

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

Main activities:
production

2011 Financial 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 1998.12.11</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) Nordea bank Finland PLC LV06NDEA0000082922737 AS GE Money Bank LV49BATR0051701822200</i>		
Council members of the JSC			
Chairman of the Council	<i>Janis Salenieks</i>		
Council Member	<i>Jurijs Malejevs</i>		
Council Member	<i>Inga Spruga</i>		
Council Member	<i>Ausma Smiltneiece</i>		
Council Member	<i>Vjaceslavs Mihailovins</i>		
Boar members of the JSC			
Chairman of the Board	<i>Eduards Malejevs</i>		
Board Member	<i>Olga Romanko from 18.08.2011</i>		
Board Member	<i>Juris Voins till 11.02.2011</i>		
Board Member	<i>Boriss Livca from 13.05.2011</i>		
Board Member	<i>Gunārs Lācis till 18.08.2011</i>		
Reporting year	from	till	
	<i>2011.01.01</i>	<i>2011.12.31</i>	
Previous reporting period	from	till	
	<i>2010.01.01</i>	<i>2010.12.31</i>	
Chief Accountant	<i>Olga Romanko(from 18.08.2011)</i>		
Telephone:	<i>67418087</i>		
Auditor:	AS BDO Invest Riga Pulkveža Brieža iela 19 k-1, Rīga, LV-1010 Reg. Nr.LV-40003346176 Licence no 112.		
	Aivars Putniņš sworn auditor Certificate Nr.123	Valda Zītare sworn auditor Certificate Nr.62	

Management Report

Types of activities

During the 12 months of 2011, 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:	100590 LVL
Deferred corporate income tax is	-14747 LVL
Other taxes:	-80896 LVL
Net result:	4947 LVL

Net turnover for 2011 is 1320179 Ls and has decrease by 8,4 % in comparison with 2010.

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

Current liabilities of the Company do not exceed current assets.

Total liabilities did not exceed total assets of the Company.

Company's profitability:

Gross profit margin (%)	0,37
Operating profit margin (%)	13,76
Gross profit margin (%)	2,82

Financial profitability (%)

Return on capital	1,15
Return on equity	0,1

Company's development activities

2011th 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 2011, 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 RULES OF THE BALANCE SHEET

FROM THE LAST DAY OF THE FINANCIAL YEAR To date there have been

no incidents that could substantially AFFECT review the assessment.

Proposals for the use of profit

The profit resulting from the public will be used for deletion of the loss the previous year.

Chairman of the Board

Eduards Malejevs

Member of the Board

Olga Romanko

Member of the Board

Boriss Livca

11.05.2012.

Notification of management's responsibility

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

The management confirms that in preparation of the report for the period ended December 31, 2011, 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

Boriss Livca

Member of the Board

Olga Romanko

11.05.2012.

**PROFIT AND LOSS STATEMENT
FOR THE PERIOD ENDED**

31.12.2011 (per turnover (period) costs method)

	Note	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>
	nr.	LVL	EUR	LVL	EUR
Net turnover	1	1 320 179	1 878 445	1 217 613	1 732 507
Cost of sales	2	(1 282 981)	(1 825 517)	(1 135 438)	(1 615 583)
Gross profit or loss		37 198	52 928	82 175	116 924
Selling expenses	3	(74 610)	(106 160)	(67 456)	(95 981)
Administrative expenses	4	(127 741)	(181 759)	(176 060)	(250 511)
Other operating income	5	526 434	749 048	428 247	609 341
Other operating expenses	6	(179 200)	(254 979)	(58 113)	(82 687)
Interest income and similar income	7	143	203	6	9
Long-term financial investments and short-term securities write-down	8	(520)			
Interest expense and similar expenses	9	(81 114)	(115 415)	(77 155)	(109 782)
Profit or loss before extraordinary items and taxes		100 590	143 866	131 644	187 313
Profit or loss after extraordinary items and before taxes		100 590	143 866	131 644	187 313
Deferred corporate income tax for the reporting period	10	(14 747)	(20 983)	(14 988)	(21 326)
Other taxes	11	(80 896)	(115 105)	(99 821)	(142 032)
Profit or loss for the period		4 947	7 778	16 835	23 955
Earnings per share (EPS coefficient)		0,002	0,003	0,007	0,009

Chairman of the Board

Eduards Maļejevs

Member of the Board

Boriss Livca

Member of the Board

Olga Romanko

11.05.2012.

