



JOINT STOCK COMPANY VEF
(Unified registration number 40003001328)

AUDITED FINANCIAL STATEMENTS
For the period ended on December 31, 2008

**Prepared in accordance with International Financial Reporting
Standards (IFRS), as adopted by the European Union (EU)**

SIA AUDITS55

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Jundiskā adrese; Bruņinieku iela 69-20, Rīga, LV-1011

Biroja adrese: A.Čaka iela 83/85 k.13, Rīga, LV-1011

PVN.reģ.nr.: LV40002023972

Reģ.nr.: 40002023972

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC "VEF" Report

on the Financial Statements

We have audited the accompanying financial statements of JSC "VEF" vvhich comprise the balance sheet as of 31 December 2008 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 notēs.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Annual Accounts Act of the Republic of Latvia. This responsibility includes: designing, implementing and maintaining internai control relevant to the preparation and fair presentation of financial statements that āre free from material misstatement, vvhether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that āre reasonable in the circumstances.

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 as adopted by the Latvian Association of certified auditors. Those Standards reguire that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance vvhether the financial statements āre 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, vvhether due to fraud or error. In making those risk assessments, the auditor considers internai control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that āre appropriate in the circumstances, būt not for the purpose of expressing an opinion on the effectiveness of the entity's internai control. An audit also includes evaluating the appropriateness of accountīng 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 audit opinion.

Norēķinu konti: SEB Bankas Rīdzenes filiāles norēķinu grupa "Hanza", kods UNLALV2X002

LVL: LV55UNLA 0002 9004 6840 1

Swedbank filiāles norēķinu grupa „Rūdofls”, kods HABALV22

EUR/LVL: LV64 HABA 0551 0108 2978 8

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Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of JSC "VEF" as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Annual Accounts Act of the Republic of Latvia.

Report on the Management Report

We have read the Management Report and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2008.

Certified auditors' company "AUDITS 55"
Audit company licence No. 141 .)

Māra Līguta
Certified
auditor
Certificate No.
55



Member of the
Board
Riga,
9th April, 2009



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Report on the Management Board's responsibility to the audited financial statement of JSC „VEF” for the twelve months of 2008

Management Board of JSC „VEF” (hereinafter – the Company) is responsible for preparation of the middle-term financial statements of the Company. The financial statements are audited.

Financial statements are prepared based on justifying documents and represent true and clear overview on the Company's Assets and Equity and Liabilities, its financial standing and results of activity as well as cash flows within the reporting period ended on december 31, 2008.

Financial statements are prepared according to the EU approved International Standards of financial reports and observing principle of continuing business activity. Accounting principles used in preparation of the financial statements have not been changed comparing to the previous reporting period. During preparation of the financial statements decisions taken by the Management Board and estimations made have been cautious and well-founded. The information included in the middle-term management's report is true.

The Management Board of the Company is responsible for ensuring the corresponding accounting system, securing the assets of the Company, as well as for prevention and exposure of fraud and other violation within the Company.

On behalf of the Management Board of JSC „VEF”,

Gints Feņuks
Chairman of the Management Board



Management report

Joint stock venture VEF is a public company doing business with its own real estate – rent, maintenance, service, and also providing electricity distribution services to end customers located in VEF territory.

Company's revenues in 12 months of Year 2008 according to balance sheet are 898 082 LVL (1 277 856 EUR) that for 46 779 LVL (66 561 EUR) are more than in previous reporting period.

Operations of the company following the overall economic downturn in local and global scale have been realigned to preserve and optimize current cash flow. For uncertain time period development of reconstruction projects for buildings located on Unijas str. 4 (blocks 5 and 7), Berzaunes str. without number and Berzaunes str. 7a had been stopped.

Project of modernization of company's electricity distribution grid had been made but implementation of this project is planned to start along side with reconstruction of designated buildings.

Optical fiber cable link towards buildings on Unijas str.4 is built and put in operation.

Company had increased amount of internal services securing more job places and had realized substantial economy program decreasing consumed amounts of outsourced services and their prices.

The Board of JSC VEF has changed strategic plans of the Company for the previous year according to the economic situation in the State. This year's plan is to actively monitor situation in the market segment of office space renting and react on changes; also to actively attain new customer for free spaces by increasing floor spaces, making renovations without using additional credit resources.

