

JSC "VEF Radiotehnika RRR"

Unified Registration Nr. 40003286712

Address: Kurzemes prospekts 3, Riga, LV-1067

**Main activities:
production**

Measurement units: Ls (LVL)

2008 6 month 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 1998.12.11</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>Gunars Lacis</i>			
Reporting year	<i>from</i>	<i>2008.01.01</i>	<i>till</i>	<i>2008.06.30</i>
Previous reporting period	<i>from</i>	<i>2007.01.01</i>	<i>till</i>	<i>2007.12.31</i>
Chief Accountant	<i>0</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 6 months of 2008, 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 2007. 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:	87942 LVL
Other taxes:	-60727 LVL
Net result:	27215 LVL

Net turnover for Q-1 2008 is 532369 Ls and has grown by 0,2 % in comparison with 2007.

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 (%)	2,53
Operating profit margin (%)	13,41
Gross profit margin (%)	27,64

Financial profitability (%)

Return on capital	1,55
Return on equity	1,33

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 2008, 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

Gunars Lacis

28.08.2008

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, 2008, 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

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Member of the Board

Jurijs Maļejevs

Member of the Board

Gunars Lacis

28.08.08

***PROFIT AND LOSS STATEMENT
FOR THE PERIOD ENDED
30.06.2008 (per turnover (period) costs method)***

	Note	2008	2008	2007
	nr.	LVL	EUR	LVL
Net turnover	1	1 075 974	1 530 973	1 064 676
Cost of sales	2	(778 585)	(1 107 827)	(999 572)
Gross profit or loss		297 389	423 146	65 104
Selling expenses	3	(23 777)	(33 832)	(28 473)
Administrative expenses	4	(229 495)	(326 542)	(209 237)
Other operating income	5	113 762	161 869	116 578
Other operating expenses	6	(13 731)	(19 537)	(19 737)
Interest income and similar income	7	168	239	52
Interest expense and similar expenses	8	(56 377)	(80 217)	(42 292)
Profit or loss before extraordinary items and taxes		87 939	125 126	(118 005)
Profit or loss after extraordinary items and before taxes		87 939	125 126	(118 005)
Deferred corporate income tax for the reporting period	9	-	-	-
Other taxes	10	(60 727)	(86 407)	(90 226)
Profit or loss for the period		27 212	38 719	(208 231)
Earnings per share (EPS coefficient)		0,011	0,015	(0,082)

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Member of the Board

Jurijs Maļejevs

Member of the Board

Gunars Lacis

28,08,08

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

2007
EUR
1 514 897
(1 422 263)
92 634
(40 513)
(297 717)
165 876
(28 083)
74
(60 176)
(167 905)
(167 905)
-
(128 380)
(296 285)
(0,116)

BALANCE SHEET as on 30.06.2008.

ASSETS		Note	2008	2008	2007	2007
		nr.	LVL	EUR	LVL	EUR
1. Non-current assets						
I. Intangible assets:						
Concessions, patents, licenses, trade marks and similar rights	11		1 546	2 200	3 211	4 569
Total intangible assets:			1 546	2 200	3 211	4 569
II. Fixed assets:						
Land, buildings and constructions			1 053 921	1 499 594	1 208 625	1 719 718
Equipment and vehicles			1 704 573	2 425 389	1 934 352	2 752 335
Other fixed assets			136 810	194 663	161 571	229 895
Construction of fixed assets and unfinished construction objects			126 605	180 143	38 636	54 974
Advance payments for fixed assets				-	576	820
Total fixed assets:		12	3 021 909	4 299 789	3 343 760	4 757 742
III. Investment properties						
Total investment properties:			-	-	-	-
IV. Biological assets						
Total biological assets			-	-	-	-
V. Long-term financial investments:						
Other loans and other long-term debtors			520	740	1 120	1 594
Deferred taxation assets			55 339	78 740	72 195	102 724
Total long-term financial investments:			55 859	79 480	73 315	104 318
Total non-current assets:			3 079 314	4 381 469	3 420 286	4 866 629
2. Current assets						
I. Inventory:						
Raw materials	13		344 858	490 689	387 097	550 789
Work in process	14		8 350	11 881	17 127	24 370
Finished goods	14		306 497	436 106	145 697	207 308
Advance payments for materials	15		97 361	138 532	215 873	307 160
Total inventory:			757 066	1 077 208	765 794	1 089 627
II. Sales-deferred long-term investments						
Total sales-deferred long-term investments:			-	-	-	-
III. Receivables:						
Trade receivables	16		464 287	660 621	395 202	562 322
Other receivables	17		106 266	151 203	109 771	156 190
Deferred expenses	18		1 009 120	1 435 848	641 822	913 230
Total receivables:			1 579 673	2 247 672	1 146 795	1 631 742
IV. Short-term financial investments:						
Other securities and capital participation			14	20	14	20
Total short-term financial investments:			14	20	14	20
V. Cash						
Total currents assets:		19	19 434	27 652	40 822	58 084
			2 356 187	3 352 552	1 953 425	2 779 473
TOTAL ASSETS:						
			5 435 501	7 734 021	5 373 711	7 646 102

