

JSC "VEF Radiotehnika RRR"

Unified Registration Nr. 40003286712

Address: Kurzemes prospekts 3, Riga, LV-1067

**Main activities:
production**

Measurement units: Ls (LVL)

2008 9 Months Report

Submission date: _____

Date of receipt: _____

Riga, Latvia

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INFORMATION about the COMPANY

Full name of the Company	<i>JSC "VEF Radiotehnika RRR"</i>			
Legal status of the Company	<i>Public Joint-Stock Company</i>			
Unified Registration Nr., place and date of issue datums	<i>40003286712 11.12.1998</i>			
Legal address of the Company	<i>Kurzemes prospekts 3, Riga, LV-1067</i>			
Telephone	<i>67418087</i>			
Postal address	<i>Kurzemes prospekts 3, Riga, LV-1067</i>			
Bank name and Company's bank accounts	<i>AS "SEB Latvijas Unibanka" LV57UNLA0050006466330 (LVL) LV55UNLA0050006466366 (EUR) LV32UNLA0050006466392 (USD)</i>			
Council members of the JSC				
Chairman of the Council	<i>Janis Salenieks</i>			
Council Member	<i>Andris Prikass</i>			
Council Member	<i>Janis Olekss</i>			
Council Member	<i>Ausma Smiltneiece</i>			
Council Member	<i>Juris Voins</i>			
Boar members of the JSC				
Chairman of the Board	<i>Eduards Malejevs</i>			
Board Member	<i>Jurijs Malejevs</i>			
Board Member	<i>Inga Spruga</i>			
Reporting year	<i>from</i>	<i>01.01.2008</i>	<i>till</i>	<i>30.09.2008</i>
Previous reporting period	<i>from</i>	<i>01.01.2007</i>	<i>till</i>	<i>31.12.2007</i>
Chief Accountant	<i>Gunars Lacis</i>			
Telephone:	<i>67418087</i>			
Auditor:	Auditing Company "Finansists" Ltd. Talavas gatve 11-4, Riga, LV- 1029 Reg. Nr.LV-40002046180 Nelli Jermolicka sworn auditor (Latvian Association of Sworn Auditors' Certificate Nr.102)			

Management Report

Types of activities

During the 3 months of 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:	97049 LVL
Other taxes:	-91090 LVL
Net result:	5959 LVL

Net turnover for 2008 is 1636486 Ls and has grown by 6.2 % 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 (%)	0.36
Operating profit margin (%)	11
Gross profit margin (%)	25.67

Financial profitability (%)

Return on capital	1.66
Return on equity	0.3

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.

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga

2008,28,11

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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 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

2008,28,11

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

	Note	2008	2008	2007
	nr.	LVL	EUR	LVL
Net turnover	1	1 636 486	2 328 510	1 540 855
Cost of sales	2	(1 216 393)	(1 730 771)	(1 460 557)
Gross profit or loss		420 093	597 739	80 298
Selling expenses	3	(37 016)	(52 669)	(39 823)
Administrative expenses	4	(350 096)	(498 142)	(305 600)
Other operating income	5	162 988	231 911	159 626
Other operating expenses	6	(16 180)	(23 022)	(21 664)
Interest income and similar income	7	203	289	151
Interest expense and similar expenses	8	(82 943)	(118 017)	(69 433)
Profit or loss before extraordinary items and taxes		97 049	138 089	(196 445)
Profit or loss after extraordinary items and before taxes		97 049	138 089	(196 445)
Deferred corporate income tax for the reporting period	9	-	-	-
Other taxes	10	(91 090)	(129 609)	(135 707)
Profit or loss for the period		5 959	8 480	(332 152)
Earnings per share (EPS coefficient)		0.002	0.003	(0.130)

Chairman of the Board

Eduards Maļejevs

Member of the Board

Jurijs Maļejevs

Member of the Board

Inga Sprūga

2008,28,11

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

2007
EUR
2 192 439
(2 078 185)
114 254
(56 663)
(434 830)
227 127
(30 825)
215
(98 794)
(279 516)
(279 516)
-
(193 094)
(472 610)
(0.185)

BALANCE SHEET as on 30.09.2008.

