

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

Main activities:
production

Measurement units: Ls (LVL)

2010 Annual Report

Submission date: _____

Date of receipt: _____

Riga, Latvia

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INFORMATION about the COMPANY

Full name of the Company	<i>JSC "VEF Radiotekhnika 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"</i> <i>LV57UNLA0050006466330 (LVL)</i> <i>LV55UNLA0050006466366 (EUR)</i> <i>LV32UNLA0050006466392 (USD)</i>			
Council members of the JSC				
Chairman of the Council	<i>Janis Salenieks</i>			
Council Member	<i>Jurijs Malejevs</i>			
Council Member	<i>Inga Spruga</i>			
Council Member	<i>Ausma Smiltnece</i>			
Council Member	<i>Vjačeslavs Mihailovins</i>			
Boar members of the JSC				
Chairman of the Board	<i>Eduards Malejevs</i>			
Board Member	<i>Gunars Lacis</i>			
Reporting year	<i>from</i>	<i>01.01.2010</i>	<i>till</i>	<i>31.12.2010</i>
Previous reporting period	<i>from</i>	<i>01.01.2009</i>	<i>till</i>	<i>31.12.2009</i>
Chief Accountant	<i>Olga Romanko</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 2010 the main types of JSC "VEF Radiotekhnika RRR" activities were:

1. Development of acoustic systems and casings, organisation of production, production and sales;
2. Production and sales of electronic blocks and Elektronisko bloku un components;
3. Production and sales of pressed circuit boards, galvanization services;
4. Provision of real estate rental services

All of the above-mentioned activities had been performed also in year 2010. New types of activities have not been performed.

Operation of the company in the reporting year

When analysing performance indicators of JSC "VEF Radiotekhnika RRR" for the year 2010 it can be concluded that the year has been successful and stable, with certain economical development. During the reporting year, the number of prospective customers (buyers) has grown both in the Baltic region as well as across European Union states, which is due to the audio equipment upgrade and development project implemented by the Company.

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

Result for the year before extraordinary items and taxes:	131644 LVL
Deferred corporate income tax:	-14988 LVL
Other taxes:	-99821 LVL
Net result:	16835 LVL

Net turnover for the year 2010 is 22887695Ls and has grown by 10,3 % in comparison with 2009.

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

Current liabilities of the Company do not exceed current assets.

Total liabilities did not exceed total assets of the Company.

Company's profitability:

Gross profit margin (%)	1.38
Operating profit margin (%)	17.15
Gross profit margin (%)	6.75

Financial profitability (%)

Return on capital	1.78
Return on equity	0.77

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

- 1) refurbishment works commenced in production block I-2;
- 2) Continued acquiring of the new technological equipment obtained by support of Grant financing.
- 3) computer equipment upgrade has continued in order to replace old computers as well as to create new computerised working areas.

Company's development activities

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

In 2010, the Company is planning to retain the current rate of sales growth, which shall be done by using the features of the new equipment to its full potential.

Conditions and events after Balance Sheet completion

From the end of the reporting year to this date there have been no events which could directly influence the value of this report.

Proposals for distribution of profits

During the reporting year, JSC "VEF Radiotekhnika RRR" has ensured incomes which allowed to perform significant development activities, timely payment of all taxes as well as receipt of significant profits. The profit of the Company shall be used to cover losses from previous years.

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

APRIL 28, 2011

Annual report accepted at the Shareholders' Meeting on April 29, 2011

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, 2010, the corresponding accounting principles have been applied, their use was consistent and the protective and logical decisions had been made.

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

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

Chairman of the Board

Eduards Malejevs

Gunars Lacis

APRIL 28, 2011

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

	Note	2010	2010	2009	2009
	nr.	LVL	EUR	LVL	EUR
Net turnover	1	1 217 613	1 732 507	1 347 232	1 916 938
Cost of sales	2	(1 135 438)	#####	#####	#####
Gross profit or loss		82 175	116 924	204 034	290 314
Selling expenses	3	(67 456)	(95 981)	(33 907)	(48 245)
Administrative expenses	4	176 060	250 511	(264 036)	(375 689)
Other operating income	5	428 247	609 341	379 930	540 592
Other operating expenses	6	(58 113)	(82 687)	(51 089)	(72 693)
Interest income and similar income	7	6	9	18	26
Interest expense and similar expenses	8	(77 155)	(109 782)	(96 795)	(137 727)
Profit or loss before extraordinary items and taxes		131 644	688 335	138 155	196 578
Profit or loss after extraordinary items and before taxes		131 644	688 335	138 155	196 578
Deferred corporate income tax for the reporting period	9	(14 988)	(21 326)	(13 050)	(18 568)
Other taxes	10	(99 821)	(142 032)	(102 345)	(145 624)
Profit or loss for the period		16 835	524 977	22 760	32 386
Earnings per share (EPS coefficient)		0.007	0.206	0.0089	0.0127

