

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

**Main activities:**  
**production**

**Measurement units: Ls (LVL)**

## ***2010 Annual Report***

**Submission date:** \_\_\_\_\_

**Date of receipt:** \_\_\_\_\_

*Riga, Latvia*

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**INFORMATION about the COMPANY**

**Full name of the Company** *JSC "VEF Radiotehnika RRR"*

**Legal status of the Company** *Public Joint-Stock Company*

**Unified Registration Nr., place and date of issue datums** *4003286712  
11.12.1998*

**Legal address of the Company** *Kurzemes prospekts 3, Riga, LV-1067*  
**Telephone** *67418087*  
**Postal address** *Kurzemes prospekts 3, Riga, LV-1067*

**Bank name and Company's bank accounts** *AS "SEB Latvijas Unibanka"  
LV57UNLA0050006466330 (LVL)  
LV55UNLA0050006466366 (EUR)  
LV32UNLA0050006466392 (USD)*

**Council members of the JSC**  
Chairman of the Council *Janis Salenieks*  
Council Member *Jurijis Malejevs*  
Council Member *Inga Spruga*  
Council Member *Ausma Smiltiece*  
Council Member *Vjačeslavs Mihailovins*

**Boar members of the JSC**  
Chairman of the Board *Eduards Malejevs*  
Board Member *Gunars Lacis*

**Reporting year** *from 01.01.2010 till 31.12.2010*

**Previous reporting period** *from 01.01.2009 till 31.12.2009*

**Chief Accountant** *Olga Romanko*

**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**

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### **Types of activities**

During the 12 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 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 2010. 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 2010 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: | 125968 LVL |
| Deferred corporate income tax:                            | 0 LVL      |
| Other taxes:  | -99819 LVL |
| Net result:   | 26149 LVL  |

Net turnover for the year 2010 is 22887695Ls and has grown by 10,3 % in comparison with 2009. 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 (%)     | 2.16 |
| Operating profit margin (%) | 16.8 |
| Gross profit margin (%)     | 6.95 |

#### **Financial profitability (%)**

|                   |      |
|-------------------|------|
| Return on capital | 1.96 |
| Return on equity  | 1.19 |

A number of major works and activities on improvement of working environment, production technology and competitiveness have been performed in 2010:

- 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 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.

**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**

February 28, 2011

**Annual report accepted at the Shareholders' Meeting on April 30, 2010**

***Notification of management's responsibility***

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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, 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

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**

**Gunars Lacis**

February 28, 2011

**PROFIT AND LOSS STATEMENT**  
**FOR THE PERIOD ENDED**  
 31.12.2010 (per turnover (period) costs method)

|  | Note | 2010           | 2010           | 2009           | 2009           |
|--|------|----------------|----------------|----------------|----------------|
|  | nr.  | LVL            | EUR            | LVL            | EUR            |
| Net turnover   | 1    | 1 208 962      | 1 720 198      | 1 347 232      | 1 916 938      |
| Cost of sales  | 2    | (1 124 881)    | (1 600 561)    | (1 143 198)    | (1 626 624)    |
| <b>Gross profit or loss</b>                                      |      | <b>84 081</b>  | <b>119 637</b> | <b>204 034</b> | <b>290 314</b> |
| Selling expenses   | 3    | (64 869)       | (92 300)       | (33 907)       | (48 245)       |
| Administrative expenses  | 4    | (236 905)      | (337 085)      | (264 036)      | (375 689)      |
| Other operating income   | 5    | 464 014        | 660 232        | 379 930        | 540 592        |
| Other operating expenses   | 6    | (43 204)       | (61 474)       | (51 089)       | (72 693)       |
| Interest income and similar income                               | 7    | 6              | 9              | 18             | 26             |
| Interest expense and similar expenses                            | 8    | (77 155)       | (109 782)      | (96 795)       | (137 727)      |
| <b>Profit or loss before extraordinary items and taxes</b>       |      | <b>125 968</b> | <b>179 237</b> | <b>138 155</b> | <b>196 578</b> |
| <b>Profit or loss after extraordinary items and before taxes</b> |      | <b>125 968</b> | <b>179 237</b> | <b>138 155</b> | <b>196 578</b> |
| Deferred corporate income tax for the reporting period           | 9    | -              | -              | (13 050)       | (18 568)       |
| Other taxes  | 10   | (99 819)       | (142 030)      | (102 345)      | (145 624)      |
| <b>Profit or loss for the period</b>                             |      | <b>26 149</b>  | <b>37 207</b>  | <b>22 760</b>  | <b>32 386</b>  |
| Earnings per share (EPS coefficient)                             |      | 0.010          | 0.015          | 0.0089         | 0.0127         |

