

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

Main activities:
production

Measurement units: Ls (LVL)

2010 9 Months Report

Submission date: _____

Date of receipt: _____

Riga, Latvia

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INFORMATION about the COMPANY

Full name of the Company	<i>JSC "VEF Radiotehnika RRR"</i>			
Legal status of the Company	<i>Public Joint-Stock Company</i>			
Unified Registration Nr., place and date of issue datums	<i>40003286712 11.12.1998</i>			
Legal address of the Company	<i>Kurzemes prospekts 3, Riga, LV-1067</i>			
Telephone	<i>67418087</i>			
Postal address	<i>Kurzemes prospekts 3, Riga, LV-1067</i>			
Bank name and Company's bank accounts	<i>AS "SEB Latvijas Unibanka" LV57UNLA0050006466330 (LVL) LV55UNLA0050006466366 (EUR) LV32UNLA0050006466392 (USD)</i>			
Council members of the JSC				
Chairman of the Council	<i>Janis Salenieks</i>			
Council Member	<i>Jurijs Malejevs</i>			
Council Member	<i>Inga Spruga</i>			
Council Member	<i>Ausma Smiltniece</i>			
Council Member	<i>Vjaceslavs 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>01.01.2010</i>	<i>till</i>	<i>30.09.2010</i>
Previous reporting period	<i>from</i>	<i>01.01.2009</i>	<i>till</i>	<i>31.12.2009</i>
Chief Accountant	<i>Olga Romanko</i>		<i>67418087</i>	
Telephone:				
Auditor:	<i>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)</i>			

Management Report

Types of activities

During the 9 months of 2010, the main types of JSC "VEF Radiotehnika RRR" activities were:

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

All of the above-mentioned activities had been performed also in year 2010. New types of activities have not been performed.

Operation of the company in the reporting period

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

Result before extraordinary items and taxes:	28251 LVL
Other taxes:	-75464 LVL
Net result:	-47213 LVL

Net turnover for 2010 is 902885 Ls and has decrease by 5 % in comparison with 2009.

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

Current liabilities of the Company do not exceed current assets.

Total liabilities did not exceed total assets of the Company.

Company's profitability:

Gross profit margin (%)	-5.23
Operating profit margin (%)	9.52
Gross profit margin (%)	8.66

Financial profitability (%)

Return on capital	0.20
Return on equity	-2.37

Company's development activities

2010th to carry out more serious work and efforts in improving the work environment, as well as production technology improvement and competitiveness:

- 1) These are ongoing reconstruction works continued production of housing, I-2;
- 2) continued to grant aid funding, purchase of new technological equipment acquisition project "Audio production modernization and development within the framework;
- 3) The continued acquisition of obsolete hardware replacement and a new computerized job creation.

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

In 2010, the Company is planning to retain the current rate of sales growth, which shall be done by using the features of the new equipment to its full potential.

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

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

Member of the Board

Juris Voins

2010,30,11

Notification of management's responsibility

Company's management is responsible for the preparation of the financial statements for each reporting period on the basis of the accounting principles and which reflect true and fair view of the company's financial situation as well as operating results.

The management confirms that in preparation of the report for the period ended September 30, 2010, 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 activities.