BALANCE SHEET as on 30.06.2008.

**LIABILITIES AND
SHAREHOLDERS' EQUITY**

1. Shareholders' equity:

	Note nr.	2008 LVL	2008 EUR	2007 LVL	2007 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	- 409 633	- 582 855	- 424 999	- 604 719
b) current year profit/(loss)	21	27 215	38 719	208 231	296 286
Total shareholders' equity:		2 166 666	3 082 884	1 915 854	2 726 015

2. Provisions:

Total provisions:		-	-	-	-
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3. Liabilities:

I. Non-current liabilities:

Loans from lending institutions	22	1 192 686	1 697 039	1 285 382	1 828 934
Other loans	23	100 338	142 768	122 737	174 639
Deferred income	24	590 838	840 687	772 185	1 098 720
Deferred tax liabilities	25		-		-
Total non-current liabilities:		1 883 862	2 680 494	2 180 304	3 102 293

II. Current liabilities:

Loans from lending institutions	26	349 678	497 547	183 365	260 905
Other loans	27	167 697	238 611	125 444	178 491
Advances from customers	28	183 829	261 565	207 042	294 594
Trade accounts payable	29	266 134	378 675	314 109	446 937
Taxes and social security liabilities	30	190 410	270 929	194 535	276 798
Other liabilities	31	79 178	112 660	88 916	126 516
Deferred income	32	94 233	134 081	123 162	175 244
Accrued liabilities	33	53 814	76 570	40 980	58 309
Total current liabilities:		1 384 973	1 970 638	1 277 553	1 817 794

Total liabilities:		3 268 835	4 651 132	3 457 857	4 920 087
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		5 435 501	7 734 021	5 373 711	7 646 102
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Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Gunars Lacis

28.08.08

Financial Statements for the period from 01.01.2006 to 31.12.2006.

CASH FLOW STATEMENT FOR THE PERIOD ENDED

30.06.2007 (per indirect method)

I. Cash flow from operating activity

Profit or loss before extraordinary items and taxes

Adjustments for:

- a) depreciation of fixed assets
- b) amortisation of goodwill
- c) provisions (except for provisions for bad debts)
- d) Profit or loss from the exchange rate fluctuations
- e) ieņēmumi no līdzdalības koncerna meitas un asociēto sabiedrību kapitālos
- f) income from subsidies, grants, gifts or donations
- g) other income from interest or similar income
- h) profit/loss from sale of fixed assets
- i) interest payments and similar activities
- 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