Chairman of the Board

Eduards Maļejevs

Gunars Lacis

APRIL 28, 2011

BALANCE SHEET as on 31.12.2010.

ASSETS		Note	2010	2010	2009	2009
		nr.	LVL	EUR	LVL	EUR
1. Non-current assets						
I. Intangible assets:						
Concessions, patents, licenses, trade marks and similar rights		11	177	252	534	760
Total intangible assets:			177	252	534	760
II. Fixed assets:						
Land, buildings and constructions			953 830	1 357 178	997 499	1 419 313
Equipment and vehicles			1 465 889	2 085 772	1 616 132	2 299 549
Other fixed assets			82 770	117 771	96 141	136 796
Construction of fixed assets and unfinished construction objects			38 052	54 143	38 052	54 143
Advance payments for fixed assets			-	-	-	-
Total fixed assets:		12	2 540 541	3 614 864	2 747 824	3 909 801
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	520	740
Deferred taxation assets			32 075	45 639	47 063	66 965
Total long-term financial investments:			32 595	46 379	47 583	67 705
Total non-current assets:			2 573 313	3 661 495	2 795 941	3 978 266
2. Current assets						
I. Inventory:						
Raw materials		13	263 013	374 234	304 668	433 504
Work in process		14	1 040	1 480	12 246	17 424
Finished goods		14	265 860	378 285	280 409	398 986
Advance payments for materials		15	75 724	107 746	75 874	107 959
Total inventory:			605 637	861 745	673 197	957 873
II. Sales-deferred long-term investments						
Total sales-deferred long-term investments:			-	-	-	-
III. Receivables:						
Trade receivables		16	535 180	761 493	662 676	942 903
Other receivables		17	153 884	218 957	125 606	178 721
Deferred expenses		18	1 217 236	1 731 971	1 219 931	1 735 805
Total receivables:			1 906 300	2 712 421	2 008 213	2 857 429
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	597	849	2 592	3 688
Total currents assets:			2 512 548	3 575 035	2 684 016	3 819 010
TOTAL ASSETS:			5 085 861	7 236 528	5 479 957	7 797 276

BALANCE SHEET as on 31.12.2010.

**LIABILITIES AND
SHAREHOLDERS' EQUITY**

1. Shareholders' equity:

	Note nr.	2010 LVL	2009 EUR	2009 LVL	2008 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	- 370 189	- 526 731	- 392 949	- 559 116
b) current year profit/(loss)	21	16 835	37 207	22 760	32 385
Total shareholders' equity:		2 195 730	3 137 496	2 178 895	3 100 289

2. Provisions:

Total provisions:	16 489	26 357	18 524	26 357
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3. Liabilities:

I. Non-current liabilities:

Loans from lending institutions	22	1 480 040	2 105 907	1 522 208	2 165 907
Other loans	23	33 116	47 120	36 756	52 299
Deferred income	24	46 798	66 588	228 144	324 620
Total non-current liabilities:		1 559 954	2 219 615	1 787 108	2 542 826

II. Current liabilities:

Loans from lending institutions	25	170 732	242 930	394 822	561 781
Other loans	26	41 762	59 422	63 235	89 975
Advances from customers	27	17 368	24 712	2 393	3 405
Trade accounts payable	28	494 852	704 111	444 241	632 098
Taxes and social security liabilities	29	322 792	459 292	281 883	401 083
Other liabilities	30	57 280	81 502	89 646	127 555
Deferred income	31	181 347	258 034	181 347	258 034
Accrued liabilities	32	27 555	39 207	37 863	53 874
Total current liabilities:		1 313 688	1 869 210	1 495 430	2 127 804

Total liabilities:	2 873 642	4 088 825	3 282 538	4 670 630
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:	5 085 861	7 236 528	5 479 957	7 797 276
	-	-	-	-

