

JSC "VEF Radiotekhnika RRR"

Unified Registration No. 40003286712

Address: Kurzemes prospekts 3, Riga, LV-1067

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

JSC "VEF Radiotekhnika RRR"
Annual accounts for the year ended 31 December 2014

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JSC "VEF Radiotekhnika RRR"
Annual accounts for the year ended 31 December 2014

GENERAL INFORMATION

| | | | | |
|---|---|--|------|------------|
| Full name of the Company | JSC "VEF Radiotekhnika RRR" | | | |
| Legal status of the Company | Public Joint-Stock Company | | | |
| Registration No., place and date of issue | 40003286712 1998.12.11 | | | |
| Legal address of the Company | Kurzemes prospekts 3, Riga, LV-1067 | | | |
| NACE code | 26.40 | Manufacture of electronic devices | | |
| | 68.32 | Real estate management with remuneration or based on agreements | | |
| Council members of the JSC | | | | |
| Chairman of the Council | Janis Salenieks | | | |
| Council Member | Jurijs Malejevs | | | |
| Council Member | Inga Spruga | | | |
| Council Member | Inārs Kļaviņš | | | |
| Council Member | Jekaterina Maļejeva | | | |
| Board members of the JSC | | | | |
| Chairman of the Board | Eduards Maļejevs | | | |
| Board Member | Ēriks Ertmanis | | | |
| Administrator of legal protection | Vigo Krastiņš | | | |
| Reporting year | from | 2014.01.01 | till | 2014.12.31 |
| Previous reporting year | from | 2013.01.01 | till | 2013.12.31 |
| Chief Accountant | Olga Romanko | | | |
| Auditor | SIA Potapoviča un Andersone Certified Auditors Company Licence No. 99 Udens Street 12-45, Riga, LV-1007 Responsible certified auditor: Anna Temerova-Allena Certificate No. 154 | | | |

JSC "VEF Radiotekhnika RRR"
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Management report

Principal activities

During year 2014, the main activities of JSC "VEF Radiotekhnika RRR" were:

1. Purchase and sales of acoustic systems and their enclosures;
2. Real estate renting services.

All of the above-mentioned activities have been performed also in year 2013. New types of activities have not been performed. By the end of 2015 it is planned to restore acoustic systems development, organisation of production and sales.

Operations of the Company during the reporting year

Reporting year results of the Company are the following:

| | |
|--|--------------|
| Result before extraordinary items and taxes: | -617 988 EUR |
| Deferred corporate income tax: | 69 288 EUR |
| Other taxes: | -72 371 EUR |
| Net result: | -621 071 EUR |

Net turnover in year 2014 was EUR 818 666, and it has decreased by 32% compared to the year 2013.

The Company's current liabilities exceed its current assets.

As at September 19, 2014 Riga Kurzeme District Court decided to initiate AS VEF Radiotekhnika RRR legal protection proceedings and to set the term for the development and coordination of the the legal protection plan till 19 November 2014. As at 24 November the Company received decision of Riga Kurzeme District Court to extend the term of the development and coordination of the the legal protection plan till 19 December 2014.

As at January 5, 2015 Riga Kurzeme District Court announced AS VEF Radiotekhnika RRR legal protection process implementation, approved the legal protection process action plan, set the legal protection implementation period till January 5, 2017 and appointed an administrator of legal protection- certified administrator Vīgo Krastiņš, p.c. 111278-12318, certificate No.00164, place of practice Blaumaņa Street 10, Riga.

The repayment term of the loan from AS SEB banka ended as at 19 December 2014. Payments for repayment of the loan is made in accordance with the Riga Kurzeme District Court judgment on the legal protection process action plan dated as at 5 January 2015.

All payments to creditors are made according to the approved legal protection process plan.

To absorb the accumulated losses and settle payments to creditors, it is considered to sell the Company owned by non-profile assets that are engaged in business, but possession of those assets causes the Company additional property tax charge. Currently as non-profile assets are considered - administrative buildings and a few plots of land.

As at April 30, 2015 the Company concluded an agreement on the structure of the transaction with "Pārūpes būvniecība". As a result of the agreement the Company will be able to pay the debts to the State revenues service and partially repay of liabilities to the SEB bank. Implementation of the the transaction takes time, because the transaction involves 4 legal entities. Management of the Company believes that this transaction could take up to 6 months. Estimated selling price is lower than the book value of real estate, so the real estate recoverable impairment of EUR 539 thousand is recognised in the annual report of 2014.

Post balance sheet events

Except as disclosed in the Note 40, from the last day of the financial year to the date of signing this report there have been no other significant events which would impact the year-end results of which would need to be additionally disclosed in the financial statements.

Proposals concerning covering the loss

It is planned to cover year 2014 loss with future periods' profits from income generated by renewed production process and with proceeds from disposal of non-profile assets.

Chairman of the Board

Eduards Malejevs

Member of the Board

Ēriks Ertmanis

31 July, 2015

JSC "VEF Radiotekhnika RRR"
Annual accounts for the year ended 31 December 2014

Statement of the 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 the preparation of the annual report for the period ended 31 December 2014, appropriate accounting principles were consistently applied and justified and prudent decisions were made.

Management is responsible for application of appropriate accounting principles, safeguarding of the company's assets as well as prevention of fraud and other unlawful activities.

The management of the company confirms, that it has provided information and explanations required for the audit.

Chairman of the Board



Eduards Malejevs

Member of the Board



Ēriks Ertmanis

31 July, 2015

JSC "VEF Radiotekhnika RRR"
Annual accounts for the year ended 31 December 2014

Profit or loss account for the year ended 31 December 2014
(by turnover cost method)

| | Notes | 2014 EUR | 2013 EUR |
|--|-------|------------------|------------------|
| Net sales | 1 | 818 666 | 1 198 761 |
| Cost of sales | 2 | (1 053 667) | (1 617 309) |
| Gross profit / (loss) | | (235 001) | (418 548) |
| Selling expenses | 3 | (3 400) | (20 341) |
| Administrative expenses | 4 | (264 581) | (197 123) |
| Other operating income | 5 | 107 539 | 349 810 |
| Other operating expenses | 6 | (152 667) | (177 633) |
| Interest income and similar income | 7 | - | 458 |
| Interest expenses and similar expenses | 8 | (69 838) | (81 987) |
| Profit / (loss) before taxes | | 617 988 | (545 364) |
| Deferred corporate income tax for the reporting year | 9 | 69 288 | 55 472 |
| Other taxes | 10 | 72 371 | (90 869) |
| Current year's profit / (loss) | | (621 071) | (580 761) |
| Profit/ (loss) per share | | (0.244) | 0.2280 |

Notes on pages from 11 to 23 are integral part of these financial statements.