Loans issued

Loans repaid

Interest received

Saņemtās dividendes

Net cash flow from investing activities

III. Cash flow from financing activities

Loans received

Loans repaid

Rented asset buyout expenses

Interest paid

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

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
<i>Profit or loss before extraordinary items and taxes</i>	87 942	125 130	118 005	167 906
<i>Adjustments for:</i>				
a) depreciation of fixed assets	164 966	234 725	170 893	243 159
b) amortisation of goodwill	776	1 104	-	-
c) provisions (except for provisions for bad debts)	-	-	-	-
d) Profit or loss from the exchange rate fluctuations	6 499	9 247	-	-
e) ieņēmumi no līdzdalības koncerna meitas un asociēto sabiedrību kapitālos	-	-	-	-
f) income from subsidies, grants, gifts or donations	(90 673)	(129 016)	-	-
g) other income from interest or similar income	(168)	(239)	-	-
h) profit/loss from sale of fixed assets	-	-	-	-
i) interest payments and similar activities	50 741	72 198	-	-
k) other taxes	(60 727)	(86 407)	(90 226)	(128 380)
<i>Profit or loss before current assets and short-term liabilities corrections</i>	159 356	226 743	(37 338)	(53 127)
<i>Adjustments for:</i>				
a) trade receivables increase (-) or decrease (+)	(264 225)	(375 958)	(167 137)	(237 815)
b) inventory increase (-) or decrease (+)	(73 436)	(104 490)	(124 180)	(176 692)
c) accounts payable to suppliers and other creditors increase (+) or decrease (-)	(248 359)	(353 383)	89 607	127 499
Gross cash flow from operating activities	(426 664)	(607 088)	(239 048)	(340 134)
Interest payments	(50 741)	(72 198)	-	-
Cash flow before extraordinary items	(477 405)	(679 286)	(239 048)	(340 134)
Net cash flow from operating activity	(477 405)	(679 286)	(239 048)	(340 134)
II. Cash flow from investing activities				
Acquisition of fixed assets	(89 586)	(127 469)	(8 747)	(12 446)
Income from fixed assets sale	615 000	875 066	640	911
Loans issued	-	-	-	-
Loans repaid	1 759	2 503	-	-
Interest received	168	239	-	-
Saņemtās dividendes	-	-	-	-
Net cash flow from investing activities	527 341	750 339	(8 107)	(11 535)
III. Cash flow from financing activities				
Loans received	171 444	243 943	541 603	770 632
Loans repaid	(205 785)	(292 806)	(284 994)	(405 510)
Rented asset buyout expenses	(20 861)	(29 683)	-	-
Interest paid	-	-	-	-
Net cash flow from financing activities	(55 202)	(78 545)	256 609	365 122
IV. Foreign exchange rate differences	-	-	-	-
V. Net cash flow for the year	(5 266)	(7 493)	9 454	13 451
VI. Cash and cash equivalents at the beginning of the period	24 700	35 145	31 368	44 633
VII. Cash and cash equivalents at the end of the period	19 434	27 652	40 822	58 084

Chairman of the Board

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Member of the Board

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28,08,08

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR 6 months 2008

	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, 2006	2 549 084	-	-	148 034	- 573 033	2 124 085
Profit carried over				- 148 034	148 034	-
Profit for the year				15 366		15 366
Balance as on December 31, 2007	2 549 084	-	-	15 366	- 424 999	2 139 451
Profit carried over				- 15 366	15 366	-
Profit for the year				27 215		27 215
Balance as on June 30, 2008	2 549 084	-	-	27 216	- 409 634	2 166 666

	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, 2006	3 627 020	-	-	56 637	- 904 369	2 779 288
Profit carried over				- 210 633	210 633	-
Profit for the year				21 864		21 864
Balance as on December 31, 2007	3 627 020	-	-	- 132 132	- 693 736	2 801 152
Profit carried over				- 21 863	21 863	-
Profit for the year				38 723		38 723
Balance as on June 30, 2008	3 627 020	-	-	38 724	- 582 856	3 082 888

Chairman of the Board

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28.08.08

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 01.01.2008. to 30.06.2008.

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:

	2008.06.07	2007.31.12	2006.31.12
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.

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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	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Income from export sale of finished goods	366 354	521 275	419 203	596 472
Income from rent of premises	353 963	503 644	244 873	348 423
Income from sale of finished goods in the local market	112 341	159 847	139 340	198 263
Income from utility services	237 497	337 928	233 671	332 484
Income from galvanization services	5 139	7 312	26 277	37 389
Income from sale of materials	680	968	1 312	1 867
Total	1 075 974	1 530 974	1 064 676	1 514 898

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	279 024	397 015	302 375	430 241
Depreciation of fixed assets	75 069	106 814	79 417	113 000
Depreciation of fixed assets (project 124000075)	90 673	129 016	90 673	129 016
Write-off of current assets	1 335	1 900	-	-
Changes in finished goods inventory	- 42 504	- 60 478	- 20 685	- 29 432
Changes in purchased materials and goods inventory	107 549	153 028	265 601	377 916
Services for productions	8 099	11 524	12 429	17 685
Ongoing maintenance and repair	2 184	3 108	5 861	8 339
Real estate property maintenance	242 243	344 681	193 224	274 933
Other costs	14 913	21 219	70 677	100 564
Total	778 585	1 107 827	999 572	1 422 262