On behalf of the Management Board of JSC „VEF”,

Gints Feņuks
Chairman of the Management Board



GENERAL INFORMATION

Title of enterprise	Joint stock company VEF
Legal type of enterprise	Public joint stock company
Registered:	On April 15, 1991 in the Register of Enterprises of the Republic of Latvia, re-registered on December 7, 2000 with Nbr. 000300132 On April 14, 2004 registered in the Commercial Register, Nbr. 40003001328
Taxpayers' Reg. Nbr.	LV 40003001328
Legal address	Brīvības gatve 214, Rīga, LV-1039, Republic of Latvia phone: 7270618, fax: 7552201
Equity capital ¹ :	Ls 2 281 922 as on december 31, 2008 Ls 1 829 908 paid and registered equity capital Ls 113 551 subscribed and paid-up amount of equity capital Ls 338 463 subscribed but not paid-up amount of equity capital
Core businesses:	*Power supply - distribution of power; *Letting and renting of real-estate property
Shareholders ² :	Ls 1 943 459 as on december 31, 2008 subscribed and paid-up amount of equity capital *VEF KOMUNIKĀCIJU SERVISS SIA- 45.55% or 885 272 shares; *Komunikāciju Centrs” SIA - 24% or 466 377 shares; *State Social Insurance Agency - 5.02 % or 97 582 shares; * Tamāra Kampāne - 9.41% or 182 945 shares; * Gints Feņuks - 7.00% or 136 073 shares ; *Other shareholders - 9.02% or 175 210 shares:
Chief executive officer:	Chairman of the Board of the Company: GINTS FEŅUKS
Members of the Board:	TAMĀRA KAMPĀNE AIVARS VĪTOLIŅŠ PĒTERIS AVOTIŅŠ
Members of the Supervisory Council:	ANDRIS DENIŅŠ INTS KALNIŅŠ GUNTIS LIPIŅŠ JĀNIS LĀMA
Period of account:	01.01.2008. - 31.12.2008.
Qualified auditor:	Mara Liguta. Certificate Nbr.55

¹ Paid-up equity capital Ls 1 943 459

² Equity capital of the Company is divided into 2 281 921 common shares
Nominal value of a common share is 1 LVL (one Latvian lat).



ASSETS	Final balance		Beginning balance	
	LVL	LVL	EUR	EUR
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
			0.702804	0.702804
LONG-TERM INVESTMENTS				
Intangible assets				
Concessions, patents, licences	79	84	112	120
Total intangible assets	79	84	112	120
Fixed Assets				
Land, buildings and other property	4 233 193	4 274 270	6 023 291	6 081 738
Equipment and machinery	12 943	23 414	18 416	33 315
Other fixed assets and inventory	14 940	16 517	21 258	23 502
Advance payments for fixed assets	62 301	94 452	88 646	134 393
Total fixed assets	4 323 377	4 408 653	6 151 611	6 272 948
Total long-term investments	4 323 456	4 408 737	6 151 723	6 273 068
Current assets				
Inventory				
Goods for sale				
Total inventory	0	0	0	0
Debtors				
Customers and client debts	30 916	36 996	43 990	52 460
Other debtors	23 400	27 736	33 295	39 465
Future period	29 758	32 380	42 342	46 073
Future period expenses	10 322	9 904	14 687	14 092
Subscribed but not paid-up amount of equity capital	338 463		481 589	
Total debtors	432 859	107 016	615 903	152 270
Cash	61 757	16 005	87 872	22 773
Total Current assets	494 616	123 021	703 775	175 043
TOTAL ASSETS	4 818 072	4 531 758	6 855 499	6 448 111



LIABILITIES	Final balance		Beginning balance	
	LVL	LVL	EUR	EUR
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
			0.702804	0.702804
Stockholder's Equity				
Common stock	2 281 921	1 829 908	3 246 881	2 603 724
Long-term investments revaluation reserve	438 390	438 390	623 773	623 773
Total accumulation				
Retained earnings from the previous years	-928 449	-956 253	-1 321 064	-1 360 626
Retained earnings of the financial years	26 895	27 804	38 268	39 562
Total stockholder's equity	1 818 757	1 339 849	2 587 858	1 906 433
PROVISIONS				
Other provisions	10 168	7 701	14 468	10 958
Total provisions	10 168	7 701	14 468	10 958
LIABILITIES				
Long-term liabilities				
Borrowings from credit institutions	2 385 903	2 599 110	3 394 834	3 698 200
Prepayments from buyers	66 232	33 814	94 240	48 113
Other liabilities	44 731	92 398	63 646	131 471
Deferred tax liability	138 331	130 668	196 827	185 924
Total long-term liabilities	2 634 967	2 855 990	3 749 220	4 063 708
Current liabilities				
Borrowings from credit institutions	213 207	213 207	303 366	303 366
Accounts payable	65 946	39 963	93 833	56 862
Taxes and social security payments	6 090	2 521	8 665	3 587
Other liabilities	54 938	55 232	78 170	78 588
Future period income	13 836	17 295	19 687	24 609
Prepayments from buyers	418		595	
Total current liabilities	354 180	328 218	503 953	467 012
Total liabilities	2 989 147	3 184 208	4 253 173	4 530 720
TOTAL LIABILITIES&STOCKHOLDER'S EQUITY	4 818 072	4 531 758	6 855 499	6 448 111