ASSETS		Note	2008	2007	2008	2007
		nr.	LVL	EUR	LVL	EUR
1. Non-current assets						
I. Intangible assets:						
Concessions, patents, licenses, trade marks and similar rights	11		1 278	1 818	2 766	3 936
Total intangible assets:			1 278	1 818	2 766	3 936
II. Fixed assets:						
Land, buildings and constructions			1 039 659	1 479 301	1 193 113	1 697 647
Equipment and vehicles			1 648 015	2 344 914	1 875 960	2 669 251
Other fixed assets			125 197	178 139	156 278	222 364
Construction of fixed assets and unfinished construction objects			128 517	182 863	38 636	54 974
Advance payments for fixed assets			-	-	576	820
Total fixed assets:	12		2 941 388	4 185 217	3 264 563	4 645 056
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:			2 998 525	4 266 515	3 340 644	4 753 310
2. Current assets						
I. Inventory:						
Raw materials	13		403 133	573 607	393 483	559 876
Work in process	14		10 533	14 987	24 356	34 655
Finished goods	14		255 415	363 423	261 838	372 562
Advance payments for materials	15		130 177	185 225	90 440	128 685
Total inventory:			799 258	1 137 242	770 117	1 095 778
II. Sales-deferred long-term investments						
Total sales-deferred long-term investments:			-	-	-	-
III. Receivables:						
Trade receivables	16		497 583	707 997	396 891	564 725
Other receivables	17		102 571	145 945	84 491	120 220
Deferred expenses	18		1 074 674	1 529 123	651 171	926 533
Total receivables:			1 674 828	2 383 065	1 132 553	1 611 478
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		19 456	27 683	7 411	10 545
			2 493 556	3 548 010	1 910 095	2 717 821
TOTAL ASSETS:			5 492 081	7 814 527	5 250 739	7 471 129

BALANCE SHEET as on 30.09.2008.

**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	5 959	8 480	332 152	472 610
Total shareholders' equity:		2 145 410	3 052 645	1 791 933	2 549 691

2. Provisions:

Total provisions:		-	-	-	-
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3. Liabilities:

I. Non-current liabilities:

Loans from lending institutions	22	1 581 234	2 249 893	1 335 996	1 900 951
Other loans	23	100 338	142 768	134 285	191 070
Deferred income	24	590 838	840 687	772 185	1 098 720
Deferred tax liabilities	25		-		-
Total non-current liabilities:		2 272 410	3 233 348	2 242 466	3 190 741

II. Current liabilities:

Loans from lending institutions	26	287 831	409 547	196 032	278 928
Other loans	27	122 284	173 994	110 734	157 560
Advances from customers	28	129 697	184 542	172 356	245 240
Trade accounts payable	29	214 376	305 030	314 585	447 614
Taxes and social security liabilities	30	122 493	174 292	223 760	318 382
Other liabilities	31	80 077	113 939	87 842	124 988
Deferred income	32	45 337	64 509	70 051	99 674
Accrued liabilities	33	72 166	102 683	40 980	58 309
Total current liabilities:		1 074 261	1 528 536	1 216 340	1 730 695

Total liabilities:		3 346 671	4 761 884	3 458 806	4 921 436
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		5 492 081	7 814 527	5 250 739	7 471 129
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Chairman of the Board	Eduards Malejevs	0
Member of the Board	Jurijs Malejevs	0
Member of the Board	Inga Spruga	0

2008,28,11

Financial Statements for the period from 01.01.2006 to 31.12.2006.

CASH FLOW STATEMENT FOR THE PERIOD ENDED

30.09.2008 (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) depreciation of non material assets.

d) Profit or loss from the exchange rate fluctuations

f) income from subsidies, grants, gifts or donations

g) other income from interest or similar income

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

Net cash flow from investing activities

III. Cash flow from financing activities

Loans received

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
97 049	138 088	-	196 445
-	-	-	279 516
248 662	353 814	255 984	364 232
1 045	1 487		
(331)	(471)	-	-
(136 010)	(193 525)		-
(203)	(289)	-	-
82 943	118 017	-	-
(91 090)	(129 609)	(135 707)	(193 094)
202 065	287 512	(76 168)	(108 377)
(196 471)	(279 553)	(140 287)	(199 610)
(115 628)	(164 524)	(129 503)	(184 266)
(563 956)	(802 437)	30 437	43 308
(673 990)	(959 002)	(315 521)	(448 946)
(82 943)	(118 017)	-	-
(756 933)	(1 077 019)	(315 521)	(448 946)
(756 933)	(1 077 019)	(315 521)	(448 946)
(91 497)	(130 189)	(23 867)	(33 960)
615 240	875 408	6 451	9 179
-	-	(2 850)	(4 055)
1 759	2 503		-
203	289		-
525 705	748 011	(20 266)	(28 836)
543 176	772 870	344 065	489 560
(286 239)	(407 281)	(32 235)	(45 866)
(30 918)	(43 992)		-
226 019	321 596	311 830	443 694
(35)	(50)	-	-
(5 244)	(7 462)	(23 957)	(34 088)
24 700	35 145	31 368	44 633
19 456	27 683	7 411	10 545