BALANCE SHEET as on 31.12.2011.

ASSETS

	Note	2011	2011	2010	2010
	nr.	LVL	EUR	LVL	EUR
1. Non-current assets					
I. Intangible assets:					
Concessions, patents, licenses, trade marks and similar rights	12	1	1	177	252
Total intangible assets:		1	1	177	252
II. Fixed assets:					
Land, buildings and constructions		5 878 624	8 364 528	953 830	1 357 178
Equipment and vehicles		1 316 358	1 873 009	1 465 889	2 085 772
Other fixed assets		50 848	72 350	82 770	117 771
Construction of fixed assets and unfinished construction objects		973 767	1 385 546	38 052	54 143
Total fixed assets:	13	8 219 597	11 695 433	2 540 541	3 614 864
V. Long-term financial investments:					
Other long-term debtors 12000075		223 580	318 126		
Other loans and other long-term debtors		151 828	216 032	520	740
Deferred taxation assets		17 328	24 656	32 075	45 639
Total long-term financial investments:	14	392 736	558 814	32 595	46 379
Total non-current assets:		8 612 334	12 254 248	2 573 313	3 661 495
2. Current assets					
I. Inventory:					
Raw materials	15	246 619	350 907	263 013	374 234
Work in process	16	1 031	1 467	1 040	1 480
Finished goods	16	143 361	203 984	265 860	378 285
Advance payments for materials	17	37 137	52 841	75 724	107 746
Total inventory:		428 148	609 199	605 637	861 745
II. Sales-deferred long-term investments					
Total sales-deferred long-term investments:		-	-	-	-
III. Receivables:					
Receivables from customers	18	678 354	965 211	535 180	761 493
Other receivables	19	69 588	99 015	153 884	218 957
Prepayments	20	27 394	38 978	1 217 236	1 731 971
Total receivables:		775 336	1 103 204	1 906 300	2 712 421
IV. Short-term financial investments:					
Other securities and capital participation				14	20
Total short-term financial investments:		-	-	14	20
V. Cash	21	97 085	138 140	597	849
Total currents assets:		1 300 569	1 850 543	2 512 548	3 575 035
TOTAL ASSETS:		9 912 903	14 104 790	5 085 861	7 236 528

BALANCE SHEET as on 31.12.2011.

**LIABILITIES AND
SHAREHOLDERS' EQUITY**

1. Shareholders' equity:

	Note	2011	2011	2010	2010
	nr.	LVL	EUR	LVL	EUR
Share capital	22	2 549 084	3 627 020	2 549 084	3 627 020
Long-term investment Revaluation Reserve	24	5 117 910			
a) previous years' retained earnings	23	- 353 354	- 502 777	- 370 189	- 526 731
b) current year profit/(loss)	23	4 947	7 778	16 835	16 835
Total shareholders' equity:		7 318 587	3 132 021	2 195 730	3 117 124

2. Provisions:

Total provisions:		7 963	90 765	16 489	90 765
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3. Liabilities:

I. Non-current liabilities:

Loans from lending institutions	25	1 435 060	2 041 906	1 480 040	2 105 907
Other loans	26	5 647	8 035	33 116	47 120
Deferred income	27		-	46 798	66 588
Total non-current liabilities:		1 440 707	2 049 941	1 559 954	2 219 615

II. Current liabilities:

Loans from lending institutions	28	144 728	205 929	170 732	242 930
Other loans	29	69 200	98 463	41 762	59 422
Advances from customers	30	41 058	58 420	17 368	24 712
Trade accounts payable	31	397 042	564 940	494 852	704 111
Taxes and social security liabilities	32	360 976	513 623	322 792	459 292
Other liabilities	33	44 647	63 527	57 280	81 502
Deferred income	34	46 798	66 588	181 347	258 034
Accrued liabilities	35	41 197	58 618	27 555	39 207
Total current liabilities:		1 145 646	1 630 108	1 313 688	1 869 210

Total liabilities:		2 586 353	3 680 049	2 873 642	4 088 825
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TOTAL LIABILITIES :		9 912 903	14 104 790	5 085 861	7 236 528
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Chairman of the Board

Eduards Maļejevs

Member of the Board

Boriss Livca

Member of the Board

Olga Romanko

11.05.2012.