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

APRIL 28, 2011

CASH FLOW STATEMENT FOR THE PERIOD ENDED
31.12.2010 (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
- e) ieņēmumi no līdzdalības koncerna meitas un asociēto sabiedrību kapitālos
- 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

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

2010	2010	2009	2009
LVL	EUR	LVL	EUR
131 644	187 313	138 155	196 577
185 956	264 592	189 301	269 351
357	508	588	837
(2 035)	(2 896)	(45 266)	(64 408)
(10 180)	(14 485)	2 256	3 210
	-		-
(181 347)	(258 034)	(181 347)	(258 034)
(6)	(9)	(18)	(26)
(230 743)	(328 318)	(197 080)	(280 420)
77 155	109 782	96 795	137 727
(99 821)	(142 032)	(32 484)	(46 221)
(129 020)	(183 578)	(29 100)	(41 405)
110 567	157 323	(92 308)	(131 342)
70 497	100 308	53 646	76 331
69 266	98 557	143 249	203 825
121 310	172 609	75 487	107 408
(77 110)	(109 718)	(96 907)	(137 886)
44 200	62 891	(21 420)	(30 478)
44 200	62 891	(21 420)	(30 478)
	-	(46 512)	(66 181)
266 429	379 094	290 940	413 970
6	9	18	26
266 435	379 103	244 446	347 815
35 219	50 112	16 305	23 200
(319 928)	(455 217)	(199 571)	(283 964)
(27 840)	(39 613)	(40 709)	(57 924)
(312 549)	(376 027)	(223 975)	(318 688)
(81)	16	11	16
(1 995)	(3 164)	(938)	(1 335)
2 592	3 688	3 530	5 023
597	849	2 592	3 688

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

APRIL 28, 2011

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE 2010 YEAR

	Subscribed share capital	Ilgtermiņa ieguldījumu pārvērtēšanas rezerve	Statutory reserves	Profit for the year	Previous year's retained earnings	Total share capital and reserves
	LVL	LVL	LVL	LVL	LVL	LVL
Balance as on December 31, 2008	2 549 084	-	-	16 684	- 409 633	2 156 135
Profit carried over				- 16 684	16 684	-
Profit for the year				22 760		22 760
Balance as on December 31, 2009	2 549 084	-	-	22 760	- 392 949	2 178 895
Profit carried over				- 22 760	22 760	-
Profit for the year				16 835		16 835
Balance as on December 31, 2010	2 549 084	-	-	16 835	- 370 189	2 195 730

	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, 2008	3 627 020	-	-	56 637	- 904 369	2 779 288
Profit carried over				- 23 739	23 739	-
Profit for the year				32 385		32 385
Balance as on December 31, 2009	3 627 020	-	-	65 283	- 880 630	2 811 673
Profit carried over				- 32 385	32 385	-
Profit for the year				23 954		23 954
Balance as on December 31, 2010	3 627 020	-	-	23 954	- 526 731	3 124 242

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

APRIL 28, 2011

Notes to the Financial Statements

1. Accounting Policies

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

General Principles

The Annual Report is prepared in accordance with the Republic of Latvia "Law On Accounting" and "Law on Annual Reports" and in accordance with Latvian accounting standards. In preparation of this Annual Report the following Latvian accounting standards were applied: (LAS): 1. LAS "Financial Report base preparation approach", 2. LAS "Cash Flow Statement", 3. LAS "Events after Balance Sheet date", 4. LAS "Change of accounting policy, change of accounting calculations and errors of previous periods", 5. LAS "Long-term Agreements". 6. LAS "Incomes" 7. LAS "Fixed Assts" 8. LAS "Savings" Profit and Loss Statement is prepared using turnover (period) costs method.

Cash Flow Statement is prepared using indirect method.

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

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

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

2. Is valid in the way that it:

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

* fully represents all real aspects.

Changes to the accounting policies

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

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

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

Error correction

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

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

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

Adapted accounting principles

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

a) it is assumed that the Company continues operations;

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

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

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

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

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

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

e) assets and liabilities items are valued separately;

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

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

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

Reporting period: from 01.01.2010. to 31.12.2010.

Transactions in foreign currency

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

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

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

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

	31.12.2010	31.12.2009	31.12.2008
USD	0.535	0.489	0.495
EUR	0.702804	0.702804	0.702804

Long-term and short-term items

The following amount are shown in the current assets:

- * that shall be used or realised during the usual working cycle of the Company;
- * that are mainly for trading purposes or are of short-term nature and can be realised within 12 months after the Balance Sheet date;
- * that are cash or cash equivalents, possessing unlimited usage options.