Chairman of the Board

Eduards Malejevs

Gunars Lacis

February 28, 2011

**BALANCE SHEET as on 31.12.2010.**

| <b>ASSETS</b>  |    | Note<br>nr.      | 2010<br>LVL      | 2010<br>EUR      | 2009<br>LVL      | 2009<br>EUR |
|--|----|------------------|------------------|------------------|------------------|-------------|
| <b>I. Non-current assets</b>                                     |    |                  |                  |                  |                  |             |
| <b>I. Intangible assets:</b>                                     |    |                  |                  |                  |                  |             |
| Concessions, patents, licenses, trade marks and similar rights   | 11 | 177              | 252              | 534              | 760              |             |
| <b>Total intangible assets:</b>                                  |    | <b>177</b>       | <b>252</b>       | <b>534</b>       | <b>760</b>       |             |
| <b>II. Fixed assets:</b>   |    |                  |                  |                  |                  |             |
| Land, buildings and constructions                                |    | 953 830          | 1 357 178        | 997 499          | 1 419 313        |             |
| Equipment and vehicles   |    | 1 465 889        | 2 085 772        | 1 616 132        | 2 299 549        |             |
| Other fixed assets   |    | 82 770           | 117 771          | 96 141           | 136 796          |             |
| Construction of fixed assets and unfinished construction objects |    | 38 052           | 54 143           | 38 052           | 54 143           |             |
| Advance payments for fixed assets                                |    | -                | -                | -                | -                |             |
| <b>Total fixed assets:</b>                                       | 12 | <b>2 540 541</b> | <b>3 614 864</b> | <b>2 747 824</b> | <b>3 909 801</b> |             |
| <b>III. Investment properties</b>                                |    |                  |                  |                  |                  |             |
| <b>Total investment properties:</b>                              |    | -                | -                | -                | -                |             |
| <b>IV. Biological assets</b>                                     |    |                  |                  |                  |                  |             |
| <b>Total biological assets</b>                                   |    | -                | -                | -                | -                |             |
| <b>V. Long-term financial investments:</b>                       |    |                  |                  |                  |                  |             |
| Other loans and other long-term debtors                          |    | 520              | 740              | 520              | 740              |             |
| Deferred taxation assets   |    | 47 063           | 66 965           | 47 063           | 66 965           |             |
| <b>Total long-term financial investments:</b>                    |    | <b>47 583</b>    | <b>67 705</b>    | <b>47 583</b>    | <b>67 705</b>    |             |
| <b>Total non-current assets:</b>                                 |    | <b>2 588 301</b> | <b>3 682 821</b> | <b>2 795 941</b> | <b>3 978 266</b> |             |
| <b>2. Current assets</b>   |    |                  |                  |                  |                  |             |
| <b>I. Inventory:</b>   |    |                  |                  |                  |                  |             |
| Raw materials  | 13 | 244 987          | 348 585          | 304 668          | 433 504          |             |
| Work in process  | 14 | 12 090           | 17 203           | 12 246           | 17 424           |             |
| Finished goods   | 14 | 265 182          | 377 320          | 280 409          | 398 986          |             |
| Advance payments for materials                                   | 15 | 86 479           | 123 049          | 75 874           | 107 959          |             |
| <b>Total inventory:</b>  |    | <b>608 738</b>   | <b>866 157</b>   | <b>673 197</b>   | <b>957 873</b>   |             |
| <b>II. Sales-deferred long-term investments</b>                  |    |                  |                  |                  |                  |             |
| <b>Total sales-deferred long-term investments:</b>               |    | -                | -                | -                | -                |             |
| <b>III. Receivables:</b>   |    |                  |                  |                  |                  |             |
| Trade receivables  | 16 | 540 919          | 769 658          | 662 676          | 942 903          |             |
| Other receivables  | 17 | 139 096          | 197 916          | 125 606          | 178 721          |             |
| Deferred expenses  | 18 | 1 190 959        | 1 694 582        | 1 219 931        | 1 735 805        |             |
| <b>Total receivables:</b>  |    | <b>1 870 974</b> | <b>2 662 156</b> | <b>2 008 213</b> | <b>2 857 429</b> |             |
| <b>IV. Short-term financial investments:</b>                     |    |                  |                  |                  |                  |             |
| Other securities and capital participation                       |    | 14               | 20               | 14               | 20               |             |
| <b>Total short-term financial investments:</b>                   |    | <b>14</b>        | <b>20</b>        | <b>14</b>        | <b>20</b>        |             |
| <b>V. Cash</b>   | 19 | <b>368</b>       | <b>524</b>       | <b>2 592</b>     | <b>3 688</b>     |             |
| <b>Total currents assets:</b>                                    |    | <b>2 480 094</b> | <b>3 528 857</b> | <b>2 684 016</b> | <b>3 819 010</b> |             |
| <b>TOTAL ASSETS:</b>   |    | <b>5 068 395</b> | <b>7 211 676</b> | <b>5 479 957</b> | <b>7 797 276</b> |             |



**BALANCE SHEET as on 31.12.2010.**

| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>        |  | Note<br>nr. | 2010             | 2009             | 2009             | 2008             |
|--|--|-------------|------------------|------------------|------------------|------------------|
|  |  |             | LVL              | EUR              | LVL              | EUR              |
| <b>1. Shareholders' equity:</b>                    |  |             |                  |                  |                  |                  |
| 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          | 26 149           | 37 207           | 22 760           | 32 385           |
| <b>Total shareholders' equity:</b>                 |  |             | <b>2 205 045</b> | <b>3 137 497</b> | <b>2 178 895</b> | <b>3 100 289</b> |
| <b>2. Provisions:</b>                              |  |             |                  |                  |                  |                  |
| <b>Total provisions:</b>                           |  |             | <b>18 524</b>    | <b>26 357</b>    | <b>18 524</b>    | <b>26 357</b>    |
| <b>3. Liabilities:</b>                             |  |             |                  |                  |                  |                  |
| <b>I. Non-current liabilities:</b>                 |  |             |                  |                  |                  |                  |
| Loans from lending institutions                    |  | 22          | 1 522 208        | 2 165 907        | 1 522 208        | 2 165 907        |
| Other loans  |  | 23          | 48 713           | 69 312           | 36 756           | 52 299           |
| Deferred income                                    |  | 24          | 228 144          | 324 620          | 228 144          | 324 620          |
| <b>Total non-current liabilities:</b>              |  |             | <b>1 799 065</b> | <b>2 559 839</b> | <b>1 787 108</b> | <b>2 542 826</b> |
| <b>II. Current liabilities:</b>                    |  |             |                  |                  |                  |                  |
| Loans from lending institutions                    |  | 25          | 128 564          | 182 930          | 394 822          | 561 781          |
| Other loans  |  | 26          | 28 264           | 40 216           | 63 235           | 89 975           |
| Advances from customers                            |  | 27          | 20 221           | 28 772           | 2 393            | 3 405            |
| Trade accounts payable                             |  | 28          | 512 670          | 729 464          | 444 241          | 632 098          |
| Taxes and social security liabilities              |  | 29          | 275 983          | 392 688          | 281 883          | 401 083          |
| Other liabilities                                  |  | 30          | 54 647           | 77 756           | 89 646           | 127 555          |
| Deferred income                                    |  | 31          | 1                | 1                | 181 347          | 258 034          |
| Accrued liabilities                                |  | 32          | 25 411           | 36 157           | 37 863           | 53 874           |
| <b>Total current liabilities:</b>                  |  |             | <b>1 045 761</b> | <b>1 487 984</b> | <b>1 495 430</b> | <b>2 127 804</b> |
| <b>Total liabilities:</b>                          |  |             | <b>2 844 826</b> | <b>4 047 823</b> | <b>3 282 538</b> | <b>4 670 630</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:</b> |  |             | <b>5 068 395</b> | <b>7 211 676</b> | <b>5 479 957</b> | <b>7 797 276</b> |