CASH FLOW STATEMENT FOR THE PERIOD ENDED
31.12.2011(per indirect method)

I. Cash flow from operating activity

Profit or loss before extraordinary items and taxes

Adjustments for:

	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
	100 590	143 127	131 644	187 313
a) depreciation of fixed assets	194 029	276 078	185 956	264 592
b) depreciation of non material assets.	176	250	357	508
c) amortisation of goodwill	(8 526)	(12 131)	(2 035)	(2 896)
d) gains or losses from foreign currency exchange rate	1 426	2 029	(10 180)	(14 485)
c) provisions (except for provisions for bad debts)	520	740		-
d) Profit or loss from the exchange rate fluctuations	(181 347)	(258 034)	(181 347)	(258 034)
f) income from subsidies, grants, gifts or donations	(143)	(203)	(6)	(9)
g) other income from interest or similar income	(266 773)	(379 584)	(230 743)	(328 318)
h) profit/loss from sale of fixed assets	81 114	115 415	77 155	109 782
i) interest payments and similar activities	(13 967)	(19 873)	(99 821)	
k) other taxes				

Profit or loss before current assets and

short-term liabilities corrections

Adjustments for:

a) trade receivables increase (-) or decrease (+)	147 337	209 642	110 567	157 323
b) inventory increase (-) or decrease (+)	177 489	252 544	70 497	100 308
c) accounts payable to suppliers and other creditors increase (+) or decrease (-)	(46 347)	(65 946)	69 266	98 557

Gross cash flow from operating activities

The cost of interest payments	(75 543)	(107 488)	(77 110)	(109 718)
Expenditure company's RE tax payments	(74 590)	(106 132)	(99 821)	(142 032)
Cash flow before extraordinary items	35 445	50 434	44 200	62 891
Net cash flow from operating activity	35 445	50 434	44 200	62 891

II. Cash flow from investing activities

Income from fixed assets sale	129 624	184 438	266 429	379 094
Interest received	143	203	6	9
Net cash flow from investing activities	129 767	184 642	266 435	379 103

III. Cash flow from financing activities

Loans received	56 601	80 536	35 219	50 112
Loans repaid	(106 546)	(151 601)	(319 928)	(455 217)
Rented asset buyout expenses	(18 769)	(26 706)	(27 840)	(39 613)
Net cash flow from financing activities	(68 714)	(97 771)	(312 549)	(444 717)

IV. Foreign exchange rate differences

	(10)	(290)	(81)	(115)
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V. Net cash flow for the year

	96 488	137 290	(1 995)	(2 839)
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VI. Cash and cash equivalents at the beginning of the period

	597	849	2 592	3 688
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VII. Cash and cash equivalents at the end of the period

	97 085	138 140	597	849
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Chairman of the Board

Eduards Maļejevs

Member of the Board

Boriss Livca

Member of the Board

Olga Romanko

11.05.2012.

Notes to the Financial Statements

1. Accounting Policies

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

General Principles

The Annual Report is prepared in accordance with the Republic of Latvia "Law On Accounting" and "Law on Annual Reports" and in accordance with Latvian accounting standards. In preparation of this Annual Report the following Latvian accounting standards were applied: (LAS): 1. LAS "Financial Report base preparation approach", 2. LAS "Cash Flow Statement", 3. LAS "Events after Balance Sheet date", 4. LAS "Change of accounting policy, change of accounting calculations and errors of previous periods", 5. LAS "Long-term Agreements".

Profit and Loss Statement is prepared using turnover (period) costs method.

Cash Flow Statement is prepared using indirect method.

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

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

1. Acceptable to Financial Statements' users for making decisions;
2. Is valid in the way that it:
 - * correctly reflects Company's results and financial standing - not only the legal form but also the economic nature, is neutral, i.e. non-biased nor deliberate;
 - * fully represents all real aspects.

Changes to the accounting policies

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

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

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

Error correction

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

- 1) by correcting comparable indicators for the periods in which the error has occurred; or
- 2) should the error get discovered prior the latter financial reporting period, by amending the asset, liability and share capital starting figures for the latter reporting period's.