Chairman of the Board

Eduards Maļejevs

Member of the Board

Juris Voins

Member of the Board

Gunars Lacis

2010,30,11

***PROFIT AND LOSS STATEMENT
 FOR THE PERIOD ENDED
 30.09.2010 (per turnover (period) costs method)***

	Note nr.	2010	2010	2009	2009
		LVL	EUR	LVL	EUR
Net turnover	1	902 886	1 284 691	953 258	1 356 364
Cost of sales	2	(824 661)	(1 173 387)	(970 735)	(1 381 231)
Gross profit or loss		78 225	111 304	(17 477)	(24 867)
Selling expenses	3	(24 453)	(34 793)	(20 411)	(29 042)
Administrative expenses	4	(135 667)	(193 037)	(217 090)	(308 891)
Other operating income	5	175 445	249 636	121 399	172 735
Other operating expenses	6	(7 639)	(10 869)	(27 271)	(38 803)
Interest income and similar income	7	5	7	16	23
Interest expense and similar expenses	8	(57 665)	(82 050)	(73 918)	(105 176)
Profit or loss before extraordinary items and taxes		28 251	40 198	(234 752)	(334 021)
Profit or loss after extraordinary items and before taxes		28 251	40 198	(234 752)	(334 021)
Deferred corporate income tax for the reporting period	9	-	-	-	-
Other taxes	10	(75 464)	(107 376)	(76 759)	(109 218)
Profit or loss for the period		(47 213)	(67 178)	(311 511)	(443 239)
Earnings per share (EPS coefficient)		<u>(0.019)</u>	<u>(0.026)</u>	<u>(0.122)</u>	<u>(0.174)</u>

Chairman of the Board

Eduards Maļejevs

Member of the Board

Juris Voins

Member of the Board

Gunars Lacis

2010,30,11

BALANCE SHEET as on 30.09.2010.

ASSETS	Note nr.	2010 LVL	2010 EUR	2009 LVL	2009 EUR
1. Non-current assets					
I. Intangible assets:					
Concessions, patents, licenses, trade marks and similar rights	11	492	700	672	956
Total intangible assets:		492	700	672	956
II. Fixed assets:					
Land, buildings and constructions		962 685	1 369 777	1 052 256	1 497 225
Equipment and vehicles		1 505 151	2 141 637	1 578 590	2 246 131
Other fixed assets		89 752	127 706	99 140	141 064
Construction of fixed assets and unfinished construction objects		38 052	54 143	38 052	54 143
Advance payments for fixed assets		-	-	-	-
Total fixed assets:	12	2 595 640	3 693 263	2 768 038	3 938 563
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		47 063	66 965	60 113	85 533
Total long-term financial investments:		47 583	67 705	60 633	86 273
Total non-current assets:		2 643 715	3 761 668	2 829 343	4 025 792
2. Current assets					
I. Inventory:					
Raw materials	13	272 795	388 152	328 032	466 747
Work in process	14	12 243	17 420	7 255	10 323
Finished goods	14	259 719	369 547	261 251	371 727
Advance payments for materials	15	66 665	94 856	61 174	87 043
Total inventory:		611 422	869 975	657 712	935 840
II. Sales-deferred long-term investments					
Total sales-deferred long-term investments:		-	-	-	-
III. Receivables:					
Trade receivables	16	481 935	685 732	481 474	685 076
Other receivables	17	155 344	221 035	118 205	168 191
Deferred expenses	18	1 198 892	1 705 870	1 217 876	1 732 881
Total receivables:		1 836 171	2 612 637	1 817 555	2 586 148
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	19	2 930	4 169	5 731	8 154
Total currents assets:		2 450 537	3 486 801	2 481 012	3 530 162
TOTAL ASSETS:		5 094 252	7 248 468	5 310 355	7 555 954

BALANCE SHEET as on 30.09.2010.

LIABILITIES AND SHAREHOLDERS' EQUITY	Note nr.	2010 LVL	2010 EUR	2009 LVL	2009 EUR
1. Shareholders' equity:					
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	- 370 188	- 526 730	- 392 949	- 559 116
b) current year profit/(loss)	21	- 47 213	- 67 178	- 311 511	- 311 511
Total shareholders' equity:		2 131 683	3 033 112	1 844 624	2 756 393
2. Provisions:					
Total provisions:		18 524	90 765	63 790	90 765
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	51 774	73 668	66 151	94 124
Deferred income	24	228 144	324 620	409 491	582 653
Deferred tax liabilities	25		-		-
Total non-current liabilities:		1 802 126	2 564 195	2 105 109	2 995 300
II. Current liabilities:					
Loans from lending institutions	26	145 431	206 930	318 059	452 557
Other loans	27	38 503	54 785	67 925	96 649
Advances from customers	28	9 541	13 576	50 634	72 046
Trade accounts payable	29	495 374	704 854	463 920	660 099
Taxes and social security liabilities	30	320 537	456 083	240 971	342 871
Other liabilities	31	68 904	98 042	83 659	119 036
Deferred income	32	45 338	64 510	60 449	86 011
Accrued liabilities	33	18 292	26 027	11 215	15 958
Total current liabilities:		1 141 920	1 624 807	1 296 832	1 845 227
Total liabilities:		2 944 046	4 189 002	3 401 941	4 840 527
TOTAL LIABILITIES :		5 094 252	7 248 468	5 310 355	7 555 954

