

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

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

**Measurement units: Ls (LVL)**

## ***2007 9 Months Report***

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

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

***Riga, Latvia***

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### ***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<br/>1998.12.11</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"<br/>LV57UNLA0050006466330 (LVL)<br/>LV55UNLA0050006466366 (EUR)<br/>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>2007.01.01</i> | <i>till</i>     | <i>2007.09.30</i> |
| <b>Previous reporting period</b>                                | <i>from</i>   | <i>2006.01.01</i> | <i>till</i>     | <i>2006.12.31</i> |
| <b>Chief Accountant</b>   | <i>Gunars Lacis</i>   |                   | <i>67418087</i> |                   |
| <b>Telephone:</b>   |   |                   |                 |                   |
| <b>Auditor:</b>   | <i>Auditing Company "Finansists" Ltd.<br/>Talavas gatve 11-4, Riga, LV- 1029<br/>Reg. Nr.LV-40002046180<br/><br/>Nelli Jermolicka<br/>sworn auditor<br/>(Latvian Association of Sworn Auditors' Certificate Nr.102)</i> |                   |                 |                   |

## ***Management Report***

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### **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: | -196445 LVL |
| Other taxes:                                 | -135707 LVL |
| Net result:                                  | -332152 LVL |

Net turnover for 2007 6 months is 1540855 Ls and has grown by 7.2 % 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 (%)     | -21,56 |
| Operating profit margin (%) | -8,24  |
| Gross profit margin (%)     | 5,21   |

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

|                   |        |
|-------------------|--------|
| Return on capital | -5,12  |
| Return on equity  | -18,01 |

### **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**

2007.30.11

**Report accepted at the Shareholders' Meeting on May 31, 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 September 30, 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

**Chairman of the Board**

**Eduards Maļejevs**

**Member of the Board**

**Jurijs Maļejevs**

**Member of the Board**

**Inga Sprūga**

2007.30.11

***PROFIT AND LOSS STATEMENT  
FOR THE PERIOD ENDED  
31.09.2007 (per turnover (period) costs method)***

|  | Note | <u>2007</u>      | <u>2007</u>      | <u>2006</u>     |
|--|------|------------------|------------------|-----------------|
|  | nr.  | LVL              | EUR              | LVL             |
| Net turnover   | 1    | 1 540 855        | 2 192 439        | 1 437 552       |
| Cost of sales  | 2    | (1 460 557)      | (2 078 185)      | (1 214 428)     |
| <b>Gross profit or loss</b>                                      |      | <b>80 298</b>    | <b>114 254</b>   | <b>223 124</b>  |
| Selling expenses   | 3    | (39 823)         | (56 663)         | (52 785)        |
| Administrative expenses  | 4    | (305 600)        | (434 830)        | (130 934)       |
| Other operating income   | 5    | 159 626          | 227 127          | 32 172          |
| Other operating expenses   | 6    | (21 664)         | (30 825)         | (67 591)        |
| Interest income and similar income                               | 7    | 151              | 215              | 7 087           |
| Interest expense and similar expenses                            | 8    | (69 433)         | (98 794)         | (76 096)        |
| <b>Profit or loss before extraordinary items and taxes</b>       |      | <b>(196 445)</b> | <b>(279 516)</b> | <b>(65 023)</b> |
| <b>Profit or loss after extraordinary items and before taxes</b> |      | <b>(196 445)</b> | <b>(279 516)</b> | <b>(65 023)</b> |
| Deferred corporate income tax for the reporting period           | 9    | -                | -                | -               |
| Other taxes  | 10   | (135 707)        | (193 094)        | (14 309)        |
| <b>Profit or loss for the period</b>                             |      | <b>(332 152)</b> | <b>(472 610)</b> | <b>(79 332)</b> |
| Earnings per share (EPS coefficient)                             |      | (0,130)          | (0,185)          | (0,031)         |

**Chairman of the Board**

**Eduards Maļejevs**

**Member of the Board**

**Jurijs Maļejevs**

**Member of the Board**

**Inga Sprūga**

2007.30.11

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

|                  |
|------------------|
| <b>2006</b>      |
| <b>EUR</b>       |
| 2 045 452        |
| (1 727 975)      |
| <b>317 477</b>   |
| (75 106)         |
| (186 302)        |
| 45 777           |
| (96 173)         |
| 10 084           |
| (108 275)        |
| <b>(92 518)</b>  |
| <b>(92 518)</b>  |
| -                |
| (20 360)         |
| <b>(112 878)</b> |
| <b>(0,044)</b>   |