Chairman of the Board

Eduards Malejevs

Member of the Board

Ēriks Ertmanis

31 July, 2015

JSC "VEF Radiotekhnika RRR"
Annual accounts for the year ended 31 December 2014

Balance sheet as at 31.12.2014

| ASSETS | Note | <u>2014</u> <u>EUR</u> | <u>2013</u> <u>EUR</u> |
|---|-----------|---------------------------|---------------------------|
| I. Non-current assets | | | |
| II. Fixed assets: | | | |
| Land, buildings and constructions | | 1 419 426 | 2 181 133 |
| Equipment and vehicles | | 1 368 449 | 1 550 025 |
| Other fixed assets | | 26 410 | 30 783 |
| Total fixed assets: | 11 | 2 814 285 | 3 761 941 |
| III. Investment properties: | | | |
| Total investment properties: | 12 | 4 089 284 | 3 987 250 |
| Loans to related parties | 18 | 309 160 | 309 160 |
| Total non-current financial investments: | | 309 160 | 309 160 |
| Total non-current assets: | | 7 212 729 | 8 058 351 |
| 2. Current assets | | | |
| I. Inventory: | | | |
| Raw materials | 13 | 1 350 | 18 910 |
| Finished goods | 14 | - | - |
| Advance payments for materials | 15 | 458 | 2 839 |
| Total inventory: | | 1 808 | 21 749 |
| III. Receivables: | | | |
| Trade receivables | 16 | 122 424 | 33 082 |
| Receivables from related parties | 17 | 62 839 | 125 235 |
| Other receivables | 18 | 22 918 | 255 |
| Deferred expenses | 19 | 413 | 4 108 |
| Total receivables: | | 208 594 | 162 680 |
| V. Cash | 20 | 1 062 | 848 |
| Total current assets: | | 211 464 | 185 277 |
| TOTAL ASSETS: | | 7 424 193 | 8 243 628 |

Notes on pages from 11 to 23 are integral part of these financial statements.

JSC "VEF Radiotekhnika RRR"
Annual accounts for the year ended 31 December 2014

Balance sheet as at 31.12.2014

| LIABILITIES AND SHAREHOLDERS' EQUITY | | Note | 2014 | 2013 |
|--|--------|------|------------------|------------------|
| | | | EUR | EUR |
| 1. Shareholders' equity: | | | | |
| Share capital | 21 | | 3 627 020 | 3 627 020 |
| Non-current assets revaluation reserve | 23 | | 3 063 860 | 3 551 415 |
| Accumulated losses: | | | | |
| a) accumulated losses of previous years | 22 | | (2 887 773) | (2 306 980) |
| b) current year loss | 22 | | (621 071) | (580 761) |
| Total shareholders' equity: | | | 3 182 036 | 4 290 694 |
| 2. Provisions: | | | | |
| Other provisions | 24 | | 12 705 | 22 471 |
| Total provisions: | | | 12 705 | 22 471 |
| 3. Liabilities: | | | | |
| I. Non-current liabilities: | | | | |
| Loans from credit institutions | 26 | | 690 485 | - |
| Deferred tax | 35 | | 391 027 | 546 354 |
| Trade creditors | 29 | | 522 009 | - |
| Accounts payable to affiliated companies | 30 | | 189 936 | - |
| Taxes and social security liabilities | 25, 37 | | - | 83 497 |
| Deferred income | 34 | | 193 837 | - |
| Total non-current liabilities: | | | 1 987 294 | 629 851 |
| II. Current liabilities: | | | | |
| Loans from credit institutions | 26 | | 796 360 | 1 517 503 |
| Other loans | 27 | | - | 157 092 |
| Advances from customers | 28 | | 568 | 804 |
| Trade accounts payable | 29 | | 740 184 | 979 425 |
| Payables to related parties | 30 | | 15 188 | 90 677 |
| Taxes and social security liabilities | 31, 37 | | 491 633 | 435 948 |
| Other liabilities | 32 | | 31 514 | 45 498 |
| Accrued liabilities | 33 | | 59 322 | 73 665 |
| Deferred income | 34 | | 107 389 | - |
| Total current liabilities: | | | 2 242 158 | 3 300 612 |
| Total liabilities: | | | 4 229 452 | 3 930 463 |
| TOTAL LIABILITIES : | | | 7 424 193 | 8 243 628 |

Notes on pages from 11 to 23 are integral part of these financial statements.

Chairman of the Board

Eduards Malejevs

Member of the Board

Ēriks Ertmanis

31 July, 2015

JSC "VEF Radiotekhnika RRR"
Annual accounts for the year ended 31 December 2014

Cash flow statement for the year ended 31 December 2014 (indirect method)