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

Member of the Board

Juris Voins

2010,30,11

JSC "VEF Radiotehnika RRR"
unified Reg.Nr.40003286712

Financial Statements for the period from 01.01.2006 to 31.12.2006.

CASH FLOW STATEMENT FOR THE PERIOD ENDED

30.09.2010 (per indirect method)

I. Cash flow from operating activity

Profit or loss before extraordinary items and taxes

Adjustments for:

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
	28 251	40 198	- 234 752	- 334 022
a) depreciation of fixed assets	137 716	195 952	229 330	326 307
b) depreciation of non material assets.	42	60	451	642
d) gains or losses from foreign currency exchange rate	6 025	8 573	4 732	6 733
d) Profit or loss from the exchange rate fluctuations	(136 010)	(193 525)	(120 898)	(172 022)
f) income from subsidies, grants, gifts or donations	(5)	(7)	(16)	(23)
g) other income from interest or similar income	(28 173)	(40 087)	(258)	(367)
h) profit/loss from sale of fixed assets	57 665	82 050	73 918	105 176
i) interest payments and similar activities	(75 464)	(107 376)	(76 759)	(109 218)
k) other taxes				
<i>Profit or loss before current assets and short-term liabilities corrections</i>	(9 953)	(14 161)	(124 252)	(176 795)

Adjustments for:

a) trade receivables increase (-) or decrease (+)	170 497	242 595	95 369	135 698
b) inventory increase (-) or decrease (+)	61 775	87 898	70 806	100 748
c) accounts payable to suppliers and other creditors increase (+) or decrease (-)	101 329	144 178	187 166	266 313

Gross cash flow from operating activities

Interest payments	(57 665)	(82 050)	(73 918)	(105 176)
Cash flow before extraordinary items	265 983	378 460	155 171	220 788
Net cash flow from operating activity	265 983	378 460	155 171	220 788

II. Cash flow from investing activities

Acquisition of fixed assets	(28 827)	(41 017)	(1 874)	(2 666)
Income from fixed assets sale	28 173	40 087	3 355	4 774
Interest received	5	7	16	23
Net cash flow from investing activities	(649)	(923)	1 497	2 130

III. Cash flow from financing activities

Ieņēmumi no akciju un obligāciju emisijas vai kapitāla līdzdalīb. daļu ieguldījumiem

Loans received	-	-	-	-
Received subsidies, grants, gifts or donations	17 375	24 722	17 127	24 370
Loans repaid	-	-	-	-
Rented asset buyout expenses	(264 327)	(376 103)	(138 976)	(197 745)
Interest paid	(21 183)	(30 141)	(32 618)	(46 411)
Net cash flow from financing activities	(268 135)	(381 522)	(154 467)	(219 787)

