

JSC "VEF Radiotehnika RRR"

Unified Registration Nr. 40003286712

Address: Kurzemes prospekts 3, Riga, LV-1067

**Main activities:
production**

Measurement units: Ls (LVL)

2007 Annual Report

Submission date: _____

Date of receipt: _____

Riga, Latvia

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INFORMATION about the COMPANY

Full name of the Company	<i>JSC "VEF Radiotehnika RRR"</i>		
Legal status of the Company	<i>Public Joint-Stock Company</i>		
Unified Registration Nr., place and date of issue datums	<i>40003286712 11.12.1998</i>		
Legal address of the Company	<i>Kurzemes prospekts 3, Riga, LV-1067</i>		
Telephone	<i>67418087</i>		
Postal address	<i>Kurzemes prospekts 3, Riga, LV-1067</i>		
Bank name and Company's bank accounts	<i>AS "SEB Latvijas Unibanka" LV57UNLA0050006466330 (LVL) LV55UNLA0050006466366 (EUR) LV32UNLA0050006466392 (USD)</i>		
Council members of the JSC			
Chairman of the Council	<i>Vladimirs Martinsons</i>		
Council Member	<i>Andris Prikass</i>		
Council Member	<i>Janis Salenieks</i>		
Council Member	<i>Ausma Smiltneiece</i>		
Council Member	<i>Juris Voins</i>		
Boar members of the JSC			
Chairman of the Board	<i>Eduards Malejevs</i>		
Board Member	<i>Jurijs Malejevs</i>		
Board Member	<i>Janis Olekss</i>	<i>from 28,01,2008</i>	
Board Member	<i>Inga Spruga</i>	<i>till 28,01,2008</i>	
Reporting year	<i>from</i>	<i>01.01.2007</i>	<i>till 31.12.2007</i>
Previous reporting period	<i>from</i>	<i>01.01.2006</i>	<i>till 31.12.2006</i>
Chief Accountant	<i>Gunars Lacis</i>		
Telephone:			
Auditor:	Auditing Company "Finansists" Ltd. Talavas gatve 11-4, Riga, LV- 1029 Reg. Nr.LV-40002046180 Nelli Jermolicka sworn auditor (Latvian Association of Sworn Auditors' Certificate Nr.102)		

Management Report

Types of activities

During the 12 months of 2007, the main types of JSC "VEF Radiotehnika RRR" activities were:

1. Development of acoustic systems and casings, organisation of production, production and sale;
2. Production and sale of electronic blocks and 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 2006. New types of activities have not been performed.

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

Result for the year before extraordinary items and taxes:	213395 LVL
Deferred corporate income tax:	-16856 LVL
Other taxes:	-181173 LVL
Net result:	15366 LVL

Net turnover for the year 2006 is 1 889 399 Ls and has grown by 6.3 % in comparison with 2005.

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

Current liabilities of the Company do not exceed current assets.

Total liabilities did not exceed total assets of the Company.

Company's profitability:

Gross profit margin (%)	0.74
Operating profit margin (%)	15.4
Gross profit margin (%)	3.97

Financial profitability (%)

Return on capital	2.18
Return on equity	0.72

A number of major works and activities on improvement of working environment, production technology and competitiveness have been performed in 2006:

- 1) refurbishment works continued in production block I-2;
- 2) new technological equipment aimed to increase audio production quality and efficiency continued
- 3) computer equipment upgrade has continued in order to replace old computers as well as to create new computerised working areas.

Company's development activities

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

In 2007, the Company is planning to retain the current rate of sales growth, which shall be done by using the features of the new equipment to its full potential.

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Janis Olekss

April 11, 2008

Annual report accepted at the Shareholders' Meeting on April 25, 2008

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, 2004, the corresponding accounting principles have been applied, their use was consistent and the protective and logical decisions had been made.

Management is responsible for application of the necessary accounting principles, safeguarding company's assets as well as protection from misrepresentation and unlawful

Management confirms that for the purposes of carrying out the audit the necessary information and explanations have been given.

Chairman of the Board

Eduards Maļejevs

Member of the Board

Jurijs Maļejevs

Member of the Board

Janis Olekss

April 11, 2008

***PROFIT AND LOSS STATEMENT
FOR THE PERIOD ENDED
31.12.2007 (per turnover (period) costs method)***

	Note	2007	2007	2006	2006
	nr.	LVL	EUR	LVL	EUR
Net turnover	1	2 065 215	2 938 536	1 889 399	2 688 373
Cost of sales	2	(1 983 234)	(2 821 888)	(1 631 968)	(2 322 081)
Gross profit or loss		81 981	116 648	257 431	366 292
Selling expenses	3	(57 177)	(81 356)	(57 994)	(82 518)
Administrative expenses	4	(417 882)	(594 593)	(184 926)	(263 126)
Other operating income	5	764 377	1 087 610	125 680	178 827
Other operating expenses	6	(53 551)	(76 196)	(102 308)	(145 571)
Interest income and similar income	7	274	390	5 783	8 228
Interest expense and similar expenses	8	(104 627)	(148 871)	(19 286)	(27 442)
Profit or loss before extraordinary items and taxes		213 395	303 632	24 380	34 690
Profit or loss after extraordinary items and before taxes		213 395	303 632	24 380	34 690
Deferred corporate income tax for the reporting period	9	(16 856)	(23 984)	142 733	203 091
Other taxes	10	(181 173)	(257 786)	(19 079)	(27 147)
Profit or loss for the period		15 366	21 862	148 034	210 634
Earnings per share (EPS coefficient)		0.006	0.009	0.058	0.083

Chairman of the Board

Eduards Maļejevs

Member of the Board

Jurijs Maļejevs

Member of the Board

Janis Olekss

April 11, 2008

BALANCE SHEET as on 31.12.2007.

