

JSC "VEF Radiotehnika RRR"

Unified Registration Nr. 40003286712

Address: Kurzemes prospekts 3, Riga, LV-1067

**Main activities:
production**

Measurement units: Ls (LVL)

2008 Annual Report

Submission date: _____

Date of receipt: _____

Riga, Latvia

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INFORMATION about the COMPANY

Full name of the Company	<i>JSC "VEF Radiotehnika RRR"</i>		
Legal status of the Company	<i>Public Joint-Stock Company</i>		
Unified Registration Nr., place and date of issue datums	<i>40003286712 11.12.1998</i>		
Legal address of the Company	<i>Kurzemes prospekts 3, Riga, LV-1067</i>		
Telephone	<i>67418087</i>		
Postal address	<i>Kurzemes prospekts 3, Riga, LV-1067</i>		
Bank name and Company's bank accounts	<i>AS "SEB Latvijas Unibanka" LV57UNLA0050006466330 (LVL) LV55UNLA0050006466366 (EUR) LV32UNLA0050006466392 (USD)</i>		
Council members of the JSC			
Chairman of the Council	<i>Vladimirs Martinsons</i>		
Council Member	<i>Andris Prikass</i>		
Council Member	<i>Janis Salenieks</i>		
Council Member	<i>Ausma Smiltneiece</i>		
Council Member	<i>Juris Voins</i>		
Boar members of the JSC			
Chairman of the Board	<i>Eduards Malejevs</i>		
Board Member	<i>Jurijs Malejevs</i>		
Board Member	<i>Inga Spruga</i>	<i>from 28,01,2008</i>	
Board Member	<i>Inga Spruga</i>	<i>till 28,01,2008</i>	
Reporting year	<i>from</i>	<i>01.01.2008</i>	<i>till 31.12.2008</i>
Previous reporting period	<i>from</i>	<i>01.01.2007</i>	<i>till 31.12.2007</i>
Chief Accountant	<i>Gunars Lacis</i>		
Telephone:			
Auditor:	Auditing Company "Finansists" Ltd. Talavas gatve 11-4, Riga, LV- 1029 Reg. Nr.LV-40002046180 Nelli Jermolicka sworn auditor (Latvian Association of Sworn Auditors' Certificate Nr.102)		

Management Report

Types of activities

During the 12 months of 2007, the main types of JSC "VEF Radiotekhnika RRR" activities were:

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

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

Operation of the company in the reporting year

When analysing performance indicators of JSC "VEF Radiotekhnika RRR" for the year 2007 it can be concluded that the year has been successful and stable, with certain economical development. During the reporting year, the number of prospective customers (buyers) has grown both in the Baltic region as well as across European Union states, which is due to the audio equipment upgrade and development project implemented by the Company.

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

Result for the year before extraordinary items and taxes:	126890 LVL
Deferred corporate income tax:	0 LVL
Other taxes:	-121453 LVL
Net result:	5437 LVL

Net turnover for the year 2008 is 2065215Ls and has grown by 9.3 % in comparison with 2007.

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

Current liabilities of the Company do not exceed current assets.

Total liabilities did not exceed total assets of the Company.

Company's profitability:

Gross profit margin (%)	0.24
Operating profit margin (%)	10.94
Gross profit margin (%)	23.61

Financial profitability (%)

Return on capital	2.26
Return on equity	0.25

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

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

Company's development activities

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

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

Conditions and events after Balance Sheet completion

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

Proposals for distribution of profits

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

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga

February 27, 2009

Annual report accepted at the Shareholders' Meeting on April 25, 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 December 31, 2007, the corresponding accounting principles have been applied, their use was consistent and the protective and logical decisions had been made.

