepted and signed from page 1 till 28*

**Chairman of the Board**

**Eduards Malejevs**

**Member of the Board**

**Jurijs Malejevs**

**Member of the Board**

**Inga Spruga**

**JSC "VEF Radiotehnika RRR" LV40003286712**

Registration Nr 40003286712

**SUMMARY OF FIXED ASSET AND INTANGIBLE ASSET  
VALUE DEPRECIATION AND WRITE-OFF**

**2006 taxation year**

Category	Adjusted value	Total value from which the taxation year's depreciation is calculated	Depreciation for the taxation year	Accumulated depreciation	Remaining value after taxation year's depreciation deduction
1.	2.	3.	4.	5.	6.
<b>First</b>	1241630	611919	61192	690903	550727
<b>Second</b>	0	0	0	0	0
<b>Third</b>	42254	13742	9619	38131	4123
<b>Fourth</b>	3512167	2995975	1198390	1714582	1797585
<b>Fifth</b>	0	0		0	
<b>SUB-TOTAL</b>	<b>4796051</b>	<b>3621636</b>	<b>1269201</b>	<b>2443616</b>	<b>2352435</b>
<b>Intangible assets</b>	X	X	0	0	0
<b>TOTAL</b>	<b>4796051</b>	<b>3621636</b>	<b>1269201</b>	<b>2443616</b>	<b>2352435</b>

fields marked with "X" are not to be filled out

Chairman of the Board

Eduards Malejevs