Other assets are classified as long-term.

The following current liabilities are shown:

- * that will be paid off during the usual working cycle of the Company;
- * that will be paid off within 12 months after the Balance Sheet date;

Other liabilities are classified as long-term.

Company's non-current liabilities (long-term liabilities) are also those which pay-off term is less than one year but:

- * original liability term was longer than one year;

Intangible assets and fixed assets depreciation

Intangible asset is an asset that:

is believed to bring operating benefits to the Company, related to this asset; which costs can be evaluated.

Only acquired for reward/compensation "concessions, patents, licenses, trade marks and similar rights" can be shown.

In the Balance Sheet all intangible assets are shown at the historical cost less depreciation.

Depreciation is calculated by straight-line method, using the following depreciation rates:

Intangible assets

Software	20-35	%
Licenses	20	%
Trade Marks	20	%
Non-material value	20	%

Intangible asset with specified useful life is systematically depreciated during the rounded up useful life period.

Intangible asset with unlimited useful life is checked for value decrease every year.

Computer software and licenses, commercial licenses, trade marks, patents, certificates and advance payments for the non-material investments are considered as intangible assets. Intangible assets are shown using their net value, computer software used together with licenses and ownership rights.

Fixed Assets:

Fixed assets are physical objects with useful life over 12 calendar months and acquisition value of 50,- LVL and more.

Work tools, production accessories and obligatory work clothes, shoes and other items are not classified as fixed assets, regardless of their acquisition value or useful life.

All fixed assets are valued by their acquisition value.

Fixed assets are shown using their acquisition or revaluations value, less depreciation. Depreciation is calculated using the straight-line method, reducing the net book value of the asset at the end of useful life using the following rates:

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

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

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

Rent

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

Hire-purchase (Financial leasing)

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

Long-term financial investments

Long-term financial investments are purchase of a company (or shares of it), long-term loans, long-term investments.

Long-term investments are investments with pay-off date of over one year and are outside the reporting year.

Investments in subsidiaries and related Company shareholding

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

Inventory valuation

Paragraph 40 of the Provisions of the Latvian Republic Cabinet of Ministers Nr.312 "Regulations on organisation of wholesale and retail" dated 31.08.1999 shall serve as the basis for goods inventory movement. Received and issued goods management is performed with help of computer software "1C". Uninterrupted inventory method is applied in monitoring wholesale movement of goods. During the reporting year, warehouse management software reflected every movement of inventory- sale, internal movement, return of goods to the supplier, return of goods from buyers. The goal of annual inventory is to check the correctness of inventory movement management system. Inventories are valued using FIFO method.

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

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

Write-off of purchased inventory's values:

Inventory items are recorded in the actual volumes at historical cost in the sub account specially dedicated for these purposes.

Inventory balances are checked during annual inventory.

Debtors

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

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

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

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

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

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

Net turnover

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

Income and expenses acknowledgements

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

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

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

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

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

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

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

Incomes are recognised, using the following methods:

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

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

All significant cost items are processed per accumulation principle.

Cash and cash equivalents

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

Financial Asset's or Liability's real value

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

Accounts Payable

Accounts payable are shown in the Balance Sheet on the basis of corresponding documents and entries in the accounting registers, which are compared with creditors' own data.

These liabilities are correspondingly separated into long-term debts (liabilities) and short-term liabilities. Short-term liabilities - liabilities which arise during the usual operating of the company and which should be settled not later than 12 months after the Balance Sheet date. Long-term liabilities - liabilities, settlement of which should start not earlier than one year after end of the reporting year. Loan or leasing liabilities are divided accordingly into short-term and long-term parts.

Reserves

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

Provisions for unused vacation:

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

Loans received and loans issued

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

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

Deferred Liabilities

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

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

Taxes

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

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

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

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

Calculations

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

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

Possible liabilities and assets

In these Financial Statements possible liabilities are not displayed but are reflected in the Notes to Financial Statements.

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

Events after the end of the reporting year

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

Related parties

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

Entry re-classification

In 2008, in accordance with changes in legislation and Management's view, no re-classifications has been done, when compared to the Financial Statements for the year 2009.