Chairman of the Board

Eduards Malejevs

0

Member of the Board

Jurijs Malejevs

0

Member of the Board

Inga Spruga

0

2008,28,11

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR 2008 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
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				5 959		5 959
Balance as on September 30, 2008	2 549 084	-	-	5 959	- 409 633	2 145 410

	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	-	-	23 489	- 693 736	2 801 152
Profit carried over				- 21 864	21 864	
Profit for the year				8 478		8 478
Balance as on September 30, 2008	3 627 020	-	-	8 479	- 582 855	3 052 643

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga

2008,28,11

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 01.01.2008. to 30.09.2008.

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:

	2008.30.09	2007.30.09	2006.31.12
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, 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.

Reclassification of subjects (items)

In 2008, due to changes in legislation and opinion of management, no changes have been made in classification of items in comparison with 20

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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	650 568	877 506	616 715	877 506
Income from rent of premises	513 400	730 502	376 865	536 231
Income from sale of finished goods in the local market	158 070	224 913	204 883	291 522
Income from utility services	306 456	436 048	292 676	416 440
Income from galvanization services	7 060	10 045	31 122	44 283
Income from sale of materials	932	1 326	18 594	26 457
Total	1 636 486	2 280 340	1 540 855	2 192 439

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	427 503	608 282	464 946	661 559
Depreciation of fixed assets	111 388	158 491	119 974	170 708
Depreciation of fixed assets (project 124000075)	136 010	193 525	136 010	193 525
Write-off of cost of turnaround means	11 706	16 656		-
Changes in finished goods inventory	- 104 934	- 149 308	- 17 923	- 25 502
Changes in purchased materials and goods inventory	269 595	383 599	376 597	535 849
Services for productions	13 689	19 478	73 400	104 439
Ongoing maintenance and repair	3 863	5 497	17 186	24 453
Real estate property maintenance	295 892	421 016	250 173	355 964
Other costs	51 681	73 535	40 194	57 191
Total	1 216 393	1 730 771	1 460 557	2 078 186

Notes to the Profit and Loss statement entries (continued)

Note Nr. 3

Sales costs

Cost type

Goods' transport costs	32 479	46 213	31 672	45 065
Sales costs	2 881	4 099	2 346	3 338
Advertising costs	1 656	2 356	5 805	8 260
Total	37 016	52 668	39 823	56 663

Note Nr. 4

Administrative costs

Cost type

Personnel costs	267 781	381 018	258 819	368 266
Representation costs	5 540	7 883	2 908	4 138
Office expenses	11 254	16 013	5 040	7 171
Communication expenses	14 715	20 938	11 550	16 434
Bank expenses	5 806	8 261	4 449	6 330
Transport costs	41 970	59 718	20 277	28 852

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Accounting and legal expenses	1 476	2 100	2 454	3 492
Other administrative costs	1 554	2 211	103	147
Total	350 096	498 142	305 600	434 830

Note Nr. 5

Other incomes from operating activity

Type on income	2008 LVL	2008 EUR	2007 LVL	2007 EUR
Income from privatisation certificates	17 023	24 222	23 616	33 603
Receivables from grant financing (project 124000075)	136 010	193 525	136 010	193 525
Other income	9 955	14 165		
Total	162 988	231 912	159 626	227 128

Note Nr. 6

Other incomes/expenses from operating activity

Type of income/expense	2008 LVL	2008 EUR	2007 LVL	2007 EUR
Difference in currency rates	5 695	8 103	5 377	7 651
Sale of fixed assets	-	-	5 472	7 786
Fines	2 092	2 977	3 626	5 159
Other expenses *	8 393	11 942	7 189	10 229
Total	16 180	23 022	21 664	30 825

Note Nr. 7

Other interest and similar income

Type of income	2008 LVL	2008 EUR	2007 LVL	2007 EUR
Interest received on account balances	203	289	151	215
Received penalties / fines		-		-
Net profit from foreign currency rate fluctuations		-		-
Total	203	289	151	215

Notes to the Profit and Loss statement entries (continued)