**BALANCE SHEET as on 30.09.2007.**

| <b>ASSETS</b>  |    | Note<br>nr.      | <b>2007</b><br>LVL | <b>2007</b><br>EUR | <b>2006</b><br>LVL |
|--|----|------------------|--------------------|--------------------|--------------------|
| <b>1. Non-current assets</b>                                     |    |                  |                    |                    |                    |
| <b>I. Intangible assets:</b>                                     |    |                  |                    |                    |                    |
| Concessions, patents, licenses, trade marks and similar rights   | 11 | 2 766            | 3 936              | 2 186              |                    |
| <b>Total intangible assets:</b>                                  |    | <b>2 766</b>     | <b>3 936</b>       | <b>2 186</b>       |                    |
| <b>II. Fixed assets:</b>   |    |                  |                    |                    |                    |
| Land, buildings and constructions                                |    | 1 193 113        | 1 697 647          | 1 255 136          |                    |
| Equipment and vehicles   |    | 1 875 960        | 2 669 251          | 494 360            |                    |
| Other fixed assets   |    | 156 278          | 222 364            | 236 133            |                    |
| Construction of fixed assets and unfinished construction objects |    | 38 636           | 54 974             | 1 474 459          |                    |
| Advance payments for fixed assets                                |    | 576              | 820                | 576                |                    |
| <b>Total fixed assets:</b>                                       | 12 | <b>3 264 563</b> | <b>4 645 056</b>   | <b>3 460 664</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              |                    |
| 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>Total non-current assets:</b>                                 |    | <b>3 340 644</b> | <b>4 753 310</b>   | <b>3 463 970</b>   |                    |
| <b>2. Current assets</b>   |    |                  |                    |                    |                    |
| <b>I. Inventory:</b>   |    |                  |                    |                    |                    |
| Raw materials  | 13 | 393 483          | 559 876            | 334 233            |                    |
| Work in process  | 14 | 24 356           | 34 655             | 6 285              |                    |
| Finished goods   | 14 | 261 838          | 372 562            | 192 644            |                    |
| Advance payments for materials                                   | 15 | 90 440           | 128 685            | 164 329            |                    |
| <b>Total inventory:</b>  |    | <b>770 117</b>   | <b>1 095 778</b>   | <b>697 491</b>     |                    |
| <b>II. Sales-deferred long-term investments</b>                  |    |                  |                    |                    |                    |
| <b>Total sales-deferred long-term investments:</b>               |    | -                | -                  | -                  |                    |
| <b>III. Receivables:</b>   |    |                  |                    |                    |                    |
| Trade receivables  | 16 | 396 891          | 564 725            | 394 427            |                    |
| Other receivables  | 17 | 84 491           | 120 220            | 103 377            |                    |
| Deferred expenses  | 18 | 651 171          | 926 533            | 216 545            |                    |
| <b>Total receivables:</b>  |    | <b>1 132 553</b> | <b>1 611 478</b>   | <b>714 349</b>     |                    |
| <b>IV. Short-term financial investments:</b>                     |    |                  |                    |                    |                    |
| Other securities and capital participation                       |    | 14               | 20                 | 14                 |                    |
| <b>Total short-term financial investments:</b>                   |    | <b>14</b>        | <b>20</b>          | <b>14</b>          |                    |
| <b>V. Cash</b>   | 19 | <b>7 411</b>     | <b>10 545</b>      | <b>143 196</b>     |                    |
| <b>Total currents assets:</b>                                    |    | <b>1 910 095</b> | <b>2 717 821</b>   | <b>1 555 050</b>   |                    |
| <b>TOTAL ASSETS:</b>   |    | <b>5 250 739</b> | <b>7 471 129</b>   | <b>5 019 020</b>   |                    |

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

2006  
EUR

3 110  
3 110

1 785 898  
703 411  
335 987  
2 097 966  
820  
4 924 082

-

-

1 594  
-  
1 594  
4 928 786

475 571  
8 943  
274 108  
233 819  
992 441

-

561 219  
147 092  
308 116  
1 016 427

20  
20

203 750  
2 212 638

7 141 424

**BALANCE SHEET as on 30.09.2007.**

**LIABILITIES AND  
SHAREHOLDERS' EQUITY**

**1. Shareholders' equity:**

|                                      | Note<br>nr. | 2007             |                  | 2006             |                  |
|--------------------------------------|-------------|------------------|------------------|------------------|------------------|
|                                      |             | LVL              | EUR              | LVL              | 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          | - 332 152        | - 472 610        | - 79 332         | - 112 879        |
| <b>Total shareholders' equity:</b>   |             | <b>1 791 933</b> | <b>2 549 691</b> | <b>1 896 719</b> | <b>2 698 788</b> |

**2. Provisions:**

|                          |  |   |   |   |   |
|--------------------------|--|---|---|---|---|
| <b>Total provisions:</b> |  | - | - | - | - |
|--------------------------|--|---|---|---|---|

**3. Liabilities:**

**I. Non-current liabilities:**

|                                       |    |                  |                  |                  |                  |
|---------------------------------------|----|------------------|------------------|------------------|------------------|
| Loans from lending institutions       | 22 | 1 335 996        | 1 900 951        | 2 098 340        | 2 985 669        |
| Other loans                           | 23 | 134 285          | 191 070          | 157 616          | 224 267          |
| Deferred income                       | 24 | 772 185          | 1 098 720        |                  | -                |
| Deferred tax liabilities              | 25 |                  | -                | 70 538           | 100 367          |
| <b>Total non-current liabilities:</b> |    | <b>2 242 466</b> | <b>3 190 741</b> | <b>2 326 494</b> | <b>3 310 303</b> |