2. Notes to the Profit and Loss statement entries

Note Nr.1

Net Turnover

Net turnover is income from main activity of the Company, sale of goods and supply of services from which trade discounts and other assigned discounts are subtracted, as well as

Value Added Tax, Excise Tax and other taxes, directly related to sales.

Type of activity	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Income from export sale of finished goods	423 662	602 817	460 894	655 793
Income from rent of premises	269 694	383 740	388 213	552 377
Income from sale of finished goods in the local market	127 009	180 718	167 854	238 835
Income from utility services	325 820	463 600	323 158	459 812
Income from sale of materials	71 428	101 633	7 113	10 121
Total	1 217 613	1 732 508	1 347 232	1 916 938

Net turnover by geographical markets

Latvia	793 951	1 129 690	886 338	1 261 145
Estonia	2 441	3 473	7 543	10 733
Germany	2 505	3 564	5 615	7 989
Russian Federation	14 695	20 909	9 797	13 940
POLAND	1 513	2 153		
Finland	2 735	3 892	1 649	2 346
Italy	365 929	520 670	369 154	525 259
Belarus	10 311	14 671	22 727	32 338
Sweden		-	531	756
CZ	17 551	24 973		
Lithuania	2 014	2 866	3 311	4 711
KZ	3 968	5 646		-
USA		-	371	528
AAE		-	24 083	34 267
United Kingdom		-	16 113	22 927
	1 217 613	1 732 507	1 347 232	1 951 734

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	67 317	95 783	236 474	336 472
Provisions for vacations and Social Security	- 401 -	571 -	20 169 -	28 698
Depreciation of fixed assets	77 220	109 874	80 796	114 962
Depreciation of fixed assets (project 124000075)	109 093	155 225	109 093	155 225
Write-off of current assets	2 611	3 715	33 765	48 043
Changes in finished goods inventory	400 290	569 561	65 574	93 303
Changes in purchased materials and goods inventory	91 979	130 874	145 179	206 571
Services for productions	33 848	48 161	38 908	55 361
Ongoing maintenance and repair	12 806	18 221	16 372	23 295
Real estate property maintenance	318 954	453 831	412 444	586 855
Other costs	21 721	30 906	24 762	35 233

0 1 135 438 1 615 580 1 143 198 1 626 622

Notes to the Profit and Loss statement entries (continued)

Note Nr. 3

Sales costs

Cost type

Goods' transport costs

Sales costs

Advertising costs

Reklama

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
	29 384	41 810	26 947	38 342
	23 838			
	2 588	3 682	727	1 034
	11 646	16 571	6 233	8 869
0	67 456	62 063	33 907	48 245

Note Nr. 4

Administrative costs

Cost type

Personnel costs

Provisions for vacations and Social Security

Representation costs

Office expenses

Communication expenses

Bank expenses

Transport costs

Accounting and legal expenses

Other administrative costs

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
	108 008	153 682	208 321	296 414
-	1 634	- 2 325	- 25 097	- 35 710
	2 490	3 543	3 836	5 458
	3 373	4 799	5 447	7 750
	9 383	13 351	13 793	19 626
	7 947	11 308	4 349	6 188
	15 764	22 430	17 446	24 823
	17 009	24 202	5 773	8 214
	13 720	19 522	30 168	42 925
0	176 060	250 512	264 036	375 688

Note Nr. 5

Other incomes from operating activity

Type on income

Income from privatisation certificates

Income from grant financing (project 124000075)

Income from sale of fixed assets

Other income

Other income

Total

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
	-	-		-
	181 347	258 034	181 347	258 033
	230 743	328 318	197 080	280 420
	5 470	7 783	794	1 130
	10 180	14 485		-
	507	721	709	1 009
Total	428 247	609 341	379 930	540 592

Note Nr. 6

Other incomes/expenses from operating activity

Type of income/expense

Difference in currency rates

Sale of fixed assets

Fines / penalties

Written off hopeless debts

Total

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
		-	2 256	3 210
	54 480	77 518	33 623	47 841
	60	85	8 478	12 063
	3 573	5 084	6 732	9 579
Total	58 113	82 687	51 089	72 693

Note Nr. 7

Other interest and similar income

Type of income

Received penalties / fines

Total

	LVL	EUR	LVL	EUR
	6	9	18	26
Total	6	9	18	26

Notes to the Profit and Loss statement entries (continued)

Note Nr. 8

Other interest and similar expenses

Type of expense

Interest paid on loans

Total

2010	2010	2009	2009
LVL	EUR	LVL	EUR
77155	109 782	96795	137 727
77 155	109 782	96 795	137 727

Note Nr. 9

Deferred Corporate Income Tax

Total:

2010	2010	2009	2009
LVL	EUR	LVL	EUR
	-	13 050	18 568
-	-	13 050	18 568

Note Nr. 10

Remaining value of PL and non material assets in the fin. accounts.