IV. Foreign exchange rate differences

V. Net cash flow for the year (2 801) (3 985) 2 201 3 132

VI. Cash and cash equivalents at the beginning of the period 5 731 8 154 3 530 5 023

VII. Cash and cash equivalents at the end of the period 2 930 4 169 5 731 8 154

Chairman of the Board

Member of the Board

Member of the Board

2010,30,11

Eduards Malejevs

Gunars Lacis

Juris Voins

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR 2010 9 months Report

	Subscribed share capital	Investment revaluation reserve	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, 2008	2 549 084			16 684	- 409 633	2 156 135
Profit carried over				- 16 684	16 684	
Profit for the year				22 760		22 760
Balance as on December 31, 2009	2 549 084	-	-	22 760	- 392 949	2 178 895
Profit carried over				- 16 684		
Profit for the year				- 47 213		- 47 213
Balance as on December 31, 2010	2 549 084	-	-	- 41 137	- 392 949	2 131 682

	Subscribed share capital	Investment revaluation reserve	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, 2008	3 627 020			56 637	- 904 369	2 779 288
Profit carried over				- 23 739	23 739	
Profit for the year				32 385		32 385
Balance as on December 31, 2009	3 627 020	-	-	65 283	- 880 630	2 811 673
Profit carried over				- 23 739		
Profit for the year				- 67 178		- 67 178
Balance as on September 30, 2009	3 627 020			- 58 533	- 535 377	3 033 110

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

Member of the Board

Juris Voins

2010.30.11

Notes to the Financial Statements

1. Accounting Policies

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

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 01.01.2010. to 30.09.2010

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:

	30.09.2010	30.09.2009	31.12.2008
USD	0.517	0.489	0.495
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

JSC "VEF Radiotehnika RRR"
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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	40214.00	%
* 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

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.

Financial Statements for the period from 01.01.2006 to 31.12.2006.

The debtor and creditor mutual reconciliation has been performed with mutual reconciliation acts.

Differences, discovered during comparison of accounting data are to be resolved in the annual report for the reporting year.

Net turnover

Turnover is the total of goods sold during the year less Value Added Tax.

Income and expenses acknowledgement

1. Income from sale of goods is recognised when the transaction complies with the following requirements:

- a) The Company has handed over to the buyer distinctive risks and rewards together with ownership rights of the goods;
- b) The Company no longer executes holding rights or control related to the ownership rights over the goods sold;
- c) can credibly evaluate the income amount;
- d) it is believed that as a result of the transaction, the Company will receive commercial benefits;
- e) can credibly evaluate costs arisen or arising related to the transaction.

Sale of goods is reflected, considering transaction's economic nature, not only legal form.

2. Result of the service supply transaction can credibly calculate, if the following conditions are met:

- a) can credibly evaluate the income amount;
- b) it is believed that as a result of the transaction, the Company will receive commercial benefits;
- c) can credibly evaluate, what is service supply volume in percentage at the Balance Sheet date;
- d) can credibly evaluate costs arisen or arising related to the transaction.

3. Incomes which arise if other parties use Company's assets and thus receive interest, royalties or dividends, can be recognised using the following methods, if:

- a) it is believed that as a result of the transaction, the Company will receive commercial benefits;
- b) can credibly evaluate the income amount;

Incomes are recognised, using the following methods:

- * interest, based on the proportional division of time, taking into account actual profitability;
- * royalties are recognised in accordance with accumulation principle in connection with the corresponding agreement;
- * dividends are recognised when the Company has legal grounds to receive them.

4. Incomes from rent - at the moment of coming into existence;

All significant cost items are processed per accumulation principle.

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

Reserves are formed in order to cover certain liabilities, which are related to the reporting period or previous periods, can be foreseen at the time of preparation of the Annual Report or known not to exceed these amounts. The level of the reserves is set in accordance with the methods, adopted by the Company.

Provisions for unused vacations

Amount of the provisions is calculated by dividing the total salaries for 2006 by 12 months.

Loans received and loans issued

Loans received and loans issued are initially shown in their original amount, which is stated in corresponding Loan Agreement at the transaction date.

Amounts of loans issued from the lending institutions are to be compared with the written statements with acceptance from lending institutions at the end of the reporting year. For loans received in foreign currency, the remaining principal amount is calculated per Bank of Latvia exchange rate on the last day of the reporting year.