**II. Current liabilities:**

|                                       |    |                  |                  |                |                  |
|---------------------------------------|----|------------------|------------------|----------------|------------------|
| Loans from lending institutions       | 26 | 196 032          | 278 928          | 9 277          | 13 200           |
| Other loans                           | 27 | 110 734          | 157 560          | 96 626         | 137 486          |
| Advances from customers               | 28 | 172 356          | 245 240          | 244 696        | 348 171          |
| Trade accounts payable                | 29 | 314 585          | 447 614          | 255 971        | 364 214          |
| Taxes and social security liabilities | 30 | 223 760          | 318 382          | 54 282         | 77 236           |
| Other liabilities                     | 31 | 87 842           | 124 988          | 55 675         | 79 218           |
| Deferred income                       | 32 | 70 051           | 99 674           | 56 282         | 80 082           |
| Accrued liabilities                   | 33 | 40 980           | 58 309           | 22 998         | 32 723           |
| <b>Total current liabilities:</b>     |    | <b>1 216 340</b> | <b>1 730 695</b> | <b>795 807</b> | <b>1 132 330</b> |

|                           |  |                  |                  |                  |                  |
|---------------------------|--|------------------|------------------|------------------|------------------|
| <b>Total liabilities:</b> |  | <b>3 458 806</b> | <b>4 921 436</b> | <b>3 122 301</b> | <b>4 442 633</b> |
|---------------------------|--|------------------|------------------|------------------|------------------|

|  |  |                  |                  |                  |                  |
|--|--|------------------|------------------|------------------|------------------|
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:</b> |  | <b>5 250 739</b> | <b>7 471 129</b> | <b>5 019 020</b> | <b>7 141 421</b> |
|--|--|------------------|------------------|------------------|------------------|

**Chairman of the Board**

**Eduards Malejevs**

**Member of the Board**

**Jurijs Malejevs**

**Member of the Board**

**Inga Spruga**

2007.30.11

**CASH FLOW STATEMENT FOR THE PERIOD ENDED**

**30.09.2007 (per indirect method)**

**I. Cash flow from operating activity**

|  | <b>2007</b>      | <b>2007</b>      | <b>2006</b>        | <b>2006</b>        |
|--|------------------|------------------|--------------------|--------------------|
|  | <b>LVL</b>       | <b>EUR</b>       | <b>LVL</b>         | <b>EUR</b>         |
| <i>Profit or loss before extraordinary items and taxes</i>                         | - 196 445        | - 279 516        | - 65 023           | - 92 519           |
| <i>Adjustments for:</i>  |                  |                  |                    |                    |
| a) depreciation of fixed assets  | 255 984          | 364 232          | 133 987            | 190 646            |
| k) other taxes   | (135 707)        | (193 094)        | (14 309)           | (20 360)           |
| <i>Profit or loss before current assets and short-term liabilities corrections</i> | <b>(76 168)</b>  | <b>(108 377)</b> | <b>54 655</b>      | <b>77 767</b>      |
| <i>Adjustments for:</i>  |                  |                  |                    |                    |
| a) trade receivables increase (-) or decrease (+)                                  | (140 287)        | (199 610)        | (49 289)           | (70 132)           |
| b) inventory increase (-) or decrease (+)  | (129 503)        | (184 266)        | (123 086)          | (175 136)          |
| c) accounts payable to suppliers and other creditors increase (+) or decrease (-)  | 30 437           | 43 308           | (56 453)           | (80 325)           |
| <i>Gross cash flow from operating activities</i>                                   | <b>(315 521)</b> | <b>(448 946)</b> | <b>(174 173)</b>   | <b>(247 825)</b>   |
| Interest payments  | -                | -                | -                  | -                  |
| <i>Cash flow before extraordinary items</i>  | <b>(315 521)</b> | <b>(448 946)</b> | <b>(174 173)</b>   | <b>(247 825)</b>   |
| <i>Net cash flow from operating activity</i>                                       | <b>(315 521)</b> | <b>(448 946)</b> | <b>(174 173)</b>   | <b>(247 825)</b>   |
| <b>II. Cash flow from investing activities</b>                                     |                  |                  |                    |                    |
| Acquisition of fixed assets  | (23 867)         | (33 960)         | (1 852 682)        | (2 636 129)        |
| Income from fixed assets sale  | 6 451            | 9 179            | 7 677              | 10 923             |
| Loans issued   | (2 850)          | (4 055)          | (7 856)            | (11 178)           |
| Interest received  |                  | -                | 21 118             | 30 048             |
| <i>Net cash flow from investing activities</i>                                     | <b>(20 266)</b>  | <b>(28 836)</b>  | <b>(1 831 743)</b> | <b>(2 606 335)</b> |
| <b>III. Cash flow from financing activities</b>                                    |                  |                  |                    |                    |
| Loans received   | 344 065          | 489 560          | 2 169 909          | 3 087 502          |
| Rented asset buyout expenses   | (32 235)         | (45 866)         | (359 929)          | (512 133)          |
| Interest paid  |                  | -                | -                  | -                  |
| <i>Net cash flow from financing activities</i>                                     | <b>311 830</b>   | <b>443 694</b>   | <b>1 809 980</b>   | <b>2 575 370</b>   |
| <b>IV. Foreign exchange rate differences</b>                                       | -                | -                | -                  | -                  |
| <b>V. Net cash flow for the year</b>   | <b>(23 957)</b>  | <b>(34 088)</b>  | <b>(195 936)</b>   | <b>(278 791)</b>   |
| <b>VI. Cash and cash equivalents at the beginning of the period</b>                | <b>31 368</b>    | <b>44 633</b>    | <b>339 132</b>     | <b>482 541</b>     |
| <b>VII. Cash and cash equivalents at the end of the period</b>                     | <b>7 411</b>     | <b>10 545</b>    | <b>143 196</b>     | <b>203 750</b>     |