ASSETS		Note	2007	2007	2006	2006
		nr.	LVL	EUR	LVL	EUR
1. Non-current assets						
I. Intangible assets:						
Concessions, patents, licenses, trade marks and similar rights	11		2 323	3 305	2 005	2 853
Total intangible assets:			2 323	3 305	2 005	2 853
II. Fixed assets:						
Land, buildings and constructions			1 082 445	1 540 180	1 239 649	1 763 862
Equipment and vehicles			1 817 689	2 586 338	2 048 277	2 914 436
Other fixed assets			159 102	226 382	191 104	271 916
Construction of fixed assets and unfinished construction objects			38 052	54 143	38 052	54 143
Advance payments for fixed assets			-	-	576	
Total fixed assets:	12		3 097 288	4 407 043	3 517 658	5 004 357
III. Investment properties						
Total investment properties:			-	-	-	-
IV. Biological assets						
Total biological assets			-	-	-	-
V. Long-term financial investments:						
Other loans and other long-term debtors			520	740	1 120	1 594
Deferred taxation assets			55 339	78 740	72 195	102 724
Total long-term financial investments:			55 859	79 480	73 315	104 318
Total non-current assets:			3 155 470	4 489 828	3 592 978	5 111 528
2. Current assets						
I. Inventory:						
Raw materials	13		320 427	455 927	288 587	410 622
Work in process	14		6 120	8 708	9 261	13 177
Finished goods	14		272 565	387 825	157 601	224 246
Advance payments for materials	15		84 518	120 258	185 165	263 466
Total inventory:			683 630	972 718	640 614	911 511
II. Sales-deferred long-term investments						
Total sales-deferred long-term investments:			-	-	-	-
III. Receivables:						
Trade receivables	16		1 048 062	1 491 258	404 829	576 020
Other receivables	17		71 116	101 189	93 076	132 435
Deferred expenses	18		777 870	1 106 809	481 753	685 473
Total receivables:			1 897 048	2 699 256	979 658	1 393 928
IV. Short-term financial investments:						
Other securities and capital participation			14	20	14	20
Total short-term financial investments:			14	20	14	20
V. Cash						
	19		24 700	35 145	31 368	44 633
Total currents assets:			2 605 392	3 707 139	1 651 654	2 350 092
TOTAL ASSETS:			5 760 862	8 196 968	5 244 632	7 461 620

BALANCE SHEET as on 31.12.2007.

**LIABILITIES AND
SHAREHOLDERS' EQUITY**

1. Shareholders' equity:

	Note nr.	2007 LVL	2007 EUR	2006 LVL	2006 EUR
Share capital	20	2 549 084	3 627 020	2 549 084	3 627 020
Reserves:					
Total reserves:		-	-	-	-
Retained earnings:					
a) previous years' retained earnings	21	- 424 999	- 604 719	- 573 033	- 815 353
b) current year profit/(loss)	21	15 366	21 862	148 034	210 633
Total shareholders' equity:		2 139 451	3 044 163	2 124 085	3 022 300

2. Provisions:

Total provisions:		-	-	-	-
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3. Liabilities:

I. Non-current liabilities:

Loans from lending institutions	22	1 203 951	1 713 068	1 124 360	1 599 820
Other loans	23	100 338	142 768	122 806	174 737
Deferred income	24	590 838	840 687	772 185	1 098 720
Total non-current liabilities:		1 895 127	2 696 523	2 019 351	2 873 277

II. Current liabilities:

Loans from lending institutions	25	390 253	555 280	115 975	165 018
Other loans	26	180 095	256 252	106 084	150 944
Advances from customers	27	217 589	309 601	240 090	341 617
Trade accounts payable	28	338 586	481 764	191 797	272 903
Taxes and social security liabilities	29	223 127	317 481	69 401	98 749
Other liabilities	30	89 066	126 730	74 663	106 236
Deferred income	31	198 369	282 254	231 556	329 474
Accrued liabilities	32	89 199	126 919	71 630	101 919
Total current liabilities:		1 726 284	2 456 281	1 101 196	1 566 860

Total liabilities:		3 621 411	5 152 804	3 120 547	4 440 137
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		5 760 862	8 196 968	5 244 632	7 462 437
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Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Janis Olekss

April 11, 2008

Financial Statements for the period from 01.01.2006 to 31.12.2006.