Notes to the Profit and Loss statement entries (continued)

Note Nr. 3

Sales costs

Cost type				
Goods' transport costs	20 594	29 303	21 183	30 141
Sales costs	2 187	3 112	1 708	2 430
Advertising costs	996	1 417	5 582	7 942
Total	23 777	33 832	28 473	40 513

Note Nr. 4

Administrative costs

Cost type				
Personnel costs	175 014	249 022	177 211	252 149
Representation costs	4 673	6 649	1 997	2 841
Office expenses	6 932	9 863	3 419	4 865
Communication expenses	8 108	11 537	8 039	11 438
Bank expenses	2 455	3 493	3 224	4 587

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Transport costs	31 042	44 169	12800	18 213
Accounting and legal expenses	860	1 224	1642	2 336
		-		-
Other administrative costs	408	581	905	1 288
Total		-		-
	229 492	326 538	209 237	297 717

Note Nr. 5

Other incomes from operating activity

Type on income	Income	Charge	Result	Result
	LVL	LVL	LVL	EUR
Income from privatisation certificates	13 463	-	13 463	19 156
Income from grant financing (project 124000075)	90 673		90 673	129 016
Other income	9 626	-	9 626	13 697
				-
Total	113 762	-	113 762	161 869

Note Nr. 6

Other incomes/expenses from operating activity

Type of income/expense	Income	Charge	Result	Result
	LVL	LVL	LVL	EUR
Difference in currency rates	1 993	8 491 -	6 498 -	9 246
Other expenses *		7 233 -	7 233 -	10 292
Total	1 993	15 724 -	13 731 -	19 538

Note Nr. 7

Other interest and similar income

Type of income	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Interest received on account balances	168	239	51	73
Received penalties / fines	-	-	1	1
Net profit from foreign currency rate fluctuations	-	-	-	-
Total	168	239	52	74

Notes to the Profit and Loss statement entries (continued)

Note Nr. 8

Other interest and similar expenses

Type of expense	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Interest paid on loans	50741	72 198	39598	56 343
Loss from foreign currency rate fluctuations	5636	8 019	2694	3 833
	56 377	80 217	42 292	60 176
Total				

Note Nr. 9

Deferred Corporate Income Tax

Total:

Note Nr. 10

Other taxes

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Real estate tax for land	3 968	5 646	3487	4 962
Real estate tax for buildings and constructions	56 759	80 761	86739	123 418
	60 727	86 407	90 226	128 380
Total:				

Notes to the Financial Statements

Notes to the Balance Sheet as on June 30, 2008.

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						
31.12.2007.	7 363	-	-	-	7 363	10 477
Purchased		-	-	-	-	-
Relocated	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
30.06.2008.	7 363	-	-	-	7 363	10 477
Depreciation						
31.12.2007.	5 040	-	-	-	5 040	7 171
Calculated	777	-	-	-	777	1 106
Written-off	-	-	-	-	-	-
30.06.2008.	5 817	-	-	-	5 817	8 277
Net book value						
31.12.2007.	2 323	-	-	-	2 323	3 305
Net book value						
30.06.2008.	1 546	-	-	-	1 546	2 200

12. Fixed Assets

	Land	Buildings and constructions	Technological equipment	Other fixed assets	Total LVL	Total EUR
Historical cost						
31.12.2007.	428 034	1 141 632	497 711	308 361	2 375 738	3 380 371
Purchased				1 033	1 033	1 470
Written-off			- 100		- 100	- 142
30.06.2008.	428 034	1 141 632	497 611	309 394	2 376 671	3 381 698
Depreciation						
31.12.2007	-	487 221	265 668	149 259	902 148	1 283 641
Calculated		28 524	22 443	23 325	74 292	105 708
Written-off			- 100		- 100	- 142
30.06.2008.	-	515 745	288 011	172 584	976 340	1 389 207
Net book value						
31.12.2007.	428 034	654 411	232 043	159 102	1 473 590	2 096 730
Net book value						
30.06.2008.	428 034	625 887	209 600	136 810	1 400 331	1 992 492

