

JSC "VEF Radiotehnika RRR"

Unified Registration Nr. 40003286712

Address: Kurzemes prospekts 3, Riga, LV-1067

**Main activities:
production**

Measurement units: Ls (LVL)

2007 Q-1 Report

Submission date: _____

Date of receipt: _____

Riga, Latvia

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INFORMATION about the COMPANY

Full name of the Company	<i>JSC "VEF Radiotehnika RRR"</i>			
Legal status of the Company	<i>Public Joint-Stock Company</i>			
Unified Registration Nr., place and date of issue datums	<i>40003286712 11.12.1998</i>			
Legal address of the Company	<i>Kurzemes prospekts 3, Riga, LV-1067</i>			
Telephone	<i>67418087</i>			
Postal address	<i>Kurzemes prospekts 3, Riga, LV-1067</i>			
Bank name and Company's bank accounts	<i>AS "SEB Latvijas Unibanka" LV57UNLA0050006466330 (LVL) LV55UNLA0050006466366 (EUR) LV32UNLA0050006466392 (USD)</i>			
Council members of the JSC				
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>			
Boar members of the JSC				
Chairman of the Board	<i>Eduards Malejevs</i>			
Board Member	<i>Jurijs Malejevs</i>			
Board Member	<i>Inga Spruga</i>			
Reporting year	<i>from</i>	<i>01.01.2007</i>	<i>till</i>	<i>31.03.2007</i>
Previous reporting period	<i>from</i>	<i>01.01.2006</i>	<i>till</i>	<i>31.12.2006</i>
Chief Accountant	<i>Gunars Lacis</i>			
Telephone:				
Auditor:	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

Types of activities

During the 3 months of 2007, 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 block un components;
3. Production and sales of printed circuit boards, galvanization services;
4. Provision of real estate rental services

All of the above-mentioned activities had been performed also in year 2006. New types of activities have not been performed.

Operation of the company in the reporting period

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

Result before extraordinary items and taxes:	-20052 LVL
Other taxes:	-45113 LVL
Net result:	-65165 LVL

Net turnover for Q-1 2007 is 533379 Ls and has grown by 8.0 % in comparison with 2006.

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

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 (%)	-12.22
Operating profit margin (%)	-0.24
Gross profit margin (%)	20.52

Financial profitability (%)

Return on capital	-0.90
Return on equity	-3.23

Company's development activities

Further development of the Company lies in research of both local and export markets, offering new products to customers with the aim 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.

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga

39233

Report accepted at the Shareholders' Meeting on May 31, 2007

Notification of management's responsibility

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 March 31, 2007, 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

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Member of the Board

Jurijs Maļejevs

Member of the Board

Inga Sprūga

2007.31.05

***PROFIT AND LOSS STATEMENT
FOR THE PERIOD ENDED
31.03.2007 (per turnover (period) costs method)***

	Note	<u>2007</u>	<u>2007</u>	<u>2006</u>
	nr.	LVL	EUR	LVL
Net turnover	1	533 379	758 930	493 585
Cost of sales	2	(423 949)	(603 225)	(410 283)
Gross profit or loss		109 430	155 705	83 302
Selling expenses	3	(12 441)	(17 702)	(19 213)
Administrative expenses	4	(94 462)	(134 407)	(36 906)
Other operating income	5	10 606	15 091	10 297
Other operating expenses	6	(14 433)	(20 536)	(15 901)
Interest income and similar income	7	12	17	932
Interest expense and similar expenses	8	(18 764)	(26 699)	(16 738)
Profit or loss before extraordinary items and taxes		(20 052)	(28 531)	5 773
Profit or loss after extraordinary items and before taxes		(20 052)	(28 531)	5 773
Deferred corporate income tax for the reporting period	9	-	-	-
Other taxes	10	(45 113)	(64 190)	(4 770)
Profit or loss for the period		(65 165)	(92 721)	1 003
Earnings per share (EPS coefficient)		(0.026)	(0.036)	0.0004

Chairman of the Board

Eduards Maļejevs

Member of the Board

Jurijs Maļejevs

Member of the Board

Inga Sprūga

2007.31.05

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

2006
EUR
702 308
(583 780)
118 528
(27 338)
(52 513)
14 651
(22 625)
1 326
(23 816)
8 213
8 213
-
(6 787)
1 426
0.0006

BALANCE SHEET as on 31.03.2007.