**Chairman of the Board**

**Eduards Malejevs**

**Member of the Board**

**Jurijs Malejevs**

**Member of the Board**

**Inga Spruga**

2007.30.11

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR 2007 6 months Report**

|   | 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, 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>573 032</b>                    | <b>2 124 086</b>                 |
| Profit carried over                     |                          |  |                    | - 148 034           | 148 034                           |                                  |
| Profit for the year                     |                          |  |                    | - 332 153           |                                   | - 332 153                        |
| <b>Balance as on September 30, 2007</b> | <b>2 549 084</b>         | <b>-</b>                                     | <b>-</b>           | <b>- 332 152</b>    | <b>- 424 998</b>                  | <b>1 791 933</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, 2005</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                     |                          |  |                    | - 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>23 489</b>       | <b>- 871 989</b>                  | <b>2 989 921</b>                 |
| Profit carried over                     |                          |  |                    | - 210 633           | 210 633                           |                                  |
| Profit for the year                     |                          |  |                    | - 472 610           |                                   | - 472 610                        |
| <b>Balance as on September 30, 2007</b> | <b>3 627 020</b>         | <b>-</b>                                     | <b>-</b>           | <b>- 472 610</b>    | <b>- 604 718</b>                  | <b>2 549 691</b>                 |

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga

2007.30.11

## ***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 30.09.2007.**

### 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:

|     | 2007.30.09 | 2006.31.12 | 2005.31.12 |
|-----|------------|------------|------------|
| USD | 0,497      | 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, 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**



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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.

**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              | 616 715          | 877 506          | 489 091          | 695 914          |
| Income from rent of premises                           | 376 865          | 536 231          | 332 026          | 472 430          |
| Income from sale of finished goods in the local market | 204 883          | 291 522          | 172 336          | 245 212          |
| Income from utility services                           | 292 676          | 416 440          | 270 768          | 385 268          |
| Income from galvanization services                     | 31 122           | 44 283           | 67 096           | 95 469           |
| Income from sale of materials                          | 18 594           | 26 457           | 106 235          | 151 159          |
| <b>Total</b>   | <b>1 540 855</b> | <b>2 192 439</b> | <b>1 437 552</b> | <b>2 045 452</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  | 2007             | 2007             | 2006             | 2006             |
|--|------------------|------------------|------------------|------------------|
|  | LVL              | EUR              | LVL              | EUR              |
| Personnel costs                                    | 464 946          | 661 559          | 251 265          | 357 518          |
| Depreciation of fixed assets                       | 119 974          | 170 708          | 135 901          | 193 370          |
| Depreciation of fixed assets (project 124000075)   | 136 010          | 193 525          | -                | -                |
| Write-off of current assets                        | -                | -                | 5 662            | 8 056            |
| Changes in finished goods inventory                | 17 923           | 25 502           | 33 691           | 47 938           |
| Changes in purchased materials and goods inventory | 376 597          | 535 849          | 589 035          | 838 121          |
| Services for productions                           | 73 400           | 104 439          | 18 995           | 27 027           |
| Ongoing maintenance and repair                     | 17 186           | 24 453           | -                | -                |
| Real estate property maintenance                   | 250 173          | 355 964          | 243 011          | 345 774          |
| Other costs  | 40 194           | 57 191           | 4 250            | 6 047            |
| <b>Total</b>                                       | <b>1 496 403</b> | <b>2 129 190</b> | <b>1 281 810</b> | <b>1 823 851</b> |

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

**Note Nr. 3**

**Sales costs**

**Cost type**

| Cost type              | 2007          | 2007          | 2006          | 2006          |
|------------------------|---------------|---------------|---------------|---------------|
|                        | LVL           | EUR           | LVL           | EUR           |
| Goods' transport costs | 31 672        | 45 065        | 33 771        | 48 052        |
| Sales costs            | 2 346         | 3 338         | 9 543         | 13 578        |
| Advertising costs      | 5 805         | 8 260         | 9 471         | 13 476        |
| <b>Total</b>           | <b>39 823</b> | <b>56 663</b> | <b>52 785</b> | <b>75 106</b> |

**Note Nr. 4**

**Administrative costs**

**Cost type**

| Cost type              | 2007    | 2007    | 2006   | 2006   |
|------------------------|---------|---------|--------|--------|
|                        | LVL     | EUR     | LVL    | EUR    |
| Personnel costs        | 258 819 | 368 266 | 65 455 | 93 134 |
| Representation costs   | 2 908   | 4 138   | 2 380  | 3 386  |
| Office expenses        | 5 040   | 7 171   | 6 646  | 9 456  |
| Communication expenses | 11 550  | 16 434  | 18 689 | 26 592 |

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|                               |                |                |                |                |
|-------------------------------|----------------|----------------|----------------|----------------|
| Bank expenses                 | 4 449          | 6 330          | 16505          | 23 484         |
| Transport costs               | 20 277         | 28 852         | 16562          | 23 566         |
| Accounting and legal expenses | 2 454          | 3 492          | 3749           | 5 334          |
|                               |                |                |                | -              |
| Other administrative costs    | 103            | 147            | 948            | 1 349          |
| <b>Total</b>                  | <b>305 600</b> | <b>434 830</b> | <b>130 934</b> | <b>186 301</b> |

**Note Nr. 5**

**Other incomes from operating activity**

| Type on income                                       | 2007<br>LVL    | 2007<br>EUR    | 2006<br>LVL   | 2006<br>EUR   |
|--|----------------|----------------|---------------|---------------|
| Income from privatisation certificates               | 23 616         | 33 603         | 23 854        | 33 941        |
| Receivables from grant financing (project 124000075) | 136 010        | 193 525        |               |               |
| Other income   |                |                | 8 318         | 11 835        |
| <b>Total</b>   | <b>159 626</b> | <b>227 128</b> | <b>32 172</b> | <b>45 776</b> |

