

JSC "VEF Radiotehnika RRR"

Unified Registration Nr. 40003286712

Address: Kurzemes prospekts 3, Riga, LV-1067

Main activities:

production

Measurement units: Ls (LVL)

0

2009 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>Janis Salenieks</i>			
Council Member	<i>Jurijs Malejevs</i>			
Council Member	<i>Inga Spruga</i>			
Council Member	<i>Ausma Smiltneiece</i>			
Council Member	<i>Vjačeslavs Mihailovins</i>			
Boar members of the JSC				
Chairman of the Board	<i>Eduards Malejevs</i>			
Board Member	<i>Gunars Lacis</i>			
Board Member	<i>Juris Voins</i>			
Reporting year	<i>from</i>	<i>01.01.2009</i>	<i>till</i>	<i>31.12.2009</i>
Previous reporting period	<i>from</i>	<i>01.01.2008</i>	<i>till</i>	<i>31.12.2008</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 2009, 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 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 2008. New types of activities have not been performed.

Operation of the company in the reporting year

When analysing performance indicators of JSC "VEF Radiotehnika RRR" for the year 2009 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:	141276 LVL
Deferred corporate income tax:	0 LVL
Other taxes:	-102345 LVL
Net result:	38931 LVL

Net turnover for the year 2009 is 22887695Ls and has grown by 10,8 % in comparison with 2008.

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 (%)	2.89
Operating profit margin (%)	17.64
Gross profit margin (%)	14.53

Financial profitability (%)

Return on capital	2.41
Return on equity	1.79

A number of major works and activities on improvement of working environment, production technology and competitiveness have been performed in 2009:

- 1) refurbishment works commenced in production block I-2;
- 2) Continued acquiring of the new technological equipment obtained by support of Grant financing.
- 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 2008, the Company is planning to retain the current rate of sales growth, which shall be done by using the features of the new equipment to its full potential.

Conditions and events after Balance Sheet completion

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

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

Gunars Lacis

Member of the Board

Juris Voins

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, 2008, the corresponding accounting principles have been applied, their use was consistent and the protective and logical decisions had been made.

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

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

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

Member of the Board

Juris Voins

***PROFIT AND LOSS STATEMENT
FOR THE PERIOD ENDED
31.12.2009 (per turnover (period) costs method)***

	Note	2009	2009	2008	2008
	nr.	LVL	EUR	LVL	EUR
Net turnover	1	1 347 058	1 916 691	2 288 769	3 256 625
Cost of sales	2	(1 151 317)	(1 638 177)	(1 723 196)	(2 451 887)
Gross profit or loss		195 741	278 514	565 573	804 738
Selling expenses	3	(33 009)	(46 968)	(61 142)	(86 997)
Administrative expenses	4	(278 343)	(396 046)	(415 370)	(591 018)
Other operating income	5	377 515	537 155	209 297	297 803
Other operating expenses	6	(24 252)	(34 507)	(41 643)	(59 253)
Interest income and similar income	7	18	26	243	346
Interest expense and similar expenses	8	(96 394)	(137 156)	(123 595)	(175 860)
Profit or loss before extraordinary items and taxes		141 276	201 018	133 363	189 759
Profit or loss after extraordinary items and before taxes		141 276	201 018	133 363	189 759
Deferred corporate income tax for the reporting period	9	-	-	4 774	6 793
Other taxes	10	(102 345)	(145 624)	(121 453)	(172 812)
Profit or loss for the period		38 931	55 394	16 684	23 740
Earnings per share (EPS coefficient)		0.015	0.022	0.007	0.009

Chairman of the Board

Eduards Maļejevs

Member of the Board

Jurijs Maļejevs

Member of the Board

Inga Spruga

BALANCE SHEET as on 31.12.2009.