ASSETS		Note	2007	2007	2006
		nr.	LVL	EUR	LVL
1. Non-current assets					
I. Intangible assets:					
Concessions, patents, licenses, trade marks and similar rights	11		3 145	4 475	1 415
Total intangible assets:			3 145	4 475	1 415
II. Fixed assets:					
Land, buildings and constructions			1 224 137	1 741 790	1 286 177
Equipment and vehicles			1 991 092	2 833 069	311 575
Other fixed assets			171 358	243 820	179 290
Construction of fixed assets and unfinished construction objects			38 636	54 974	194 918
Advance payments for fixed assets			576	820	20 204
Total fixed assets:	12		3 425 799	4 874 473	1 992 164
III. Investment properties					
Total investment properties:			-		
IV. Biological assets					
Total biological assets			-		
V. Long-term financial investments:					
Other loans and other long-term debtors			1 120	1 594	1 120
Deferred taxation assets			72 195	102 724	-
Total long-term financial investments:			73 315	104 318	1 120
Total non-current assets:			3 502 259	4 983 266	1 994 699
2. Current assets					
I. Inventory:					
Raw materials	13		302 578	430 530	252 480
Work in process	14		13 419	19 094	
Finished goods	14		142 073	202 152	212 449
Advance payments for materials	15		187 987	267 481	184 672
Total inventory:			646 057	919 257	649 601
II. Sales-deferred long-term investments					
Total sales-deferred long-term investments:			-	-	-
III. Receivables:					
Trade receivables	16		427 026	607 603	420 777
Other receivables	17		89 622	127 521	120 267
Deferred expenses	18		582 498	828 820	143 126
Total receivables:			1 099 146	1 563 944	684 170
IV. Short-term financial investments:					
Other securities and capital participation			14	20	14
Total short-term financial investments:			14	20	14
V. Cash	19		7 836	11 150	1 691 857
Total currents assets:			1 753 053	2 494 371	3 025 642
TOTAL ASSETS:			5 255 312	7 477 635	5 020 341

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

2006
EUR

2 013
2 013

1 830 065
443 331
255 107
277 343
28 748
2 834 594

-

-

1 594
-
1 594
2 838 201

359 247
-
302 288
262 765
924 300

-

598 712
171 125
203 650
973 487

20
20

2 407 296
4 305 103

7 143 304

BALANCE SHEET as on 31.03.2007.

**LIABILITIES AND
SHAREHOLDERS' EQUITY**

1. Shareholders' equity:

	Note nr.	2007 LVL	2006 EUR	2005 LVL	2006 EUR
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	- 424 999	- 604 719	- 573 033	- 815 353
b) current year profit/(loss)	21	- 65 165	- 92 721	1 003	1 427
Total shareholders' equity:		2 058 920	2 929 580	1 977 054	2 813 094

2. Provisions:

Total provisions:		-	-	-	-
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3. Liabilities:

I. Non-current liabilities:

Loans from lending institutions	22	1 125 155	1 600 951	1 916 371	2 726 750
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	100 367
Total non-current liabilities:		2 020 146	2 874 408	2 069 661	2 944 863

II. Current liabilities:

Loans from lending institutions	26	206 332	293 584	9 277	13 200
Other loans	27	97 709	139 027	78 491	111 683
Advances from customers	28	203 954	290 200	285 353	406 021
Trade accounts payable	29	235 424	334 978	451 101	641 859
Taxes and social security liabilities	30	115 933	164 958	32 086	45 654
Other liabilities	31	87 216	124 097	22 127	31 484
Deferred income	32	229 678	326 802	72 193	102 721
Accrued liabilities	33		-	22 998	32 723
Total current liabilities:		1 176 246	1 673 646	973 626	1 385 346

Total liabilities:		3 196 392	4 548 054	3 043 287	4 330 209
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		5 255 312	7 477 635	5 020 341	7 143 304
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Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga

31.Mai.07

Financial Statements for the period from 01.01.2006 to 31.12.2006.