| I. Cash flow from operating activities | Note | <u>2014</u> | <u>2013</u> |
|--|------|------------------|------------------|
| | | <u>EUR</u> | <u>EUR</u> |
| <i>Loss before extraordinary items and taxes</i> | | <u>(617 988)</u> | <u>(545 364)</u> |
| <i>Adjustments for:</i> | | | |
| a) depreciation of fixed assets and investment properties | | 339 474 | 332 726 |
| c) provisions (excluding provisions for doubtful receivables) | | (9 766) | 4 789 |
| d) gains or losses from foreign currency exchange rate fluctuations | | (805) | 679 |
| g) other income from interest or similar income | | - | (458) |
| h) profit/loss from sale of fixed assets | | - | (315 860) |
| i) interest payments and similar activities | | 69 838 | 81 987 |
| k) depreciation of revalued fixed assets | | (33 950) | (33 950) |
| <i>Loss before working capital and current liabilities adjustments</i> | | <u>(253 197)</u> | <u>(475 451)</u> |
| <i>Adjustments for:</i> | | | |
| a) debtors increase (-) or decrease (+) | | (45 914) | 179 209 |
| b) inventory increase (-) or decrease (+) | | 19 941 | 90 869 |
| c) accounts payable to suppliers and other creditors increase (+) or decrease (-) | | 351 938 | 261 918 |
| <i>Gross cash flow from operating activities</i> | | <u>72 768</u> | <u>56 545</u> |
| Interest payments | | (72 610) | (73 787) |
| Real estate tax payments | | (12 926) | (110 762) |
| <i>Cash flow before extraordinary items</i> | | <u>(12 768)</u> | <u>(128 004)</u> |
| <i>Net cash flow from operating activity</i> | | <u>(12 768)</u> | <u>(128 004)</u> |
| II. Cash flow from investing activities | | | |
| Acquisition of fixed assets and intangibles | | (33 496) | (67 086) |
| Proceeds from disposal of fixed assets and intangibles | | - | 584 961 |
| Interest received | | - | 459 |
| <i>Net cash flow from investing activities</i> | | <u>(33 496)</u> | <u>518 334</u> |
| III. Cash flow from financing activities | | | |
| Loans received | | 77 083 | 157 092 |
| Loans repaid | | (30 605) | (533 392) |
| Financial lease payments | | - | (13 792) |
| <i>Net cash flow from financing activities</i> | | <u>46 478</u> | <u>(390 092)</u> |
| IV. Foreign exchange rate differences | | - | - |
| V. Net cash flow for the year | | <u>214</u> | <u>238</u> |
| VI. Cash and cash equivalents at the beginning of the period | | <u>848</u> | <u>610</u> |
| VII. Cash and cash equivalents at the end of the period | 20 | <u>1 062</u> | <u>848</u> |

Notes on pages from 11 to 23 are integral part of these financial statements.

Chairman of the Board

Eduards Malejevs

Member of the Board

Ēriks Ertmanis

31 July, 2015

JSC "VEF Radiotekhnika RRR"
Annual accounts for the year ended 31 December 2014

Statement of changes in equity for the year ended 31 December 2014

| | Share capital | Non-current assets revaluation reserve | Result of the reporting year | Previous year's retained earnings | Total shareholders' equity |
|--|------------------|--|------------------------------|-----------------------------------|----------------------------|
| | EUR | EUR | EUR | EUR | EUR |
| Balance as on December 31, 2012 | 3 627 020 | 6 156 031 | (1 057 282) | (1 249 698) | 7 476 071 |
| Loss carried over | - | - | 1 057 282 | (1 057 282) | - |
| Loss for the year | - | - | (580 761) | - | (580 761) |
| Company reserves build-up | - | (2 604 616) | - | - | (2 604 616) |
| Balance as on December 31, 2013 | 3 627 020 | 3 551 415 | (580 761) | (2 306 980) | 4 290 694 |
| Loss carried over | - | - | 580 761 | (580 761) | - |
| Loss for the year | - | - | (621 071) | - | (621 071) |
| Correction of previous years | - | - | - | (32) | (32) |
| Company reserves build-up | - | (487 555) | - | - | (487 555) |
| Balance as on December 31, 2014 | 3 627 020 | 3 063 860 | (621 071) | (2 887 773) | 3 182 036 |

Notes on pages from 11 to 23 are integral part of these financial statements.

Chairman of the Board

Eduards Malejevs

Member of the Board

Ēriks Ertmanis

31 July, 2015

Notes

Accounting policies and methods

National currency of Latvian Republic - *euro*, shortened – EUR is used in the data in the Financial Statements.

General Principles

The Annual Report is prepared in accordance with the corresponding laws of the Republic of Latvia - "Law On Accounting" and "Law on Annual Reports", the Cabinet Regulation No 488 "Application of Law on Annual Reports" the Cabinet Regulation No 481 "Contents and procedure for the preparation of the cash flow report and report of changes in shareholders' equity".

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

Cash Flow Statement is prepared using indirect method.

Changes to the accounting policies

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

Reclassifications

In 2014 there have been no changes in classification of items in comparison with the year 2013.

Correction of errors

Significant errors of the previous periods are corrected by the Company retrospectively 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 opening balances for the latest period presented.

Transactions in foreign currency

Since the Republic of Latvia joined the Eurozone 1 January 2014, the Company maintains its accounts in euros. Comparative figures have been converted from the Latvian lats to the euro using the official exchange rate of € 1: 0.702804 lats. At the end of the reporting year foreign currency cash balance and balances of advances and loans denominated in foreign currencies as well as other debtors' or creditors' debts payable in foreign currencies are translated from the foreign currency to the euro in accordance with the foreign exchange rates in force on the last date of the reporting year. The resulting profit or loss is charged to the profit and loss account.

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

| | 2014.12.31 | 2013.12.31 |
|-----|------------|------------|
| USD | 1.214 | 1.291 |

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.

Fixed Assets

Fixed assets are physical objects with useful life over 12 calendar months and acquisition value of 70 EUR and more. 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 | 1-5 | % |
| * 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.

Fixed assets depreciation are calculated from acquisition costs less residual value. If the residual value is immaterial, it is not considered. Repairs and maintenance are charged to the profit and loss account during the period in which they are incurred. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Interest costs on borrowing to finance the fixed assets under construction and other direct charges related to the particular fixed asset under construction are capitalised, during the period of time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset. Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Investment property

Investment property is land, buildings, parts of buildings and constructions that the Company (as an owner or lessee in finance lease agreement) holds with the intention to gain rental (lease) income or gain increase in value of the investment by means of market value increase of the asset. The property is not utilized for production purposes. Service provision, administrative needs or other ordinary business activities of the company. Investment properties are initially recognised at acquisition cost, including transaction costs. After initial recognition investment properties are valued at revalued amounts (please see fixed assets recognition and depreciation accounting policy). Investment property is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised. Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

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.

Lease in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

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.

In cases when fixed assets are acquired under financial lease terms and all risks and benefits have been assumed, then these fixed assets are recognised at the value, at which they could have been acquired with immediate payment. Lease interest payments and any related payments are included in the income statement when incurred.

Inventory valuation

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

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 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.