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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						
31.12.2007.	1 813 461	-		38 052	1 851 513	2 634 466
Purchased				88 553	88 553	126 000
Written-off						-
30.06.2008.	1 813 461	-	-	126 605	1 940 066	2 760 465
Depreciation						
31.12.2007.	227 815	-	-	-	227 815	227 815
Calculated	90 673	-	-	-	90 673	129 016
Written-off	-	-	-	-	-	-
30.06.2008.	318 488	-	-	-	318 488	453 168
Net book value						
31.12.2007.	1 585 646	-	-	38 052	1 623 698	2 310 314
Net book value						
30.06.2008.	1 494 973	-	-	126 605	1 621 578	2 307 298

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

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Raw materials	344 858	490 689	387 097	550 789
Inventory in use	8 350	11 881	17 127	24 370
Unfinished goods	306 497	436 106	145 697	207 308
finished goods and goods in warehouse	659 705	938 676	549 921	782 467

Total

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15. Advance payments for goods	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Advance payments for materials	36 935	52 554	52 715	75 007
Advance payments to non-residents	60 426	85 978	28 398	40 407
Goods in bonded storage	-	-	134 760	191 746
Total	97 361	138 532	215 873	307 160
16. Trade receivables	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Receivables (non-residents)	338 774	482 032	305 512	434 704
Receivables (residents)	125 504	178 576	89 690	127 617
Book value of purchases and customers, total	464 278	660 608	395 202	562 321
Provisions for doubtful debts	-	-	-	-
Net trade receivables, total	464 278	660 608	395 202	562 321
17. Other receivables	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
VAT confirmed (unpaid invoices)	1 917	2 728	2 193	3 120
VAT overpaid to the state budget	-	-	15 401	21 914
Nature Resource tax overpaid to the state budget	248	353	28	40
Real estate tax			107	152
Settlements with employees	35 809	50 952	30 529	43 439
Tax pre-payments for customs procedures	3 094	4 402	2 976	4 234
Loans to employees	3 774	5 370	4 774	6 793
Other loans	60 260	85 742	53 522	76 155
Others	1 164	1 656	241	343
Total		-		-
	106 266	151 203	109 771	156 190
18. Deferred expenses	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Insurance expenses	2 163	3 078	8 283	11 786
Expenses for repairs of buildings and premises	13 647	19 418	20 411	29 042
Expenses for implementation of project Nr.124000075	294 175	418 573	294 175	418 573
Expenses for reconstruction of block I-2	695 740	989 949	207 665	295 481
Other expenses	3 395	4 831	19 278	27 430
Total	1 009 120	1 435 849	549 812	782 312
19. Cash and cash equivalents	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Cash on hand	443	630	11 040	15 709
Cash in bank accounts	18 991	27 022	29 782	42 376
Total	19 434	27 652	40 822	58 085

Notes to the Balance Sheet (continued)

20. Information about company's share capital

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On 31.03.2008 company's share capital consisted of 2549084 registered and fully paid shares with nominal value of 1 Ls.
Largest shareholders of JSC "VEF Radiotehnika RRR" are:

Shareholders	Number of shares		Value			
			LVL		EUR	
	2008.06.30	2007.06.30	2008.06.30	2007.06.30	2008.06.30	2007.06.30
Baltlains Intern SIA	1270612	1270612	1270612	1270612	1807918	1807918
VSAA	192694	192694	192694	192694	274179	274179
Eduards Maļejevs	423559	423559	423559	423559	602670	602670
Jurijs Maļejevs	421871	421871	421871	421871	600268	600268
Pārējie (<5%)	240348	240348	240348	240348	341984	341984
Kopā:	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.

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Previous years' retained earnings/losses	-409 633 -	582 855 -	424 999 -	604 719
Current year profit/loss	27 215	38 723 -	208 231 -	296 286
Total	- 382 418 -	544 132 -	633 230 -	901 005

22. Long-term loans from lending institutions

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Loan from JSC SEB Latvijas Unibanka (EUR)	1 192 686	1 697 039	1 285 382	1 828 934
Total	1 192 686	1 697 039	1 285 382	1 828 934

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)

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Financial lease from SIA Parex Līzings un Faktoring	54 425	77 440	65 059	92 571
Financial lease from SIA Nord/LB Līzings (EUR)	24 099	34 290	36 784	52 339
Financial lease from SIA Hansa Līzings (USD)	-	-	2 580	3 671
Financial lease from SIA Hansa Līzings (EUR)	3 224	4 587	9 407	13 385
Financial lease from SIA Unilīzings (EUR)	18 590	26 451	8 907	12 674
Total	100 338	142 768	122 737	174 640