CASH FLOW STATEMENT FOR THE PERIOD ENDED

31.03.2007 (per indirect method)

I. Cash flow from operating activity

Profit or loss before extraordinary items and taxes

Adjustments for:

a) depreciation of fixed assets

k) other taxes

Profit or loss before current assets and

short-term liabilities corrections

Adjustments for:

a) trade receivables increase (-) or decrease (+)

b) inventory increase (-) or decrease (+)

c) accounts payable to suppliers and other creditors
increase (+) or decrease (-)

Gross cash flow from operating activities

Interest payments

Cash flow before extraordinary items

Net cash flow from operating activity

II. Cash flow from investing activities

Acquisition of fixed assets

Income from fixed assets sale

Net cash flow from investing activities

III. Cash flow from financing activities

Loans received

Received subsidies, grants, gifts or donations

Loans repaid

Net cash flow from financing activities

IV. Foreign exchange rate differences

V. Net cash flow for the year

VI. Cash and cash equivalents at the beginning of the period

VII. Cash and cash equivalents at the end of the period

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
-	20 052	-	28 531	5 773
				8 214
	85 989	122 351	35 858	51 021
	(45 113)	(64 190)	(4 770)	(6 787)
	20 824	29 630	36 861	52 448
	(119 488)	(170 016)	(19 110)	(27 191)
	(5 443)	(7 745)	(61 933)	(88 123)
	(6 932)	(9 863)	114 236	162 543
	(111 039)	(157 994)	70 054	99 678
	-	-	-	-
	(111 039)	(157 994)	70 054	99 678
	(111 039)	(157 994)	70 054	99 678
	(5 318)	(7 567)	(281 019)	(399 854)
	640	911	-	-
	(4 678)	(6 656)	(281 019)	(399 854)
	233 435	332 148	1 563 690	2 224 930
	-	-	-	-
	(141 250)	(200 981)	-	-
	92 185	131 167	1 563 690	2 224 930
	-	-	-	-
	(23 532)	(33 483)	1 352 725	1 924 755
	31 368	44 633	339 132	482 541
	7 836	11 150	1 691 857	2 407 296

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Inga Spruga

31.Mai.07

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR Q 2007

	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
Balance as on December 31, 2005	2 549 084	-	-	22 757	595 789	1 976 052
Profit carried over				22 757	22 757	45 514
Profit for the year				148 034		148 034
Balance as on December 31, 2006	2 549 084	-	-	148 034	573 032	2 124 086
Profit carried over				148 034	148 034	
Profit for the year				- 65 166		- 65 166
Balance as on December 31, 2007	2 549 084	-	-	- 65 166	- 424 998	2 058 920

	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
Balance as on December 31, 2005	3 627 020	-	-	56 637	- 904 369	2 779 288
Profit carried over				32 380	32 380	
Profit for the year				210 633		210 633
Balance as on December 31, 2006	3 627 020	-	-	23 489	- 871 989	2 989 921
Profit carried over				210 633	210 633	
Profit for the year				- 92 722		- 92 722
Balance as on December 31, 2007	3 627 020	-	-	- 92 723	- 604 718	2 929 579

Chairman of the Board

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Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga

2007.31.05

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 01.01.2007. to 31.03.2007.

Financial Statements for the 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:

	07.03.2007	2006.31.12	2005.31.12
USD	0.528	0.536	0.593
EUR	0.702804	0.702804	0.702804

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, from 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.

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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	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Income from export sale of finished goods	195 382	278 004	117 371	167 004
Income from rent of premises	119 944	170 665	119 567	170 129
Income from sale of finished goods in the local market	64 903	92 349	62 202	88 505
Income from utility services	136 270	193 895	117 754	167 549
Income from galvanization services	16 201	23 052	29 796	42 396
Income from sale of materials	679	966	46 895	66 726
Total	533 379	758 931	493 585	702 309

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

Personnel costs	139 659	198 717	52 891	75 257
		-		-
Depreciation of fixed assets	40 276	57 308	35 858	51 021
Depreciation of fixed assets (project 124000075)	45 337	64 509		-
Write-off of current assets		-	2 911	4 142
Changes in finished goods inventory	194	276		-
Changes in purchased materials and goods inventory	81 915	116 555	190 381	270 888
Services for productions	6 772	9 636	2 126	3 025
Ongoing maintenance and repair	1 991	2 833		
Real estate property maintenance	108 167	153 908	125 248	178 212
Other costs	26	37	868	1 235
Total	423 949	603 227	410 283	583 780