Deferred Liabilities

All invoices, received or issues after the reporting year yet related to the expenses which have arisen during the reporting year,

the costs of which are known at the end of the reporting year, are treated as deferred liabilities.
Deferred liabilities are shown in the Balance Sheet in a separate row.

Taxes

Corporate Income Tax for the reporting year is included in the Financial Statements, based on the known tax rates at the date of the Balance Sheet, in accordance with calculations performed in compliance with the tax legislation of the Republic of Latvia.

Deferred tax is calculated in accordance with the liabilities method in relation to all temporary discrepancies between assets and liability amounts in the Financial Statements and their values for the purpose of tax calculations. Tax rate used for calculation of deferred tax, is a rate which is expected to be during the period in which the temporary discrepancies are resolved based on the tax rates effective on the date of the Balance Sheet. Temporary discrepancies mainly arise due to usage of different fixed asset depreciation rates, as well as from tax losses, which are transferred to the future taxation periods.

The total deferred tax result is shown in the Asset part of the Balance Sheet and is to be entered in the Financial Statements only in cases when the return of the tax is definite.

The reconciliation of tax liability data with State Revenue Service is performed.

Calculations

Preparation of the Financial Statements Management is basing on the known calculations and approaches, which affect certain definitions and amounts in the Financial Statements. Thus actual results may differ from these calculations.

Legislation of the Republic of Latvia states that when preparing Financial Statements, Company's management has to evaluate and to draft assumptions, which affect both Balance Sheet and off-Balance Sheet assets and liabilities on the Balance Sheet date, as well as shown incomes and expenses for the reporting period. Actual results may differ from these assumptions (for example, deferred Corporate Income Tax liabilities, vacation provisions etc).

Possible liabilities and assets

In these Financial Statements possible liabilities are not displayed but are reflected in the Notes to Financial Statements. As liabilities are recognised only when, if possibility that the funds will be paid out becomes founded. Possible assets in these Financial Statements are not recognised. Possible assets are shown in the Financial Statements only when there is enough proof that the economical benefits will reach the company.

Events after the end of the reporting year

Certain events which give additional information about Company's financial standing at the Balance Sheet date (correcting factors) have been considered during the preparation of the Financial Statements. If post Balance Sheet date events are not correcting factors, they are included in the Financial Statements only if they are substantial.

Related parties

The following sides are treated as "related parties": shareholders of the Company, Board Members, their close family members and companies which are under control or significant influence to the aforementioned related parties.

Reclassification of subjects (items)

In 2010, due to changes in legislation and opinion of management, no changes have been made in classification of items in comparison with 20

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	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Income from export sale of finished goods	319 382	454 440	258 456	367 750
Income from rent of premises	211 978	301 618	304 430	433 165
Income from sale of finished goods in the local market	90 965	129 432	141 872	201 866
Income from utility services	232 534	330 866	244 561	347 979
Income from sale of materials	48 027	68 336	3 939	5 605
Total	902 886	1 284 692	953 258	1 356 365

Note Nr. 2

Cost of goods sold

Costs of production or purchasing in order to perform sale of goods or supply of services

Cost type

Cost type	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Personnel costs	54 578	77 657	192 625	274 081
Depreciation of fixed assets	55 938	79 593	78 841	112 181
Depreciation of fixed assets (project 124000075)	81 820	116 419	150 940	214 768
Write-off of cost of turnaround means	9 594	13 651	9 594	13 651
Changes in finished goods inventory	211 916	301 529	50 389	71 697
Changes in purchased materials and goods inventory	76 420	108 736	87 459	124 443
Services for productions	24 897	35 425	38 379	54 608
Ongoing maintenance and repair	15 973	22 728	24 971	35 531
Real estate property maintenance	281 828	401 005	327 572	466 093
Other costs	11 697	16 643	9 965	14 179
Total	824 661	1 173 386	970 735	1 381 232

Notes to the Profit and Loss statement entries (continued)