ASSETS		Note	2009	2009	2008	2008
		nr.	LVL	EUR	LVL	EUR
1. Non-current assets						
I. Intangible assets:						
Concessions, patents, licenses, trade marks and similar rights	11		534	760	1 122	1 596
Total intangible assets:			534	760	1 122	1 596
II. Fixed assets:						
Land, buildings and constructions			997 499	1 419 313	1 065 194	1 515 635
Equipment and vehicles			1 616 132	2 299 549	1 752 111	2 493 029
Other fixed assets			96 142	136 798	130 521	185 715
Construction of fixed assets and unfinished construction objects			38 052	54 143	50 766	72 234
Advance payments for fixed assets			-	-	-	-
Total fixed assets:			2 747 825	3 909 803	2 998 592	4 266 613
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	520	740
Deferred taxation assets			60 113	85 533	60 113	85 533
Total long-term financial investments:			60 633	86 273	60 633	86 273
Total non-current assets:			2 808 992	3 996 836	3 060 347	4 354 482
2. Current assets						
I. Inventory:						
Raw materials	13		303 550	431 913	335 096	476 799
Work in process	14		12 246	17 424	5 085	7 235
Finished goods	14		280 136	398 598	324 680	461 978
Advance payments for materials	15		80 463	114 489	63 657	90 576
Total inventory:			676 395	962 424	728 518	1 036 588
II. Sales-deferred long-term investments						
Total sales-deferred long-term investments:			-	-	-	-
III. Receivables:						
Trade receivables	16		663 142	943 566	564 557	803 292
Other receivables	17		147 296	209 583	103 622	147 441
Deferred expenses	18		1 219 852	1 735 693	1 248 918	1 777 050
Total receivables:			2 030 290	2 888 842	1 917 097	2 727 783
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			2 580	3 671	3 530	5 023
Total currents assets:			2 709 279	3 854 957	2 649 159	3 769 414
TOTAL ASSETS:			5 518 271	7 851 792	5 709 506	8 123 895

BALANCE SHEET as on 31.12.2009.

**LIABILITIES AND
SHAREHOLDERS' EQUITY**

1. Shareholders' equity:

	Note nr.	2009 LVL	2009 EUR	2008 LVL	2008 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	- 392 949	- 559 116	- 409 633	- 582 855
b) current year profit/(loss)	21	38 931	55 394	16 684	16 684
Total shareholders' equity:		2 195 066	3 123 298	2 156 135	3 060 849

2. Provisions:

Total provisions:		63 790	-	-	-
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3. Liabilities:

I. Non-current liabilities:

Loans from lending institutions	22	1 522 208	2 165 907	1 629 467	2 318 523
Other loans	23	36 756	52 299	66 151	94 124
Deferred income	24	228 144	324 620	409 491	582 653
Total non-current liabilities:		1 787 108	2 542 826	2 105 109	2 995 300

II. Current liabilities:

Loans from lending institutions	25	394 822	561 781	375 749	534 643
Other loans	26	63 058	89 723	169 452	241 108
Advances from customers	27	4 082	5 808	88 963	126 583
Trade accounts payable	28	441 578	628 309	296 527	421 920
Taxes and social security liabilities	29	264 321	376 095	130 046	185 039
Other liabilities	30	88 236	125 549	75 990	108 124
Deferred income	31	181 347	258 034	181 347	258 034
Accrued liabilities	32	34 863	49 606	130 188	185 241
Total current liabilities:		1 472 307	2 094 905	1 448 262	2 060 692

Total liabilities:		3 259 415	4 637 731	3 553 371	5 055 992
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		5 518 271	7 851 792	5 709 506	8 123 895
		-	-	-	-

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

Member of the Board

Juris Voins

Financial Statements for the period from 01.01.2006 to 31.12.2006.

CASH FLOW STATEMENT FOR THE PERIOD ENDED
31.12.2009 (per indirect method)

I. Cash flow from operating activity

Profit or loss before extraordinary items and taxes

Adjustments for:

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

Profit or loss before current assets and short-term liabilities corrections

Adjustments for:

- a) trade receivables increase (-) or decrease (+)
- b) inventory increase (-) or decrease (+)
- c) accounts payable to suppliers and other creditors increase (+) or decrease (-)