**Note Nr. 6**

**Other incomes/expenses from operating activity**

| Type of income/expense       | 2007<br>LVL   | 2007<br>EUR   | 2006<br>LVL   | 2006<br>EUR   |
|------------------------------|---------------|---------------|---------------|---------------|
| Difference in currency rates | 5 377         | 7 651         |               | -             |
| Sale of fixed assets         | 5 472         | 7 786         |               | -             |
| Fines                        | 3 626         | 5 159         |               | -             |
| Other expenses *             | 7 189         | 10 229        | 67 591        | 96 173        |
| <b>Total</b>                 | <b>21 664</b> | <b>30 825</b> | <b>67 591</b> | <b>96 173</b> |

**Note Nr. 7**

**Other interest and similar income**

| Type of income                                     | 2007<br>LVL | 2007<br>EUR | 2006<br>LVL  | 2006<br>EUR   |
|--|-------------|-------------|--------------|---------------|
| Interest received on account balances              | 151         | 215         | 3 672        | 5 225         |
| Received penalties / fines                         |             | -           | 457          | 650           |
| Net profit from foreign currency rate fluctuations |             | -           | 2 957        | 4 207         |
| <b>Total</b>                                       | <b>151</b>  | <b>215</b>  | <b>7 086</b> | <b>10 082</b> |

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

**Note Nr. 8**

**Other interest and similar expenses**

| Type of expense                              | 2007<br>LVL   | 2007<br>EUR   | 2006<br>LVL   | 2006<br>EUR    |
|--|---------------|---------------|---------------|----------------|
| Interest paid on loans                       | 65304         | 92 919        | 61194         | 87 071         |
| Loss from foreign currency rate fluctuations | 4129          | 5 875         | 12631         | 17 972         |
| Fines/penalties paid                         |               | -             | 2271          | 3 231          |
| <b>Total</b>                                 | <b>69 433</b> | <b>98 794</b> | <b>76 096</b> | <b>108 274</b> |

**Note Nr. 9**

**Deferred Corporate Income Tax**

|               | 2007<br>LVL | 2007<br>EUR | 2006<br>LVL | 2006<br>EUR |
|---------------|-------------|-------------|-------------|-------------|
| <b>Total:</b> | -           | -           | -           | -           |

**Note Nr. 10**

**Other taxes**

|                          | 2007<br>LVL | 2007<br>EUR | 2006<br>LVL | 2006<br>EUR |
|--------------------------|-------------|-------------|-------------|-------------|
| Real estate tax for land | 5 598       | 7 965       | 5281        | 7 514       |

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|   |                |                |               |               |
|---|----------------|----------------|---------------|---------------|
| Real estate tax for buildings and constructions | 130 109        | 185 128        | 9028          | 12 846        |
| <b>Total:</b>                                   | <b>135 707</b> | <b>193 093</b> | <b>14 309</b> | <b>20 360</b> |

## Notes to the Financial Statements

### Notes to the Balance Sheet as on September 30, 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 |
|------------------------|-------------------|-------------------------|----------------|------------------------------------|------------------------------|------------------------------|
| <b>Historical cost</b> |                   |                         |                |                                    |                              |                              |
| <b>31.12.2006.</b>     | 5 354             | -                       | -              | -                                  | <b>5 354</b>                 | <b>7 618</b>                 |
| Purchased              | 2 009             | -                       | -              | -                                  | 2 009                        | 2 859                        |
| Relocated              | -                 | -                       | -              | -                                  | -                            | -                            |
| Written-off            | -                 | -                       | -              | -                                  | -                            | -                            |
| <b>30.09.2007.</b>     | <b>7 363</b>      | <b>-</b>                | <b>-</b>       | <b>-</b>                           | <b>7 363</b>                 | <b>10 477</b>                |
| <b>Depreciation</b>    |                   |                         |                |                                    |                              |                              |
| <b>31.12.2006.</b>     | 3 349             | -                       | -              | -                                  | <b>3 349</b>                 | <b>4 765</b>                 |
| Calculated             | 1 248             | -                       | -              | -                                  | 1 248                        | 1 776                        |
| Written-off            | -                 | -                       | -              | -                                  | -                            | -                            |
| <b>30.09.2007.</b>     | <b>4 597</b>      | <b>-</b>                | <b>-</b>       | <b>-</b>                           | <b>4 597</b>                 | <b>6 541</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>                 |
| <b>Net book value</b>  |                   |                         |                |                                    |                              |                              |
| <b>30.09.2007.</b>     | <b>2 766</b>      | <b>-</b>                | <b>-</b>       | <b>-</b>                           | <b>2 766</b>                 | <b>3 936</b>                 |