Notes to the Profit and Loss statement entries (continued)

Note Nr. 3

Sales costs

Cost type

Goods' transport costs	10 042	14 288	13344	18 987
Sales costs	269	383	608	865
Bonuses, discounts		-	102	145
Advertising costs	2 130	3 031	5159	7 341
Total	12 441	17 702	19 213	27 338

Note Nr. 4

Administrative costs

Cost type

Personnel costs	81 620	116 135	18321	26 068
		-		-
Representation costs	959	1 365	838	1 192
Office expenses	1 667	2 372	1943	2 765

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Communication expenses	4 106	5 842	7192	10 233
Bank expenses	1 124	1 599	3316	4 718
Transport costs	4 408	6 272	4187	5 958
Accounting and legal expenses	515	733	850	1 209
				-
Other administrative costs	63	90	259	369
Total	94 462	134 408	36 906	52 512

Note Nr. 5

Other incomes from operating activity

Type on income	Income LVL	Expenditure LVL	Result LVL	Result EUR
Income from privatisation certificates	7 951	-	7 951	11 313
Other income	2 655		2 655	3 778
Total	10 606	-	10 606	15 091

Note Nr. 6

Other incomes/expenses from operating activity

Type of income/expense	Income LVL	Expenditure LVL	Result LVL	Result EUR
Difference in currency rates		595 -	595 -	847
Sale of fixed assets	640	11 130 -	10 490 -	14 926
Other expenses *		3 348 -	3 348 -	4 764
Total	640	15 073 -	14 433 -	20 537

Note Nr. 7

Other interest and similar income

Type of income	2007 LVL	2007 EUR	2006 LVL	2006 EUR
Interest received on account balances	11	16	830	1 181
Received penalties / fines	1	1		-
Net profit from foreign currency rate fluctuations		-	102	145
Total	12	17	932	1 326

Notes to the Profit and Loss statement entries (continued)

Note Nr. 8

Other interest and similar expenses

Type of expense	2007 LVL	2007 EUR	2006 LVL	2006 EUR
Interest paid on loans	17406	24 767	13557	19 290
Loss from foreign currency rate fluctuations			2151	
Fines/penalties paid	1358	1 932	1030	1 466
Total	18 764	26 699	16 738	20 756

Note Nr. 9

Deferred Corporate Income Tax

	2007 LVL	2007 EUR	2006 LVL	2006 EUR
			-	-
Total:	-	-	-	-

Note Nr. 10

Other taxes

	2007 LVL	2007 EUR	2006 LVL	2006 EUR
Real estate tax for land	1 743	2 480	1760	2 504
Real estate tax for buildings and constructions	43 370	61 710	3009	4 281
Total:	45 113	64 190	4 769	6 785

Notes to the Financial Statements

Notes to the Balance Sheet as on March 31, 2007.

11. Intangible assets

	Computer software	Patents and trade marks	Other licenses	Pre-payments for intangible assets	Intangible assets total, LVL	Intangible assets total, EUR
Historical cost						
31.12.2006.	4 003	-	-	-	5 354	7 618
Purchased	1 517	-	-	-	1 517	2 159
Relocated	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
31.03.2007.	6 871	-	-	-	6 871	9 777
Depreciation						
31.12.2006.	3 349	-	-	-	3 349	4 765
Calculated	377	-	-	-	377	536
Written-off	-	-	-	-	-	-
31.03.2007.	3 726	-	-	-	3 726	5 302
Net book value						
31.12.2006.	654	-	-	-	2 005	2 853
Net book value						
31.03.2007.	3 145	-	-	-	3 145	4 475

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
Historical cost						
31.12.2006.	468 191	1 241 630	498 343	314 643	2 522 807	3 589 631
Purchased			1 189	2 612	3 801	5 408
Written-off			1 569	20 281	21 850	31 090
31.03.2007.	468 191	1 241 630	497 963	296 974	2 504 758	3 563 950
Depreciation						
31.12.2006.	-	470 172	217 059	123 539	810 770	1 153 622
Calculated		15 512	12 893	11 372	39 777	56 598
Written-off		-	1 426	9 295	10 721	15 255
31.03.2007.	-	485 684	228 526	125 616	839 826	1 194 965
Net book value						
31.12.2006.	468 191	771 458	281 284	191 104	1 712 037	2 436 009
Net book value						
31.03.2007.	468 191	755 946	269 437	171 358	1 664 932	2 368 985