Adapted accounting principles

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

- a) it is assumed that the Company continues operations;
- b) the same valuation methods as for the previous reporting year shall be used;
- c) item valuation is performed with due attention, taking into account the following provisions:
 - only profit received prior to the Balance Sheet date is used;
 - all foreseen risk amounts and losses which have arisen in the reporting year or in the previous years, are included, even when they became known between the Balance Sheet date and the Annual Report preparation date;
 - all value depreciations and reductions are considered and calculated regardless of whether the reporting year had profits or losses;
- d) all incomes and expenses related to the reporting year are included in the Profit and Loss Statement regardless of payment date, invoice receipt or issuance dates. Expenses are compared with incomes in the corresponding reporting period;
- e) assets and liabilities items are valued separately;
- f) reporting year's beginning balance is matching the previous year's ending balance;
- g) all items which may influence Annual Report's users decision making or valuation, are included;
- h) operating activities for the reporting period are reflected taking into account their economic meaning and contents, not legal form.

Reporting period: from 01.01.2011. to 31.12.2011

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:

	2011.12.31	2010.12.31	2009.12.31
USD	0,544	0,535	0,489
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 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, form 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 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 of last 6 month salaries for annual year with 6 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 2011, due to changes in legislation and opinion of management, no changes have been made in classification of items in comparison with 2010 report.

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	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Income from export sale of finished goods	422 960	601 818	423 662	602 817
Income from rent of premises	263 997	375 634	269 694	383 740
Income from sale of finished goods in the local market	158 852	226 026	127 009	180 718
Income from utility services	341 774	486 301	325 820	463 600
Income from sale of materials	132 596	188 667	71 428	101 633
Total	1 320 179	1 878 446	1 217 613	1 732 508

Devison of neto turn over by geographical markets.

LV	880 153	1 252 345	793 951	1 129 690
EE	4 328	6 158	2 441	3 473
DE	2 055	2 924	2 505	3 564
RU	28 500	40 552	14 695	20 909
PL	600	854	1 513	2 153
FI		-	2 735	3 892
IT	354 213	504 000	365 929	520 670
BY	10 965	15 602	10 311	14 671
CZ	37 985	54 048	17 551	24 973
KZ		-	3 968	5 646
LT	1 380	1 964	2 014	2 866
	1 320 179	1 878 448	1 217 613	1 732 508

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	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Personnel costs	33 624	47 843	67 317	95 783
Provisions for leave and social security	- 992		- 401	- 571
Depreciation of fixed assets	85 112	121 103	77 220	109 874
Depreciation of fixed assets (project 124000075)	109 093	155 225	109 093	155 225
Write-off of cost of turnaround means	46 076	65 560	2 611	3 715
Changes in finished goods inventory	409 347	582 448	400 290	569 561
Changes in purchased materials and goods inventory	122 363	174 107	91 979	130 874
Services for productions	49 505	70 439	33 848	48 161
Ongoing maintenance and repair	24 374	34 681	12 806	18 221
Real estate property maintenance	384 908	547 675	318 954	453 831
Other costs	19 571	27 847	21 721	30 906
Total	1 282 981	1 826 928	1 135 438	1 615 580

Notes to the Profit and Loss statement entries (continued)

Note Nr. 3

Sales costs

Cost type

Commissions paid

Goods' transport costs

Sales costs

Other selling expenses (marketing)

Advertising costs

Total

	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
	28 838	41 033	29 384	41 810
	9 921	14 116	11 646	16 571
	25 490	36 269	11 646	16 571
	10 361	14 742	2 588	3 682
Total	74 610	106 160	55 264	78 634

Note Nr. 4

Administrative costs

Cost type

Personnel costs

Provisions for leave and social security

Representation costs

Office expenses

Communication expenses

Bank expenses

Transport costs

Accounting and legal expenses

Other administrative costs

Total

	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
	83 737	119 147	108 008	153 682
-	7 534	- 10 720	- 1 634	- 2 325
	2 822	4 015	2 490	3 543
	4 066	5 785	3 373	4 799
	7 213	10 263	9 383	13 351
	6 749	9 603	7 947	11 308
	15 256	21 707	15 764	22 430
	7 574	10 777	17 009	24 202
	7 858	11 181	13 720	19 522
Total	127 741	181 758	176 060	250 512