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

February 28, 2011

**CASH FLOW STATEMENT FOR THE PERIOD ENDED**  
**31.12.2010 (per indirect method)**

**I. Cash flow from operating activity**

|  | <b>2010</b>      | <b>2010</b>      | <b>2009</b>      | <b>2009</b>      |
|--|------------------|------------------|------------------|------------------|
|  | <b>LVL</b>       | <b>EUR</b>       | <b>LVL</b>       | <b>EUR</b>       |
| <b>Profit or loss before extraordinary items and taxes</b>                         | 125 968          | 179 236          | 138 155          | 196 577          |
| <b>Adjustments for:</b>  |                  |                  |                  |                  |
| a) depreciation of fixed assets  | 185 958          | 264 594          | 189 301          | 269 351          |
| b) amortisation of goodwill  | 357              | 508              | 588              | 837              |
| c) provisions (except for provisions for bad debts)                                |                  | -                | (45 266)         | (64 408)         |
| d) Profit or loss from the exchange rate fluctuations                              | 508              | 723              | 2 256            | 3 210            |
| e) iegēmumi no līdzdalības koncerna meitas un asociēto sabiedrību kapitālos        |                  | -                |                  | -                |
| f) income from subsidies, grants, gifts or donations                               | (181 347)        | (258 034)        | (181 347)        | (258 034)        |
| g) other income from interest or similar income                                    | (6)              | (9)              | (18)             | (26)             |
| h) profit/loss from sale of fixed assets   | (230 743)        | (328 318)        | (197 080)        | (280 420)        |
| i) interest payments and similar activities  | 77 155           | 109 782          | 96 795           | 137 727          |
| k) other taxes   | (123 671)        | (175 968)        | (32 484)         | (46 221)         |
| <b>Profit or loss before current assets and short-term liabilities corrections</b> | <b>(145 821)</b> | <b>(207 485)</b> | <b>(29 100)</b>  | <b>(41 405)</b>  |
| <b>Adjustments for:</b>  |                  |                  |                  |                  |
| a) trade receivables increase (-) or decrease (+)                                  | 108 267          | 154 050          | (92 308)         | (131 342)        |
| b) inventory increase (-) or decrease (+)  | 64 459           | 91 717           | 53 646           | 76 331           |
| c) accounts payable to suppliers and other creditors increase (+) or decrease (-)  | 95 900           | 136 453          | 143 249          | 203 825          |
| <b>Gross cash flow from operating activities</b>                                   | <b>122 805</b>   | <b>174 735</b>   | <b>75 487</b>    | <b>107 408</b>   |
| Interest payments  | (77 155)         | (109 782)        | (96 907)         | (137 886)        |
| <b>Cash flow before extraordinary items</b>  | <b>45 650</b>    | <b>64 954</b>    | <b>(21 420)</b>  | <b>(30 478)</b>  |
| <b>Net cash flow from operating activity</b>                                       | <b>45 650</b>    | <b>64 954</b>    | <b>(21 420)</b>  | <b>(30 478)</b>  |
| <b>II. Cash flow from investing activities</b>                                     |                  |                  |                  |                  |
| Acquisition of fixed assets  | (50 045)         | (71 208)         | (46 512)         | (66 181)         |
| Income from fixed assets sale  | 266 427          | 379 091          | 290 940          | 413 970          |
| Interest received  | 6                | 9                | 18               | 26               |
| <b>Net cash flow from investing activities</b>                                     | <b>216 388</b>   | <b>307 892</b>   | <b>244 446</b>   | <b>347 815</b>   |
| <b>III. Cash flow from financing activities</b>                                    |                  |                  |                  |                  |
| Income from emission of shares or bonds, particip. In investments                  |                  |                  |                  |                  |
| Loans received   | 20 436           | 29 078           | 16 305           | 23 200           |
| Received subsidies, grants, gifts or donations                                     |                  |                  |                  |                  |
| Loans repaid   | (284 709)        | (405 104)        | (199 571)        | (283 964)        |
| Rented asset buyout expenses   |                  | -                | (40 709)         | (57 924)         |
| <b>Net cash flow from financing activities</b>                                     | <b>(264 273)</b> | <b>(376 027)</b> | <b>(223 975)</b> | <b>(318 688)</b> |
| <b>IV. Foreign exchange rate differences</b>                                       | <b>11</b>        | <b>16</b>        | <b>11</b>        | <b>16</b>        |
| <b>V. Net cash flow for the year</b>   | <b>(2 224)</b>   | <b>(3 164)</b>   | <b>(938)</b>     | <b>(1 335)</b>   |
| <b>VI. Cash and cash equivalents at the beginning of the period</b>                | <b>2 592</b>     | <b>3 688</b>     | <b>3 530</b>     | <b>5 023</b>     |
| <b>VII. Cash and cash equivalents at the end of the period</b>                     | <b>368</b>       | <b>524</b>       | <b>2 592</b>     | <b>3 688</b>     |

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

February 28, 2011

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE 2010 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                              |
| <b>Balance as on December 31, 2008</b> | <b>2 549 084</b>         | -  | -                  | <b>16 684</b>       | <b>409 633</b>                    | <b>2 156 135</b>                 |
| Profit carried over                    |                          |  |                    | - 16 684            | 16 684                            | -                                |
| Profit for the year                    |                          |  |                    | 22 760              |                                   | 22 760                           |
| <b>Balance as on December 31, 2009</b> | <b>2 549 084</b>         | -  | -                  | <b>22 760</b>       | <b>392 949</b>                    | <b>2 178 895</b>                 |
| Profit carried over                    |                          |  |                    | - 26 149            | 26 149                            | -                                |
| Profit for the year                    |                          |  |                    | 26 149              |                                   | 26 149                           |
| <b>Balance as on December 31, 2010</b> | <b>2 549 084</b>         | -  | -                  | <b>22 760</b>       | <b>366 800</b>                    | <b>2 205 044</b>                 |

|  | 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                              |
| <b>Balance as on December 31, 2008</b> | <b>3 627 020</b>         | -  | -                  | <b>56 637</b>       | <b>904 369</b>                    | <b>2 779 288</b>                 |
| Profit carried over                    |                          |  |                    | - 23 739            | 23 739                            | -                                |
| Profit for the year                    |                          |  |                    | 32 385              |                                   | 32 385                           |
| <b>Balance as on December 31, 2009</b> | <b>3 627 020</b>         | -  | -                  | <b>65 283</b>       | <b>880 630</b>                    | <b>2 811 673</b>                 |
| Profit carried over                    |                          |  |                    | - 37 207            | 37 207                            | -                                |
| Profit for the year                    |                          |  |                    | 37 207              |                                   | 37 207                           |
| <b>Balance as on December 31, 2010</b> | <b>3 627 020</b>         | -  | -                  | <b>32 385</b>       | <b>521 909</b>                    | <b>3 137 494</b>                 |

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

February 28, 2011

## ***Notes to the Financial Statements***

### **1. Accounting Policies**

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

#### **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 01.01.2010. to 31.12.2010.

**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:

|     | 31.12.2010 | 31.12.2009 | 31.12.2008 |
|-----|------------|------------|------------|
| USD | 0.535      | 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:

| <i>Intangible assets</i> |       |   |
|--------------------------|-------|---|
| 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 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                   | 2-5   | % |
| * Technological equipment                       | 10-20 | % |
| * Transport vehicles                            | 10-20 | % |
| * Furniture                                     | 10-20 | % |
| * Other fixed assets                            | 10-20 | % |
| * Mobile phones                                 | 35    | % |
| * Computers and other data storage units        | 15-35 | % |
| * Depreciation on land plots is not calculated. |       |   |

Unfinished construction object's historic cost is increased by the interest paid on the loan taken for construction of the fixed asset and on other costs arising in relation to the given object until it is completed and accepted for usage.