CASH FLOW STATEMENT FOR THE PERIOD ENDED
31.12.2007 (per indirect method)

I. Cash flow from operating activity

Profit or loss before extraordinary items and taxes

Adjustments for:

- a) depreciation of fixed assets
- b) amortisation of goodwill
- c) provisions (except for provisions for bad debts)
- d) Profit or loss from the exchange rate fluctuations
- f) income from subsidies, grants, gifts or donations
- g) other income from interest or similar income
- h) profit/loss from sale of fixed assets
- i) interest payments and similar activities
- k) other taxes

Profit or loss before current assets and

short-term liabilities corrections

Adjustments for:

- a) trade receivables increase (-) or decrease (+)
- b) inventory increase (-) or decrease (+)
- c) accounts payable to suppliers and other creditors
increase (+) or decrease (-)

Gross cash flow from operating activities

Interest payments

Cash flow before extraordinary items

Net cash flow from operating activity

II. Cash flow from investing activities

Acquisition of fixed assets

Income from fixed assets sale

Loans issued

Loans repaid

Interest received

Net cash flow from investing activities

III. Cash flow from financing activities

Income from emission of shares or bonds, particip. In investments

Loans received

Received subsidies, grants, gifts or donations

Loans repaid

Rented asset buyout expenses

Net cash flow from financing activities

IV. Foreign exchange rate differences

V. Net cash flow for the year

VI. Cash and cash equivalents at the beginning of the period

VII. Cash and cash equivalents at the end of the period

2007	2007	2006	2006
LVL	EUR	LVL	EUR
213 395	303 634	24 380	34 690
340 130	483 961	197 283	280 708
1 691	2 406	947	1 347
12 834	18 261	17 981	25 585
5 030	7 157	7 142	10 162
(181 347)	(258 034)	(46 468)	(66 118)
(166)	(236)	(4 130)	(5 876)
(533 455)	(759 038)	8 800	12 521
98 826	140 617	11 482	16 337
(88 081)	(125 328)	(19 079)	(27 147)
(131 143)	(186 599)	198 338	282 210
(305 640)	(434 887)	(336 512)	(478 813)
(44 044)	(62 669)	(53 592)	(76 255)
255 650	363 757	(53 111)	(75 570)
(225 177)	(320 398)	(244 877)	(348 428)
(98 765)	(140 530)	(11 779)	(16 760)
(323 942)	(460 928)	(256 656)	(365 188)
(323 942)	(460 928)	(256 656)	(365 188)
(15 735)	(22 389)	(1 942 246)	(2 763 567)
34 889	49 643	32 447	46 168
(2 850)	(4 055)	(7 466)	(10 623)
1 537	2 187	18 808	26 761
166	236	4 130	5 876
18 007	25 622	(1 894 327)	(2 695 384)
600	854		
340 726	484 809	2 355 422	3 351 464
	-	1 000 000	1 422 872
(11 185)	(15 915)	(1 487 735)	(2 116 856)
(30 359)	(43 197)	(24 037)	(34 202)
299 182	425 698	1 843 650	2 623 278
85	121	(431)	(613)
(6 668)	(9 488)	31 368	44 633
31 368	44 633	-	-
24 700	35 145	31 368	44 633

Chairman of the Board

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Member of the Board

Jurijs Malejevs

Member of the Board

Janis Olekss

April 11, 2008

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE 2007 YEAR

	Subscribed share capital	Ilgtermiņa ieguldījumu pārvērtēšanas rezerve	Statutory reserves	Profit for the year	Previous year's retained earnings	Total share capital and reserves
	LVL	LVL	LVL	LVL	LVL	LVL
Balance as on December 31, 2005	2 549 084	-	-	22 757	- 595 789	1 976 052
Profit carried over				- 22 757	22 757	-
Profit for the year				148 034		148 034
Balance as on December 31, 2006	2 549 084	-	-	148 034	- 573 032	2 124 086
Profit carried over				- 148 034	148 034	-
Profit for the year				35 040		35 040
Balance as on December 31, 2007	2 549 084	-	-	35 040	- 424 998	2 159 126

	Subscribed share capital	Ilgtermiņa ieguldījumu pārvērtēšanas rezerve	Statutory reserves	Profit for the year	Previous year's retained earnings	Total share capital and reserves
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as on December 31, 2005	3 627 020	-	-	56 637	- 904 369	2 779 288
Profit carried over				- 32 380	32 380	-
Profit for the year				210 633		210 633
Balance as on December 31, 2006	3 627 020	-	-	234 890	- 871 989	2 989 921
Profit carried over				- 210 633	210 633	-
Profit for the year				49 857		49 857
Balance as on December 31, 2006	3 627 020	-	-	49 857	- 604 718	3 072 160

Chairman of the Board

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Janis Olekss

April 11, 2008

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". 6. LAS "Incomes" 7. LAS "Fixed Assts" 8. LAS "Savings" Profit and Loss Statement is prepared using turnover (period) costs method.

Cash Flow Statement is prepared using indirect method.

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

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

1. Acceptable to Financial Statements' users for making decisions;

2. Is valid in the way that it:

* correctly reflects Company's results and financial standing - not only the legal form but also the economic nature, is neutral, i.e. non-biased nor deliberate;

* fully represents all real aspects.