Note Nr. 5

Other incomes from operating activity

Type on income

Debt write-off

Receivables from grant financing (project 124000075)

Sale of fixed assets (neto income0)

Other income

Net profits from Exchange rate fluctuations on net

Net profit from the net of the exchange rate of purchase/sales

Total

	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
	61 821	87 963	-	-
	181 347	258 034	181 347	258 034
	266 773	379 584	230 743	328 318
	16 493	23 467	5 470	7 783
			10 180	14 485
			507	721
Total	526 434	749 048	428 247	609 341

Note Nr. 6

Other incomes/expenses from operating activity

Type of income/expense

Net loss from the Currency Rate

Net finance charge

Written-down bezcerīgie DEBTS

Of economic activity unrelated expenses

With saimn. Operation unrelated expenses (the loss of a custo

Total

	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
	1 873	2 665		-
	67 334	95 808	33 623	47 841
	27 317	38 869	8 478	12 063
	4 647	6 612	6 732	9 579
	78 029	111 025	6 732	9 579
Total	179 200	254 979	55 565	79 062

Note Nr. 7

Other interest and similar income

Type of income

Interest received on account balances

	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
	143	203	6	9

		Total	143	203	6	9
<i>Notes to the Profit and Loss statement entries (continued)</i>						
Note Nr. 8						
	Type of expense		2011	2011	2010	2010
			LVL	EUR	LVL	EUR
	Other securities		520	740	0	-
	Total		520	740	-	-
Note Nr. 9						
	On loans paid %		2011	2011	2010	2010
			LVL	EUR	LVL	EUR
					-	-
	Total:		81 114	115 415	77 155	109 782
Note Nr. 10						
	Deferred corporate income tax				13 050	18 568
	Total:		-	-	13 050	18 568
	FA and intangible assets net book value Financial accounting		1 721 782	2 449 875	2 109 396	3 001 400
	FA and intangible assets net book value for tax purposes		-355 239	-505 460	-592 007	-842 350
			1 366 543	1 944 415	1 517 389	2 159 050
	%provisions leave		-7 963	-11 330	-16 489	-23 462
	Provisions for bad and doubtful debts			0		0
	Taxable losses		-1 474 102	-2 097 458	-1 714 732	-2 439 844
	Temporary difference		-115 522	-164 373	-213 832	-304 256
			x 15%	x 15%	x 15%	x 15%
			-17328	-24656	-32075	-45638
	The difference from last year		14747	20 983	13050	18 568
Piezīme Nr. 11						
	Natural resource tax (imf's overdraft)		0	-	0	-
	Real estate tax		13 813	19 654	11 874	16 895
	Real estate tax on buildings and premises		67 083	95 451	87 947	125 137
	Kopā:		80 896	115 105	99 821	142 032

Notes to the Financial Statements

Notes to the Balance Sheet as on December 31, 2011.

12. 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						
31.12.2010.		-	-	-	-	-
Purchased	-	-	-	-	-	-
Relocated	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
31.12.2011	-	-	-	-	-	-
Depreciation						
31.12.2010.	7 186	-	-	-	7 186	10 225
Calculated	176	-	-	-	176	250
Written-off	-	-	-	-	-	-
31.12.2011	7 362	-	-	-	7 362	10 475
Net book value						
31.12.2010.	- 7 186	-	-	-	7 186	10 225
Net book value						
31.12.2011	- 7 362	-	-	-	7 362	10 475

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

13. Fixed Assets

	Land	Buildings and constructions	Technological equipment	Other fixed assets	Total LVL	Total EUR
Historical cost						
31.12.2010.	392 348	1 002 296	641 893	312 208	2 348 745	3 341 963
Purchased	2 868 095	2 263 782			5 131 877	7 302 003
Overrated						-
Written-off	- 124 756	106 277	59 238	86 656	376 927	536 319
31.12.2011.	3 135 687	3 159 801	582 655	225 552	7 103 695	10 107 647
Depreciation						
31.12.2010.	-	440 814	376 029	229 438	1 046 280	1 488 722
Calculated		21 657	39 450	23 829	84 936	120 853
Written-off		- 45 607	58 250	78 563	1 827 420	2 600 184
31.12.2011.		416 864	357 228	174 704	948 796	1 350 015
Net book value						
31.12.2010.	392 348	561 482	265 865	82 770	1 302 465	1 853 241
Net book value						
31.12.2011	3 135 687	2 742 937	225 427	50 848	6 154 899	8 757 633