Unfinished construction object's historic cost is, however, not increased by the interest paid on the loan taken for construction of the fixed asset should the construction work during the periods when the construction is not taking place.

#### **Rent**

In cases when fixed assets are rented, repair and improvement costs are reflected in the account "Long-term investments in rented fixed assets" and are gradually written off during the rental period.

#### **Hire-purchase (Financial leasing)**

In cases when fixed asset are taken on financial lease basis along with risks and returns, these fixed assets are recorded in immediate purchase cost basis. Leasing interest payment and related costs are included in the Profit and Loss Statement for the corresponding period, when they occurred.

#### **Long-term financial investments**

Long-term financial investments are purchase of a company (or shares of it), long-term loans, long-term investments. Long-term investments are investments with pay-off date of over one year and are outside the reporting year.

#### **Investments in subsidiaries and related Company shareholding.**

Investments in subsidiaries and in capital of the related companies are treated as costs. Company recognises incomes only when they are received from the related company as distribution of its profits. Should the investment exceed the profit received, then it is reflected as investment expenditure reduction. Should there be sufficient ground to believe that the capital value of the company has decreased, then losses from the decrease are calculated as the difference between the original investment and the ending value of the investment. The ending value is calculated as the larger of the following indicators: investment's true value, from which the sales costs are deducted and company's usage value. Losses resulting from investment value's decrease can be reversed, if after the last time the losses from value decrease were recognised they have changed which was used for determining the decreased value.

#### **Inventory valuation**

Paragraph 40 of the Provisions of the Latvian Republic Cabinet of Ministers Nr.312 "Regulations on organisation of wholesale and retail" dated 31.08.1999 shall serve as the basis for goods inventory movement. Received and issued goods management is performed with help of computer software "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.

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**

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.



**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              | 426 935          | 607 474          | 460 894          | 655 793          |
| Income from rent of premises                           | 269 694          | 383 740          | 388 213          | 552 377          |
| Income from sale of finished goods in the local market | 126 057          | 179 363          | 167 854          | 238 835          |
| Income from utility services                           | 320 063          | 455 409          | 323 158          | 459 812          |
| Income from sale of materials                          | 66 123           | 94 085           | 7 113            | 10 121           |
| <b>Total</b>   | <b>1 208 872</b> | <b>1 720 071</b> | <b>1 347 232</b> | <b>1 916 938</b> |

**Net turnover by geographical markets**

|                    |                  |                  |                  |                  |
|--------------------|------------------|------------------|------------------|------------------|
| Latvia             | 815 495          | 1 160 345        | 886 338          | 1 261 145        |
| Estonia            | 2 441            | 3 473            | 7 543            | 10 733           |
| Germany            | 1 807            | 2 571            | 5 615            | 7 989            |
| Russian Federation | 14 695           | 20 909           | 9 797            | 13 940           |
| Finland            | 1 513            | 2 153            |                  |                  |
| Italy              | 2 735            | 3 892            | 1 649            | 2 346            |
| Belarus            | 354 817          | 504 859          | 369 154          | 525 259          |
| Sweden             | 10 311           | 14 671           | 22 727           | 32 338           |
| Lithuania          |                  | -                | 531              | 756              |
| USA                | 3 134            | 4 459            |                  |                  |
| United Kingdom     | 2 014            | 2 866            | 3 311            | 4 711            |
| <b>Total</b>       |                  | -                | 16 113           | 22 927           |
|                    | <b>1 208 962</b> | <b>1 720 198</b> | <b>1 347 232</b> | <b>1 916 939</b> |

**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                                    | 67 318           | 95 785           | 236 474          | 336 472          |
| Provisions for vacations and Social Security       |                  | -                | 20 169           | 28 698           |
| Depreciation of fixed assets                       | 76 864           | 109 368          | 80 796           | 114 962          |
| Depreciation of fixed assets (project 124000075)   | 109 093          | 155 225          | 109 093          | 155 225          |
| Write-off of current assets                        | 7                | 10               | 33 765           | 48 043           |
| Changes in finished goods inventory                | 298 678          | 424 981          | 65 574           | 93 303           |
| Changes in purchased materials and goods inventory | 77 541           | 110 331          | 145 179          | 206 571          |
| Services for productions                           | 98 148           | 139 652          | 38 908           | 55 361           |
| Ongoing maintenance and repair                     | 32 937           | 46 865           | 16 372           | 23 295           |
| Real estate property maintenance                   | 342 498          | 487 331          | 412 444          | 586 855          |
| Other costs  | 21 797           | 31 014           | 24 762           | 35 233           |
| <b>Total</b>                                       | <b>1 124 881</b> | <b>1 600 562</b> | <b>1 143 198</b> | <b>1 626 622</b> |

**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 | 28 984        | 41 241        | 26 947        | 38 342        |
| Sales costs            | 23 139        |               |               |               |
| Advertising costs      | 1 208         | 1 719         | 727           | 1 034         |
| <b>Total</b>           | <b>64 869</b> | <b>59 377</b> | <b>33 907</b> | <b>48 245</b> |