**PROFIT AND LOSSES ACCOUNT FOR YEAR, WHICH ENDS ON DECEMBER
31.2008.**

		LVL 31.12.2008	LVL 31.12.2007	EUR 31.12.2008 0.702804	-	EUR 31.12.2007 0.702804	-
1	2	4	5	4		5	
Net turnover		898 082	851 303	1 277 856		1 211 295	
Cost of goods sold	1	-590 034	-471 960	-839 543		-671 539	
Gross profit		308 048	379 343	438 313		539 756	
Selling expenses							
Administrative expenses	2	-77 493	-65 552	-110 263		-93 272	
Other income from operations	3	7 226	7 838	10 320		11 153	
Other expenses from operations	4	-19 399	-6 529	-27 602		-9 290	
Financial services income	5	19 155	5 396	27 255		7 678	
Financial services expenses	6	-174 470	-171 130	-248 248		-243 496	
Profit before taxes		63 094	149 366	89 775		212 529	
Other taxes	7	-28 536	-31 627	-40 604		-45 001	
Deferred tax		-7 663	-89 935	-10 903		-127 966	
Net profit		26 895	27 804	38 268		39 562	
Earnings per share (EPS)							
EPS on 31.12.2008-0.0147							
LVL- 0.0209 EUR							

Chairman of the Board

G.Feņuks

Member of the Board

T.Kampane



CASH FLOW STATEMENT FOR YEAR THAT ENDS ON DECEMBER 31, 2008

	2008 31.12.	2007 31.12.	2008 31.12. EUR 0.702804	2007 31.12. EUR 0.702804
	LVL	LVL		
I. CASH FLOW FROM OPERATING ACTIVITIES				
Profit before outstanding items and taxes (+)	63 094	149 366	89 775	212 529
<i>Adjustments:</i>				
fixed assets depreciation (+)	59 796	63 774	85 082	90 742
intangible assets depreciation (+)	5	5	7	7
increase/decrease in provisions	2 467	2 303	3 510	3 277
profit or losses from exchange rates fluctuation (+/-)	-321	154	-457	219
financial service income	19 155	5 396	27 255	7 678
financial services income	174 470	171 130	248 412	243 496
<i>Profit or losses before adjustments from current assets and liabilities</i>	280 998	386 858	399 824	550 449
<i>Adjustments:</i>				
debtors : increase (-); decrease (+)	-325 425	-37 107	-463 038	-52 798
inventory: increase (-); decrease (+)				
liabilities: increase (-); decrease (+)	401 914	-103 747	571 872	-147 619
<i>Gross cash provide by operating activities</i>	357 487	246 004	508 658	350 032
Payments for financial	-174 470	171 130	-248 248	243 496
Income tax payments				
<i>Net cash provided by operating activities before outstanding items:</i>	183 017	74 874	260 410	106 536
Cash flow from outstanding items (-/+)				
Net cash provided by operating activities :	183 017	74 874	260 410	106 536
II. CASH FLOWS FROM INVESTING ACTIVITIES :				
Fixed assets purchase	-6 672	-4 137	-9 493	-5 886
Interest received	19 155	5 396	27 255	7 678
Net cash used in investing activities :	12 483	1 259	17 762	1 792
III. CASH FLOWS FROM FINANCING ACTIVITIES:				
Expenses for borrowings repayment	-213 207	-213 207	-303 366	-303 366
Payments LPA for long term buy out of land	-49 771		-70 818	
Common stock issued	113 551		161 569	
Net cash provided by financing activities :	-149 427	-213 207	-212 615	-303 366
IV. Exchange rate fluctuation result :	-321	-154	-457	-219
Net cash flom	45 752	-137 228	65 099	-195 258
CASH AT BEGINNING OF YEAR	16 005	153 233	22 773	218 031
CASH AT END OF YEAR	61 757	16 005	87 872	22 773