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

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

Chairman of the Board

Eduards Maļejevs

Member of the Board

Jurijs Maļejevs

Member of the Board

Janis Olekss

February 27, 2009

***PROFIT AND LOSS STATEMENT
FOR THE PERIOD ENDED
31.12.2007 (per turnover (period) costs method)***

	Note	2008	2008	2007	2007
	nr.	LVL	EUR	LVL	EUR
Net turnover	1	2 288 769	3 256 625	2 065 215	2 938 536
Cost of sales	2	(1 748 436)	(2 487 800)	(1 983 234)	(2 821 888)
Gross profit or loss		540 333	768 825	81 981	116 648
Selling expenses	3	(56 930)	(81 004)	(57 177)	(81 356)
Administrative expenses	4	(421 012)	(599 046)	(417 882)	(594 593)
Other operating income	5	208 009	295 970	764 377	1 087 610
Other operating expenses	6	(20 158)	(28 682)	(53 551)	(76 196)
Interest income and similar income	7	243	346	274	390
Interest expense and similar expenses	8	(123 595)	(175 860)	(104 627)	(148 871)
Profit or loss before extraordinary items and taxes		126 890	180 549	213 395	303 632
Profit or loss after extraordinary items and before taxes		126 890	180 549	213 395	303 632
Deferred corporate income tax for the reporting period	9	-	-	(16 856)	(23 984)
Other taxes	10	(121 453)	(172 812)	(181 173)	(257 786)
Profit or loss for the period		5 437	7 737	15 366	21 862
Earnings per share (EPS coefficient)		0.002	0.003	0.006	0.009

Chairman of the Board

Eduards Maļejevs

Member of the Board

Jurijs Maļejevs

Member of the Board

Inga Spruga

February 27, 2009

BALANCE SHEET as on 31.12.2008.

ASSETS		Note	2008	2008	2007	2007
		nr.	LVL	EUR	LVL	EUR

BALANCE SHEET as on 31.12.2008.

**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	5 437	7 737	7 737	15 366
Total shareholders' equity:		2 144 888	3 051 902	2 131 822	3 037 667

2. Provisions:

Total provisions:		-	-	-	-
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3. Liabilities:

I. Non-current liabilities:

Loans from lending institutions	22	1 629 467	2 318 523	1 203 951	1 713 068
Other loans	23	66 151	94 124	100 338	142 768
Deferred income	24	409 491	582 653	590 838	840 687
Total non-current liabilities:		2 105 109	2 995 300	1 895 127	2 696 523

II. Current liabilities:

Loans from lending institutions	25	375 749	534 643	390 253	555 280
Other loans	26	164 701	234 348	180 095	256 252
Advances from customers	27	88 963	126 583	217 589	309 601
Trade accounts payable	28	289 338	411 691	338 586	481 764
Taxes and social security liabilities	29	112 107	159 514	223 127	317 481
Other liabilities	30	71 642	101 937	89 066	126 730
Deferred income	31	181 347	258 034	198 369	282 254
Accrued liabilities	32	109 350	155 591	89 199	126 919
Total current liabilities:		1 393 197	1 982 341	1 726 284	2 456 281

Total liabilities:		3 498 306	4 977 641	3 621 411	5 152 804
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		5 643 194	8 029 542	5 753 233	8 186 113
		-	-	7 629	10 855

Chairman of the Board **Eduards Malejevs** **0**

Member of the Board **Jurijs Malejevs** **0**

Member of the Board **Inga Spruga** **0**

February 27, 2009

Financial Statements for the period from 01.01.2006 to 31.12.2006.

CASH FLOW STATEMENT FOR THE PERIOD ENDED

31.12.2008 (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) amortisation of goodwill
- c) provisions (except for provisions for bad debts)
- 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
- 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

Net cash flow from investing activities

III. Cash flow from financing activities

Income from emission of shares or bonds, particip. In investments

Loans received

Received subsidies, grants, gifts or donations

Loans repaid

Rented asset buyout expenses

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
126 890	180 548	180 549	256 898
268 998	382 750	340 130	483 961
1 200	1 707	1 691	2 406
-	-	12 834	18 261
4 295	6 111	5 030	7 157
(181 347)	(258 034)	(181 347)	(258 034)
(243)	(346)	(166)	(236)
(240)	(341)	(533 455)	(759 038)
123 595	175 860	98 826	140 617
(121 453)	(172 812)	(88 081)	(125 328)
221 695	315 443	(163 989)	(233 335)
(594 103)	(845 332)	(305 640)	(434 887)
(90 803)	(129 201)	(44 044)	(62 669)
(318 732)	(453 515)	255 650	363 757
(781 943)	(1 112 605)	(258 023)	(367 134)
(123 958)	(176 376)	(98 765)	(140 530)
(905 901)	(1 288 981)	(356 788)	(507 664)
(905 901)	(1 288 981)	(356 788)	(507 664)
(95 570)	(135 984)	(15 735)	(22 389)
615 240	875 408	34 889	49 643
-	-	(2 850)	(4 055)
2 400	3 415	1 537	2 187
243	346	166	236
522 313	743 184	18 007	25 622
-	854	600	854
622 339	885 509	340 726	484 809
-	-	-	-
(214 688)	(305 474)	(11 185)	(15 915)
(41 250)	(58 693)	(30 359)	(43 197)
366 401	521 342	299 182	425 698
(26)	(37)	85	121
(17 213)	(24 492)	24 700	35 145
31 368	44 633	-	-
14 155	20 141	24 700	35 145
-	-	(64 214)	-