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| Note Nr. 4<br>Administrative costs           | 2010           |                | 2009           |                |
|--|----------------|----------------|----------------|----------------|
|  | LVL            | EUR            | LVL            | EUR            |
| <b>Cost type</b>                             |                |                |                |                |
| Personnel costs                              | 108 008        | 153 682        | 208 321        | 296 414        |
| Provisions for vacations and Social Security |                | -              | 25 097         | 35 710         |
| Representation costs                         | 1 670          | 2 376          | 3 836          | 5 458          |
| Office expenses                              | 12 706         | 18 079         | 5 447          | 7 750          |
| Communication expenses                       | 12 867         | 18 308         | 13 793         | 19 626         |
| Bank expenses                                | 7 845          | 11 162         | 4 349          | 6 188          |
| Transport costs                              | 15 428         | 21 952         | 17 446         | 24 823         |
| Accounting and legal expenses                | 35 044         | 49 863         | 5 773          | 8 214          |
| Other administrative costs                   | 43 337         | 61 663         | 30 168         | 42 925         |
| <b>Total</b>                                 | <b>236 905</b> | <b>337 085</b> | <b>264 036</b> | <b>375 688</b> |

| Note Nr. 5<br>Other incomes from operating activity | 2010           |                | 2009           |                |
|---|----------------|----------------|----------------|----------------|
|   | LVL            | EUR            | LVL            | EUR            |
| <b>Type on income</b>                               |                |                |                |                |
| Income from privatisation certificates              | 181 347        | 258 034        | 181 347        | 258 033        |
| Income from grant financing (project 124000075)     | 266 429        | 379 094        | 197 080        | 280 420        |
| Income from sale of fixed assets                    | 5 505          | 7 833          | 794            | 1 130          |
| Other income  | 10 733         | 15 272         | 709            | 1 009          |
| <b>Total</b>  | <b>464 014</b> | <b>660 233</b> | <b>379 930</b> | <b>540 592</b> |

| Note Nr. 6<br>Other incomes/expenses from operating activity | 2010          |               | 2009          |               |
|--|---------------|---------------|---------------|---------------|
|  | LVL           | EUR           | LVL           | EUR           |
| <b>Type of income/expense</b>                                |               |               |               |               |
| Difference in currency rates                                 |               | -             | 2 256         | 3 210         |
| Sale of fixed assets   | 7 242         | 10 304        | 33 623        | 47 841        |
| Fines / penalties  | 60            | 85            | 8 478         | 12 063        |
| Written off hopeless debts                                   | 216           | 307           | 6 732         | 9 579         |
| Expenses not related to business activities                  | 35 686        | 50 777        |               | -             |
| <b>Total</b>   | <b>43 204</b> | <b>61 473</b> | <b>51 089</b> | <b>72 693</b> |

| Note Nr. 7<br>Other interest and similar income | 2010     |          | 2009      |           |
|---|----------|----------|-----------|-----------|
|   | LVL      | EUR      | LVL       | EUR       |
| <b>Type of income</b>                           |          |          |           |           |
| Received penalties / fines                      | 6        | 9        | 18        | 26        |
| <b>Total</b>                                    | <b>6</b> | <b>9</b> | <b>18</b> | <b>26</b> |

*Notes to the Profit and Loss statement entries (continued)*

| Note Nr. 8<br>Other interest and similar expenses | 2010          |                | 2009          |                |
|---|---------------|----------------|---------------|----------------|
|   | LVL           | EUR            | LVL           | EUR            |
| <b>Type of expense</b>                            |               |                |               |                |
| Interest paid on loans                            | 77 155        | 109 782        | 96 795        | 137 727        |
| <b>Total</b>                                      | <b>77 155</b> | <b>109 782</b> | <b>96 795</b> | <b>137 727</b> |

| Note Nr. 9<br>Deferred Corporate Income Tax | 2010     |          | 2009          |               |
|---|----------|----------|---------------|---------------|
|   | LVL      | EUR      | LVL           | EUR           |
|   | -        | -        | 13 050        | 18 568        |
| <b>Total:</b>                               | <b>-</b> | <b>-</b> | <b>13 050</b> | <b>18 568</b> |

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**Note Nr. 10**

|   | <b>2010</b> | <b>2010</b> | <b>2009</b>      | <b>2009</b>      |
|---|-------------|-------------|------------------|------------------|
|   | <b>LVL</b>  | <b>EUR</b>  | <b>LVL</b>       | <b>EUR</b>       |
| Remaining value of PL and non material assets in the fin. accounts. |             | 0           | 2 280 856        | 3 245 366        |
| Remaining value of PL and non material assets for taxes.            |             | 0           | -798 175         | -1 135 701       |
|   | <b>0</b>    | <b>0</b>    | <b>1 482 681</b> | <b>2 109 665</b> |
| Savings for vacations   |             | 0           | -18 524          | -26 357          |
| Loss for taxes  |             | 0           | -1 777 913       | -2 529 742       |
| Provisional difference  | <b>0</b>    | <b>0</b>    | <b>-313 756</b>  | <b>-446 434</b>  |
|   | x 15%       | x 15%       | x 15%            | x 15%            |
|   | <b>0</b>    | <b>0</b>    | <b>-47063</b>    | <b>-66965</b>    |
| Difference to the previous year                                     |             | <b>0</b>    |                  | <b>0</b>         |

**Note Nr. 10**  
**Other taxes**

|   | <b>2010</b>   | <b>2010</b>    | <b>2009</b>    | <b>2009</b>    |
|---|---------------|----------------|----------------|----------------|
|   | <b>LVL</b>    | <b>EUR</b>     | <b>LVL</b>     | <b>EUR</b>     |
| Real estate tax for land                        | 11 872        | 16 892         | 9 920          | 14 115         |
| Real estate tax for buildings and constructions | 87 947        | 125 137        | 92 425         | 131 509        |
| <b>Total:</b>                                   | <b>99 819</b> | <b>142 029</b> | <b>102 345</b> | <b>145 624</b> |

Notes to the Financial Statements

Notes to the Balance Sheet as on December 31, 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 |
|------------------------|-------------------|-------------------------|----------------|------------------------------------|------------------------------|------------------------------|
| <b>Historical cost</b> |                   |                         |                |                                    |                              |                              |
| 31.12.2009.            | 7 363             | -                       | -              | -                                  | 7 363                        | 10 477                       |
| Purchased              | -                 | -                       | -              | -                                  | -                            | -                            |
| Relocated              | -                 | -                       | -              | -                                  | -                            | -                            |
| Written-off            | -                 | -                       | -              | -                                  | -                            | -                            |
| 31.12.2010.            | 7 363             | -                       | -              | -                                  | 7 363                        | 10 477                       |
| <b>Depreciation</b>    |                   |                         |                |                                    |                              |                              |
| 31.12.2009.            | 6 829             | -                       | -              | -                                  | 6 829                        | 9 717                        |
| Calculated             | 357               | -                       | -              | -                                  | 357                          | 508                          |
| Written-off            | -                 | -                       | -              | -                                  | -                            | -                            |
| 31.12.2010.            | 7 186             | -                       | -              | -                                  | 7 186                        | 10 225                       |
| <b>Net book value</b>  |                   |                         |                |                                    |                              |                              |
| 31.12.2009.            | 534               | -                       | -              | -                                  | 534                          | 760                          |
| 31.12.2010.            | 177               | -                       | -              | -                                  | 177                          | 252                          |