Net turnover

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

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue from sale of goods outside Latvia is recognised based on the terms of delivery.

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;

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

All significant cost items are processed per accumulation principle.

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 multiplying the average wage of employees in the last six months per day by the amount of accrued but unused annual leave at the end of the reporting year.

JSC "VEF Radiotehnika RRR"
Annual accounts for the year ended 31 December 2014

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 European Central bank 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 economic 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.

JSC "VEF Radiotekhnika RRR"
Annual accounts for the year ended 31 December 2014

(1) Net Turnover

| | 2014 | 2013 |
|--|----------------|------------------|
| Type of activity | EUR | EUR |
| Income from exports of finished goods | 18 932 | 28 358 |
| Income from rent of premises | 115 034 | 179 814 |
| Income from sale of finished goods in the local market | 2 779 | 257 177 |
| Income from utility services | 676 799 | 672 196 |
| Income from sale of materials | 5 122 | 61 216 |
| Total | 818 666 | 1 198 761 |

Division of net turnover by geographical markets

| | | |
|--------------|----------------|------------------|
| Latvia | 799 734 | 1 170 403 |
| Russia | 18 932 | 28 358 |
| Total | 818 666 | 1 198 761 |

(2) Cost of goods sold

| Cost type | 2014 | 2013 |
|--|------------------|------------------|
| | EUR | EUR |
| Personnel costs | 17 842 | 32 212 |
| Provisions for leave and social security | (7 458) | 1 352 |
| Depreciation of fixed assets | 184 248 | 177 501 |
| Depreciation of fixed assets (project 124000075) | 155 226 | 155 226 |
| Write-off of miscellaneous items | 2 307 | 48 642 |
| Changes in finished goods inventory | 40 045 | 268 160 |
| Changes in purchased materials and goods inventory | 2 135 | 129 534 |
| Production services | - | 4 126 |
| Ongoing maintenance and repair | 41 001 | 71 704 |
| Real estate property maintenance | 617 510 | 725 976 |
| Other costs | 811 | 2 876 |
| Total | 1 053 667 | 1 617 309 |

(3) Selling expenses

| Cost type | 2014 | 2013 |
|-----------------------------|--------------|---------------|
| | EUR | EUR |
| Goods' transportation costs | 1 800 | 9 905 |
| Commissions paid | - | 5 970 |
| Sales costs | 830 | 3 672 |
| Advertising costs | 810 | 794 |
| Total | 3 440 | 20 341 |

JSC "VEF Radiotekhnika RRR"
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(4) Administrative expenses

Cost type

| | 2014 | 2013 |
|--|----------------|----------------|
| | EUR | EUR |
| Personnel costs | 46 148 | 81 565 |
| Provisions for leave and social security | (2 309) | 3 437 |
| Representation costs | 1 119 | 2 022 |
| Office expenses | 1 280 | 2 298 |
| Communication expenses | 9 783 | 11 568 |
| Bank expenses | 4 061 | 18 933 |
| Transportation costs | 757 | 6 784 |
| Accounting and legal expenses | 12 686 | 44 399 |
| Consulting services | 168 599 | 11 692 |
| Other administrative costs | 22 457 | 14 425 |
| Total | 264 581 | 197 123 |

(5) Other operating income

Type on income

| | 2014 | 2013 |
|---|----------------|----------------|
| | EUR | EUR |
| Debt write-off | 68 195 | 315 860 |
| Amortization of long-term investment revaluation reserves | 33 950 | 33 950 |
| Other income | 5 394 | - |
| Total | 107 539 | 349 810 |

(6) Other operating expenses

Type of income/expense

| | 2014 | 2013 |
|--|----------------|----------------|
| | EUR | EUR |
| Net loss from foreign exchange rate fluctuations | 805 | 882 |
| Penalties | 127 644 | 52 369 |
| Bad debts written off | 8 822 | 31 609 |
| Provisions for unsecured debts | 3 071 | 85 136 |
| Previous years' expenditure | 167 | - |
| Expenditures not related to economic activity | 12 158 | 7 637 |
| Total | 152 667 | 177 633 |

(7) Interest income and similar income

Type of income

| | 2014 | 2013 |
|-------------------|-------------|-------------|
| | EUR | EUR |
| Interest received | - | 458 |
| Total | - | 458 |

(8) Interest expense and similar expenses

Type of costs

| | 2014 | 2013 |
|--------------------|---------------|---------------|
| | EUR | EUR |
| Loan interest paid | 69 838 | 81 987 |
| Total | 69 838 | 81 987 |

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(9) Corporate income tax for the reporting year

Deferred tax (Note No. 35)
Current corporate income tax
Total

| 2014 | 2013 |
|-----------------|-----------------|
| EUR | EUR |
| (69 288) | (55 472) |
| - | - |
| (69 288) | (55 472) |

Loss before taxation

Theoretically calculated tax
Non-deductible expenses and non-taxable income net difference
Other correction
Tax charge

| | |
|-----------------|-----------------|
| (617 988) | (545 364) |
| (92 698) | (81 805) |
| 23 410 | 20 697 |
| - | 5 636 |
| (69 288) | (55 472) |

Accumulated tax losses carried forward for corporate income tax purposes amount to 2 617 292 EUR as at 31 December 2014. In accordance with the legislation of the Republic of Latvia, tax losses that have been incurred until 2007 can be covered chronologically from the taxable income of the subsequent eight years. Annual taxable income from later periods of taxation:

| | Amount of loss EUR | Expiry term |
|---|-----------------------|-------------|
| 2007 loss for corporate income tax purposes | 1 091 651 | 2015 |
| 2008 loss for corporate income tax purposes | 519 048 | - |
| 2009 loss for corporate income tax purposes | 332 712 | - |
| 2010 loss for corporate income tax purposes | 115 226 | - |
| 2013 loss for corporate income tax purposes | 214 309 | - |
| 2014 loss for corporate income tax purposes | 344 347 | - |
| Total | 2 617 292 | - |

(10) Other taxes

Real estate tax, land
Real estate tax, buildings and structures
Total

| 2014 | 2013 |
|---------------|---------------|
| EUR | EUR |
| 9 246 | 12 545 |
| 63 125 | 78 324 |
| 72 371 | 90 869 |