Chairman of the Board

Eduards Malejevs

0

Member of the Board

Jurijs Malejevs

0

Member of the Board

Inga Spruga

0

February 27, 2009

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE 2008 YEAR

	Subscribed share capital	Ilgtermiņa ieguldījumu pārvērtēšanas rezerve	Statutory reserves	Profit for the year	Previous year's retained earnings	Total share capital and reserves
	LVL	LVL	LVL	LVL	LVL	LVL
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				5 437		5 437
Balance as on December 31, 2008	2 549 084	-	-	5 437	- 409 633	2 144 888

	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				- 21 864	21 864	-
Profit for the year				7 736		7 736
Balance as on December 31, 2008	3 627 020	-	-	7 736	- 582 855	3 051 900

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Inga Spruga

February 27, 2009

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". 6. LAS "Incomes" 7. LAS "Fixed Assts" 8. LAS "Savings" Profit and Loss Statement is prepared using turnover (period) costs method.

Cash Flow Statement is prepared using indirect method.

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

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

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

2. Is valid in the way that it:

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

* fully represents all real aspects.

Changes to the accounting policies

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

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

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

Error correction

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

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

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

Adapted accounting principles

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

a) it is assumed that the Company continues operations;

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

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

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

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

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

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

e) assets and liabilities items are valued separately;

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

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

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

Reporting period: from 01.01.2007. to 31.12.2007.

Financial Statements for the period from 01.01.2006 to 31.12.2006.

Transactions in foreign currency

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

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

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

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

	31.12.2007	31.12.2006	31.12.2005
USD	0.484	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	39849.00	%
* 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 "IC". 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 discounts granted 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.

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.

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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.

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

Financial Statements for the period from 01.01.2006 to 31.12.2006.

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.

Entry re-classification

In 2008, in accordance with changes in legislation and Management's view, no re-classifications has been done, when compared to the Financial Statements for the year 2007.

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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	850 636	1 210 346	771 409	1 097 616
Income from rent of premises	665 177	946 462	552 448	786 063
Income from sale of finished goods in the local market	305 163	434 208	305 583	434 805
Income from utility services	443 044	630 395	410 479	584 059
Income from galvanization services	24 749	35 215	25 296	35 993
Income from sale of materials				
Total	2 288 769	3 256 626	2 065 215	2 938 536

Net turnover by geographical markets

Latvia	1 438 133	2 046 279	1 293 791	1 840 899
Estonia	13 213	18 800	50 077	71 253
Germany	32 742	46 588	8 647	12 304
Russian Federation	63 921	90 951	9 012	12 823
Finland	5 499	7 824	6 912	9 835
Italy	666 019	947 660	610 179	868 206
Belarus	41 298	58 762	26 623	37 881
Sweden	726	1 033	1 511	2 150
Lithuania	10 439	14 853	47 266	67 253
USA	429	610	125	178
United Kingdom	16 350	23 264	11 072	15 754
Total	2 288 769	3 256 624	2 065 215	2 938 536

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	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Personnel costs	566 667	806 295	616 411	877 074
Provisions for vacations and Social Security	-	-	3 152	4 485
Depreciation of fixed assets	88 851	126 424	160 474	228 334
Depreciation of fixed assets (project 124000075)	181 347	258 034	181 347	258 034
Write-off of current assets	16 700	23 762	7 931	11 285
Changes in finished goods inventory	- 79 147	- 112 616	- 19 131	- 27 221
Changes in purchased materials and goods inventory	395 896	563 309	515 119	732 948
Services for productions	91 520	130 221	31 698	45 102
Ongoing maintenance and repair	11 466	16 315	26 555	37 784
Real estate property maintenance	437 806	622 942	399 469	568 393
Other costs	37 330	53 116	60 209	85 670
Total	1 748 436	2 487 802	1 983 234	2 821 888

Notes to the Profit and Loss statement entries (continued)