Changes to the accounting policies

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

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

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

Error correction

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

1) by correcting comparable indicators for the periods in which the error has occurred; or

2) should the error get discovered prior the latter financial reporting period, by amending the asset, liability and share capital starting figures for the latter reporting period's.

Adapted accounting principles

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

a) it is assumed that the Company continues operations;

b) the same valuation methods as for the previous reporting year shall be used;

c) item valuation is performed with due attention, taking into account the following provisions:

- only profit received prior to the Balance Sheet date is used;

- all foreseen risk amounts and losses which have arisen in the reporting year or in the previous years, are included, even when they became known between the Balance Sheet date and the Annual Report preparation date;

- all value depreciations and reductions are considered and calculated regardless of whether the reporting year had profits or losses;

d) all incomes and expenses related to the reporting year are included in the Profit and Loss Statement regardless of payment date, invoice receipt or issuance dates. Expenses are compared with incomes in the corresponding reporting period;

e) assets and liabilities items are valued separately;

f) reporting year's beginning balance is matching the previous year's ending balance;

g) all items which may influence Annual Report's users decision making or valuation, are included;

h) operating activities for the reporting period are reflected taking into account their economic meaning and contents, not legal form.

Reporting period: from 01.01.2007. to 31.12.2007.

Financial Statements for the period from 01.01.2006 to 31.12.2006.

Transactions in foreign currency

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

All monetary assets and liabilities are translated at the Bank of Latvia rate of exchange on last day of the reporting year.

Differences in exchange rates, arising from foreign currency transactions or when representing asset and liability items, between the exchange rate originally recorded, are to be reflected by their starting net value in the Profit and Loss Statement. Profit or loss, resulted due to the fluctuation of the foreign currency rate, is reflected in the Profit and Loss Statement for the corresponding period.

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

	31.12.2007	31.12.2006	31.12.2005
USD	0.484	0.536	0.593
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

Financial Statements for the period from 01.01.2006 to 31.12.2006.

the straight-line method, reducing the net book value of the asset at the end of useful life using the following rates:

* Buildings and constructions	5	%
* Technological equipment	10-20	%
* Transport vehicles	10-20	%
* Furniture	10-20	%
* Other fixed assets	10-20	%
* Mobile phones	35	%
* Computers and other data storage units	15-35	%
* Depreciation on land plots is not calculated.		

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

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

Rent

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

Hire-purchase (Financial leasing)

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

Long-term financial investments

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

Investments in subsidiaries and related Company shareholding.

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

Inventory valuation

Paragraph 40 of the Provisions of the Latvian Republic Cabinet of Ministers Nr.312 "Regulations on organisation of wholesale and retail" dated 31.08.1999 shall serve as the basis for goods inventory movement. Received and issued goods management is performed with help of computer software "IC". Uninterrupted inventory method is applied in monitoring wholesale movement of goods. During the reporting year, warehouse management software reflected every movement of inventory- sale, internal movement, return of goods to the supplier, return of goods from buyers. The goal of annual inventory is to check the correctness of inventory movement management system. Inventories are valued using FIFO method.

In case of necessity, outdated, slow turnover or damaged inventories' values decrease is written-off, or provisions are made.

Unused material values and stocks at the end of reporting period are valued on historic cost basis, with addition of additional costs (Customs' duties, transport costs, delivery services etc) proportion which is related to the stocks valued.

Write-off of purchased inventory's values:

Inventory items are recorded in the actual volumes at historical cost in the sub account specially dedicated for these purposes. Inventory balances are checked during annual inventory.

Debtors

Financial Statements for the period from 01.01.2006 to 31.12.2006.

Accounts receivable are valued on precautionary basis in the balance sheet, showing only real debtors. Actual accounts receivable amounts comply with the contracts and other documents presented. The accounts receivable comparison is performed and bad debts are written off as well as provisions for doubtful debts have been made, based on evaluation of individual client's financial standing and operating activity analysis.

Accounts receivables are shown in the Balance Sheet on a net (purchase) value, with special provisions for doubtful debts subtracted. The necessary amount of provisions has been set by analysing each debtor and by performing debt comparison.

Bad debts are written off when the likelihood of recovering the debt becomes unrealistic and impossible.

Debtor and creditor liabilities are checked in the 4th quarter of every reporting year, and reconciliation statement is issued.

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

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

Net turnover

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

Income and expenses acknowledgement

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

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

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

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

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

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

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

Incomes are recognised, using the following methods:

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

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

All significant cost items are processed per accumulation principle.

Cash and cash equivalents

Cash and cash equivalents consist from cash on hand and current balances in the bank accounts.

Financial Asset's or Liability's real value

The real value of financial assets and liabilities reflect the cash quantity, for which the asset can be sold or liabilities can be paid off between two independent parties. Should in Management's view, financial asset and liability real value is different from the Balance Sheet values, then that real value of assets and liabilities can be separately reflected in the Notes to the Financial Statements.

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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

Financial Statements for the period from 01.01.2006 to 31.12.2006.