Gross cash flow from operating activities

Interest payments

Cash flow before extraordinary items

Net cash flow from operating activity

II. Cash flow from investing activities

Acquisition of fixed assets

Income from fixed assets sale

Loans issued

Loans repaid

Interest received

Net cash flow from investing activities

III. Cash flow from financing activities

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

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	2008	2008
	LVL	EUR	LVL	EUR
	141 276	201 018	133 363	189 758
	189 300	269 350	268 998	382 750
	589	838	1 200	1 707
	-	-	-	-
	2 265	3 223	4 295	6 111
	-	-	-	-
	(181 347)	(258 034)	(181 347)	(258 034)
	(18)	(26)	(243)	(346)
	(195 675)	(278 420)	(240)	(341)
	96 394	137 156	123 595	175 860
	(102 345)	(145 624)	(121 453)	(172 812)
	(49 561)	(70 519)	228 168	324 653
	(113 193)	(161 059)	(633 843)	(901 877)
	52 123	74 164	(50 253)	(71 504)
	185 604	264 091	(261 899)	(372 649)
	74 973	106 677	(717 827)	(1 021 376)
	(96 394)	(137 156)	(124 787)	(177 556)
	(21 421)	(30 479)	(842 614)	(1 198 932)
	(21 421)	(30 479)	(842 614)	(1 198 932)
	(46 512)	(66 181)	(171 278)	(243 707)
	290 940	413 970	615 240	875 408
	-	-	-	-
	-	-	-	-
	18	26	243	346
	244 446	347 815	444 205	632 047
	16 305	23 200	622 042	885 086
	(199 571)	(283 964)	(214 688)	(305 474)
	(40 709)	(57 924)	(41 175)	(58 587)
	-	-	-	-
			5	7
	(950)	(1 352)	(21 170)	(30 122)
	3 530	5 023	24 700	35 145
	2 580	3 671	3 530	5 023

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

Member of the Board

Juris Voins

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE 2009 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, 2007	2 549 084	-	-	15 366	- 424 999	2 139 451
Profit carried over				- 15 366	15 366	-
Profit for the year				16 684		16 684
Balance as on December 31, 2008	2 549 084	-	-	16 684	- 409 633	2 156 135
Profit carried over				- 16 684	16 684	-
Profit for the year				38 931		38 931
Balance as on December 31, 2009	2 549 084	-	-	38 931	- 392 949	2 195 066

	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, 2007	3 627 020	-	-	56 637	- 904 369	2 779 288
Profit carried over				- 21 864	21 864	-
Profit for the year				23 739		23 739
Balance as on December 31, 2008	3 627 020	-	-	58 512	- 882 505	2 803 027
Profit carried over				- 23 739	23 739	-
Profit for the year				55 394		55 394
Balance as on December 31, 2009	3 627 020	-	-	55 394	- 559 116	3 123 297

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

Member of the Board

Juris Voins

Notes to the Financial Statements

1. Accounting Policies

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

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 01.01.2009. to 31.12.2009.

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:

	31.12.2009	31.12.2008	31.12.2007
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.

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 2009.

JSC "VEF Radiotehnika RRR"
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Financial Statements for the period from 01.01.2006 to 31.12.2006.

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 LVL	2008 EUR	2008 LVL	2008 EUR
Income from export sale of finished goods	460 894	655 793	850 636	1 210 346
Income from rent of premises	388 213	552 377	665 177	946 462
Income from sale of finished goods in the local market	167 759	238 700	305 163	434 208
Income from utility services	323 158	459 812	443 044	630 395
Income from galvanization services				
Income from sale of materials	7 034	10 008	24 749	35 215
Total	1 347 058	1 916 690	2 288 769	3 256 626

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	236 456	336 447	530 830	755 303
Provisions for vacations and Social Security	-	-	5 597	7 964
Depreciation of fixed assets	80 796	114 962	89 828	127 814
Depreciation of fixed assets (project 124000075)	109 093	155 225	181 347	258 034
Write-off of current assets	9 877	14 054	16 691	23 749
Changes in finished goods inventory	65 846	93 690	72 340	102 931
Changes in purchased materials and goods inventory	175 911	250 299	371 007	527 895
Services for productions	38 974	55 455	41 659	59 275
Ongoing maintenance and repair	11 749	16 717	16 502	23 480
Real estate property maintenance	413 122	587 820	488 296	694 783
Other costs	9 493	13 507	53 769	76 506
Total	1 151 317	1 638 176	1 723 186	2 451 872

Notes to the Profit and Loss statement entries (continued)

Note Nr. 3

Sales costs

Cost type

Goods' transport costs	26 077	37 104	43 470	61 852
Sales costs	6 205	8 829	11 803	16 794
Advertising costs	727	1 034	5 869	8 351
Total	33 736	48 001	67 011	95 348

Note Nr. 4

Administrative costs

Cost type

Personnel costs	208 322	296 416	302 401	430 278
Provisions for vacations and Social Security	-	-	4 379	6 231
Representation costs	2 420	3 443	7 586	10 794
Office expenses	4 632	6 591	15 311	21 786
Communication expenses	13 626	19 388	19 997	28 453
Bank expenses	4 055	5 770	7 097	10 098