Remaining value of PL and non material assets for taxes.

Savings for vacations

Loss for taxes

Provisional difference

Difference to the previous year

2010	2010	2009	2009
LVL	EUR	LVL	EUR
2 109 396	3 001 400	2 280 856	3 245 366
-592 007	-842 350	-798 175	-1 135 701
1 517 389	2 159 050	1 482 681	2 109 665
-16 489	-23 462	-18 524	-26 357
-1 714 732	-2 439 844	-1 777 913	-2 529 742
-213 832	-304 256	-313 756	-446 434
x 15%	x 15%	x 15%	x 15%
-32075	-45638	-47063	-66965
	0		0

Note Nr. 10

Other taxes

Real estate tax for land

Real estate tax for buildings and constructions

Total:

2010	2010	2009	2009
LVL	EUR	LVL	EUR
11 874	16 895	9 920	14 115
87 947	125 137	92 425	131 509
99 821	142 032	102 345	145 624

Notes to the Financial Statements

Notes to the Balance Sheet as on December 31, 2010.

11. Intangible assets

	Computer software	Patents and trade marks	Other licenses	Pre-payments for intangible assets	Intangible assets total, LVL	Intangible assets total, EUR
Historical cost						
31.12.2009.	7 363	-	-	-	7 363	10 477
Purchased	-	-	-	-	-	-
Relocated	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
31.12.2010.	7 363	-	-	-	7 363	10 477
Depreciation						
31.12.2009.	6 829	-	-	-	6 829	9 717
Calculated	357	-	-	-	357	508
Written-off	-	-	-	-	-	-
31.12.2010.	7 186	-	-	-	7 186	10 225
Net book value						
31.12.2009.	534	-	-	-	534	760
Net book value						
31.12.2010.	177	-	-	-	177	252

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

12. Fixed Assets

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

Notes to the Balance Sheet (continued)

	Technological equipment (project 124000075)	Pre-payments for fixed assets (project 124000075)	Pre-payments for fixed assets	construction of fixed assets	Total LVL	Total EUR
Historical cost						
31.12.2009.	1 827 372	-	-	38 052	1 865 424	2 654 259
Purchased	-	-	-	-	-	-
Written-off	-	-	-	-	-	-
31.12.2010.	1 827 372	-	-	38 052	1 865 424	2 654 259
Depreciation						
31.12.2009.	518 255	-	-	-	518 255	518 255
Calculated	109 093	-	-	-	109 093	155 225
Written-off	-	-	-	-	-	-
31.12.2010.	627 348	-	-	-	627 348	892 636
Net book value						
31.12.2009.	1 309 117	-	-	38 052	1 347 169	1 916 849
Net book value						
31.12.2010.	1 200 024	-	-	38 052	1 238 076	1 761 623

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

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

Fixed asses on financial lease:

Name of fixed asset	Lease company	Historical cost	Net book value	Unpaid lease as per lease agreement	Lease term
A/M VOLVO	DnB Nord Līz.	14 359	12 281	17 594	15.03.2015
Auto vehicle Jaguar Daimler Super Eig	Parex Līzings	67 898	28 517	32 177	30.06.2013
Toyota Corola	SEB Līzings	13 411	7 954	5 730	25.09.2012
Result of written-off, disposed and sold fixed and intangible assets:		2010	2010	2009	2009
		LVL	EUR	LVL	EUR
Historical cost		35 686	50 777	196 732	279 924
Accumulated depreciation			-	101 467	144 375
Net book value		35 686	50 777	95 265	135 550
Income from sale		266 429	379 094	240	341
13. Raw materials		2010	2010	2009	2009
		LVL	EUR	LVL	EUR
Rawe materials		170 611	242 758	209 731	298 420
Inventory in use		92 402	131 476	94 937	135 083
Total		263 013	374 234	304 668	433 503