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 |
|------------------------|---------|-----------------------------|-------------------------|--------------------|-----------|-----------|
| <b>Historical cost</b> |         |                             |                         |                    |           |           |
| 31.12.2009.            | 428 034 | 1 002 296                   | 641 893                 | 297 849            | 2 370 072 | 3 372 309 |
| Purchased              | 35 686  | -                           | -                       | 14 359             | 50 045    | 71 208    |
| Written-off            | -       | -                           | -                       | -                  | -         | -         |
| 31.12.2010.            | 463 720 | 1 002 296                   | 641 893                 | 312 208            | 2 420 117 | 3 443 516 |
| <b>Depreciation</b>    |         |                             |                         |                    |           |           |
| 31.12.2009.            | -       | 432 831                     | 334 878                 | 201 708            | 969 417   | 1 379 356 |
| Calculated             | -       | 7 983                       | 41 151                  | 27 731             | 76 865    | 109 369   |
| Written-off            | 71 371  | -                           | -                       | -                  | 71 371    | 101 552   |
| 31.12.2010.            | 71 371  | 440 814                     | 376 029                 | 229 439            | 1 117 653 | 1 590 277 |
| <b>Net book value</b>  |         |                             |                         |                    |           |           |
| 31.12.2009.            | 428 034 | 569 465                     | 307 015                 | 96 141             | 1 400 655 | 1 992 953 |
| 31.12.2010.            | 392 349 | 561 482                     | 265 864                 | 82 769             | 1 302 464 | 1 853 239 |

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        |
|------------------------|---|---|-------------------------------|------------------------------|------------------|------------------|
| <b>Historical cost</b> |   |   |                               |                              |                  |                  |
| <b>31.12.2009.</b>     | <b>1 827 372</b>                            | -   | -                             | <b>38 052</b>                | <b>1 865 424</b> | <b>2 654 259</b> |
| Purchased              | -   | -   | -                             | -                            | -                | -                |
| Written-off            | -   | -   | -                             | -                            | -                | -                |
| <b>31.12.2010.</b>     | <b>1 827 372</b>                            | -   | -                             | <b>38 052</b>                | <b>1 865 424</b> | <b>2 654 259</b> |
| <b>Depreciation</b>    |   |   |                               |                              |                  |                  |
| <b>31.12.2009.</b>     | <b>518 255</b>                              | -   | -                             | -                            | <b>518 255</b>   | <b>518 255</b>   |
| Calculated             | 109 093                                     | -   | -                             | -                            | 109 093          | 155 225          |
| Written-off            | -   | -   | -                             | -                            | -                | -                |
| <b>31.12.2010.</b>     | <b>627 348</b>                              | -   | -                             | -                            | <b>627 348</b>   | <b>892 636</b>   |
| <b>Net book value</b>  |   |   |                               |                              |                  |                  |
| <b>31.12.2009.</b>     | <b>1 309 117</b>                            | -   | -                             | <b>38 052</b>                | <b>1 347 169</b> | <b>1 916 849</b> |
| <b>Net book value</b>  |   |   |                               |                              |                  |                  |
| <b>31.12.2010.</b>     | <b>1 200 024</b>                            | -   | -                             | <b>38 052</b>                | <b>1 238 076</b> | <b>1 761 623</b> |

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

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

Fixed asses on financial lease:

| Name of fixed asset                     | Lease company | Historical cost | Net book value | Unpaid lease as per lease agreement | Lease term |
|---|---------------|-----------------|----------------|-------------------------------------|------------|
| A/M VOLVO                               | DnB Nord Ltz. | 14 359          | 12 281         | 17 594                              | 15.03.2015 |
| Auto vehicle Jaguar Daimler Super Eight | Parex Lzings  | 67 898          | 28 517         | 32 177                              | 30.06.2013 |
| Toyota Corola                           | SEB Lzings    | 13 411          | 7 954          | 5 730                               | 25.09.2012 |

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

|                          | 2010<br>LVL    | 2010<br>EUR    | 2009<br>LVL   | 2009<br>EUR    |
|--------------------------|----------------|----------------|---------------|----------------|
| Historical cost          | 35 686         | 50 777         | 196 732       | 279 924        |
| Accumulated depreciation | -              | -              | 101 467       | 144 375        |
| Net book value           | <b>35 686</b>  | <b>50 777</b>  | <b>95 265</b> | <b>135 550</b> |
| Income from sale         | <b>266 429</b> | <b>379 094</b> | <b>240</b>    | <b>341</b>     |

13. Raw materials

|                  | 2010<br>LVL    | 2010<br>EUR    | 2009<br>LVL    | 2009<br>EUR    |
|------------------|----------------|----------------|----------------|----------------|
| Rawe materials   | 179 740        | 255 747        | 209 731        | 298 420        |
| Inventory in use | 95 247         | 135 524        | 94 937         | 135 083        |
| <b>Total</b>     | <b>274 987</b> | <b>391 271</b> | <b>304 668</b> | <b>433 503</b> |

Notes to the Balance Sheet (continued)

14. Work in progress

|                                       | 2010           | 2010           | 2009           | 2009           |
|---------------------------------------|----------------|----------------|----------------|----------------|
|                                       | LVL            | EUR            | LVL            | EUR            |
| Unfinished goods                      | 12 090         | 17 203         | 5 085          | 7 235          |
| finished goods and goods in warehouse | 265 182        | 377 320        | 324 680        | 461 978        |
| <b>Total</b>                          | <b>277 272</b> | <b>394 523</b> | <b>329 765</b> | <b>469 213</b> |

15. Advance payments

|                                   | 2010          | 2010           | 2009          | 2009           |
|-----------------------------------|---------------|----------------|---------------|----------------|
|                                   | LVL           | EUR            | LVL           | EUR            |
| Advance payments for materials    | 30 520        | 43 426         | 29 642        | 42 177         |
| Advance payments to non-residents | 55 959        | 79 622         | 46 232        | 65 782         |
| Goods in bonded storage           |               | -              |               | -              |
| <b>Total</b>                      | <b>86 479</b> | <b>123 048</b> | <b>75 874</b> | <b>107 959</b> |