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						
31.12.2010.	1 827 372	-	-	38 052	1 865 424	2 654 259
Purchased	-	-	-	-	-	-
Transferred from the next expenditure for the period				935 714	935 714	1 331 401
Written-off		-	-	-	-	-
31.12.2011.	1 827 372	-	-	973 766	2 801 138	3 985 660
Depreciation						
31.12.2010.	627 348	-	-	-	627 348	627 348
Calculated	109 092	-	-	-	109 092	155 224
Written-off	-	-	-	-	-	-
31.12.2011.	736 440	-	-	-	736 440	1 047 860
Net book value						
31.12.2010.	1 200 024	-	-	38 052	1 238 076	1 761 623
Net book value						
31.12.2011.	1 090 932	-	-	973 766	2 064 698	2 937 801

Fixed assets in the balance are reflected in remaining value, cadastral value of real estate is 4419600 LVL.

According to the report of Ober Haus State Company, 30.06.2011., concerning determination of real estate market value . fixed assets were reestimated : pieces of land and buildings.

Residue of fixed assets on 31.12.2011. were checked during inventory 04.01.2012.

Buildings, constructions, technological equipment and automobiles were insured.

Financial leasing assets:

FA name	Lessor	FA original value	FA net book value	Not paid the lease agreement Amount	Leasing period
A/m Jaguar Daimler Super Eight	Citadele Līzings	67 898	23 332	20 011	2013.06.30
A/m VOLVO	DnB Nord Līzings	14 359	9 509	14 299	2015.03.15

Scrapped and sold, liquidated assets and intangible investments result:

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
The initial value of the	376 927	536 319	35 686	50 777
Accumulated depreciation	182 421	259 562		
Net book value	194 506	276 757	35 686	50 777
Sales income	266 773	379 584	266 429	379 094

14. Long-term financial investments

marketing expenditure project nr.124000075	223 580	318 126		
Other loans	151 828	216 032	520	740
Deferred tax assets	17 328	24 656	32 075	45 639
Total	392 736	558 814	32 595	46 379

15. Raw materials

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Raw materials	156 661	222 909	170 611	242 758
Inventory in use	89 958	127 999	92 402	131 476
	246 619	350 908	263 013	374 234

Notes to the Balance Sheet (continued)

16. Stock	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Unfinished goods	1 031	1 467	1 040	1 480
finished goods and goods in warehouse	143 361	203 984	265 860	378 285
Total	144 392	205 451	266 900	379 765
17. Advance payments for goods	2011	2011	2009	2009
	LVL	EUR	LVL	EUR
Advance payments for materials	13 818	19 661	25 770	36 667
Advance payments to non-residents	23 319	33 180	49 954	71 078
Goods in bonded storage	-	-	-	-
Total	37 137	52 841	75 724	107 745
18. Trade receivables	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Receivables (non-residents)	81 306	115 688	226 917	322 874
Receivables (residents)	596 766	849 122	308 263	438 619
Book value of purchases and customers, total	678 072	964 810	535 180	761 493
Provisions for doubtful debts	-	-	-	-
Net trade receivables, total	678 072	964 810	535 180	761 493
19. Other receivables	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
VAT confirmed (unpaid invoices)	-	-	-	-
Settlements with employees	19 007	27 045	100 643	143 202
Tax pre-payments for customs procedures	735	1 046	86	122
Loans to employees	5 094	7 248	5 094	7 248
Other loans	44 437	63 228	47 821	68 043
Others	315	448	240	341
Total	69 588	99 015	153 884	218 956
20. Deferred expenses	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Insurance expenses	1 190	1 693	2 376	3 381
Expenses for repairs of buildings and premises	-	-	6 884	9 795
Expenses for implementation of project Nr.124000075	25 820	36 739	301 041	428 343
Expenses for reconstruction of block I-2	-	-	909 478	1 294 071
Other expenses	384	546	152	216
Total	27 394	38 978	1 219 931	1 735 806
21. Cash and cash equivalents	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Cash on hand	25 035	35 622	60	85
Cash in bank accounts	72 050	102 518	537	764
Total	97 085	138 140	597	849