24. Deferred income (long-term)

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Income from grant financing (project Nr.124000075)	590 838	840 687	772 185	1 098 720
Total	590 838	840 687	772 185	1 098 720

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	-	-		
Total	-	-		
26. Short-term loans from lending institutions	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Credit line from JSC SEB Latvijas Unibanka (LVL)	198 478	282 409	183 365	260 905
Loan from JSC SEB Latvijas Unibanka (EUR)	151 200	215 138		-
Total	349 678	497 547	183 365	260 905
In accordance with Loan Agreement Nr.KD04277 from 24.11.2005, obligations are secured with primary pledge of the real estate property located in Riga at the address Kurzemes prospekts 3 (Landbook section Nr.18732) and primary commercial pledge on fixed assets, purchased under Project Nr.124000075 for the amount of 1813461 LVL.				
In accordance with Credit Line Agreement Nr.KD06369 from 17.11.2006, obligations are secured with Commercial Pledge on reserves and claim rights as a whole. Maximum amount of claim is 260000 LVL.				
27. Other loans (short-term)	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Financial lease from SIA Parex Līzings un Faktoringa	5 379	7 654	5 136	7 308
Financial lease from SIA Nord/LB Līzings (EUR)	6 405	9 113	6 157	8 761
Financial lease from SIA Hansa Līzings (USD)	898	1 278	1 743	2 480
Financial lease from SIA Hansa Līzings (EUR)	3 135	4 461	3 449	4 907
Financial lease from SIA Unilīzings (EUR)	10 843	15 428	1 430	2 035
Factoring from JSC HVB Bank Latvija (EUR)	-	-	-	-
Faktoringa SIA Unilīzings (EUR)	141 037	200 678	107 529	153 000
SIA Baltlains Plus (USD)	-	-	-	-
Credit cards	-	-	-	-
Total	167 697	238 612	125 444	178 491
28. Advances from customers	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Advances from non-residents	464	660	24 594	34 994
Advances from residents	183 365	260 905	182 448	259 600
Total	183 829	261 565	207 042	294 594
29. Due to suppliers and providers (short-term)	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Trade accounts payable to non-residents	75 791	107 841	43 067	61 279
Trade accounts payable to residents	190 343	270 834	271 042	385 658
Total	266 134	378 675	314 109	446 937

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Notes to the Balance Sheet (continued)

30. Taxes and social insurance payments	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Personal Income Tax	48 761	69 381	39 790	56 616
State Social Insurance payments	66 091	94 039	77 783	110 675
Value Added Tax	5 388	7 666	-	-
Real estate tax for building and constructions	70 129	99 785	76 789	109 261
Real estate tax for land		-		-
Nature resources tax		-	124	176
Corporate risk tax	41	58	49	70
Total	190 410	270 929	194 535	276 798

31. Other liabilities	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Salaries	43 442	61 812	48 305	68 732
Advance settlement amounts	-	-	-	-
Safety of Deposits	34 421	48 977	35 959	51 165
Other creditores	1 315	1 871	4 652	6 619
Total	79 178	112 660	88 916	126 516

32. Deferred income (short-term)	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Next year's rent for premises		-	0	-
Income from privatisation certificates	3559	5 064	32488	46 226
Income from grant financing (project Nr.124000075)	90 674	129 017	90 674	129 017
Total	94 233	134 081	123 162	175 243

32. The sved up duties	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Vacation of deposits	43367	61 706	33024	46 989
Social security deposits	10 447	14 865	7 956	11 320
Total	53 814	76 571	40 980	58 309

Notes to the Financial Statements

General Notes

	<u>2008.gads</u>		<u>2007.gads</u>	
1. Average number of employees during the year				
Average number of employees during the year	183		216	
	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
2. Total personnel costs	454 039	646 039	479 586	681 927
- salaries	368 073	523 721	388 624	552 962
- Social security payments	85 691	121 927	90 637	128 965
- Corporate risk tax	275	391	325	462
- including:				
Management salaries				
- salaries	27 000	38 418	27 000	38 418
- Social security payments	5 784	8 230	5 784	8 230
- Corporate risk tax	4	6	4	6
- total:	32 788	46 654	32 788	46 654

Annual report is accepted and signed from page 1 till 25

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Gunars Lacis