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

Provisions for unused vacations

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

Loans received and loans issued

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

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

Deferred Liabilities

All invoices, received or issues after the reporting year yet related to the expenses which have arisen during the reporting year, the costs of which are known at the end of the reporting year, are treated as deferred liabilities.

Deferred liabilities are shown in the Balance Sheet in a separate row.

Taxes

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

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

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

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

Calculations

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

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

Possible liabilities and assets

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

Events after the end of the reporting year

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

Related parties

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

Entry re-classification

In 2007, in accordance with changes in legislation and Management's view, no re-classifications has been done, when compared to the Financial Statements for the year 2006.

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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	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Income from export sale of finished goods	771 409	1 097 616	631 652	898 760
Income from rent of premises	552 448	786 063	440 744	627 122
Income from sale of finished goods in the local market	271 098	385 738	247 273	351 838
Income from utility services	410 479	584 059	371 779	528 994
Income from galvanization services	34 485	49 068	81 831	116 435
Income from sale of materials	25 296	35 993	116 120	165 224
Total	2 065 215	2 938 537	1 889 399	2 688 373

Net turnover by geographical markets

Latvia	1 293 791	1 840 899	1 257 747	1 789 613
Estonia	50 077	71 253	15 890	22 609
Germany	8 647	12 304	5 819	8 280
Russian Federation	9 012	12 823	46 795	66 583
Finland	6 912	9 835	11 754	16 724
Italy	610 179	868 206	489 336	696 263
Belarus	26 623	37 881	22 366	31 824
Ukraine		-	15 306	21 779
Sweden	1 511	2 150	558	795
Lithuania	47 266	67 253	17 870	25 427
Czech Republic		-	1 382	1 966
USA	125	178	384	546
United Kingdom	11 072	15 754	2 714	3 861
Total	2 065 215	2 938 536	1 889 399	2 688 373

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

Personnel costs	616 411	877 074	399 587	568 561
Provisions for vacations and Social Security	3 152	4 485	16 763	23 852
Depreciation of fixed assets	160 474	228 334	150 814	214 589
Depreciation of fixed assets (project 124000075)	181 347	258 034	46 468	66 118
Write-off of current assets	7 931	11 285	4 583	6 521
Changes in finished goods inventory	- 19 131	- 27 221	- 38 119	- 54 238
Changes in purchased materials and goods inventory	515 119	732 948	695 201	989 182
Services for productions	31 698	45 102	30 744	43 745
Ongoing maintenance and repair	26 555	37 784	12 060	17 160
Real estate property maintenance	399 469	568 393	309 177	439 919
Other costs	60 209	85 670	4 690	6 673
Total	1 983 234	2 821 888	1 631 968	2 322 082

Notes to the Profit and Loss statement entries (continued)

Note Nr. 3

2007	2007	2006	2006
LVL	EUR	LVL	EUR

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Sales costs		LVL	EUR	LVL	EUR
Cost type					
Goods' transport costs		46 241	65 795	41 450	58 978
Sales costs		2 782	3 958	2 685	3 820
Advertising costs		8 154	11 602	13 859	19 720
Total		57 177	81 355	57 994	82 518

Note Nr. 4

Administrative costs

Cost type		2007	2007	2006	2006
		LVL	EUR	LVL	EUR
Personnel costs		336 739	479 136	97 505	138 737
Provisions for vacations and Social Security		9 682	13 776	1 218	1 733
Representation costs		4 530	6 446	5 012	7 131
Office expenses		10 481	14 913	9 601	13 661
Communication expenses		17 319	24 643	24 033	34 196
Bank expenses		5 806	8 261	7 460	10 615
Transport costs		27 061	38 504	31 839	45 303
Accounting and legal expenses		6 264	8 913	4 851	6 902
Other administrative costs			-	947	1 347
Total		417 882	594 592	182 466	259 625

Note Nr. 5

Other incomes from operating activity

Type on income		2007	2007	2006	2006
		LVL	EUR	LVL	EUR
Income from privatisation certificates		31 309	44 549	31 805	45 254
Income from grant financing (project 124000075)		181 347	258 033	46 468	66 118
Income from sale of fixed assets		533 455	759 038		
Other income		18 266	25 990	47 407	67 454
Total		764 377	1 087 610	125 680	178 826

Note Nr. 6

Other incomes/expenses from operating activity

Type of income/expense		2007	2007	2006	2006
		LVL	EUR	LVL	EUR
Difference in currency rates		7 258	10 327	8 313	11 828
Sale of fixed assets			-	8 800	12 521
Fines / penalties		15 720	22 368		
Written off hopeless debts		18 732			
Expenses not related to business activities		11 841			
Other expenses				85 195	121 222
Total		53 551	32 695	102 308	145 571

Note Nr. 7

Other interest and similar income

Type of income		2007	2007	2006	2006
		LVL	EUR	LVL	EUR
Interest received on account balances		166	236	4 130	5 876
Received penalties / fines		108	154	482	686
Net profit from foreign currency rate fluctuations			-	1 171	1 666
Total		274	390	5 783	8 228

Notes to the Profit and Loss statement entries (continued)

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Note Nr. 8

Other interest and similar expenses

Type of expense

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
	98826	140 617	11482	16 337
	5801	8 254	7804	11 104
Total	104 627	148 871	19 286	27 441

Note Nr. 9

Deferred Corporate Income Tax

Total:	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
	16 856	23 984 -	142 733 -	203 091
	16 856	23 984 -	142 733 -	203 091

Note Nr. 10

Other taxes

Natural resources tax (over the limit)
Real estate tax for land
Real estate tax for buildings and constructions

2007	2007	2006	2006
LVL	EUR	LVL	EUR
168	239		
7 526	10 709	7 042	10 020
173 479	246 838	12 037	17 127
Total:	181 173	19 079	27 147

Notes to the Financial Statements

Notes to the Balance Sheet as on December 31, 2007.