(11) Fixed Assets

| | Land | Buildings and constructions | Technological equipment | Other fixed assets | Total EUR |
|------------------------|-----------|-----------------------------|-------------------------|--------------------|-----------|
| Historical cost | | | | | |
| 31.12.2013. | 2 077 050 | 150 356 | 3 337 163 | 211 807 | 5 776 376 |
| Acquired | - | - | 33 496 | - | 33 496 |
| Disposed* | (758 918) | - | - | - | (758 918) |
| 31.12.2014. | 1 318 132 | 150 356 | 3 370 659 | 211 807 | 5 050 954 |
| Depreciation | | | | | |
| 31.12.2013. | - | 46 273 | 1 787 138 | 181 024 | 2 014 435 |
| Calculated | - | 2 789 | 215 072 | 4 373 | 222 234 |
| Disposed | - | - | - | - | - |
| 31.12.2014. | - | 49 062 | 2 002 210 | 185 397 | 2 236 669 |
| Net book value | | | | | |
| 31.12.2013. | 2 077 050 | 104 083 | 1 550 025 | 30 783 | 3 761 941 |
| 31.12.2014. | 1 318 132 | 101 294 | 1 368 449 | 26 410 | 2 814 285 |

Cadastre value of real estate (including investment property) is 5 085 152 EUR on 31.12.2014 (31.12.2013: 5 085 152 EUR).
Buildings, constructions, technological equipment and cars are insured.
See Note No. 26 for information on the pledged assets.
*See Note No. 12.

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(12) Investment properties

| | <u>EUR</u> |
|----------------------------------|------------------|
| Historical value | |
| 31.12.2013 | 5 473 899 |
| Written-off | 758 918 |
| 31.12.2014 | <u>6 232 817</u> |
| Depreciation | |
| 31.12.2013 | 1 486 649 |
| Calculated | 117 240 |
| Impairment | 539 644 |
| 31.12.2014 | <u>2 143 533</u> |
| Carrying value 31.12.2013 | <u>3 987 250</u> |
| Carrying value 31.12.2014 | <u>4 089 284</u> |

Investment property consists of land and buildings that are leased to the manufacturing companies.

During the reporting year the land from fixed assets was reclassified to investment property, because it is planned to sell the land in 2015.

Since the Company currently is negotiation real estate disposal deal with a buyer. The expected selling price is below current revalued value of the respective asset, then an impairment of 539 644 EUR has been recognised. The impairment is attributed to long-term investment revaluation reserve.

The Company's income from the rent of investment properties was 115 034 EUR (in 2013- 179 814 EUR).

The Company's maintenance costs of investment properties was 38 117 EUR (in 2013 - 87 365 EUR).

See Note No. 26 for information on the pledged assets.

(13) Raw materials

| | <u>2014</u> | <u>2013</u> |
|------------------------------|--------------|---------------|
| | <u>EUR</u> | <u>EUR</u> |
| Raw materials | - | 9 832 |
| Inventory in use | 9 151 | 9 078 |
| Provision for inventory loss | 7 801 | - |
| Total | <u>1 350</u> | <u>18 910</u> |

(14) Work in progress and finished goods

| | <u>2014</u> | <u>2013</u> |
|---------------------------------------|-------------|-------------|
| | <u>EUR</u> | <u>EUR</u> |
| Finished goods and goods in warehouse | 44 982 | 68 612 |
| Provision for decrease in value | (44 982) | (68 612) |
| Total | <u>-</u> | <u>-</u> |

(15) Advance payments for goods

| | <u>2014</u> | <u>2013</u> |
|----------------------|-------------|--------------|
| | <u>EUR</u> | <u>EUR</u> |
| Advances (residents) | 458 | 2 839 |
| Total | <u>458</u> | <u>2 839</u> |

(16) Trade receivables

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|----------------|---------------|
| | <u>EUR</u> | <u>EUR</u> |
| Receivables (non-residents) | 18 660 | 34 672 |
| Receivables (residents) | 242 548 | 154 742 |
| Provisions for doubtful debtors | (138 784) | (156 332) |
| Total | <u>122 424</u> | <u>33 082</u> |

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(17) Receivables from related parties

| | 2014 | 2013 |
|---|----------------|----------------|
| | EUR | EUR |
| Loans (non-current) | 309 160 | 309 160 |
| Payments for good | 68 839 | 55 325 |
| Advance payments for services | 3 353 | 69 910 |
| Provisions for receivables from related parties | (3 353) | - |
| Total current receivables: | 62 839 | 125 235 |
| Total | 371 999 | 434 395 |

On 12 November 2012 the Company issued non-interest bearing unsecured loan of EUR 309 160 SIA Imanta Retail Park, LV40103265172, with maturity on 10 November 2013. On 11 November 2013 the maturity date was changed to 12 November 2018. According to SIA "Imanta Retail Park" audited 2014 annual report, the Company's net result is loss, its net cash flow is negative and its short-term liabilities far exceed its current assets.

(18) Other receivables

| | 2014 | 2013 |
|----------------------------------|---------------|------------|
| | EUR | EUR |
| Settlements with employees | 245 | 255 |
| Settlements with management | 22 673 | - |
| Loans to employees | 7 248 | 7 248 |
| Provision for loans to employees | (7 248) | (7 248) |
| Total | 22 918 | 255 |

(19) Deferred expenses

| | 2014 | 2013 |
|-----------------|------------|--------------|
| | EUR | EUR |
| Insurance costs | 344 | 3 736 |
| Other costs | 69 | 372 |
| Total | 413 | 4 108 |

(20) Cash and cash equivalents

| | 2014 | 2013 |
|-----------------------|--------------|------------|
| | EUR | EUR |
| Cash on hand | - | - |
| Cash in bank accounts | 1 062 | 848 |
| Total | 1 062 | 848 |

(21) Information on company's share capital

As at 31 December 2014 the subscribed and fully paid share capital consists of 2 549 084 ordinary shares with a nominal value of 1.42 EUR each. Share capital is presented according to the official exchange rate, converting from lats to euro, therefore value of one share is not expressed in full euro. Re-registration of the share capital to euro at the moment of approval of the annual report was not made. The mandatory capital re-registration deadline is 30 June 2016.