Note Nr. 3

Sales costs

Cost type

Cost type	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Goods' transport costs	21 897	31 157	15 942	22 683
Sales costs	1 705	2 426	3 841	5 465
Advertising costs	851	1 211	628	894
Total	24 453	34 794	20 411	29 042

Note Nr. 4

Administrative costs

Cost type

Cost type	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Personnel costs	85 855	122 161	169 263	240 840
Representation costs	904	1 286	1 790	2 547
Office expenses	2 290	3 258	4 032	5 737
Communication expenses	7 020	9 989	10 320	14 684
Bank expenses	6 649	9 461	2 851	4 057
Transport costs	8 174	11 631	12 846	18 278
Accounting and legal expenses	18 339	26 094	1 752	2 493
Other administrative costs	6 436	9 158	14 236	20 256

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	Total	135 667	193 038	217 090	308 892

Note Nr. 5

Other incomes from operating activity

Type on income	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Income from privatisation certificates	-	-	-	-
Receivables from grant financing (project 124000075)	136 010	193 525	120 898	172 022
Sale of fixed assets (neto income0)	28 173	40 087	258	367
Other income	11 262	16 024	243	346
Total	175 445	249 636	121 399	172 735

Note Nr. 6

Other incomes/expenses from operating activity

Type of income/expense	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Difference in currency rates	-	-	5 593	7 958
Fines	7 389	10 514	9 541	13 576
Other expenses *	250	356	12 137	17 269
Total	7 639	10 870	27 271	38 803

Note Nr. 7

Other interest and similar income

Type of income	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Interest received on account balances	5	7	16	23
Total	5	7	16	23

Notes to the Profit and Loss statement entries (continued)

Note Nr. 8

Other interest and similar expenses

Type of expense	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Interest paid on loans	57665	82 050	73918	105 176
Total	57 665	82 050	73 918	105 176

Note Nr. 9

Deferred Corporate Income Tax

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Total:	-	-	-	-

Note Nr. 10

Other taxes

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Real estate tax for land	8 959	12 748	7 440	10 586
Real estate tax for buildings and constructions	66 505	94 628	69 319	98 632
Total:	75 464	107 376	76 759	109 218

Notes to the Financial Statements

Notes to the Balance Sheet as on September 30, 2010.

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						
31.12.2009.	7 363	-	-	-	7 363	10 477
Purchased	-	-	-	-	-	-
Relocated	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
30.09.2010.	7 363	-	-	-	7 363	10 477
Depreciation						
31.12.2009.	6 828	-	-	-	6 828	9 715
Calculated	42	-	-	-	42	60
Written-off	-	-	-	-	-	-
30.09.2010.	6 870	-	-	-	6 870	9 775
Net book value						
31.12.2009.	535	-	-	-	535	761
Net book value						
30.09.2010.	493	-	-	-	493	701

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

12. Fixed Assets

	Land	Buildings and constructions	Technological equipment	Other fixed assets	Total LVL	Total EUR
Historical cost						
31.12.2009.	428 034	1 002 296	641 893	297 848	2 370 071	3 372 307
Purchased	28 827			14 359	43 186	61 448
Written-off			-	-	-	-
30.09.2010.	456 861	1 002 296	641 893	312 207	2 413 257	3 433 755
Depreciation						
31.12.2009.	-	432 831	334 879	201 707	969 417	1 379 356
Calculated		5 988	29 160	20 748	55 896	79 533
Written-off	57 653		-	-	57 653	82 033
30.09.2010.	57 653	438 819	364 039	222 455	1 082 966	1 540 922
Net book value						
31.12.2009.	428 034	569 465	307 014	96 141	1 400 654	1 992 951
Net book value						
30.09.2010.	399 208	563 477	277 854	89 752	1 330 291	1 892 834

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Notes to the Balance Sheet (continued)