Note Nr. 8

Other interest and similar expenses

Type of expense	2008 LVL	2008 EUR	2007 LVL	2007 EUR
Interest paid on loans	82943	118 017	65304	92 919
Loss from foreign currency rate fluctuations	-	-	4129	5 875
Fines/penalties paid		-		-
Total	82 943	118 017	69 433	98 794

Note Nr. 9

Deferred Corporate Income Tax

	2008 LVL	2008 EUR	2007 LVL	2007 EUR
		-		-
Total:	-	-	-	-

Note Nr. 10

Other taxes

	2008 LVL	2008 EUR	2007 LVL	2007 EUR
Real estate tax for land	5 952	8 469	5 598	7 965
Real estate tax for buildings and constructions	85 138	121 140	130 109	185 128
Total:	91 090	129 609	135 707	193 093

Notes to the Financial Statements

Notes to the Balance Sheet as on September 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	2 009	-	-	-	-	-
Relocated	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
30.09.2008.	7 363	-	-	-	7 363	10 477
Depreciation						
31.12.2007.	5 040	-	-	-	5 040	7 171
Calculated	1 045	-	-	-	1 045	1 487
Written-off	-	-	-	-	-	-
30.09.2008.	6 085	-	-	-	6 085	8 658
Net book value						
31.12.2007.	2 323	-	-	-	2 323	3 305
Net book value						
30.09.2008.	1 278	-	-	-	1 278	1 818

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
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
30.09.2008.	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		42 786	33 664	34 938	111 388	158 491
Written-off		-	100	-	100	142
30.09.2008.	-	530 007	299 232	184 197	1 013 436	1 441 990
Net book value						
31.12.2007.	428 034	654 411	232 043	159 102	1 473 590	2 096 730
Net book value						
30.09.2008.	428 034	611 625	198 379	125 197	1 363 235	1 939 709

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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				90 465	90 465	128 720
Written-off						-
30.09.2008.	1 813 461	-	-	128 517	1 941 978	2 763 186
Depreciation						
31.12.2007.	227 815	-	-	-	227 815	227 815
Calculated	136 010	-	-	-	136 010	193 525
Written-off	-	-	-	-	-	-
30.09.2008.	363 825	-	-	-	363 825	517 676
Net book value						
31.12.2007.	1 585 646	-	-	38 052	1 623 698	2 310 314
Net book value						
30.09.2008.	1 449 636	-	-	128 517	1 578 153	2 245 509

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	403 133	573 607	393 483	559 876
Inventory in use	10 533	14 987	24 356	34 655
finished goods and goods in warehouse	255 415	363 423	261 838	372 562
Total	669 081	952 017	679 677	967 093

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Notes to the Balance Sheet (continued)

15. Advance payments for goods

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Advance payments for materials	38 908	55 361	58 373	83 057
Advance payments to non-residents	91 269	129 864	32 067	45 627
Goods in bonded storage				
Total	130 177	185 225	90 440	128 684

16. Trade receivables

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Receivables (non-residents)	369 596	525 888	288 445	410 420
Receivables (residents)	127 987	182 109	108 446	154 305
Book value of purchases and customers, total	497 583	707 997	396 891	564 725
Provisions for doubtful debts	-	-	-	-
Net trade receivables, total	497 583	707 997	396 891	564 725

17. Other receivables

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
VAT confirmed (unpaid invoices)	1 917	2 728	2 159	3 072
Nature Resource tax overpaid to the state budget	390	555		-
Settlements with employees	39 297	55 915	23 703	33 726
Tax pre-payments for customs procedures	3 853	5 482	2 584	3 677
Loans to employees	5 174	7 362	4 224	6 010
Other loans	47 555	67 665	51 606	73 429
Others	4 385	6 239	215	306
Total	102 571	145 946	84 491	120 220

18. Deferred expenses

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Insurance expenses	3 664	5 213	4 007	5 701
Expenses for repairs of buildings and premises	12 520	17 814	17 029	24 230
Expenses for implementation of project Nr.124000075	277 832	395 319	277 832	395 319
Expenses for reconstruction of block I-2	775 587	1 103 561	347 120	493 907
Other expenses	5 071	7 215	5 183	7 375
Total	1 074 674	1 529 122	651 171	926 532

19. Cash and cash equivalents

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Cash on hand	582	828	12	17
Cash in bank accounts	18 874	26 855	7 399	10 528
Total	19 456	27 683	7 411	10 545

Notes to the Balance Sheet (continued)

20. Information about company's share capital

On 30.09.2008 company's share capital consisted of 2549084 registered and fully paid shares with nominal value of 1 Ls.