| Shareholders | Number of shares | | Value | | | |
|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | | LVL | | EUR | |
| | 2014.12.31 | 2013.12.31 | 2014.12.31 | 2013.12.31 | 2014.12.31 | 2013.12.31 |
| Eduards Malejevs | 941 880 | 941 880 | 941 880 | 941 880 | 1 340 175 | 1 340 175 |
| Jurijs Malejevs | 864 512 | 864 512 | 864 512 | 864 512 | 1 230 090 | 1 230 090 |
| Inga Sprūga | 330 086 | 330 086 | 330 086 | 330 086 | 469 670 | 469 670 |
| Jekaterina Malejeva | 270 000 | 270 000 | 270 000 | 270 000 | 384 175 | 384 175 |
| Others (<5%) | 142 606 | 142 606 | 142 606 | 142 606 | 202 910 | 202 910 |
| Total: | 2 549 084 | 2 549 084 | 2 549 084 | 2 549 084 | 3 627 020 | 3 627 020 |

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(22) 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.

| | 2014 | 2013 |
|----------------------------------|--------------------|--------------------|
| | EUR | EUR |
| Previous years' retained losses | (2 887 773) | (2 306 980) |
| Correction of the previous years | - | (32) |
| Current year loss | (621 071) | (580 761) |
| Total | (3 508 844) | (2 887 773) |

(23) Long term investment revaluation reserve

| | 2014 | 2013 |
|--|------------------|------------------|
| | EUR | EUR |
| Opening balance | 3 551 418 | 6 156 034 |
| Disposed non-current assets | - | (2 318 868) |
| Depreciation charge for the reporting year | (33 950) | (33 950) |
| Impairment of non-current assets | (539 644) | (711 436) |
| Deferred corporate income tax part | 86 039 | 459 638 |
| Closing balance | 3 063 863 | 3 551 418 |

The Company's fixed assets (land and buildings) were revalued according to Ober Haus Real Estate Company report on the real estate market value dated with 30.06.2011.

In August 2015 part of the fixed assets (warehouses) will be sold and the revaluation reserve will be reduced accordingly.

(24) Other provisions

| | Provision for unused vacation leave EUR |
|-------------------------------|---|
| As at 31 December 2013 | 22 471 |
| Decrease | (9 766) |
| As at 31 December 2014 | 12 705 |

(25) Taxes payable (non-current)

| | 2014 | 2013 |
|-----------------|----------|---------------|
| | EUR | EUR |
| Real estate tax | - | 83 497 |
| Total | - | 83 497 |

According to the decision No. PIP-14-12914-nd (dated August 29, 2014) Riga City Council Municipal Revenue Administration decision No. PIP-12-15096-nd (dated 3 December 2012) on tax aid measure and the extension of the payment term allocation was cancelled. Tax debts were recorded in the short-term debts. Please refer to Note 37.

(26) Loans from credit institutions

| | 2014 | 2013 |
|--|------------------|------------------|
| | EUR | EUR |
| Loan from AS SEB Banka – long term part | 690 485 | - |
| Loan from AS SEB Banka – short term part | 796 360 | 1 517 503 |
| Total | 1 486 845 | 1 517 503 |

In accordance with Loan Agreement No. KD04277 and KD08128, the obligations are secured with primary pledge of the real estate property located in Riga at the address Kurzemes prospekts 3 (Land book section No. 18732) and primary commercial pledge on fixed assets, purchased under Project Nr. I24000075 for the amount of 4 784 000 EUR.

The residual value of pledged fixed assets and investment property as at 31.12.2014 is 6 903 569 EUR (31.12.2013.: 7 749 183 EUR).

The loan interest rate applied is 3-month EURIBOR plus fixed rate 4.5%.

As at 10 December 2014 AS "SEB banka" announced that the loan maturity is 19 December 2014.

According to the approved legal protection plan it is planned to repay to AS SEB banka 796 360 EUR in 2015 and 690 485 EUR in 2016.

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(27) Other loans (short-term)

Other loans

Total

| 2014 | 2013 |
|------|----------------|
| EUR | EUR |
| - | 157 092 |
| - | 157 092 |

Other loans represent non-interest bearing loan from Latvian resident, legal person.

Within the framework of the legal protection plan it was agreed with the issuer on the loan payment rescheduling, setting the maturity on 5 January 2017, that is after the implementation of the legal protection plan.

The loan received during the reporting period was reclassified to long-term creditors and included in position "Trade accounts payable".

(28) Advances from customers

Advances from residents

Total

| 2014 | 2013 |
|------------|------------|
| EUR | EUR |
| 568 | 804 |
| 568 | 804 |

(29) Trade accounts payable

Long-term part:

Trade accounts payable to non-residents

Trade accounts payable to residents

Long-term part total

Short-term part:

Trade accounts payable to non-residents

Trade accounts payable to residents

Short-term part total

Trade accounts payable total

| 2014 | 2013 |
|------------------|----------------|
| EUR | EUR |
| 150 000 | - |
| 372 009 | - |
| 522 009 | - |
| 7 419 | 29 440 |
| 732 765 | 949 985 |
| 740 184 | 979 425 |
| 1 262 193 | 979 425 |

Within the framework of the legal protection plan it was agreed with suppliers on delay of payments, setting the repayment term on 5 January 2017, which is after the implementation of the legal protection plan.

Trade payables (who agreed on delay of payments) was reclassified to long-term creditors and included in position "Trade accounts payable".

(30) Payables to related parties

Long-term part:

Loans

Payment for services

Long-term part total

Short-term part:

Loans

Payment for services

Short-term part total

Payables to related parties total

| 2014 | 2013 |
|----------------|---------------|
| EUR | EUR |
| 142 099 | - |
| 47 837 | - |
| 189 936 | - |
| - | 55 208 |
| 15 188 | 35 469 |
| 15 188 | 90 677 |
| 205 124 | 90 677 |

Within the framework of the legal protection plan it was agreed to transfer the creditor claims to long-term.