Note Nr. 3

Sales costs

Cost type

2008	2008	2007	2007
LVL	EUR	LVL	EUR

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Goods' transport costs	43 470	61 852	46 241	65 795
Sales costs	11 804	16 796	2 782	3 958
Advertising costs	1 656	2 356	8 154	11 602
Total	56 930	81 004	57 177	81 355

Note Nr. 4

Administrative costs

Cost type

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Personnel costs	317 332	451 523	336 739	479 136
Provisions for vacations and Social Security	-	-	9 682	13 776
Representation costs	6 987	9 942	4 530	6 446
Office expenses	13 853	19 711	10 481	14 913
Communication expenses	19 982	28 432	17 319	24 643
Bank expenses	6 992	9 949	5 806	8 261
Transport costs	47 830	68 056	27 061	38 504
Accounting and legal expenses	4 926	7 009	6 264	8 913
Other administrative costs	3 110	4 425	-	-
Total	421 012	599 047	417 882	594 592

Note Nr. 5

Other incomes from operating activity

Type on income

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Income from privatisation certificates	17 022	44 549	31 309	44 549
Income from grant financing (project 124000075)	181 347	258 033	181 347	258 033
Income from sale of fixed assets	240	759 038	533 455	759 038
Other income	9 400	25 990	18 266	25 990
Total	208 009	1 087 610	764 377	1 087 610

Note Nr. 6

Other incomes/expenses from operating activity

Type of income/expense

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Difference in currency rates	8 607	12 247	7 258	10 327
Sale of fixed assets	-	-	-	-
Fines / penalties	2 519	3 584	15 720	22 368
Written off hopeless debts	1 089	-	18 732	-
Expenses not related to business activities	7 943	-	11 841	-
Other expenses	-	-	-	-
Total	20 158	15 831	53 551	32 695

Note Nr. 7

Other interest and similar income

Type of income

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Interest received on account balances	243	346	166	236
Received penalties / fines	-	-	108	154
Net profit from foreign currency rate fluctuations	-	-	-	-
Total	243	346	274	390

Notes to the Profit and Loss statement entries (continued)

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Note Nr. 8

Other interest and similar expenses

Type of expense

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
	123595	175 860	98826	140 617
	0	-	5801	8 254
Total	123 595	175 860	104 627	148 871

Note Nr. 9

Deferred Corporate Income Tax

2008	2008	2007	2007
LVL	EUR	LVL	EUR
-	-	16 856	23 984
Total:	-	16 856	23 984

Note Nr. 10

Other taxes

Natural resources tax (over the limit)
Real estate tax for land
Real estate tax for buildings and constructions

2008	2008	2007	2007
LVL	EUR	LVL	EUR
0	239	168	239
7 936	11 292	7 526	10 709
113 517	161 520	173 479	246 838
Total:	121 453	181 173	257 786

Notes to the Financial Statements

Notes to the Balance Sheet as on December 31, 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	-	-	-	2 009	2 859
Relocated	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
31.12.2008.	7 363	-	-	-	7 363	10 477
Depreciation						
31.12.2007.	5 040	-	-	-	5 040	7 171
Calculated	1 201	-	-	-	1 201	1 709
Written-off	-	-	-	-	-	-
31.12.2008.	6 241	-	-	-	6 241	8 880
Net book value						
31.12.2007.	2 323	-	-	-	2 323	3 305
Net book value						
31.12.2008.	1 122	-	-	-	1 122	1 596

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

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

12. Fixed Assets

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	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	308 360	2 375 737	3 380 369
Purchased			94 537	1 034	95 571	135 985
Written-off			- 100		- 100	- 142
31.12.2008.	428 034	1 141 632	592 148	309 394	2 471 208	3 516 212
Depreciation						
31.12.2007.	-	487 221	265 668	149 258	902 147	1 283 640
Calculated		17 251	32 672	37 729	87 652	124 718
Written-off			- 100		- 100	- 142
31.12.2008.	-	504 472	298 240	186 987	989 699	1 408 215
Net book value						
31.12.2007.	428 034	654 411	232 043	159 102	1 473 590	2 096 730
Net book value						
31.12.2008.	428 034	637 160	293 908	122 407	1 481 509	2 107 997

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	-	576	38 052	1 852 089	2 635 285
Purchased	-	-	-	-	-	-
Written-off		-	-	-	-	-
31.12.2008.	1 813 461	-	576	38 052	1 852 089	2 635 285
Depreciation						
31.12.2007.	227 815	-	-	-	227 815	227 815
Calculated	181 347	-	-	-	181 347	258 034