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Transport costs	15 213	21 646	49 024	69 755
Accounting and legal expenses	2 707	3 852	5 083	7 232
Other administrative costs	27 368	38 941	4 492	6 392
Total	278 343	396 047	415 370	591 019

Note Nr. 5

Other incomes from operating activity

Type on income	2008 LVL	2008 EUR	2008 LVL	2007 EUR
Income from privatisation certificates	-	44 549	17 023	2 422
Income from grant financing (project 124000075)	181 347	258 033	181 347	258 033
Income from sale of fixed assets	195 675	759 038	240	341
Other income	493	25 990	10 687	15 206
Total	377 515	1 087 610	209 297	276 002

Note Nr. 6

Other incomes/expenses from operating activity

Type of income/expense	2008 LVL	2008 EUR	2008 LVL	2007 EUR
Difference in currency rates	1 556	2 214	4 397	6 256
Sale of fixed assets	13 058	18 580	4 313	6 137
Written off hopeless debts	3 173	4 515	23 900	34 007
Expenses not related to business activities	192	273	1 089	
Other expenses	6 273	8 926	7 943	
Total	24 252	34 507	41 642	46 400

Note Nr. 7

Other interest and similar income

Type of income	2008 LVL	2008 EUR	2008 LVL	2007 EUR
Interest received on account balances				
Received penalties / fines	18	26	243	346
Net profit from foreign currency rate fluctuations	-	-	-	-
Total		-		-

Notes to the Profit and Loss statement entries (continued)

Note Nr. 8

Other interest and similar expenses

Type of expense	2008 LVL	2008 EUR	2008 LVL	2007 EUR
Interest paid on loans	96394	137 156	123595	175 860
Fines/penalties paid	0	-	0	-
Total	96 394	137 156	123 595	175 860

Note Nr. 9

Deferred Corporate Income Tax

	2008 LVL	2008 EUR	2008 LVL	2007 EUR
Total:	-	-	4 774	6 793
	-	-	4 774	6 793

Note Nr. 10

Other taxes

2008 LVL	2008 EUR	2008 LVL	2008 EUR
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Real estate tax for land	9920	14114.88836	7936	161520.1393
Real estate tax for buildings and constructions	92 425	131 509	113 517	161 520
Total:	102 345	145 624	121 453	323 040

Notes to the Financial Statements

Notes to the Balance Sheet as on December 31, 2009.

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						
31.12.2008.	7 363	-	-	-	7 363	10 477
Purchased		-	-	-	-	-
Relocated	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
31.12.2009.	7 363	-	-	-	7 363	10 477
Depreciation						
31.12.2008.	6 240	-	-	-	6 240	8 879
Calculated	589	-	-	-	589	838
Written-off	-	-	-	-	-	-
31.12.2009.	6 829	-	-	-	6 829	9 717
Net book value						
31.12.2008.	1 123	-	-	-	1 123	1 598
Net book value						
31.12.2009.	534	-	-	-	534	760

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

12. Fixed Assets

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JSC "VEF Radiotekhnika RRR"

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Financial Statements for the period from 01.01.2006 to 31.12.2006.

	Land	Buildings and constructions	Technological equipment	Other fixed assets	Total LVL	Total EUR
Historical cost						
31.12.2008.	428 034	1 141 632	632 341	284	2 520 291	3 586 051
Purchased		31 925	14 364	224	46 513	66 182
Written-off		- 171 261	- 4 812	- 20 659	- 196 732	- 279 924
31.12.2009.	428 034	1 002 296	641 893	297 849	2 370 072	3 372 309
Depreciation						
31.12.2008.	-	504 472	294 440	187 763	990 675	1 409 604
Calculated		8 566	41 249	30 392	80 207	114 124
Written-off		- 80 207	- 4 811	- 16 448	- 101 466	- 144 373
31.12.2009.	-	432 831	334 878	201 707	969 416	1 379 355
Net book value						
31.12.2008.	428 034	637 160	337 901	- 187 479	1 215 616	1 729 666
Net book value						
31.12.2009.	428 034	569 465	307 015	96 142	1 400 656	1 992 954

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						
31.12.2008.	1 827 372	-	-	50 766	1 878 138	2 672 350
Purchased	-	-	-	1 650	1 650	2 348
Written-off		-	-	- 14 364	- 14 364	- 20 438
31.12.2009.	1 827 372	-	-	38 052	1 865 424	2 654 259
Depreciation						
31.12.2008.	409 162	-	-	-	409 162	409 162
Calculated	109 093	-	-	-	109 093	155 225