11. Intangible assets

	Computer software	Patents and trade marks	Other licenses	Pre-payments for intangible assets	Intangible assets total, LVL	Intangible assets total, EUR
Historical cost						
31.12.2006.	5 354	-	-	-	5 354	7 618
Purchased	2 009	-	-	-	2 009	2 859
Relocated	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
31.12.2007.	7 363	-	-	-	7 363	10 477
Depreciation						
31.12.2006.	3 349	-	-	-	3 349	4 765
Calculated	1 691	-	-	-	1 691	2 406
Written-off	-	-	-	-	-	-
31.12.2007.	5 040	-	-	-	5 040	7 171
Net book value						
31.12.2006.	2 005	-	-	-	2 005	2 853
Net book value						
31.12.2007.	2 323	-	-	-	2 323	3 305

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

Inventory of the balances of intangible assets has been performed on December 31, 2006

12. Fixed Assets

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	Land	Buildings and constructions	Technological equipment	Other fixed assets	Total LVL	Total EUR
Historical cost						
31.12.2006.	468 191	1 241 630	498 343	314 643	2 522 807	3 589 631
Purchased			2 722	34 048	36 770	52 319
Written-off	- 40 157	- 99 998	- 3 354	- 40 331	- 183 840	- 261 581
31.12.2007.	428 034	1 141 632	497 711	308 360	2 375 737	3 380 369
Depreciation						
31.12.2006.	-	470 172	217 059	123 539	810 770	1 153 622
Calculated		62 048	51 760	44 975	158 783	225 928
Written-off	-	- 44 999	- 3 151	- 19 256	- 67 406	- 95 910
31.12.2007.	-	487 221	265 668	149 258	902 147	1 283 640
Net book value						
31.12.2006.	468 191	771 458	281 284	191 104	1 712 037	2 436 009
Net book value						
31.12.2007.	428 034	654 411	232 043	159 102	1 473 590	2 096 730

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						
31.12.2006.	1 813 461	-	576	38 052	1 852 089	2 635 285
Purchased					-	-
Written-off					-	-
31.12.2007.	1 813 461	-	576	38 052	1 852 089	2 635 285
Depreciation						
31.12.2006.	46 468	-	-	-	46 468	46 468
Calculated	181 347	-	-	-	181 347	258 034

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Written-off	-	-	-	-	-	-
31.12.2007.	227 815	-	-	-	227 815	324 152
Net book value						
31.12.2006.	1 766 993	-	576	38 052	1 805 621	2 569 167
Net book value						
31.12.2007.	1 585 646	-	576	38 052	1 624 274	2 311 134

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

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

Fixed asses on financial lease:

Name of fixed asset	Lease company	Historical cost	Net book value	Unpaid lease as per lease agreement	Lease term
Auto vehicle Ford Transit	Hansa Līzings	15 039	2 757	2 396	15.10.2008
Tech.equip. HASL 204S	Hansa Līzings	25 984	16 889	9 407	15.06.2009
Auto vehicle Toyota RAV4	Unilīzings	15 486	8 259	8 907	15.07.2008
Equipment Weeke Venture 3	DnB Nord Līz.	59 422	46 547	36 784	15.10.2010
Auto vehicle Jaguar Daimler Super Eight	Parex Līzings	67 898	47 529	65 060	30.06.2013
Toyota Corola	Unilīzings	13 411	12 964	13 621	25.09.2012
Haulotte C12	Unilīzings	12 194	11 381	11 671	25.08.2010

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

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Historical cost	183 840	261 581	60 070	85 472
Accumulated depreciation	67 406	95 910	18 823	26 783
Net book value	116 434	165 671	41 247	58 689
Income from sale	649 889	924 709	32 447	46 168

13. Raw materials

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Raw materials	202 581	288 247	187 070	266 177
Inventory in use	117 846	167 680	101 517	144 446
Total	320 427	455 927	288 587	410 623

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Notes to the Balance Sheet (continued)

14. Work in progress

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Unfinished goods	6 120	8 708	9 261	13 177
finished goods and goods in warehouse	272 565	387 825	157 601	224 246
Total	278 685	396 533	166 862	237 423

15. Avansa maksājumi par precēm

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Advance payments for materials	55 389	78 811	26 662	37 937
Advance payments to non-residents	29 129	41 447	32 288	45 942
Goods in bonded storage		-	126 215	179 588
Total	84 518	120 258	185 165	263 467