**STATEMENT OF CHANGES IN EQUITY FOR YEAR THAT ENDS ON
DECEMBER 31, 2008**

	31.12.2008 LVL	31.12.2007 LVL	31.12.2008 EUR 0.702804	31.12.2007 EUR 0.702804
Stockholder's equity				
Balance at the beginning of the financial year	1 829 908	1 829 908	2 603 725	2 603 724
Increase from	452 013		643 156	
Decrease from				
Balance at the end of the financial year	2 281 921	1 829 908	3 246 881	2 603 724
Long-term investments revaluation reserve				
Balance at the beginning of the financial year	438 390	432 868	623 773	615 916
Increase from		5 522		7 857
Decrease from				
Balance at the end of the financial year	438 390	432 390	623 773	623 773
Accumulations				
Balance at the beginning of the financial year				
Increase from				
Decrease from				
Balance at the end of the financial year				
Retained earnings				
Balance at the beginning of the financial year	-928 449	-956 253	-1 321 064	- 1 360 625
Profit or losses of the financial year	26 895	27 804	38 268	39 562
Dividends				
Included in accumulations				
Balance at the end of the financial year	- 901 554	-928 449	- 1 282 796	- 1 321 063
Stockholder's equity (total)				
Balance at the beginning of the financial year	1 339 849	1 306 524	1 906 433	1 859 016
Balance at the end of the financial year	1 818 757	1 339 849	2 587 858	1 906 433



**JSC VEF
FINANCIAL STATEMENTS' APPENDIXES
FOR YEAR, WHICH ENDS ON DECEMBER 31, 2008**

1. ACCOUNTING AND ASSESSMENT METHODS – COMMON PRINCIPLES

Basis for financial statements preparation

Financial statements are being prepared in compliance with Latvian laws “On bookkeeping” and “On the Annual Accounts of Undertakings”.

Profit and losses account is prepared according to the turnover method. Accounting policy provides the financial statements give information that is appropriate for their users to make decisions and conclusions. The policy is reliable. The financial statements correctly reveal the financial condition and operating results of the company – showing not only legal side of transactions, but also their economical matter, and are complete in all essential aspects.

Accounting principles used

The items of the financial statements are valued according to the following accounting principles:

- a) it is assumed that the company will operate in the future;
- b) assessment methods used are the same as used in the previous financial year;
- c) assessment is made with mere caution:
 - only profit earned before the date of the annual report is included in the financial statements
 - all projected risk amounts and losses that appeared in the financial year or in the previous years are taken into account, even those which became known in the period of time between the date of the annual report and the day when the financial statements are drawn up
 - all value decreases and depreciation amounts are calculated and taken into account, regardless of the financial year result (profit or losses)
- d) revenues and expenditures connected with the financial year are taken into account, regardless of payment date and invoice receiving or writing out date;
- e) assets and liabilities and net worth items have been assessed independently;
- f) the initial balance sheet of the financial year coincides with the previous financial year final balance sheet;
- g) all items that have an essential influence on the financial statements' users evaluation or decision taking have been taken into account, non-significant items have been combined and they are shown in details in the appendixes to the financial statements;
- h) business operations during the financial year are shown by their economical content and nature instead of their legal form.

Financial year

Financial year is 12 months, from 01.01.2008 to 31.12.2008.

Money and foreign currency revaluation

Amounts shown in these financial statements are in Latvian national currency – lats (LVL).

All monetary assets and liabilities are recalculated to lats, using the official exchange rate of the Latvian Bank that is set on the last day of the financial year.

Long-term and short-term items

Long-term items include amounts, whose receiving, discarding or payment terms become due more than 1 year after the end of the respective financial year. Amounts that are due to be received, paid or discarded during the next year, are included in short-term items.



Fixed assets and nonmaterial investment depreciation

Fixed assets and non-material investments are shown by purchase price minus depreciation. Depreciation is calculated on the straight-line basis, using as a basis the following rates:

Fixed assets	
Property	1%
Equipment and machinery	20%
Other fixed assets	25%

Income tax

Income tax for the financial year consists of calculated tax and deferred tax. Income tax is included in the profit and losses account.

Income tax for the financial year is calculated according to the law "On the income tax of Undertakings", determining taxable income and using 15% rate, set by the law.

Deferred income tax is calculated for the difference between assets and liabilities value in the financial statements and assets and liabilities value for tax purposes. Deferred income tax is calculated using 15% rate, set by the law. The above-mentioned difference mainly comes from the different fixed assets depreciation rates used in the financial and tax accounting. Increase of provisions for bad receivables is not taken into account, calculating deferred income tax, due to mere caution principle.