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

#### 12. Fixed Assets

|                        | Land           | Buildings and constructions | Technological equipment | Other fixed assets | Total LVL        | Total EUR        |
|------------------------|----------------|-----------------------------|-------------------------|--------------------|------------------|------------------|
| <b>Historical cost</b> |                |                             |                         |                    |                  |                  |
| <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> |
| Purchased              |                |                             | 2 722                   | 19 627             | 22 349           | 31 800           |
| Written-off            |                |                             | 3 354                   | 40 331             | 43 685           | 62 158           |
| <b>30.09.2007.</b>     | <b>468 191</b> | <b>1 241 630</b>            | <b>497 711</b>          | <b>293 939</b>     | <b>2 501 471</b> | <b>3 559 273</b> |
| <b>Depreciation</b>    |                |                             |                         |                    |                  |                  |
| <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> |
| Calculated             |                | 46 536                      | 38 811                  | 33 378             | 118 725          | 168 930          |
| Written-off            |                |                             | 3 136                   | 19 256             | 22 392           | 31 861           |
| <b>30.09.2007.</b>     | <b>-</b>       | <b>516 708</b>              | <b>252 734</b>          | <b>137 661</b>     | <b>907 103</b>   | <b>1 290 691</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> |
| <b>Net book value</b>  |                |                             |                         |                    |                  |                  |
| <b>30.09.2007.</b>     | <b>468 191</b> | <b>724 922</b>              | <b>244 977</b>          | <b>156 278</b>     | <b>1 594 368</b> | <b>2 268 581</b> |

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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        |
|------------------------|---|---|-------------------------------|------------------------------|------------------|------------------|
| <b>Historical cost</b> |   |   |                               |                              |                  |                  |
| <b>31.12.2006.</b>     | <b>1 813 461</b>                            | <b>-</b>  | <b>576</b>                    | <b>38 052</b>                | <b>1 852 089</b> | <b>2 635 285</b> |
| Purchased              |   |   |                               | 584                          | 584              | 831              |
| Written-off            |   |   |                               |                              |                  | -                |
| <b>30.09.2007.</b>     | <b>1 813 461</b>                            | <b>-</b>  | <b>576</b>                    | <b>38 636</b>                | <b>1 852 673</b> | <b>2 636 116</b> |
| <b>Depreciation</b>    |   |   |                               |                              |                  |                  |
| <b>31.12.2006.</b>     | <b>46 468</b>                               | <b>-</b>  | <b>-</b>                      | <b>-</b>                     | <b>46 468</b>    | <b>46 468</b>    |
| Calculated             | 136 010                                     | -   | -                             | -                            | 136 010          | 193 525          |
| Written-off            | -   | -   | -                             | -                            | -                | -                |
| <b>30.09.2007.</b>     | <b>182 478</b>                              | <b>-</b>  | <b>-</b>                      | <b>-</b>                     | <b>182 478</b>   | <b>259 643</b>   |
| <b>Net book value</b>  |   |   |                               |                              |                  |                  |
| <b>31.12.2006.</b>     | <b>1 766 993</b>                            | <b>-</b>  | <b>576</b>                    | <b>38 052</b>                | <b>1 805 621</b> | <b>2 569 167</b> |
| <b>Net book value</b>  |   |   |                               |                              |                  |                  |
| <b>30.09.2007.</b>     | <b>1 630 983</b>                            | <b>-</b>  | <b>576</b>                    | <b>38 636</b>                | <b>1 670 195</b> | <b>2 376 473</b> |

*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**

|                                       | <b>2007</b>    | <b>2007</b>    | <b>2006</b>    | <b>2006</b>    |
|---------------------------------------|----------------|----------------|----------------|----------------|
|                                       | <b>LVL</b>     | <b>EUR</b>     | <b>LVL</b>     | <b>EUR</b>     |
| Raw materials                         | 393 483        | 559 876        | 334 233        | 475 571        |
| Inventory in use                      | 24 356         | 34 655         | 6 285          | 8 943          |
| finished goods and goods in warehouse | 261 838        | 372 562        | 192 644        | 274 108        |
| <b>Total</b>                          | <b>679 677</b> | <b>967 093</b> | <b>533 162</b> | <b>758 622</b> |

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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    | 58 373        | 83 057         | 17 844         | 25 390         |
| Advance payments to non-residents | 32 067        | 45 627         | 52 720         | 75 014         |
| Goods in bonded storage           |               |                | 93 765         | 133 416        |
| <b>Total</b>                      | <b>90 440</b> | <b>128 684</b> | <b>164 329</b> | <b>233 820</b> |

| 16. Trade receivables                               | 2007           | 2007           | 2006           | 2006           |
|---|----------------|----------------|----------------|----------------|
|   | LVL            | EUR            | LVL            | EUR            |
| Receivables (non-residents)                         | 288 445        | 410 420        | 251 001        | 357 142        |
| Receivables (residents)                             | 108 446        | 154 305        | 143 426        | 204 077        |
| <b>Book value of purchases and customers, total</b> | <b>396 891</b> | <b>564 725</b> | <b>394 427</b> | <b>561 219</b> |
| Provisions for doubtful debts                       | -              | -              | -              | -              |
| <b>Net trade receivables, total</b>                 | <b>396 891</b> | <b>564 725</b> | <b>394 427</b> | <b>561 219</b> |

| 17. Other receivables                            | 2007          | 2007           | 2006           | 2006           |
|--|---------------|----------------|----------------|----------------|
|  | LVL           | EUR            | LVL            | EUR            |
| VAT confirmed (unpaid invoices)                  | 2 159         | 3 072          | 3 004          | 4 274          |
| VAT overpaid to the state budget                 |               | -              | 6 599          | 9 390          |
| Nature Resource tax overpaid to the state budget |               | -              | 617            | 878            |
| Real estate tax overpaid to the state budget     |               |                | 53             | 75             |
| Settlements with employees                       | 23 703        | 33 726         | 30 367         | 43 208         |
| Tax pre-payments for customs procedures          | 2 584         | 3 677          | 3 006          | 4 277          |
| Loans to employees                               | 4 224         | 6 010          | 4 226          | 6 013          |
| Other loans                                      | 51 606        | 73 429         | 47 305         | 67 309         |
| Others   | 215           | 306            | 8 200          | 11 668         |
| <b>Total</b>                                     | <b>84 491</b> | <b>120 220</b> | <b>103 377</b> | <b>147 092</b> |