16. Trade receivables

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Receivables (non-residents)	752 658	1 070 936	244 131	347 367
Receivables (residents)	295 404	420 322	160 698	228 653
Book value of purchases and customers, total	1 048 062	1 491 258	404 829	576 020
Provisions for doubtful debts	-	-	-	-
Net trade receivables, total	1 048 062	1 491 258	404 829	576 020

17. Other receivables

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
VAT confirmed (unpaid invoices)	1 917	2 728	2 619	3 727
Nature Resource tax overpaid to the state budget		-	338	481
Tax pre-payments for customs procedures	1 902	2 706	3 011	4 284
Loans to employees	4 074	5 797	3 987	5 673
Other loans	49 056	69 800	45 379	64 568
Others	240	341	8 146	11 591

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Total	71 116	101 188	93 076	132 435
18. Deferred expenses	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Insurance expenses	5 530	7 868	7 760	11 041
Expenses for repairs of buildings and premises	15 902	22 627	20 411	29 042
Expenses for implementation of project Nr.124000075	326 861	465 081	276 861	393 938
Expenses for reconstruction of block I-2	428 183	609 250	157 813	224 548
Other expenses	1 394	1 983	18 908	26 904
Total	777 870	1 106 809	481 753	685 473
19. Cash and cash equivalents	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Cash on hand	20 593	29 301	11 315	16 100
Cash in bank accounts	4 107	5 844	9 053	12 881
Total	24 700	35 145	20 368	28 981

Notes to the Balance Sheet (continued)

20. Information about company's share capital

On 31.12.2007 company's share capital consisted of 2549084 registered and fully paid shares with nominal value of 1 Ls.
Larges shareholders of JSC "VEF Radiotekhnika RRR" are:

Shareholders	Number of shares		Value			
			LVL		EUR	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Baltlains Intern Ltd.	1270612	1270612	1270612	1270612	1807918	1807918
Riga City Council	0	0	0	0	0	0
State Social Security A	192694	192694	192694	192694	274179	274179
Eduards Malejevs	423559	423559	423559	423559	602670	602670
Jurijs Malejevs	421871	421871	421871	421871	600268	600268

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Others (<5%)	240348	240348	240348	240348	341984	341984
Total:	2549084	2549084	2549084	2549084	3627020	3627020

21. Retained earnings/losses

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

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
previous years' retained earnings/losses	-424 999 -	604 719 -	573 033 -	815 353
current year profit/loss	15 366	21 864	148 034	210 633
Total	- 409 633 -	582 855 -	424 999 -	604 720

22. Long-term loans from lending institutions

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Loan from JSC SEB Latvijas Unibanka (EUR)	1 203 951	1 713 068	1 124 360	1 599 820
Total	1 203 951	1 713 068	1 124 360	1 599 820

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

23. Other loans (long-term)

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Financial lease from SIA Parex Līzins un Faktoring	54 425	77 440	65 059	92 571
Financial lease from SIA DnB Nord Līzings (EUR)	24 099	34 290	36 784	52 339
Financial lease from SIA Hansa Līzings (USD)		-	2 649	3 769
Financial lease from SIA Hansa Līzings (EUR)	3 225	4 589	9 407	13 385
Financial lease from SIA Unilīzings (EUR)	18 589	26 450	8 907	12 674
Total	100 338	142 769	122 806	174 738

24. Deferred income (long-term)

2007	2007	2006	2006
LVL	EUR	LVL	EUR

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Income from grant financing (project Nr.124000075)	590 838	840 687	772 185	1 098 720
Total	590 838	840 687	772 185	1 098 720

26. Short-term loans from lending institutions

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Credit line from JSC SEB Latvijas Unibanka (LVL)	194 677	277 000	109 790	156 217
Loan from JSC SEB Latvijas Unibanka (EUR)	195 576	278 280	6 185	8 800
Total	390 253	555 280	115 975	165 017

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

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

27. Other loans (short-term)

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Financial lease from SIA Parex Līzins un Faktoringa	10 635	15 132	10 155	14 449
Financial lease from SIA DnB Nord Līzings (EUR)	12 685	18 049	12 193	17 349
Financial lease from SIA Hansa Līzings (USD)	2 396	3 409	3 037	4 321
Financial lease from SIA Hansa Līzings (EUR)	6 182	8 796	5 843	8 314
Financial lease from SIA Unilīzings (EUR)	15 609	22 210	2 827	4 022
Faktoringa SIA Unilīzings (EUR)	123 539	175 780	68 021	96 785
Credit cards	9 049	12 876	4 008	5 703
Total	180 095	256 252	106 084	150 943

28. Advances from customers

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Advances from non-residents	10	14	5 205	7 406
Advances from residents	217 579	309 587	234 885	334 211
Total	217 589	309 601	240 090	341 617

29. Due to suppliers and providers (short-term)

2007	2007	2006	2006
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	LVL	EUR	LVL	EUR
Trade accounts payable to non-residents	57 341	81 589	26 454	37 641
Trade accounts payable to residents	281 245	400 176	165 343	235 262
Total	338 586	481 765	191 797	272 903

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Notes to the Balance Sheet (continued)