Credit line

There is a credit JSC "SEB banka". It is included in the long-term and short-term liabilities and the balance at the end of the financial period is 2 599 110 LVL (3 698 201 EUR).

**(1) Net turnover**

Turnover consists of revenues that the Company gained in the first twelve months of 2008 from its core business-service provision without VAT

Type of commercial operations	2008.12.31	2007.12.31	2008.12.31	2007.12.31
	LVL	LVL	EUR	EUR
power supply, distribution and servicing	163 063	191 551	232 018	272 553
water supply and sewage services	10 710	13 566	15 239	19 303
office renting service	557 195	493 457	792 817	702 126
utility services	167 114	151 449	237 782	215 492
other		1 280		1 821
Total	898 082	851 303	1 277 856	1 211 295

Distribution of net turnover by geographical markets

Country	2008.12.31	2007.12.31	2008.12.31	2007.12.31
	LVL	LVL	EUR	EUR
Latvia	898 082	851 303	1 277 856	1 211 295
Total	898 082	851 303	1 277 856	1 211 295

(2) Cost of sales

	2008.12.31	2007.12.31	2008.12.31	2007.12.31
	LVL	LVL	EUR	EUR
personnel	90 336	56 836	128 537	80 870
depreciation	59 796	63 774	85 082	90 742
transport	10 075	10 630	14 335	15 125
other outstanding costs	230 674	194 880	328 220	277 289
personnel training	127	497	181	707
telecommunication service	1 721	1 862	2 449	2 648
other costs tied to commercial operations	104 329	71 007	148 445	101 034
insurance (buildings)	4 337	5 244	6 171	7 462
maintenance of buildings 1 and 1a	71 292	60 747	101 439	86 435
land rent to LPA	17 342	6 379	24 675	9 075
depreciation of license	5	5	7	7
other cost		99		141
Total	590 034	471 960	839 543	671 539

**(3) Costs of administration**

	2008.12.31	2007.12.31	2008.12.31	2007.12.31
	LVL	LVL	EUR	EUR
personnel	55 388	44 872	78 810	63 847
telecommunication service	1 722	1 861	2 450	2 649
office supplies	1 419	1 752	2 019	2 493
cash turnover expenses	221	235	314	334
transport expenses for administrative needs	10 076	10 630	14 337	15 125
representative expenses	214	288	304	410
legal assistance or raid	2 553	14	3 633	20
RFB annual fee	5 000	5 000	7 114	7 114
audit cost	900	900	1 281	1 281
Total	77 493	65 552	110 263	93 272

(4) Other revenues from commercial operation

	2008.12.31	2007.12.31	2008.12.31	2007.12.31
	LVL	LVL	EUR	EUR
disposal of fixed assets				
fines	1 362	164	1 938	233
1/5 of revenue from writing-off PS				
purchase	1 077	1 347	1 532	1 917
1/5 from financial support given for Gold equipment	2 382	2 977	3 389	4 236
other revenues	1 405	2 063	1 999	2 935
insurance recompense	1 000	1 287	1 423	1 831
Total	7 226	7 838	10 282	11 239

(5) Other costs of commercial operations

	2008.12.31	2007.12.31	2008.12.31	2007.12.31
	LVL	LVL	EUR	EUR
losses from changes in currency rates	321	154	457	219
40% of representative costs	143	167	203	238
donations to Latvian orphans fund	603	355	858	505
allowances and bonuses	3 116	2 398	4 314	3 412
fines	220	179	171	255
other costs	14 969	3 276	21 299	4 661
Total	19 372	6 529	27 564	9 290



(6) **Other revenues from interests or similar sources**

	2008.12.31	2007.12.31	2008.12.31	2007.12.31
	LVL	LVL	EUR	EUR
interest from balances of accounts	19 155	5 396	27 255	7 678
Total	19 155	5 396	27 255	7 678

(7) **Payments of interest and similar expenses**

	2008.12.31	2007.12.31	2008.12.31	2007.12.31
	LVL	LVL	EUR	EUR
credit interests	167 091	159 641	237 749	227 149
interest to LPA for long term buy-out of land	7 379	11 489	10 499	16 347
Total	174 470	171 130	248 248	243 496

(8) **Other taxes**

	2008.12.31	2007.12.31	2008.12.31	2007.12.31
	LVL	LVL	EUR	EUR
real estate tax (buildings)	26 733	30 245	38 039	43 035
real estate tax (land)	1 803	1 382	2 565	1 966
Total	28 536	31 267	40 604	45 001