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Written-off	-	-	576	-	576	820
31.12.2008.	409 162	-	576	-	409 738	583 005
Net book value						
31.12.2007.	1 585 646	-	576	38 052	1 624 274	2 311 134
Net book value						
31.12.2008.	1 404 299	-	-	38 052	1 442 351	2 052 281

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

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

Fixed asses on financial lease:

Name of fixed asset	Lease company	Historical cost	Net book value	Unpaid lease as per lease agreement	Lease term
Tech.equip. HASL 204S	Hansa Līzings	25 984	16 889	9 407	15.06.2009
Auto vehicle Toyota RAV4	Unilīzings	15 486	8 259	8 907	15.07.2008
Equipment Weeke Venture 3	DnB Nord Līz.	59 422	46 547	36 784	15.10.2010
Auto vehicle Jaguar Daimler Super Eight	Parex Līzings	67 898	47 529	65 060	30.06.2013
Toyota Corola	Unilīzings	13 411	12 964	13 621	25.09.2012
Haulotte C12	Unilīzings	12 194	11 381	11 671	25.08.2010

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

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Historical cost	100	142	183 840	261 581
Accumulated depreciation	100	142	67 406	95 910
Net book value	-	-	116 434	165 671
Income from sale	649 889	924 709	32 447	46 168

13. Raw materials

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Raw materials	221 047	314 522	202 581	288 247
Inventory in use	101 488	144 404	117 846	167 680
Total	322 535	458 926	320 427	455 927

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Notes to the Balance Sheet (continued)

14. Work in progress

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Unfinished goods	12 951	18 428	6 120	8 708
finished goods and goods in warehouse	324 711	462 022	272 565	387 825
Total	337 662	480 450	278 685	396 533

15. Avansa maksājumi par precēm

	2008	2007	2007	2007
	LVL	EUR	LVL	EUR
Advance payments for materials	16 679	23 732	55 389	78 811
Advance payments to non-residents	97 557	138 811	29 129	41 447
Goods in bonded storage		-		-
Total	114 236	162 543	84 518	120 258

16. Trade receivables

	2008	2007	2007	2007
	LVL	EUR	LVL	EUR
Receivables (non-residents)	322 142	458 367	752 658	1 070 936
Receivables (residents)	242 692	345 320	295 404	420 322
Book value of purchases and customers, total	564 834	803 687	1 048 062	1 491 258
Provisions for doubtful debts	-	-	-	-
Net trade receivables, total	564 834	803 687	1 048 062	1 491 258

17. Other receivables

	2008	2007	2007	2007
	LVL	EUR	LVL	EUR
VAT confirmed (unpaid invoices)	1 917	2 728	1 917	2 728
Nature Resource tax overpaid to the state budget	59 784	85 065	13 927	19 816
Tax pre-payments for customs procedures	4 342	6 178	1 902	2 706
Loans to employees	7 114	10 122	4 074	5 797
Other loans	47 676	67 837	49 056	69 800
Others	240	341	240	341

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Total	121 073	172 271	71 116	101 188
18. Deferred expenses	2008	2007	2007	2007
	LVL	EUR	LVL	EUR
Insurance expenses	4 647	-	5 530	7 868
Expenses for repairs of buildings and premises	11 393	6 612	15 902	22 627
Expenses for implementation of project Nr.124000075	326 861	16 211	326 861	465 081
Expenses for reconstruction of block I-2	843 675	465 081	428 183	609 250
Other expenses	1 268	1 200 441	1 394	1 983
Total	1 187 844	1 688 345	777 870	1 106 809
19. Cash and cash equivalents	2008	2007	2007	2007
	LVL	EUR	LVL	EUR
Cash on hand	18	26	20 593	29 301
Cash in bank accounts	14 137	20 115	4 107	5 844
Total	14 155	20 141	24 700	35 145

Notes to the Balance Sheet (continued)

20. Information about company's share capital

On 31.12.2007 company's share capital consisted of 2549084 registered and fully paid shares with nominal value of 1 Ls.
Larges shareholders of JSC "VEF Radiotehnika RRR" are:

Largest shareholders of JSC "Valdai-Radiotekhnika Rēre" are:						
Shareholders	Number of shares		Value			
			LVL			
			31.12.2008	2007,12,31	EUR	
	31.12.2008	31.12.2007	1270612	31.12.2005	31.12.2006	31.12.2005
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

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21. Retained earnings/losses