	Technological equipment (project 124000075)	Pre-payments for fixed assets (project 124000075)	Pre-payments for fixed assets	construction of fixed assets	Total LVL	Total EUR
Historical cost						
31.12.2009.	1 827 372	-	-	38 052	1 865 424	2 654 259
Purchased	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
30.09.2010.	1 827 372	-	-	38 052	1 865 424	2 654 259
Depreciation						
31.12.2009.	518 255	-	-	-	518 255	518 255
Calculated	81 820	-	-	-	81 820	116 419
Written-off	-	-	-	-	-	-
30.09.2010.	600 075	-	-	-	600 075	853 830
Net book value						
31.12.2009.	1 309 117	-	-	38 052	1 347 169	1 916 849
Net book value						
30.09.2010.	1 227 297	-	-	38 052	1 265 349	1 800 429

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

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Raw materials	178 683	254 243	212 142	301 851
Inventory in use	94 112	133 909	115 890	164 897
	272 795	388 152	328 032	466 748

14. Stock

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Unfinished goods	12 243	17 420	7 255	10 323
finished goods and goods in warehouse	259 719	369 547	261 251	371 727
Total	271 962	386 967	268 506	382 050

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15. Advance payments for goods	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Advance payments for materials	15 760	22 424	17 450	24 829
Advance payments to non-residents	50 905	72 431	43 724	62 214
Goods in bonded storage		-		-
Total	66 665	94 855	61 174	87 043

16. Trade receivables	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Receivables (non-residents)	213 499	303 782	275 539	392 057
Receivables (residents)	268 436	381 950	205 935	293 019
Book value of purchases and customers, total	481 935	685 732	481 474	685 076
Provisions for doubtful debts	-	-	-	-
Net trade receivables, total	481 935	685 732	481 474	685 076

17. Other receivables	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
VAT confirmed (unpaid invoices)	676	962	1 917	2 728
Settlements with employees	101 238	144 049	63 800	90 779
Tax pre-payments for customs procedures	101	144	3 683	5 240
Loans to employees	5 094	7 248	5 094	7 248
Other loans	45 947	65 377	42 175	60 010
Others	2 288	3 256	1 536	2 186
Total	155 344	221 036	118 205	168 191

18. Deferred expenses	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Insurance expenses	3 387	4 819	3 355	4 774
Expenses for repairs of buildings and premises	592	842	8 387	11 934
Expenses for implementation of project Nr.124000075	281 676	400 789	295 393	420 306
Expenses for reconstruction of block I-2	912 980	1 299 054	909 478	1 294 071
Other expenses	257	366	1 263	1 797
Total	1 198 892	1 705 870	1 217 876	1 732 882

19. Cash and cash equivalents	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Cash on hand	314	447	50	71
Cash in bank accounts	2 616	3 722	5 681	8 083
Total	2 930	4 169	5 731	8 154

Notes to the Balance Sheet (continued)

20. Information about company's share capital

On 30.09.2010 company's share capital consisted of 2549084 registered and fully paid shares with nominal value of 1 Ls. Large shareholders of JSC "VEF Radiotehnika RRR" are:

Shareholders	Number of shares		Value			
			LVL		EUR	
	2010.09.30.	2009.12.31.	2010.09.30.	2009.12.31.	2010.09.30.	2009.12.31.

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Baltlains Intern Ltd.	1270612	1270612	1270612	1270612	1807918	1807918
State Social Security A	192694	192694	192694	192694	274179	274179
Eduards Malejevs	423559	423559	423559	423559	602670	602670
Jurijs Malejevs	421871	421871	421871	421871	600268	600268
Others (<5%)	240348	240348	240348	240348	341984	341984
Total:	2549084	2549084	2549084	2549084	3627020	3627020

21. Retained earnings/losses

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

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Previous years' retained earnings/losses	-370 188 -	526 730	-392 949 -	559 116
Current year profit/loss	-47 213 -	67 178	-311 511 -	443 240
Total	- 417 401 -	593 908 -	704 460 -	1 002 356

22. Long-term loans from lending institutions

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Loan from JSC SEB Banka (EUR)	1 522 208	2 165 907	1 629 467	2 318 523
Total	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)