Notes to the Balance Sheet (continued)

22. Information about company's share capital

On 31.12.2011 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	
	2011.12.31.	2010.12.31.	2011.12.31.	2010.12.31.	2011.12.31.	2010.12.31.
Baltlains Intern Ltd.	622338	1270612	622338	1270612	885507	1807918
State Social Security Agency		192694		192694	0	274179
Eduards Malejevs	715282	423559	715282	423559	1017755	602670
Jurijs Malejevs	531006	421871	531006	421871	755553	600268
Inga Sprūga	267852		267852		381119	0
Jekaterina Malejeva	270000		270000		384175	0
Others (<5%)	142606	240348	142606	240348	202910	341984
Total:	2549084	2549084	2549084	2549084	3627020	3627020

23. 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.

	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Previous years' retained earnings/losses	-353 353 -	502 776	-392 949 -	559 116
Current year profit/loss	4 947	7 039	22 760	32 385
Total	- 348 406 -	495 737 -	370 189 -	526 731

24. Revaluation reserve for long-term investments

	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Reserve	5131877	7302003		
The proceeds of the revalued asset depreciation	-13967	-19873		
Total	5 117 910	7 282 130	-	-

25. Long-term loans from credit institutions

	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Loan from JSC SEB Banka (EUR)	1 435 060	2 041 906	1 480 040	2 105 907
Total	1 435 060	2 041 906	1 480 040	2 105 907

According to loan agreement Nr. KD04277, 24.11.2005, obligations are provided by first round on real estate situated on Kurzemes boulevard 3, Riga (section in Land Register Nr.18732) and first round commercial mortgage based on fixed assets which were obtained within the framework of the project Nr.12400075 on the total amount of 181346 LVL.

The final term of the loan agreement is September, 2012. However, taking into consideration experience of previous years, loan agreements are extended every year per one year. Prolongation of the loan agreement is also planned in 2012, for this reason loans from credit institutions were classified in long and short term positions.

Notes to the Balance Sheet (continued)

26. Other loans (long-term)	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Financial lease from SIA CITADELE Līzins un Faktorin	5 647	8 035	18 928	26 932
Financial lease from SIA DnB Nord Līzings (EUR)		-	11 767	16 743
Financial lease from SIA SEB līzings (EUR)		-	2 421	3 445
Total	5 647	8 035	33 116	47 120

27. Deferred income (long-term)	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Income from grant financing (project Nr.124000075)		-	46 798	66 588
Total	-	-	46 798	66 588

28. Short-term loans from lending institutions	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Credit line from JSC SEB Banka (LVL)		-		-
Loan from JSC SEB Banka (EUR)	144 728	205 929	170 732	242 930
Total	144 728	205 929	170 732	242 930

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.

29. Other loans (short-term)	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Financial lease from SIA CITADELE Līzins un Faktorin	14 364	20 438	13 248	18 850
Financial lease from SIA DnB Nord Līzings (EUR)	11 995	17 067	5 827	8 291
Financial lease from SIA SEB līzings (EUR)	2 305	3 280	3 308	4 707
Payables to employees	24 484	34 838		-
Other loans	16 052	22 840	19 379	27 574
Total	69 200	98 463	41 762	59 422

30. Advances from customers	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Advances from non-residents	39 956	56 852	13 326	18 961
Advances from residents	1 102	1 568	4 042	5 751
Total	41 058	58 420	17 368	24 712

31. Trade accounts payable (short-term)	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Trade accounts payable to non-residents	25 822	36 741	64 360	91 576
Trade accounts payable to residents	371 220	528 198	430 492	612 535
Total	397 042	564 939	494 852	704 111

Notes to the Balance Sheet (continued)

32. Taxes and social insurance payments	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Personal Income Tax	60 220	85 685	58 552	83 312
State Social Insurance payments	110 998	157 936	121 998	173 588
Value Added Tax	50 538	71 909	44 334	63 082
Real estate tax for building and constructions	137 074	195 039	97 037	138 071
Nature resources tax	2 121	3 018	854	-
Corporate risk tax	25	36	17	24
Total	360 976	513 623	322 792	458 077