| 18. Deferred expenses                               | 2007           | 2007           | 2006           | 2006           |
|---|----------------|----------------|----------------|----------------|
|   | LVL            | EUR            | LVL            | EUR            |
| Insurance expenses                                  | 4 007          | 5 701          | 10 592         | 15 071         |
| Expenses for repairs of buildings and premises      | 17 029         | 24 230         | 22 665         | 32 249         |
| Expenses for implementation of project Nr.124000075 | 277 832        | 395 319        | 177 009        | 251 861        |
| Expenses for reconstruction of block I-2            | 347 120        | 493 907        | -              | -              |
| Other expenses                                      | 5 183          | 7 375          | 6 279          | 8 934          |
| <b>Total</b>  | <b>651 171</b> | <b>926 532</b> | <b>216 545</b> | <b>308 115</b> |

| 19. Cash and cash equivalents | 2007         | 2007          | 2006           | 2006           |
|-------------------------------|--------------|---------------|----------------|----------------|
|                               | LVL          | EUR           | LVL            | EUR            |
| Cash on hand                  | 12           | 17            | 798            | 1 135          |
| Cash in bank accounts         | 7 399        | 10 528        | 142 398        | 202 614        |
| <b>Total</b>                  | <b>7 411</b> | <b>10 545</b> | <b>143 196</b> | <b>203 749</b> |

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

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



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On 30.09.2007 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            |                |
|                         | 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         |
| <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 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                 | -332 152 -         | 472 610 -          | 79 332 -         | 112 879        |
| <b>Total</b>                             | <b>- 757 151 -</b> | <b>1 077 329 -</b> | <b>652 365 -</b> | <b>928 232</b> |

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

|   | 2007             | 2007             | 2006             | 2006             |
|---|------------------|------------------|------------------|------------------|
|   | LVL              | EUR              | LVL              | EUR              |
| Loan from JSC SEB Latvijas Unibanka (EUR) | 1 335 996        | 1 900 951        | 2 098 340        | 2 985 669        |
| <b>Total</b>                              | <b>1 335 996</b> | <b>1 900 951</b> | <b>2 098 340</b> | <b>2 985 669</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)

|  | 2007           | 2007           | 2006           | 2006           |
|--|----------------|----------------|----------------|----------------|
|  | LVL            | EUR            | LVL            | EUR            |
| Financial lease from SIA Parex Līzins un Faktoring | 65 059         | 92 571         | 75 214         | 107 020        |
| Financial lease from SIA Nord/LB Līzings (EUR)     | 36 784         | 52 339         | 49 477         | 70 399         |
| Financial lease from SIA Hansa Līzings (USD)       | 2 457          | 3 496          | 5 941          | 8 453          |
| Financial lease from SIA Hansa Līzings (EUR)       | 9 407          | 13 385         | 15 250         | 21 699         |
| Financial lease from SIA Unilīzings (EUR)          | 20 578         | 29 280         | 11 734         | 16 696         |
| <b>Total</b>                                       | <b>134 285</b> | <b>191 071</b> | <b>157 616</b> | <b>224 267</b> |

### 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        | -        | -        |
| <b>Total</b>                                       | <b>772 185</b> | <b>1 098 720</b> | <b>-</b> | <b>-</b> |

### Notes to the Balance Sheet (continued)

### 25. Deferred taxation

| 2007 | 2007 | 2006 | 2006 |
|------|------|------|------|
|------|------|------|------|

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|                               | LVL      | EUR      | LVL           | EUR            |
|-------------------------------|----------|----------|---------------|----------------|
| 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**

|  | 2007           | 2007           | 2006         | 2006          |
|--|----------------|----------------|--------------|---------------|
|  | LVL            | EUR            | LVL          | EUR           |
| Credit line from JSC SEB Latvijas Unibanka (LVL) | 196 032        | 278 928        | -            | -             |
| Loan from JSC SEB Latvijas Unibanka (EUR)        |                | -              | 9 277        | 13 200        |
| <b>Total</b>                                     | <b>196 032</b> | <b>278 928</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 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 Faktoringis | 2 583          | 3 675          | 2 466         | 3 509          |
| Financial lease from SIA Nord/LB Līzings (EUR)       | 3 094          | 4 402          | 2 474         | 3 520          |
| Financial lease from SIA Hansa Līzings (USD)         | 721            | 1 026          | 779           | 1 108          |
| Financial lease from SIA Hansa Līzings (EUR)         | 1 491          | 2 122          | 1 410         | 2 006          |
| Financial lease from SIA Unilīzings (EUR)            | 1 721          | 2 449          | 686           | 976            |
| Faktoringis SIA Unilīzings (EUR)                     | 96 624         | 137 484        | 70 418        | 100 196        |
| SIA Baltlains Plus (USD)                             | -              | -              | 12 614        | 17 948         |
| Credit cards   | 4 500          | 6 403          | 5 779         | 8 223          |
| <b>Total</b>   | <b>110 734</b> | <b>157 561</b> | <b>96 626</b> | <b>137 486</b> |