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Financial lease from SIA Parex Lizins un Faktoring	31 273	44 497	43 287	61 592
Financial lease from SIA Nord/LB Lizings (EUR)	15 019	21 370	11 403	16 225
Financial lease from SIA SEB lizings (EUR)	5 482	7 800	11 461	16 308
Total	51 774	73 667	66 151	94 125

24. Deferred income (long-term)

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Income from grant financing (project Nr.124000075)	228 144	324 620	409 491	582 653
Total	228 144	324 620	409 491	582 653

26. Short-term loans from lending institutions

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Credit line from JSC SEB Banka (LVL)			-	199 951
Loan from JSC SEB Banka (EUR)	145 431	206 930	118 108	168 053
Total	145 431	206 930	318 059	452 558

In accordance with Loan Agreement Nr.KD04277 from 24.11.2005, obligations are secured with primary pledge of the real estate property located in Riga at the address Kurzemes prospekts 3 (Landbook section Nr.18732) and primary commercial pledge on fixed assets, purchased under Project Nr.124000075 for the amount of 1813461 LVL.

In accordance with Credit Lina Agreement Nr.KD06369 from 17.11.2006, obligations are secured with Commercial Pledge on reserves and claim rights as a whole. Maximum amount of claim is 260000 LVL.

27. Other loans (short-term)

	2010	2010	2009	2009
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	LVL	EUR	LVL	EUR
Financial lease from SIA Parex Līzins un Faktoring	4 904	6 978	2 733	3 889
Financial lease from SIA Nord/LB Līzings (EUR)	4 500	6 403	3 348	4 764
Financial lease from SIA SEB līzings (EUR)	979	1 393	1 824	2 595
Faktoring SIA SEB līzings (EUR)		-	43 715	62 201
Other loans	28 120	40 011	16 305	23 200
Total	38 503	54 785	67 925	96 649
28. Advances from customers	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Advances from non-residents	2 281	3 246	920	1 309
Advances from residents	7 260	10 330	49 714	70 737
Total	9 541	13 576	50 634	72 046
29. Due to suppliers and providers (short-term)	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Trade accounts payable to non-residents	46 508	66 175	62 463	88 877
Trade accounts payable to residents	448 866	638 679	401 457	571 222
Total	495 374	704 854	463 920	660 099

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Notes to the Balance Sheet (continued)

30. Taxes and social insurance payments	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Personal Income Tax	51 825	73 740	46 874	66 696
State Social Insurance payments	108 691	154 653	80 847	115 035
Value Added Tax	19 456	27 683	31 433	44 725
Real estate tax for building and constructions	140 504	199 919	81 774	116 354
Corporate risk tax	61	87	43	61
Total	320 537	456 082	240 971	342 871

31. Other liabilities	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Salaries	55 034	78 306	59 443	84 580
Deposits	13 870	19 735	24 173	34 395
Other creditores		-	43	61
Total	68 904	98 041	83 659	119 036

32. Deferred income (short-term)	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Income from grant financing (project Nr.124000075)	45 338	64 510	60 449	86 011
Total	45 338	64 510	60 449	86 011

33. Accumulated obligated	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Current expense	18 292	26 027	11 215	15 958
Total	18 292	26 027	11 215	15 958

2010,30,11

Notes to the Financial Statements

General Notes

1. Average number of employees during the year

Average number of employees during the year

Year 2010	Year 2009
68	122

2. Total personnel costs

- salaries
- Social security payments
- Corporate risk tax

2010	2010	2009	2009
LVL	EUR	LVL	EUR
140 487	199 895	362 335	515 556
113 069	160 883	293 307	417 338
27 299	38 843	68 754	97 828
119	169	274	390

- including:

Management salaries

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

20 062	28 546	23 225	33 046
6 170	8 779	4 844	6 892
7	10	7	10
26 239	37 335	28 076	39 948

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