16. Trade receivables

|   | 2010           | 2010           | 2009           | 2009           |
|---|----------------|----------------|----------------|----------------|
|   | LVL            | EUR            | LVL            | EUR            |
| Receivables (non-residents)                         | 312 649        | 444 859        | 210 958        | 300 166        |
| Receivables (residents)                             | 228 270        | 324 799        | 451 718        | 642 737        |
| <b>Book value of purchases and customers, total</b> | <b>540 919</b> | <b>769 658</b> | <b>662 676</b> | <b>942 903</b> |
| Provisions for doubtful debts                       | -              | -              | -              | -              |
| <b>Net trade receivables, total</b>                 | <b>540 919</b> | <b>769 658</b> | <b>662 676</b> | <b>942 903</b> |

17. Other receivables

|  | 2010           | 2010           | 2009           | 2009           |
|--|----------------|----------------|----------------|----------------|
|  | LVL            | EUR            | LVL            | EUR            |
| VAT confirmed (unpaid invoices)                  |                | -              | 212            | 302            |
| VAT overpaid to the state budget                 | 319            | 454            | 319            | 454            |
| Nature Resource tax overpaid to the state budget | 1 766          | 2 513          | -              | -              |
| Settlements with employees                       | 83 537         | 118 862        | 75 424         | 107 319        |
| Tax pre-payments for customs procedures          | 318            | 452            | 83             | 118            |
| Loans to employees                               | 5 094          | 7 248          | 5 094          | 7 248          |
| Other loans                                      | 47 822         | 68 045         | 44 234         | 62 939         |
| Others   | 240            | 341            | 240            | 341            |
| <b>Total</b>                                     | <b>139 096</b> | <b>197 915</b> | <b>125 606</b> | <b>178 721</b> |

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**18. Deferred expenses**

|   | 2010             |                  | 2009             |                  |
|---|------------------|------------------|------------------|------------------|
|   | LVL              | EUR              | LVL              | EUR              |
| Insurance expenses                                  | 3 886            | 5 529            | 2 376            | 3 381            |
| Expenses for repairs of buildings and premises      |                  | -                | 6 884            | 9 795            |
| Expenses for implementation of project Nr.124000075 | 275 221          | 391 604          | 301 041          | 428 343          |
| Expenses for reconstruction of block I-2            | 911 852          | 1 297 449        | 909 478          | 1 294 071        |
| Other expenses                                      |                  | -                | 152              | 216              |
| <b>Total</b>  | <b>1 190 959</b> | <b>1 694 582</b> | <b>1 219 931</b> | <b>1 735 806</b> |

**19. Cash and cash equivalents**

|                       | 2010       |            | 2009         |              |
|-----------------------|------------|------------|--------------|--------------|
|                       | LVL        | EUR        | LVL          | EUR          |
| Cash on hand          | 54         | 77         | 197          | 280          |
| Cash in bank accounts | 314        | 447        | 2 395        | 3 408        |
| <b>Total</b>          | <b>368</b> | <b>524</b> | <b>2 592</b> | <b>3 688</b> |

**Notes to the Balance Sheet (continued)**

**20. Information about company's share capital**

On 31.12.2010 company's share capital consisted of 2549084 registered and fully paid shares with nominal value of 1 Ls.  
Largest shareholders of JSC "VEF Radiotehnika RRR" are:

| Shareholders            | Number of shares |                | Value          |                |                |                |
|-------------------------|------------------|----------------|----------------|----------------|----------------|----------------|
|                         |                  |                | LVL            |                | EUR            |                |
|                         | 31.12.2010       | 31.12.2009     | 31.12.2010     | 31.12.2009     | 31.12.2010     | 31.12.2009     |
| 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         |
| Juriis Malejevs         | 421871           | 421871         | 421871         | 421871         | 600268         | 600268         |
| Others (<5%)            | 240348           | 240348         | 240348         | 240348         | 341984         | 341984         |
| <b>Total:</b>           | <b>2549084</b>   | <b>2549084</b> | <b>2549084</b> | <b>2549084</b> | <b>3627020</b> | <b>3627020</b> |

**21. Retained earnings/losses**

|  | 2010               |                  | 2009               |                |
|--|--------------------|------------------|--------------------|----------------|
|  | LVL                | EUR              | LVL                | EUR            |
| In accordance with decisions of Shareholders' meetings, those shall be covered from the next years' profits. | -370 188 -         | 526 730          | -370 188 -         | 526 730        |
|  | 26 149             | 37 207           | 22 760             | 32 385         |
| <b>Total</b>   | <b>- 344 039 -</b> | <b>489 523 -</b> | <b>- 347 428 -</b> | <b>494 345</b> |
| previous years' retained earnings/losses   |                    |                  |                    |                |
| current year profit/loss   |                    |                  |                    |                |

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|  | 2010             | 2010             | 2009             | 2009             |
|--|------------------|------------------|------------------|------------------|
|  | LVL              | EUR              | LVL              | EUR              |
| <b>22. Long-term loans from lending institutions</b> |                  |                  |                  |                  |
| <b>Total</b>   |                  |                  |                  |                  |
|  | 1 522 208        | 2 165 907        | 1 522 208        | 2 165 907        |
| Loan from JSC SEB Latvijas Unibanka (EUR)            | <b>1 522 208</b> | <b>2 165 907</b> | <b>1 522 208</b> | <b>2 165 907</b> |

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.

|  | 2010          | 2010          | 2009          | 2009          |
|--|---------------|---------------|---------------|---------------|
|  | LVL           | EUR           | LVL           | EUR           |
| <b>23. Other loans (long-term)</b>                 |               |               |               |               |
| Financial lease from SIA Parex Lizins un Faktoring | 31 273        | 44 497        | 31 273        | 44 497        |
| Financial lease from SIA DnB Nord Lizings (EUR)    | 15 019        | 21 370        | -             | -             |
| Financial lease from SIA SEBlizings (EUR)          | 2 421         | 3 445         | 5 483         | 7 802         |
| <b>Total</b>                                       | <b>48 713</b> | <b>69 312</b> | <b>36 756</b> | <b>52 299</b> |

|  | 2010           | 2010           | 2009           | 2009           |
|--|----------------|----------------|----------------|----------------|
|  | LVL            | EUR            | LVL            | EUR            |
| <b>24. Deferred income (long-term)</b> |                |                |                |                |
| <b>Total</b>                           | <b>228 144</b> | <b>324 620</b> | <b>409 491</b> | <b>582 653</b> |

Income from grant financing (project Nr.124000075)

|   | LVL            | EUR            | LVL            | EUR            |
|---|----------------|----------------|----------------|----------------|
| <b>26. Short-term loans from lending institutions</b> |                |                |                |                |
| Credit line from JSC SEB banka (EUR)                  |                | -              | 198 789        | 282 851        |
| Loan from JSC SEB banka (EUR)                         | 128 564        | 182 930        | 196 033        | 278 930        |
| <b>Total</b>  | <b>128 564</b> | <b>182 930</b> | <b>394 822</b> | <b>561 781</b> |

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.