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Written-off	-	-	-	-	-	-
31.12.2009.	518 255	-	-	-	518 255	737 410
Net book value						
31.12.2008.	1 418 210	-	-	50 766	1 468 976	2 090 165
Net book value						
31.12.2009.	1 309 117	-	-	38 052	1 347 169	1 916 849

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

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

13. Raw materials

	2009	2009	2008	2008
	LVL	EUR	LVL	EUR
Raw materials	184 996	263 226	207 655	295 466
Inventory in use	118 554	168 687	127 441	181 332
Total	303 550	431 913	335 096	476 798

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Notes to the Balance Sheet (continued)

14. Work in progress

	2009	2009	2008	2008
	LVL	EUR	LVL	EUR
Unfinished goods	12 246	17 424	5 085	7 235
finished goods and goods in warehouse	280 136	398 598	324 680	461 978
Total	292 382	416 022	329 765	469 213

15. Advance payments

	2009	2009	2008	2008
	LVL	EUR	LVL	EUR
Advance payments for materials	33 908	48 247	14 469	20 588
Advance payments to non-residents	46 555	66 242	49 188	69 988
Goods in bonded storage		-		-
Total	80 463	114 489	63 657	90 576

16. Trade receivables

	2009	2009	2008	2008
	LVL	EUR	LVL	EUR
Receivables (non-residents)	210 957	300 165	321 797	457 876
Receivables (residents)	452 185	643 401	242 760	345 416
Book value of purchases and customers, total	663 142	943 566	564 557	803 292
Provisions for doubtful debts	-	-	-	-
Net trade receivables, total	663 142	943 566	564 557	803 292

17. Other receivables

	2009	2009	2008	2008
	LVL	EUR	LVL	EUR
VAT confirmed (unpaid invoices)	1 917	2 728	1 917	2 728
VAT overpaid to the state budget	115	164	-	-
Nature Resource tax overpaid to the state budget	91 030	129 524	43 580	62 009
Tax pre-payments for customs procedures	4 666	6 639	3 095	4 404
Loans to employees	5 094	7 248	7 114	10 122
Other loans	44 234	67 837	47 676	67 837

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Others		240	341	240	341
Total		147 296	214 481	103 622	147 441
18. Deferred expenses					
		2009	2009	2008	2008
		LVL	EUR	LVL	EUR
Insurance expenses		2 376	3 381	4 575	6 510
Expenses for repairs of buildings and premises		6 884	9 795	11 393	16 211
Expenses for implementation of project Nr.124000075		301 041	428 343	326 861	465 081
Expenses for reconstruction of block I-2		909 478	1 294 071	904 821	1 287 444
Other expenses		73	104	1 268	1 804
Total		1 219 852	1 735 694	1 248 918	1 777 050
19. Cash and cash equivalents					
		2009	2009	2008	2008
		LVL	EUR	LVL	EUR
Cash on hand		197	280	18	26
Cash in bank accounts		2 383	3 391	3 512	4 997
Total		2 580	3 671	3 530	5 023

Notes to the Balance Sheet (continued)

20. Information about company's share capital

On 31.12.2009 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:

Shareholders	Number of shares		Value			
			LVL			
	31.12.2009	31.12.2008	31.12.2009	2008,12,31	EUR	
			1270612	31.12.2005	31.12.2009	31.12.2008
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

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Financial Statements for the period from 01.01.2006 to 31.12.2006

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.

	2009	2009	2008	2008
	LVL	EUR	LVL	EUR
previous years' retained earnings/losses	-392 949 -	559 116	-409 633 -	582 855
current year profit/loss	38 931	55 394	16 684	23 739
Total	- 354 018 -	503 722 -	392 949 -	559 116

22. Long-term loans from lending institutions

	2009	2009	2008	2008
	LVL	EUR	LVL	EUR
Loan from JSC SEB Latvijas Unibanka (Total	1 522 208	2 165 907	1 629 467	2 318 523
	1 522 208	2 165 907	1 629 467	2 318 523

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)

	2009	2009	2008	2008
	0	EUR	LVL	EUR
Financial lease from SIA Parex Līzins un Faktoringa	31 273	44 497	43 287	61 592
Financial lease from SIA DnB Nord Līzings (EUR)		-	11 403	16 225
Financial lease from SIA līzings (EUR)	5 483	7 802	11 461	16 308
Total	36 756	52 299	66 151	94 125

24. Deferred income (long-term)

2009	2009	2008	2008
LVL	EUR	LVL	EUR
228 144	324 620	409 491	582 653

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Financial Statements for the period from 01.01.2006 to 31.12.2006.