(31) Taxes and social insurance payments

Personal Income Tax

State Social Insurance payments

Value Added Tax

Real estate tax for land, building and constructions

Nature resources tax

Corporate risk tax

Total

| 2014 | 2013 |
|----------------|----------------|
| EUR | EUR |
| 60 007 | 81 028 |
| 81 026 | 103 376 |
| 55 754 | 70 007 |
| 293 002 | 178 630 |
| 1 792 | 2 901 |
| 52 | 6 |
| 491 633 | 435 948 |

(32) Other liabilities

Salaries

Advance settlement amounts

Security

Other creditors

Total

| 2014 | 2013 |
|---------------|---------------|
| EUR | EUR |
| 14 201 | 18 167 |
| 59 | 545 |
| 17 254 | 22 685 |
| - | 4 101 |
| 31 514 | 45 498 |

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(33) Accrued liabilities

Current expense
Provision for VAT audit

| 2014 | 2013 |
|---------------|---------------|
| EUR | EUR |
| 59 322 | 67 238 |
| - | 6 427 |
| 59 322 | 73 665 |

(34) Deferred income

Legal protection plan fine

Long term part:

Financial and Capital Market Commission
Latvenergo AS
Riga City Council Finance Department
AS Rīgas siltums

Long term part total

Short-term part:

The State Revenue Service

Short-term part total

Total

| 2014 | 2013 |
|----------------|----------|
| EUR | EUR |
| 3 550 | - |
| 73 489 | - |
| 108 100 | - |
| 8 698 | - |
| 193 837 | - |
| 107 389 | - |
| 107 389 | - |
| 301 226 | - |

According to the legal protection plan it is planned to exclude fines and periodic penalty payments.

In case of successful implementation of legal protection plan, the Company will be extinguished fine and periodic penalty payments.

(35) Deferred tax

Deferred tax liability opening balance
Deferred tax change during the reporting year
(refer to Note 9) charged to the income statement
Deferred tax change during the reporting year
charged to the revaluation reserve
Deferred tax liability closing balance

| 2 014 | 2013 |
|----------------|----------------|
| EUR | EUR |
| 546 354 | 1 061 465 |
| (69 288) | (55 472) |
| (86 039) | (459 639) |
| 391 027 | 546 354 |

Deferred tax has been calculated from the following temporary differences between the assets and liabilities balance sheet and tax values:

Temporary difference on fixed assets depreciation
Land revaluation effect
Provision for slow moving inventory
Provision for unused vacation leave
Tax loss carried forward
Deferred tax liability

| 2 014 | 2 013 |
|----------------|----------------|
| EUR | EUR |
| 513 619 | 600 389 |
| 279 825 | 300 569 |
| (7 917) | (10 292) |
| (1 906) | (3 371) |
| (392 594) | (340 941) |
| 391 027 | 546 354 |

(36.1.) Average number of employees during the year

Average number of employees during the year

| 2014 | 2013 |
|------|------|
| 15 | 24 |

(36.2.) Total personnel costs

- Salaries
- Social security payments
- Corporate risk duty
- including:

Management salaries

- Salaries
- Social security payments
- Corporate risk duty
- total:

| 2014 | 2013 |
|---------------|----------------|
| EUR | EUR |
| 63 990 | 113 777 |
| 52 129 | 92 416 |
| 11 795 | 21 256 |
| 66 | 105 |
| 17 075 | 18 237 |
| 5 397 | 5 901 |
| 9 | 10 |
| 22 481 | 24 148 |

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(37) Taxes and social insurance payments

| Type of tax | 31.12.2013. | NAP non-current | Calculated | Paid | Fine written off | 31.12.2014. |
|--|----------------|-----------------|----------------|-----------------|------------------|----------------|
| Value added tax | 42 215 | - | 19 037 | (5 498) | - | 55 754 |
| penalties resulting from the tax audit | 2 194 | - | - | - | (2 194) | - |
| delay payments | 25 597 | - | 2 868 | (411) | (28 054) | - |
| Personal income tax | 50 935 | - | 13 078 | (4 005) | - | 60 008 |
| delay payments | 30 094 | - | 3 749 | - | (33 843) | - |
| State social security obligatory payments | 69 166 | - | 18 492 | (6 632) | - | 81 026 |
| delay payments | 34 210 | - | 8 032 | - | (42 242) | - |
| Business risk duty | 6 | - | 66 | (20) | - | 52 |
| delay payments | - | - | 2 | - | (2) | - |
| Natural resource tax | 1 534 | - | 258 | - | - | 1792 |
| delay payments | 1 367 | - | - | (313) | (1 054) | - |
| Real estate tax | 155 228 | 47 766 | 102 933 | (12 926) | - | 293 001 |
| delay payments | 23 402 | 35 731 | 48 967 | - | (108 100) | - |
| | 435 948 | 83 497 | 217 482 | (29 805) | (215 489) | 491 633 |
| Tax overpayment | - | - | - | - | - | - |
| Tax debt | 435 948 | - | - | - | - | 491 633 |
| Including delay payments | 116 864 | 35 731 | 63 618 | (724) | (215 489) | - |

See also Note No. 34 Deferred income.

(38) Transactions with related parties

The company's shareholders have significant impact on SIA "Baltlains", SIA "Imanta Retail Park", "Albatross" Tukuma rajonā, SIA "Balt-East" and SIA "Erelux".

The goods are sold to related parties and bought from related parties on normal (market based) prices. Outstanding commitments at the end of the year are in no way secured and settlement is made in cash. No guaranties have been received or issued in respect of related party transactions neither in 2013 or 2014.

| Related party | | Sales to related parties | Purchases from related parties | Loans issued | Loans received | Amounts owed by related Parties as at 31 December | Amounts owed to related parties as at 31 December |
|-----------------------------|-------------|--------------------------|--------------------------------|----------------|----------------|---|---|
| SIA Imanta Retail Park" | 2014 | 324 725 | 7 915 | - | - | 371 999 | - |
| | 2013 | 437 620 | 133 791 | 309 160 | - | 410 873 | - |
| SIA "Baltlains" | 2014 | 2 393 | - | - | - | 3 353 | - |
| | 2013 | 1 093 | - | 22 430 | - | 23 523 | - |
| "Albatross" Tukuma rajonā | 2014 | 5 963 | 10 206 | - | 77 083 | - | 168 367 |
| | 2013 | - | - | - | - | - | - |
| SIA "Albatross un Partneri" | 2014 | - | - | - | - | - | - |
| | 2013 | 15 395 | - | - | 55 898 | - | 81 078 |
| SIA "Erelux" | 2014 | - | 36 792 | - | - | - | 21 527 |
| | 2013 | - | 8 608 | - | - | - | 4 347 |
| Balt-East SIA | 2014 | - | 3 443 | - | - | - | 8 395 |
| | 2013 | - | 5 625 | - | - | - | 5 252 |
| TOTAL | 2014 | 333 081 | 58 356 | 309 160 | 77 083 | 375 352 | 198 289 |
| TOTAL | 2013 | 454 108 | 148 024 | 22 430 | 55 898 | 434 396 | 90 677 |

Balance sheet item "other receivables" includes a claim against the Company's management 22 673 EUR.