**28. Advances from customers**

|                             | 2007           | 2007           | 2006           | 2006           |
|-----------------------------|----------------|----------------|----------------|----------------|
|                             | LVL            | EUR            | LVL            | EUR            |
| Advances from non-residents | 4 830          | 6 872          | 4 029          | 5 733          |
| Advances from residents     | 167 526        | 238 368        | 240 667        | 342 438        |
| <b>Total</b>                | <b>172 356</b> | <b>245 240</b> | <b>244 696</b> | <b>348 171</b> |

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

|   | 2007           | 2007           | 2006           | 2006           |
|---|----------------|----------------|----------------|----------------|
|   | LVL            | EUR            | LVL            | EUR            |
| Trade accounts payable to non-residents | 42 017         | 59 785         | 67 409         | 95 914         |
| Trade accounts payable to residents     | 272 568        | 387 829        | 188 562        | 268 300        |
| <b>Total</b>                            | <b>314 585</b> | <b>447 614</b> | <b>255 971</b> | <b>364 214</b> |

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

| <b>30. Taxes and social insurance payments</b> | <b>2007</b>    | <b>2007</b>    | <b>2006</b>   | <b>2006</b>   |
|--|----------------|----------------|---------------|---------------|
|  | <b>LVL</b>     | <b>EUR</b>     | <b>LVL</b>    | <b>EUR</b>    |
| Personal Income Tax                            | 41 161         | 58 567         | 24 927        | 35 468        |
| State Social Insurance payments                | 66 984         | 95 310         | 29 081        | 41 379        |
| Value Added Tax                                | 4 775          | 6 794          |               | -             |
| Real estate tax for building and constructions | 110 389        | 157 069        | 274           | 390           |
| Real estate tax for land                       | 314            | 447            | -             | -             |
| Nature resources tax                           | 96             | 137            |               | -             |
| Corporate risk tax                             | 41             | 58             |               | -             |
| <b>Total</b>                                   | <b>223 760</b> | <b>318 382</b> | <b>54 282</b> | <b>77 237</b> |

  

| <b>31. Other liabilities</b> | <b>2007</b>   | <b>2007</b>    | <b>2006</b>   | <b>2006</b>   |
|------------------------------|---------------|----------------|---------------|---------------|
|                              | <b>LVL</b>    | <b>EUR</b>     | <b>LVL</b>    | <b>EUR</b>    |
| Salaries                     | 46 399        | 66 020         | 34 777        | 49 483        |
| Advance settlement amounts   |               | -              | 1 030         | 1 466         |
| Deposits                     | 37 014        | 52 666         | 19 373        | 27 565        |
| Other creditores             | 4 429         | 6 302          | 495           | 704           |
| <b>Total</b>                 | <b>87 842</b> | <b>124 988</b> | <b>55 675</b> | <b>79 218</b> |

  

| <b>32. Deferred income (short-term)</b>            | <b>2007</b>   | <b>2007</b>   | <b>2006</b>   | <b>2006</b>   |
|--|---------------|---------------|---------------|---------------|
|  | <b>LVL</b>    | <b>EUR</b>    | <b>LVL</b>    | <b>EUR</b>    |
| Income from privatisation certificates             | 24715         | 35 166        | 56282         | 80 082        |
| Income from grant financing (project Nr.124000075) | 45 336        | 64 507        | -             | -             |
| <b>Total</b>                                       | <b>70 051</b> | <b>99 673</b> | <b>56 282</b> | <b>80 082</b> |

## Notes to the Financial Statements

### General Notes

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

Average number of employees during the year

| year 2007 | year 2006 |
|-----------|-----------|
| 212       | 118       |

#### 2. Total personnel costs

- salaries
- Social security payments
- Corporate risk tax

| 2007           | 2007             | 2006           | 2006           |
|----------------|------------------|----------------|----------------|
| LVL            | EUR              | LVL            | EUR            |
| <b>723 765</b> | <b>1 029 825</b> | <b>316 720</b> | <b>450 652</b> |
| 586 595        | 834 649          | 256 339        | 364 738        |
| 136 693        | 194 497          | 60 381         | 85 914         |
| 477            | 679              | 288            | 410            |

#### - including:

Management salaries

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

|               |               |               |               |
|---------------|---------------|---------------|---------------|
| 40 500        | 57 626        | 16 500        | 23 477        |
| 8 676         | 12 345        | 3 517         | 5 004         |
| 7             | 10            | 7             | 10            |
| <b>49 183</b> | <b>69 981</b> | <b>20 024</b> | <b>28 491</b> |

#### Taxes and social security payments

| Type of tax                                    | 2007           |                | 2006          |               |
|--|----------------|----------------|---------------|---------------|
|  | LVL            | EUR            | LVL           | EUR           |
| (-) underpayment, (+) overpayment              |                |                |               |               |
| Personal income tax                            | -41161         | -58567         | -24927        | -35468        |
| State social security obligatory payments      | -66984         | -95310         | -29081        | -41379        |
| Value added tax                                | -4775          | -6794          | 6599          | 9390          |
| Real estate tax for building and constructions | -110389        | -157069        | -274          | -390          |
| Real estate tax for land                       | -314           | -447           | 53            | 75            |
| Nature resources tax                           | -96            | -137           | 618           | 879           |
| Corporate risk tax                             | -41            | -58            | 31            | 44            |
|  | <b>-223760</b> | <b>-318382</b> | <b>-46981</b> | <b>-66849</b> |

*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**