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Larges shareholders of JSC "VEF Radiotehnika RRR" are:

Shareholders	Number of shares		Value			
			LVL		EUR	
	2008.09.30.	30.09.2007	30.09.2008	30.09.2007	30.09.2008	30.09.2007
Baltlains Intern Ltd.	1270612	1270612	1270612	1270612	1807918	1807918
State Social Security A	192694	192694	192694	192694	274179	274179
Eduards Malejevs	423559	423559	423559	423559	602670	602670
Jurijs Malejevs	421871	421871	421871	421871	600268	600268
Others (<5%)	240348	240348	240348	240348	341984	341984
Total:	2549084	2549084	2549084	2549084	3627020	3627020

21. Retained earnings/losses

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

	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	5 959	8 479	-332 152 -	472 610
Total	- 403 674 -	574 376 -	757 151 -	1 077 329

22. Long-term loans from lending institutions

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Loan from JSC SEB Latvijas Unibanka (EUR)	1 581 234	2 249 893	1 335 996	1 900 951
Total	1 581 234	2 249 893	1 335 996	1 900 951

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 Līzins 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)	-	-	2 457	3 496
Financial lease from SIA Hansa Līzings (EUR)	3 224	4 587	9 407	13 385
Financial lease from SIA SEB līzings (EUR)	18 590	26 451	20 578	29 280
Total	100 338	142 768	134 285	191 071

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

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Deferred Corporate Income Tax	-	-	-	-
Total	-	-	-	-

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26. Short-term loans from lending institutions	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Credit line from JSC SEB Banka (LVL)	136 631	194 408	196 032	278 928
Loan from JSC SEB Banka (EUR)	151 200	215 138		-
Total	287 831	409 546	196 032	278 928

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)	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Financial lease from SIA Parex Līzins un Faktoring	2 705	3 849	2 583	3 675
Financial lease from SIA Nord/LB Līzings (EUR)	3 718	5 290	3 094	4 402
Financial lease from SIA Hansa Līzings (USD)	248	353	721	1 026
Financial lease from SIA Hansa Līzings (EUR)	1 578	2 245	1 491	2 122
Financial lease from SIA SEB līzings (EUR)	8 404	11 958	1 721	2 449
Faktoring SIA SEB līzings (EUR)	105 631	150 299	96 624	137 484
Credit cards	-	-	4 500	6 403
Total	122 284	173 994	110 734	157 561

28. Advances from customers	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Advances from non-residents	1 727	2 457	4 830	6 872
Advances from residents	127 970	182 085	167 526	238 368
Total	129 697	184 542	172 356	245 240

29. Due to suppliers and providers (short-term)	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Trade accounts payable to non-residents	53 460	76 067	42 017	59 785
Trade accounts payable to residents	160 916	228 963	272 568	387 829
Total	214 376	305 030	314 585	447 614

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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	43 804	62 327	41 161	58 567
State Social Insurance payments	59 775	85 052	66 984	95 310
Value Added Tax	-	-	4 775	6 794
Real estate tax for building and constructions	18 871	26 851	110 389	157 069
Real estate tax for land			314	447
Nature resources tax	-	-	96	137
Corporate risk tax	43	61	41	58
Total	122 493	174 291	223 760	318 382

31. Other liabilities	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Salaries	46 005	65 459	46 399	66 020
Deposits	34 030	48 420	37 014	52 666
Other creditores	42	60	4 429	6 302
Total	80 077	113 939	87 842	124 988

32. Deferred income (short-term)	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Income from privatisation certificates	0	-	24715	35 166
Income from grant financing (project Nr.124000075)	45 337	64 509	45 336	64 507
Total	45 337	64 509	70 051	99 673

33. Accumulated obligated	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
1. Other	18352	26 113		-
2. Accumulated up for holidays	43367	61 706	33024	46 989
3. Accumulated up for	10 447	14 865	7 956	11 320
- Social security payments	72 166	102 684	40 980	58 309

Notes to the Financial Statements

General Notes

1. Average number of employees during the year

Average number of employees during the year

<u>year 2008</u>	<u>year 2007</u>
<u>183</u>	<u>212</u>

2. Total personnel costs

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

Management salaries

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

2008	2008	2007	2007
LVL	EUR	LVL	EUR
695 284	989 301	723 765	1 029 825
563 690	802 059	586 595	834 649
131 183	186 657	136 693	194 497
411	585	477	679
40 500	57 626	40 500	57 626
5 784	8 230	8 676	12 345
7	10	7	10
46 291	65 866	49 183	69 981

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