During the financial year the company "Albatross Tukuma rajonā" took over the obligations to the company from "Albatross and Partners" SIA.

(39) Remuneration to certified auditors

Certified auditors fees in respect of year 2014 financial statements audit is 4 356 euro.

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(40) Post balance sheet events

As at September 19, 2014 Riga Kurzeme District Court decided to initiate AS VEF Radiotekhnika RRR legal protection proceedings. As at January 5, 2015 Riga Kurzeme District Court announced AS VEF Radiotekhnika RRR legal protection process implementation, approved the legal protection process action plan, set the legal protection implementation period till January 5, 2017 and appointed an administrator of legal protection- certified administrator Vigo Krastiņš.

The repayment term of the loan from AS SEB banka ended as at 19 December 2014. All payments to creditors are made according to the legal protection process plan approved as at 5 January 2015.

As at April 30, 2015 the Company concluded an agreement on the structure of the transaction with "Pārūpes būvmaģi". Implementation of the transaction takes time, because the transaction involves 4 legal entities. Management of the Company believes that this transaction could take up to 6 months. Estimated selling price is lower than the book value of the real estate, so the real estate recoverable impairment is recognised in the annual report of 2014. Management of the Company believes that in result of the agreement the Company will be able to pay the debts to the State revenues service and partially repay of liabilities to the SEB bank.

Except as disclosed above, from the last day of the financial year to the date of signing this report there have been no other significant events which would impact the year-end results of which would need to be additionally disclosed in the financial statements.

(41) Going concern

The Company's result of the year is net loss of EUR 235 001, net turnover has significantly decreased in 2014, that is related with rental income reduction and the fact that the Company has not resumed production and sales. As at the end of the reporting year current liabilities of the Company exceed current assets by 2 605 855 EUR.

The legal protection process action plan that was approved on 5 January 2015 involves partial disposal of real estate owned by the Company, to start the settlement of tax debts, bank loans and other creditors. The alienation of the real estate is in process. See notes No.12 and No.34. In addition, the legal protection process action plan provides restoring the production process and the attraction of an investor.

The management of the Company considers that the existing situation is temporary and takes actions to restore the income at the previous level. The Company's financial statements for the year 2014 have been prepared applying the going concern principle.

Chairman of the Board



Eduards Malejevs

Member of the Board



Ēriks Ertmanis

31 July, 2015

INDEPENDENT AUDITORS' REPORT
Translation from Latvian

**POTAPOVIČA
ANDERSONE**

To the Shareholders of AS VEF Radiotehnika RRR

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Report on the Financial Statements

We were engaged to audit the accompanying financial statements of AS VEF Radiotehnika RRR set out on pages 6 to 23 of the accompanying annual report, which comprise the balance sheet as of 31 December 2014 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 information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia On Annual Reports, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

1. As at 31 December 2014 the Company's balance sheet contains fixed assets and investment properties with carrying value of 6 904 thousand euro and related non-current asset revaluation reserve of 3 064 thousand euro. Gross and net loss for the reporting year, as well as the fact that the real estate price for the disposal transaction anticipated in 2015 is considerably below the carrying value of the real estate, demonstrate that significant indicators of impairment of non-current investments exist. The management of the Company has not performed impairment test on its non-current assets. During our audit we were not able to obtain sufficient and reliable information, which would allow us to determine impairment to be recognised by the Company and its impact on value of non-current assets, non-current assets revaluation reserve and net result for 2014.
2. As at 31 December 2014 the Company's balance sheet contains amount receivable from a related party SIA "Imanta Retail Park", amounting to 372 thousands euro and consisting of non-current lending and current trade receivables. During our audit we were not able to obtain sufficient and reliable information, which would allow us to determine whether the receivable is fully recoverable or an impairment should be recognised in the Company's financial statements for 2014, which would impact the receivable's value in the balance sheet and net result for 2014.
3. The Company's net turnover for the reporting year has decreased by 32% and its financial performance resulted in gross and net loss. Net loss represents 76% of the net turnover. As at 31 December 2014 the Company has no free cash and its current liabilities, including liabilities towards credit institution, considerably, by 2 034 thousand euro, exceed its current assets. On 5 January 2015 Riga city Kurzemes region court announced commencement of legal protection process, setting legal protection process period until 5 January 2017. We consider that a significant uncertainty exists on whether the Company will be able to resolve its liquidity issues that may cast significant doubt on the Company's ability to continue as a going concern. During our audit we were not able to obtain sufficient and reliable information, which would allow us to conclude, whether it was appropriate to use going concern assumption in the preparation of the Company's financial statements for the year ended 31 December 2014.

The matters described in the Basis for disclaimer of opinion paragraph section 1 and 3 existed also in relation to financial statements for 2013, on which we issued a disclaimer of opinion dated 18 July 2014.

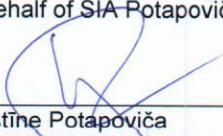
Disclaimer of opinion

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on AS VEF Radiotehnika RRR financial statements for the year ended 31 December 2014.

Report on Other Legal and Regulatory Requirements

We have read the management report for 2014 set out on page 4 of the accompanying annual report for 2014 and have not identified material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2014.

On behalf of SIA Potapoviča un Andersone, Certified Auditors Company licence No. 99


Kristīne Potapoviča
Chairperson of the Board

31 July 2015, Riga


Anna Temerova – Allena
Responsible Certified Auditor, Certificate Nr. 154