33. Other liabilities	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Salaries	27 272	38 805	37 133	52 835
Advance settlement amounts	3 224		2 764	
Security	11 823	16 823	15 055	21 421
Other creditors	2 328	3 312	2 328	3 312
Total	44 647	58 940	57 280	77 568

34. Deferred income (short-term)	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Income from grant financing (project Nr.124000075)	46 798	66 588	181 347	258 034
Total	46 798	66 588	181 347	258 034

35. Accrued liabilities	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Current expense	41 197	58 618	27 555	39 207
	41 197	58 618	27 555	39 207

Notes to the Financial Statements

General Notes

1. Average number of employees during the year

Average number of employees during the year

<u>2 011</u>	<u>2 010</u>
33	50

2. Total personnel costs

- salaries
- Social security payments
- Corporate risk tax

- including:

Management salaries

- salaries
- Social security payments
- Corporate risk tax

- total:

<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>
<u>LVL</u>	<u>EUR</u>	<u>LVL</u>	<u>EUR</u>
117 361	166 988	175 325	249 465
95 027	135 211	141 061	200 712
22 232	31 633	34 115	48 541
101	144	149	212
15 810	22 496	24 230	34 476
3 573	5 084	6 053	8 613
9	13	9	13
19 392	27 593	30 292	43 102

Taxes and social security payments

Type of tax	(-) underpayment, (+) overpayment	31.12.2010.	Calculated	Paid	Transferred	31.12.2011.
Value added tax		44334	-12030	6659	-16154	41 799
Penalty payment			8739			8 739
Personal income tax		58552	25190	18349	5174	60 219
Penalty payment			6424	6424		
State social security obligatory payments		121998	46285	46304	10980	110 999
Penalty payment			13901	13901		
Business risk duty		17	101	93		25
Nature resources tax		854	953			2 121
Penalty payment			217			
Real estate tax		97037	114627	74590		137 074
Penalty payment			16447	16447		
Total		322792	220853	182767		360976
Tax overpayment		315				315
Tax debt		321938				360660
Calculated penalty			45728	36772		

Information on the reimbursement of certified auditors commercial company total in the reference year

AS BDO

For annual year- 2 100 LVL

Together 2 100 LVL

Annual report is accepted and signed from page 1 till 27

Chairman of the Board

Eduards Malejevs

Member of the Board

Boriss Livca

Member of the Board

Olga Romanko

11.05.2012.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of JSC "VEF Radiotehnika RRR"

Report on the Financial Statements

We have audited the financial statements incorporated in the annual report of JSC "VEF Radiotehnika RRR", registration No 40003286712, for the year 2011, which are presented on pages 7 to 27. The audited financial statements comprise the balance sheet as at December 31, 2011, and the income statement, statement of changes in equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The stock in the balance sheet as at December 31, 2011 comprises raw materials and equipment not usable in the production process in amount of LVL 168 000 that should be amortized, as well as advance payments for goods in amount of LVL 25 700 are outstanding for a long term.

The accounts receivable comprise receivables in amount of LVL 226 300 recovery of which in our opinion is doubtful and which are not impaired.

Deferred tax asset in amount of LVL 17 328 is included in accounts receivable which according to the principle of due caution should not be recognized in the balance sheet since in our opinion the Company will be unable to use the tax losses included in the deferred tax asset.

Making the above mentioned corrections, the retained earnings and the current year's profit of the Company as well as the equity as of December 31, 2011 would diminish by LVL 437 328.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of JSC „VEF Radiotehnika RRR” as at December 31, 2011, and its financial performance and its cash flows for the year 2011, in accordance with International Financial Reporting Standards as adopted by the European Union.

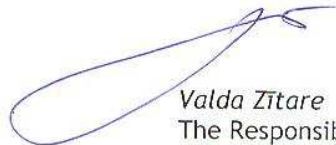
Report on Other Legal and Regulatory Requirements

We have familiarised ourselves with the management report for the year 2011, which is presented on pages 4 to 5, and have not identified any material discrepancies between the financial information presented in the management report and the financial statements for the year 2011.

JSC “BDO”
A Company of Certified Auditors
Licence No 112



Aivars Putniņš
Member of the Board
The Responsible Certified Auditor
Certificate No. 123



Valda Zitare
The Responsible Certified Auditor
Certificate No. 62

Riga, Latvia,
May 11, 2012