Notes to the Balance Sheet (continued)
14. Work in progress

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Unfinished goods	1 040	1 480	5 085	7 235
finished goods and goods in warehouse	265 860	378 285	324 680	461 978
Total	266 900	379 765	329 765	469 213

15. Advance payments

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Advance payments for materials	25 770	36 667	29 642	42 177
Advance payments to non-residents	49 954	71 078	46 232	65 782
Goods in bonded storage		-		-
Total	75 724	107 745	75 874	107 959

16. Trade receivables

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Receivables (non-residents)	226 917	322 874	210 958	300 166
Receivables (residents)	308 263	438 619	451 718	642 737
Book value of purchases and customers, total	535 180	761 493	662 676	942 903
Provisions for doubtful debts	-	-	-	-
Net trade receivables, total	535 180	761 493	662 676	942 903

17. Other receivables

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
VAT confirmed (unpaid invoices)		-	212	302
VAT overpaid to the state budget		-	319	454
Nature Resource tax overpaid to the state budget		-	-	-
Settlements with employees	100 643	143 202	75 424	107 319
Tax pre-payments for customs procedures	86	122	83	118
Loans to employees	5 094	7 248	5 094	7 248
Other loans	47 821	68 043	44 234	62 939
Others	240	341	240	341
Total	153 884	218 956	125 606	178 721

18. Deferred expenses

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Insurance expenses	3 666	5 216	2 376	3 381
Expenses for repairs of buildings and premises	2 374	3 378	6 884	9 795
Expenses for implementation of project Nr.124000075	275 220	391 603	301 041	428 343
Expenses for reconstruction of block I-2	935 714	1 331 401	909 478	1 294 071
Other expenses	262	373	152	216
Total	1 217 236	1 731 971	1 219 931	1 735 806

19. Cash and cash equivalents

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Cash on hand	60	85	197	280
Cash in bank accounts	537	764	2 395	3 408
Total	597	849	2 592	3 688

20. Information about company's share capital

Largest shareholders of JSC "VEF Radiotekhnika RRR" are:

Shareholders		Number of shares		Value		LVL	2008,12,31	EUR
				LVL				
				31.12.2010	2008,12,31			
		31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	EUR
Baltlains Intern Ltd.		1270612	1270612	1270612	1270612	1807918	1807918	
State Social Security Agency		192694	192694	192694	192694	274179	274179	
Eduards Malejevs		423559	423559	423559	423559	602670	602670	
Jurijs Malejevs		421871	421871	421871	421871	600268	600268	
Others (<5%)		240348	240348	240348	240348	341984	341984	
Total:		2549084	2549084	2549084	2549084	3627020	3627020	

In accordance with decisions of Shareholders' meetings, 1 those shall be covered from the next years' profits.

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
]	-370 189 -	526 731	-392 949 -	559 116
	16 835	23 954	22 760	32 385
-	353 354 -	502 777 -	370 189 -	526 731

previous years' retained earnings/losses
current year profit/loss

Total

2010	2010	2009	2009
LVL	EUR	LVL	EUR
1 480 040	2 105 907	1 522 208	2 165 907
1 480 040	2 105 907	1 522 208	2 165 907

Loan from JSC SEB Latvijas Unibanka (EUR)

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.

Financial lease from SIA Parex Līzins un Faktoringš
Financial lease from SIA DnB Nord Līzings (EUR)
Financial lease from SIA SEBLīzings (EUR)

2010	2010	2009	2009
LVL	EUR	LVL	EUR
18 928	26 932	31 273	44 497
11 767	16 743		-
2 421	3 445	5 483	7 802
33 116	47 120	36 756	52 299

Total

2010	2010	2009	2009
LVL	EUR	LVL	EUR
46 798	66 588	409 491	582 653
46 798	66 588	409 491	582 653

Income from grant financing (project Nr.124000075)

Credit line from JSC SEB banka (EUR)

LVL	EUR	LVL	EUR
	-	198 789	282 851
170 732	242 930	196 033	278 930
170 732	242 930	394 822	561 781

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.