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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
Historical cost						
31.12.2006.	1 813 461	-	576	38 052	1 852 089	2 635 285
Purchased				584	584	831
Written-off						-
31.03.2007.	1 813 461	-	576	38 636	1 852 673	2 636 116
Depreciation						
31.12.2006.	46 468	-	-	-	46 468	46 468
Calculated	45 337	-	-	-	45 337	64 509
Written-off	-	-	-	-	-	-
31.03.2007.	91 805	-	-	-	91 805	130 627
Net book value						
31.12.2006.	1 766 993	-	576	38 052	1 805 621	2 569 167
Net book value						
31.03.2007.	1 721 656	-	576	38 636	1 760 868	2 505 489

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

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

14. Raw materials

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Raw materials	302 578	430 530	252 480	
Inventory in use	13 419	19 094		-
Unfinished goods				
finished goods and goods in warehouse	142 073	202 152	212 449	302 288
Total	458 070	651 776	464 929	302 288

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Notes to the Balance Sheet (continued)

15. Advance payments for goods

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Advance payments for materials	19 198	27 316	9 663	13 749
Advance payments to non-residents	36 012	51 240	28 617	40 718
Goods in bonded storage	129 462	184 208	146 392	208 297
Total	184 672	262 764	184 672	262 764

16. Trade receivables

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Receivables (non-residents)	291 608	414 921	235 092	334 506
Receivables (residents)	135 418	192 682	185 685	264 206
Book value of purchases and customers, total	427 026	607 603	420 777	598 712
Provisions for doubtful debts	-	-	-	-
Net trade receivables, total	427 026	607 603	420 777	598 712

17. Other receivables

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
VAT confirmed (unpaid invoices)	2 649	3 769	3 898	5 546
VAT overpaid to the state budget	7 531	10 716	5 456	7 763
Nature Resource tax overpaid to the state budget	321	457	358	509
Settlements with employees	44 367	63 129	36 080	51 337
Tax pre-payments for customs procedures	3 017	4 293	3 073	4 372
Loans to employees	3 712	5 282	3 802	5 410
Other loans	21 687	30 858	60 566	86 178
Others	6 338	9 018	6 876	9 784
Total	89 622	127 522	120 267	171 123

18. Deferred expenses

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Insurance expenses	8 283	11 786	2 356	3 352
Expenses for repairs of buildings and premises	20 411	29 042	23 792	33 853
Expenses for implementation of project Nr.124000075	326 861	465 081	107 794	153 377
Expenses for reconstruction of block I-2	207 665	295 481	-	-
Other expenses	19 278	27 430	9 184	13 068
Total	582 498	828 820	143 126	203 650

19. Cash and cash equivalents

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Cash on hand	-	-	869	1 236
Cash in bank accounts	7 836	11 150	1 690 988	2 406 059
Total	7 836	11 150	1 691 857	2 407 295

Notes to the Balance Sheet (continued)

20. Information about company's share capital

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On 31.03.2007 company's share capital consisted of 2549084 registered and fully paid shares with nominal value of 1 Ls.
Largest shareholders of JSC "VEF Radiotekhnika RRR" are:

Shareholders	Number of shares		Value			
			LVL		EUR	
	2007.31.03	2006.31.03	2007.31.03	2006.31.03	2007.31.03	2006.31.03
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
Total:	2549084	2549084	2549084	2549084	3627020	3627020

21. Retained earnings/losses

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

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Previous years' retained earnings/losses	-424 999 -	604 719	573 033	815 353
Current year profit/loss	-65 165 -	92 721	1 003	1 427
Total	- 490 164 -	697 440	572 030	813 926

22. Long-term loans from lending institutions

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Loan from JSC SEB Latvijas Unibanka (EUR)	1 125 155	1 600 951	1 916 371	2 726 750
Total	1 125 155	1 600 951	1 916 371	2 726 750

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)

	2007	2007	2006	2006
	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
Total	122 806	174 738	82 752	117 745