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| 27. Other loans (short-term)                         | 2010          | 2010         | 2009          | 2009          |
|--|---------------|--------------|---------------|---------------|
|  | LVL           | EUR          | LVL           | EUR           |
| Financial lease from SIA Parex Lizins un Faktoringis | 904           | 1 286        | 11 828        | 16 830        |
| Financial lease from SIA DnB Nord Lizings (EUR)      | 2 575         | 3 664        | 11 403        | 16 225        |
| Financial lease from SIA ESBlizings (EUR)            | 3 308         | 4 707        | 5 979         | 8 507         |
| Faktoringis SIA Unifizings (EUR)                     |               | -            | 14 937        | 21 253        |
| Other loans  | 21 477        |              | 19 088        | 27 160        |
| <b>Total</b>   | <b>28 264</b> | <b>9 657</b> | <b>63 235</b> | <b>89 975</b> |

| 28. Advances from customers | 2010          | 2010          | 2009         | 2009         |
|-----------------------------|---------------|---------------|--------------|--------------|
|                             | LVL           | EUR           | LVL          | EUR          |
| Advances from non-residents | 16 221        | 23 080        | 2 118        | 3 014        |
| Advances from residents     | 4 000         | 5 691         | 275          | 391          |
| <b>Total</b>                | <b>20 221</b> | <b>28 771</b> | <b>2 393</b> | <b>3 405</b> |

| 29. Due to suppliers and providers (short-term)      | 2010           | 2010           | 2009           | 2009           |
|--|----------------|----------------|----------------|----------------|
|  | LVL            | EUR            | LVL            | EUR            |
| Trade accounts payable to non-residents <b>Total</b> | 47 202         | 67 162         | 54 585         | 77 667         |
| Trade accounts payable to residents                  | 465 468        | 662 301        | 389 656        | 554 431        |
|  | <b>512 670</b> | <b>729 463</b> | <b>444 241</b> | <b>632 098</b> |

Notes to the Balance Sheet (continued)

| 30. Taxes and social insurance payments        | 2010           | 2010           | 2009           | 2009           |
|--|----------------|----------------|----------------|----------------|
|  | LVL            | EUR            | LVL            | EUR            |
| Personal Income Tax                            | 48 518         | 69 035         | 51 716         | 73 585         |
| State Social Insurance payments                | 104 072        | 148 081        | 95 418         | 135 768        |
| Value Added Tax                                | 41 187         | 58 604         | 34 493         | 49 079         |
| Real estate tax for building and constructions | 82 195         | 116 953        | 100 224        | 142 606        |
| Corporate risk tax                             | 11             | 16             | 32             | 46             |
| <b>Total</b>                                   | <b>275 983</b> | <b>392 689</b> | <b>281 883</b> | <b>401 084</b> |

| 31. Other liabilities      | 2010          | 2010          | 2009          | 2009           |
|----------------------------|---------------|---------------|---------------|----------------|
|                            | LVL           | EUR           | LVL           | EUR            |
| Salaries                   | 39 592        | 56 334        | 62 242        | 88 562         |
| Advance settlement amounts |               | -             | 1 547         | 2 201          |
| Deposits                   | 15 055        | 21 421        | 24 015        | 34 170         |
| Other creditors            |               | -             | 1 842         | 2 621          |
| <b>Total</b>               | <b>54 647</b> | <b>77 755</b> | <b>89 646</b> | <b>127 554</b> |

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| 32. Deferred income (short-term)                   | 2010 | 2010 | 2009           | 2009           |
|--|------|------|----------------|----------------|
|  | LVL  | EUR  | LVL            | EUR            |
| Income from grant financing (project Nr.124000075) |      |      | 181 347        | 258 034        |
|  | -    | -    | <b>181 347</b> | <b>258 034</b> |

  

| 33. Accrued liabilities | 2010          | 2010          | 2009          | 2009          |
|-------------------------|---------------|---------------|---------------|---------------|
|                         | LVL           | EUR           | LVL           | EUR           |
| Current expenses        | 25 411        | 36 157        | 37 863        | 53 874        |
| <b>Total</b>            | <b>25 411</b> | <b>36 157</b> | <b>37 863</b> | <b>53 874</b> |

**Notes to the Financial Statements**

**General Notes**

**1. Average number of employees during the year**  
 Average number of employees during the year

|                                 | <u>Year 2010</u> |                  | <u>Year 2009</u> |                  |
|---------------------------------|------------------|------------------|------------------|------------------|
|                                 | 183              |                  | 183              |                  |
|                                 | <u>2010</u>      | <u>2010</u>      | <u>2009</u>      | <u>2009</u>      |
|                                 | <u>LVL</u>       | <u>EUR</u>       | <u>LVL</u>       | <u>EUR</u>       |
| <b>2. Total personnel costs</b> | <b>883 999</b>   | <b>1 257 818</b> | <b>883 999</b>   | <b>1 257 818</b> |
| - salaries                      | 716 656          | 1 019 710        | 716 656          | 1 019 710        |
| - Social security payments      | 166 795          | 237 328          | 166 795          | 237 328          |
| - Corporate risk tax            | 548              | 780              | 548              | 780              |
| - including:                    |                  |                  |                  |                  |
| Management salaries             |                  |                  |                  |                  |
| - salaries                      | 59 999           | 85 371           | 59 999           | 85 371           |
| - Social security payments      | 13 151           | 18 712           | 13 151           | 18 712           |
| - Corporate risk tax            | 9                | 13               | 9                | 13               |
| - total:                        | <b>73 159</b>    | <b>104 096</b>   | <b>73 159</b>    | <b>104 096</b>   |

Information on total amount of reward to sworn auditor company " Auditoru firma "Finansists"" for year 2010.

1. For checking of 2010 annual report. **3000 LVL**  
 Total: **3000 LVL**

*Annual report is accepted and signed from page 1 till 27*

**Chairman of the Board**

**Eduards Malejevs**

**Member of the Board**

**Gunars Lacis**

**0**

**0**