27. Other loans (short-term)

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Financial lease from SIA Parex Līzins un Faktoringa	13 248	18 850	11 828	16 830
Financial lease from SIA DnB Nord Līzings (EUR)	5 827	8 291	11 403	16 225
Financial lease from SIA ESBLīzings (EUR)	3 308	4 707	5 979	8 507
Faktoringa SIA Unilīzings (EUR)		-	14 937	21 253
Other loans	19 379		19 088	27 160
Total	41 762	31 848	63 235	89 975

28. Advances from customers

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Advances from non-residents	13 326	18 961	2 118	3 014
Advances from residents	4 042	5 751	275	391
Total	17 368	24 712	2 393	3 405

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

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Trade accounts payable to non-residents	64 360	91 576	54 585	77 667
Trade accounts payable to residents	430 492	612 535	389 656	554 431
Total	494 852	704 111	444 241	632 098

Notes to the Balance Sheet (continued)

30. Taxes and social insurance payments

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Personal Income Tax	58 552	83 312	51 716	73 585
State Social Insurance payments	121 998	173 588	95 418	135 768
Value Added Tax	44 334	63 082	34 493	49 079
Real estate tax for building and constructions	97 037	138 071	100 224	142 606
Natural resource tax	854	1 215		
Corporate risk tax	17	24	32	46
Total	322 792	459 292	281 883	401 084

31. Other liabilities

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Salaries	37 133	52 835	62 242	88 562
Advance settlement amounts	2 764	3 933	1 547	2 201
Deposits	15 055	21 421	24 015	34 170
Other creditors	2 328	3 312	1 842	2 621
Total	57 280	81 501	89 646	127 554

32. Deferred income (short-term)

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Income from grant financing (project Nr.124000075)	181 347		181 347	258 034
	181 347	-	181 347	258 034

33. Accrued liabilities

	2010	2010	2009	2009
	LVL	EUR	LVL	EUR
Current expenses	27 555	39 207	37 863	53 874
Total	27 555	39 207	37 863	53 874

Notes to the Financial Statements

General Notes

1. Average number of employees during the year

Average number of employees during the year

Year 2010	Year 2009
50	110

2. Total personnel costs

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

2010	2010	2009	2009
LVL	EUR	LVL	EUR
175 325	249 465	444 464	632 886
141 061	200 712	359 760	511 892
34 115	48 541	84 704	120 523
149	212	331	471
24 230	34 476	28 324	40 301
6 053	8 613	6 020	8 566
9	13	9	13
30 292	43 102	34 353	48 880

Type of tax	31.12.09	calculated	paid	include	31.12.10
Value added tax	34493	24 777	14 936		44 334
Outdated amount		3759	3759		
Personal income tax	51716	31421	24585		58 552
Outdated amount		10034	10034		
State social security obligatory payments	95418	46861	20281		121 998
Outdated amount		17926	17926		
Corporate risk tax	32	149	164		17
Outdated amount		5	5		
Nature resources tax	-319	557			854
Outdated amount		494			
Real estate tax for land	100224	105644	108831		97 037
Outdated amount		14840	14840		
	281564	256589	215361	0	322792

Taxes overpaid	-319			0
Tax debt	281564			321 938
Calculated fine for outdated payments		46686	46686	

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

1. For checking of 2010 annual report.

2000 LVL

Total:

2000 LVL

Annual report is accepted and signed from page 1 till 27

Chairman of the Board

Eduards Malejevs

Member of the Board

Gunars Lacis

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INDEPENDENT AUDITORS REPORT**To the Shareholders "VEF Radiotehnika RRR" JSC*****Report on the Financial Statements***

We have audited the accompanying financial statements on pages 6 to 21 of "VEF Radiotehnika" JSC, which comprise the balance sheet as of 31 December 2010 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. Except as mentioned in the paragraph . 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

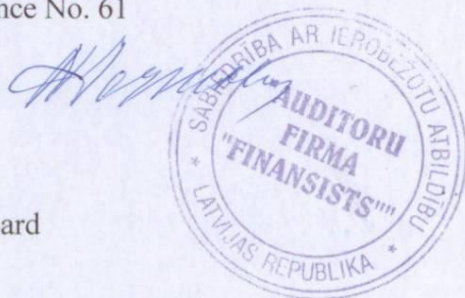
In our opinion, the accompanying financial statements give a true and fair view of the financial position of "VEF Radiotehnika RRR" JSC, on December, 31, 2010, and its operations and its cash flows for the year then ended in accordance with the requirements of the Annual Accounts Act of the Republic of Latvia.

Report on the Management Report

We have read the Management Report set out on page 4 to 5 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2010.

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

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



Rīga, Latvija
29.04.2011.