30. Taxes and social insurance payments

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Personal Income Tax	50 230	71 471	28 239	40 180
State Social Insurance payments	59 719	84 972	32 526	46 280
Value Added Tax	16 885	24 025	8 182	11 642
Real estate tax for building and constructions	93 092	132 458	-	-
Real estate tax for land	-	-	-	-
Nature resources tax	3 110	4 425	441	627
Corporate risk tax	91	129	13	18
Total	223 127	317 480	69 401	98 747

31. Other liabilities

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Salaries	43 792	62 310	39 810	56 645
Advance settlement amounts	1 920	2 732	1 031	1 467
Deposits	39 041	55 550	29 045	41 327
Other creditors	4 313	6 137	4 777	6 797
Total	89 066	126 729	74 663	106 236

32. Deferred income (short-term)

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Next year's rent for premises		-	1878	2 672
Income from privatisation certificates	17023	24 222	48331	68 769
Income from grant financing (project Nr.124000075)	181 346	258 032	181 347	258 034
Total	198 369	282 254	231 556	329 475

33. Accrued liabilities

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Current expenses	35 385	50 348	30 651	43 612

JSC "VEF Radiotehnika RRR"

unified Reg.Nr.40003286712

Financial Statements for the period from 01.01.2006 to 31.12.2006.

Provisions for vacations	43 367	61 706	33 024	46 989
Provisions for vacations (Social Security Payments)	10 447	14 865	7 955	11 319
Total	89 199	126 919	71 630	101 920

JSC "VEF Radiotehnika RRR"
unified Reg.Nr.40003286712
Financial Statements for the period from 01.01.2006 to 31.12.2006.

Notes to the Financial Statements

General Notes

1. Average number of employees during the year

Average number of employees during the year

<u>year 2007</u>	<u>year 2006</u>
<u>209</u>	<u>131</u>

2. Total personnel costs

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

Management salaries

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

<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
<u>LVL</u>	<u>EUR</u>	<u>LVL</u>	<u>EUR</u>
953 150	1 356 210	496 660	706 684
772 696	1 099 447	403 041	573 476
179 827	255 871	93 619	133 208
627	892	432	615
54 000	76 835	30 000	42 686
11 569	16 461	6 395	9 099
9	13	9	13
65 578	93 309	36 404	51 798

Taxes and social security payments

<u>Type of tax</u>	<u>31.12.06</u>	<u>calculated</u>	<u>paid</u>	<u>include</u>	<u>31.12.07</u>
Value added tax	8182	15087	17594		-11210
Outdated amount		646	646		
Personal income tax	28239	154134	132143		
Outdated amount		4263	4263		
State social security obligatory payments	32526	247002	208238		11571
Outdated amount		2702	2702		
Corporate risk tax	13	627	549		
Outdated amount		6	6		
Nature resources tax	102	2863	216		-361
Outdated amount		127	127		
Real estate tax for land		181006	87914		
Outdated amount		4115	4115		
	<u>69062</u>	<u>612578</u>	<u>458513</u>		<u>0</u>

Taxes overpaid

0

Tax debt

69062

Calculated fine for outdated payments

11859

11859

Information on total amount of reward to sworn auditor company " Auditoru firma "Finansists"" for year 2007.

1. For checking of 2007 annual report.

2800 LVL

Total:

2800 LVL

Annual report is accepted and signed from page 1 till 28

Chairman of the Board

Eduards Malejevs

Member of the Board

Jurijs Malejevs

Member of the Board

Janis Olekss

JSC "VEF Radiotehnika RRR" LV40003286712

Registration Nr 40003286712

SUMMARY OF FIXED ASSET AND INTANGIBLE ASSET VALUE DEPRECIATION AND WRITE-OFF

2006 taxation year

Category	Adjusted value	Total value from which the taxation year's depreciation is calculated	Depreciation for the taxation year	Accumulated depreciation	Remaining value after taxation year's depreciation deduction
1.	2.	3.	4.	5.	6.
First	1241630	611919	61192	690903	550727
Second	0	0	0	0	0
Third	42254	13742	9619	38131	4123
Fourth	3512167	2995975	1198390	1714582	1797585
Fifth	0	0		0	
SUB-TOTAL	4796051	3621636	1269201	2443616	2352435
Intangible assets	X	X	0	0	0
TOTAL	4796051	3621636	1269201	2443616	2352435

fields marked with "X" are not to be filled out

Chairman of the Board

Eduards Malejevs

To the Shareholders of "VEF Radiotekhnika RRR" Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements on pages 7 to 27 of "VEF Radiotekhnika RRR" Ltd., which comprise the balance sheet as of 31 December 2007 and the related calculation of profit or loss, statement of the capital 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 the requirements of the Annual Accounts Act of the Republic of Latvia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are 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 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 audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of "VEF Radiotehnika RRR" Ltd. on december, 31, 2007, and its operations 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 set out on page 4 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for the 01.01.2007- 31.12.2007.

Certified auditors' company SIA "Finansists"
Audit company licence No. 61

Nelli Jerņolicka
Certified auditor
Certificate No. 102
Chairman of the Board



Rīga, Latvija
11.04.2008.