Income from grant financing (project Nr Total)	228 144	324 620	409 491	582 653
	2009	2009	2008	2008
26. Short-term loans from lending institutions	LVL	EUR	LVL	EUR
	198 789	282 851	190 274	270 736
Credit line from JSC SEB Latvijas Unibanka (LVL)	196 033	278 930	185 475	263 907
Loan from JSC SEB Latvijas Unibanka (Total)	394 822	561 781	375 749	534 643

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.

	2009	2009	2008	2008
27. Other loans (short-term)	LVL	EUR	LVL	EUR
Financial lease from SIA Parex Līzins un Faktoringas	11 828	16 830	11 137	15 847
Financial lease from SIA DnB Nord Līzings (EUR)	11 403	16 225	13 196	18 776
Financial lease from SIA Hansa Līzings (USD)	-	-	-	-
Financial lease from SIA Hansa Līzings (EUR)	-	-	3 225	4 589
Financial lease from SIA Unilīzings (EUR)	5 979	8 507	12 965	18 448
Faktoringas SIA Unilīzings (EUR)	14 937	21 253	124 178	176 689
		-		-
Credit cards	18 911	26 908	4 751	6 760
Total	63 058	89 723	169 452	241 109

	2009	2009	2008	2008
28. Advances from customers	LVL	EUR	LVL	EUR
Advances from non-residents	3 814	5 427	10	14
Advances from residents	268	381	88 953	126 569
Total	4 082	5 808	88 963	126 583

	2009	2009	2008	2008
29. Due to suppliers and providers (short-term)	LVL	EUR	LVL	EUR

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Trade accounts payable to non-residents	53 979	76 805	74 623	106 179
Trade accounts payable to residents	387 599	551 504	221 904	315 741
Total	441 578	628 309	296 527	421 920

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Notes to the Balance Sheet (continued)

30. Taxes and social insurance payments

	2009	2009	2008	2008
	LVL	EUR	LVL	EUR
Personal Income Tax	48 772	69 396	34 620	49 260
State Social Insurance payments	90 161	128 288	56 564	80 483
Value Added Tax	36 405	51 800	8 245	11 732
Real estate tax for building and constructions	88 958	126 576	30 363	43 203
Real estate tax for land	-	-	-	-
Nature resources tax	-	-	220	313
Corporate risk tax	25	36	34	48
Total	264 321	376 096	130 046	185 039

31. Other liabilities

	2009	2009	2008	2008
	LVL	EUR	LVL	EUR
Salaries	62 379	88 757	40 145	57 121
Advance settlement amounts	-	-	4 139	5 889
Deposits	24 015	34 170	31 664	45 054
Other creditors	1 842	2 621	42	60
Total	88 236	125 548	75 990	108 124

32. Deferred income (short-term)

	2009	2009	2008	2008
	LVL	EUR	LVL	EUR
Next year's rent for premises		-		-
Income from privatisation certificates	0	-	0	-
Income from grant financing (project Nr.124000075)	181 347	258 034	181 347	258 034
Total	181 347	258 034	181 347	258 034

33. Accrued liabilities

	2009	2009	2008	2008
	LVL	EUR	2007	2007
			LVL	EUR
Current expenses	34 863	49 606	66 398	94 476

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Provisions for vacations	-	-	51 406	73 144
Provisions for vacations (Social Security Payments)	-	-	12 384	17 621
Total	34 863	49 606	130 188	185 241

Notes to the Financial Statements

General Notes

1. Average number of employees during the year

Average number of employees during the year

<u>Year 2009</u>	<u>Year 2008</u>
<u>183</u>	<u>183</u>

2. Total personnel costs

- salaries
- Social security payments
- Corporate risk tax

- including:

Management salaries

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

<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
<u>LVL</u>	<u>EUR</u>	<u>LVL</u>	<u>EUR</u>
444 778	632 862	883 999	1 257 818
359 760	511 892	716 656	1 019 710
84 687	120 499	166 795	237 328
331	471	548	780
28 324	40 301	59 999	85 371
6 020	8 566	13 151	18 712
9	13	9	13
34 353	48 880	73 159	104 096

Annual report is accepted and signed from page 1 till 27

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

Member of the Board

Juris Voins