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

	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 Total	5 437	7 736	15 366	21 864
	- 404 196 -	575 119 -	409 633 -	582 855

22. Long-term loans from lending institutions

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Loan from JSC SEB Latvijas Unibanka Total	1 629 467	2 318 523	1 203 951	1 713 068
	1 629 467	2 318 523	1 203 951	1 713 068

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	43 287	61 592	54 425	77 440
Financial lease from SIA DnB Nord Līzings (EUR)	11 403	16 225	24 099	34 290
	-	-	-	-
Financial lease from SIA Hansa Līzings (USD)	-	-	3 225	4 589
Financial lease from SIA Hansa Līzings (EUR)	11 461	16 308	18 589	26 450
Financial lease from SIA Unilīzings (EU Total)	66 151	94 125	100 338	142 769

24. Deferred income (long-term)

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Income from grant financing (project Nr Total)	409 491	582 653	590 838	840 687
	409 491	582 653	590 838	840 687

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	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
26. Short-term loans from lending institutions				
	190 274	270 736	194 677	277 000
Credit line from JSC SEB Latvijas Unibanka (LVL)	185 475	263 907	195 576	278 280
Loan from JSC SEB Latvijas Unibanka Total	375 749	534 643	390 253	555 280

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.

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
27. Other loans (short-term)				
Financial lease from SIA Parex Līzins un Faktoring	11 137	15 847	10 635	15 132
Financial lease from SIA DnB Nord Līzings (EUR)	13 196	18 776	12 685	18 049
Financial lease from SIA Hansa Līzings (USD)	-	-	2 396	3 409
Financial lease from SIA Hansa Līzings (EUR)	3 225	4 589	6 182	8 796
Financial lease from SIA Unilīzings (EUR)	12 965	18 448	15 609	22 210
		-		-
Faktoring SIA Unilīzings (EUR)	124 178	176 689	123 539	175 780
		-		-
Credit cards	-	-	9 049	12 876
Total	164 701	234 349	180 095	256 252

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
28. Advances from customers				
Advances from non-residents	10	14	10	14
Advances from residents	88 953	126 569	217 579	309 587
Total	88 963	126 583	217 589	309 601

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
29. Due to suppliers and providers (short-term)				

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	LVL	EUR	LVL	EUR
Trade accounts payable to non-residents	59 166	84 186	26 454	37 641
Trade accounts payable to residents	230 172	327 505	165 343	235 262
Total	289 338	411 691	191 797	272 903

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Notes to the Balance Sheet (continued)

30. Taxes and social insurance payments

	2007	2007	2007	2007
	LVL	EUR	LVL	EUR
Personal Income Tax	30 851	43 897	50 230	71 471
State Social Insurance payments	54 977	78 225	59 719	84 972
Value Added Tax	10 021	14 259	16 885	24 025
Real estate tax for building and constructions	16 228	23 090	93 092	132 458
Real estate tax for land	-	-	-	-
Nature resources tax	-	-	3 110	4 425
Corporate risk tax	30	43	91	129
Total	112 107	159 514	223 127	317 480

31. Other liabilities

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Salaries	40 111	57 073	43 792	62 310
Advance settlement amounts	-	-	1 920	2 732
Deposits	31 489	44 805	39 041	55 550
Other creditores	42	60	4 313	6 137
Total	71 642	101 938	89 066	126 729

32. Deferred income (short-term)

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Next year's rent for premises		-		-
Income from privatisation certificates	0	-	17023	24 222
Income from grant financing (project Nr.124000075)	181 347	258 034	181 346	258 032
Total	181 347	258 034	198 369	282 254

33. Accrued liabilities

	2008	2008	2007	2007
	LVL	EUR	LVL	EUR
Current expenses	55 536	79 021	35 385	50 348

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Provisions for vacations	43 367	61 706	43 367	61 706
Provisions for vacations (Social Security Payments)	10 447	14 865	10 447	14 865
Total	109 350	155 592	89 199	126 919

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>209</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
883 999	1 257 818	952 523	1 356 210
716 656	1 019 710	772 696	1 099 447
166 795	237 328	179 827	255 871
548	780	627	892
59 999	85 371	54 000	76 835
13 151	18 712	11 569	16 461
9	13	9	13
73 159	104 096	65 578	93 309

Information on total amount of reward to sworn auditor company " Auditoru firma "Finansists"" for year 2007.

1. For checking of 2008 annual report.

3000 LVL

Total:

3000 LVL

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 Sprūga