24. Deferred income (long-term)

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Income from grant financing (project Nr.124000075)	772 185	1 098 720	-	-
Total	772 185	1 098 720	-	-

Notes to the Balance Sheet (continued)

25. Deferred taxation

2007	2007	2006	2006
LVL	EUR	LVL	EUR

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Deferred Corporate Income Tax	-	-	70 538	100 367
Total	-	-	70 538	100 367

26. Short-term loans from lending institutions

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Credit line from JSC SEB Latvijas Unibanka (LVL)	197 148	280 516	-	-
Loan from JSC SEB Latvijas Unibanka (EUR)	9 187	13 072	9 277	13 200
Total	206 335	293 588	9 277	13 200

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 Lina 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)

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Financial lease from SIA Parex Līzins un Faktoringa	7 660	10 899	-	-
Financial lease from SIA Nord/LB Līzings (EUR)	9 190	13 076	8 834	12 570
Financial lease from SIA Hansa Līzings (USD)	2 286	3 253	2 423	3 448
Financial lease from SIA Hansa Līzings (EUR)	4 413	6 279	4 171	5 935
Financial lease from SIA Unilīzings (EUR)	2 132	3 034	2 029	2 887
Factoring from JSC HVB Bank Latvija (EUR)	-	-	41 038	58 392
Faktoringa SIA Unilīzings (EUR)	62 423	88 820	-	-
SIA Baltlains Plus (USD)	-	-	17 790	25 313
Credit cards	9 605	13 667	2 206	3 139
Total	97 709	139 028	78 491	111 684

28. Advances from customers

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Advances from non-residents	3 592	5 111	4 264	6 067
Advances from residents	200 362	285 089	281 089	399 954
Total	203 954	290 200	285 353	406 021

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

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Trade accounts payable to non-residents	15 853	22 557	231 939	330 019
Trade accounts payable to residents	219 571	312 421	219 162	311 839
Total	235 424	334 978	451 101	641 858

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Notes to the Balance Sheet (continued)

30. Taxes and social insurance payments	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Personal Income Tax	31 246	44 459	14 962	21 289
State Social Insurance payments	39 571	56 304	16 270	23 150
Value Added Tax		-		-
Real estate tax for building and constructions	43 370	61 710	821	1 168
Real estate tax for land	1 742	2 479	-	-
Nature resources tax		-	18	26
Corporate risk tax	4	6	15	21
Total	115 933	164 958	32 086	45 654

31. Other liabilities	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Salaries	45 998	65 449	14 159	20 146
Advance settlement amounts		-	412	586
Deposits	34 009	48 390	7 543	10 733
Other creditores	7 209	10 257	13	18
Total	87 216	124 096	22 127	31 483

32. Deferred income (short-term)	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Next year's rent for premises		-	8	11
Income from privatisation certificates	48331	68 769	72185	102 710
Income from grant financing (project Nr.124000075)	181 347	258 034	-	-
Total	229 678	326 803	72 193	102 721

Notes to the Financial Statements

General Notes

1. Average number of employees during the year

Average number of employees during the year

<u>year 2007</u>	<u>year 2006</u>
<u>131</u>	<u>92</u>

2. Total personnel costs

- salaries
- Social security payments
- Corporate risk tax
- including:

Management salaries

- salaries
- Social security payments
- Corporate risk tax
- total:

2007	2007	2006	2006
LVL	EUR	LVL	EUR
221 280	314 853	71 138	101 220
179 266	255 073	57 776	82 208
41 855	59 554	13 362	19 012
159	226	73	104
16 394	23 327	5 461	7 771

Taxes and social security payments

Type of tax	2007		2006	
(-) underpayment, (+) overpayment	LVL	EUR	LVL	EUR
Personal income tax	-31246	-44459	-14962	-21289
State social security obligatory payments	-39571	-56304	-16270	-23150
Value added tax	7531	10716	5456	7763
Real estate tax for building and constructions	-43369	-61709	-821	-1168
Real estate tax for land	-1742	-2479	159	226
Nature resources tax	321	457	343	488
Corporate risk tax	4	6	-15	-21
	-108072	-153772	-26110	-37151

Annual report is accepted and signed from page 1 till 27

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga