



JSC VEF, Brīvības gatve 214, Rīga, LV-1039



JOINT STOCK COMPANY VEF
(Unified registration number 40003001328)

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

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



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Report on the Management Board's responsibility to the non-audited financial statement of JSC „VEF” for the period ended 31 March 2008

Management Board of JSC „VEF” (hereinafter – the Company) is responsible for preparation of the middle-term financial statements of the Company. The middle-term financial statements are not audited.

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

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

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

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

Gints Feņuks
Chairman of the Management Board



GENERAL INFORMATION

| | |
|-------------------------------------|---|
| Title of enterprise | Joint stock company VEF |
| Legal type of enterprise | Public joint stock company |
| Registered: | On April 15, 1991 in the Register of Enterprises of the Republic of Latvia, re-registered on December 7, 2000 with Nbr. 000300132 On April 14, 2004 registered in the Commercial Register, Nbr. 40003001328 |
| Taxpayers' Reg. Nbr. | LV 40003001328 |
| Legal address | Brīvības gatve 214, Rīga, LV-1039, Republic of Latvia phone: 7270618, fax: 7552201 |
| Equity capital ¹ : | Ls 1829908 as on march 31, 2008 |
| Core businesses: | *Power supply - distribution of power; *Letting and renting of real-estate property |
| Shareholders ² : | As on June 30, 2007: *VEF KOMUNIKĀCIJU SERVISS SIA- 44.87% or 821 071 shares; *SIA „Komunikāciju centrs ” - 14.34% or 262 326 shares; *State Social Insurance Agency - 5.33 % or 97 582 shares; *Other shareholders - 35.46% or 648 929 shares: |
| Chief executive officer: | Chairman of the Board of the Company: GINTS FEŅUKS |
| Members of the Board: | TAMĀRA KAMPĀNE AIVARS VĪTOLIŅŠ |
| Members of the Supervisory Council: | PĒTERIS AVOTIŅŠ ANDRIS DENIŅŠ INTS KALNIŅŠ GUNTIS LIPIŅŠ JĀNIS LĀMA |
| Period of account: | 01.01.2008. - 31.03.2008. |
| Qualified auditor: | Mara Liguta. Certificate Nbr.55 |

¹ Paid-up and registred equity capital

² Equity capital of the Company is divided into 1 829 908 common shares
Nominal value of a common share is 1 LVL (one Latvian lat).



| ASSETS | Final balance | | Beginning balance | |
|------------------------------------|------------------|------------------|-------------------|------------------|
| | LVL | LVL | EUR | EUR |
| | 31.03.2008 | 31.03.2007 | 31.03.2008 | 31.03.2007 |
| | | | 0.702804 | 0.702804 |
| LONG-TERM INVESTMENTS | | | | |
| Intangible assets | | | | |
| Concessions, patents, licences | 83 | 88 | 118 | 125 |
| Total intangible assets | 83 | 88 | 118 | 125 |
| | | | | |
| Fixed Assets | | | | |
| Land, buildings and other property | 4 264 001 | 4 305 077 | 6 067 127 | 6 125 573 |
| Equipment and machinery | 20 796 | 31 267 | 29 590 | 44 489 |
| Other fixed assets and inventory | 14 268 | 16 347 | 20 301 | 23 260 |
| Construction in progress | 104 599 | | 148 831 | |
| | | | | |
| Total fixed assets | 4 403 664 | 4 352 691 | 6 265 849 | 6 193 322 |
| | | | | |
| Total long-term investments | 4 403 747 | 4 352 779 | 6 265 967 | 6 193 446 |
| | | | | |
| Current assets | | | | |
| Inventory | | | | |
| Goods for sale | | | | |
| Total inventory | 0 | 0 | 0 | 0 |
| | | | | |
| Debtors | | | | |
| Customers and client debts | 61 420 | 59 170 | 87 393 | 84 192 |
| Other debtors | 24 252 | 46 282 | 34 508 | 65 853 |
| Future period expenses | 6 350 | 18 570 | 9035 | 26 423 |
| Accrued income | | | | |
| Total debtors | 92 022 | 124 022 | 130 936 | 176 468 |
| | | | | |
| Cash | 11 003 | 162 599 | 15 656 | 231 358 |
| | | | | |
| Total Current assets | 103 025 | 286 621 | 146 592 | 407 826 |
| | | | | |
| | | | | |
| TOTAL ASSETS | 4 506 772 | 4 639 400 | 6 412 559 | 6 601 272 |



| LIABILITIES | Final balance | | Beginning balance | |
|---|------------------|------------------|-------------------|------------------|
| | LVL | LVL | EUR | EUR |
| | 31.03.2008 | 31.03.2007 | 31.03.2008 | 31.03.2007 |
| | | | 0.702804 | 0.702804 |
| Stockholder's Equity | | | | |
| Common stock | 1 829 908 | 1 829 908 | 2 603 724 | 2 603 724 |
| Long-term investments revaluation reserve | 438 390 | 432 868 | 623 773 | 615 916 |
| Accumulations : | | | | |
| other accumulations | | | | |
| Total accumulation | | | | |
| Retained earnings from the previous years | -928 449 | -956 252 | -1 321 064 | -1 360 624 |
| Retained earnings of the financial years | 13 823 | 40 223 | 19 669 | 57 232 |
| Total stockholder's equity | 1 353 672 | 1 346 747 | 1 926 102 | 1 916 248 |
| | | | | |
| PROVISIONS | | | | |
| Other provisions | 7 701 | 5 398 | 10 958 | 7 681 |
| Total stockpiles | 7 701 | 5 398 | 10 958 | 7 681 |
| | | | | |
| LIABILITIES | | | | |
| | | | | |
| Long-term liabilities | | | | |
| Borrowings from credit institutions | 2 705 714 | 2 918 920 | 3 849 884 | 4 153 249 |
| Prepayments from buyers | 33 814 | 32 882 | 48 113 | 46 787 |
| Other liabilities | 119 215 | 170 860 | 169 628 | 243 112 |
| Deferred tax liability | 153 152 | 40 733 | 217 916 | 57 958 |
| Total long-term liabilities | 3 011 895 | 3 163 395 | 4 285 541 | 4 501 106 |
| | | | | |
| Current liabilities | | | | |
| Borrowings from credit institutions | 53 302 | 53 302 | 75 842 | 75 842 |
| Accounts payable | 31 843 | 33 140 | 45 308 | 47 154 |
| Taxes and social security payments | 14 682 | 488 | 20 891 | 694 |
| Other liabilities | 17 246 | 16 392 | 24 539 | 23 324 |
| Future period income | 16 431 | 20 538 | 23 379 | 29 223 |
| Total current liabilities | 133 504 | 123 860 | 189 959 | 176 237 |
| | | | | |
| Total liabilities | 3 145 399 | 3 287 255 | 4 475 500 | 4 677 343 |
| | | | | |
| TOTAL LIABILITIES&STOCKHOLDER'S EQUITY | | | | |
| | 4 506 772 | 4 639 400 | 6 412 559 | 6 601 272 |

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

| | | LVL 31.03.2008 | LVL 31.03.2007 | EUR 31.03.2008 - 0.702804 | EUR 31.03.2007 - 0.702804 |
|--------------------------------|----------|---------------------------|---------------------------|--|--|
| 1 | 2 | 4 | 5 | 4 | 5 |
| Net turnover | | 229 790 | 211 533 | 326 962 | 300 984 |
| Cost of goods sold | 1 | -128 075 | -108 451 | -182 234 | -154 312 |
| Gross profit | | 101 715 | 103 082 | 144 728 | 146 672 |
| Selling expenses | | | | | |
| Administrative expenses | 2 | -17 743 | -15 554 | -25 246 | -22 131 |
| Other income from operations | 3 | 957 | 1 158 | 1 362 | 1 648 |
| Other expenses from operations | 4 | -958 | -614 | -1 363 | -874 |
| Financial services income | 5 | 3 964 | 694 | 5 640 | 987 |
| Financial services expenses | 6 | -44 494 | -39 567 | -63 309 | -56 299 |
| Profit before taxes | | 43 441 | 49 199 | 61 812 | 70 003 |
| Other taxes | 7 | - 7 134 | - 8 976 | -10 151 | -12 771 |
| Deferred tax | | -22 484 | | -31 992 | |
| Net profit | | 13 823 | 40 223 | 19 668 | 57 232 |

Earnings per share (EPS)
EPS on 31.03.2008-0.007554
LVL- 0.010748 EUR
EPS on 31.03.2007-0.02198
LVL – 0.03019 EUR

Chairman of the Board

G.Feņuks

Member of the Board

T.Kampane

**CASH FLOW STATEMENT FOR YEAR THAT ENDS ON MARCH 31, 2008**

| | 2008 31.03. | 2007 31.03. | 2008 31.03. EUR 0.702804 | 2007 31.03. EUR 0.702804 |
|--|-----------------|-----------------|-----------------------------------|-----------------------------------|
| I. CASH FLOW FROM OPERATING ACTIVITIES | | | | |
| Profit before outstanding items and taxes (+) | 43 441 | 49 199 | 61 812 | 70 003 |
| <i>Adjustments:</i> | | | | |
| fixed assets depreciation (+) | 15 135 | 16 582 | 21 535 | 23 594 |
| intangible assets depreciation (+) | 1 | | 1 | |
| increase/decrease in provisions | 2 303 | 5 398 | 3 277 | 7 681 |
| profit or losses from exchange rates fluctuation (+/-) | 27 | | 38 | |
| financial service income | 3 964 | 694 | 5 640 | 987 |
| financial services income | -44 494 | -39 567 | -63 309 | -56 299 |
| <i>Profit or losses before adjustments from current assets and liabilities</i> | 18 074 | 26 908 | 25 717 | 38 285 |
| <i>Adjustments:</i> | | | | |
| debtors : increase (-); decrease (+) | 32 000 | 132 838 | 45 532 | 189 011 |
| inventory: increase (-); decrease (+) | | | | |
| liabilities: increase (-); decrease (+) | -103 901 | 187 827 | -147 838 | 267 254 |
| <i>Gross cash provide by operating activities</i> | -53 827 | 347 573 | -76 589 | 494 552 |
| Payments for financial | -44 494 | -39 567 | -63 309 | -56 299 |
| Income tax payments | | | | |
| <i>Net cash provided by operating activities before outstanding items:</i> | -98 321 | 308 006 | -139 898 | 438 251 |
| Cash flow from outstanding items (-/+) | | | | |
| Net cash provided by operating activities : | -98 321 | 308 006 | -139 898 | 438 251 |
| II. CASH FLOWS FROM INVESTING ACTIVITIES : | | | | |
| Fixed assets purchase | | -201 242 | | -286 342 |
| Interest received | | | | |
| Net cash used in investing activities : | | -201 242 | | -286 342 |
| III. CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Income from investments in fixed capital | | | | |
| Borrowings received | -53 303 | 53 502 | -75 842 | -76 127 |
| Grants and donations received | | | | |
| Expenses for borrowings repayment | | | | |
| Net cash provided by financing activities : | -53 302 | -53 502 | -75 842 | -76 127 |
| IV. Exchange rate fluctuation result : | 27 | -283 | 38 | -403 |
| Net cash flow | -151 596 | 52 979 | -215 702 | 75 383 |
| CASH AT BEGINNING OF YEAR | 162 599 | 109 620 | 231 358 | 155 975 |
| CASH AT END OF YEAR | 11 003 | 162 599 | 15 656 | 231 358 |

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

| | 31.03.2008 LVL | 31.03.2007 LVL | 31.03.2008 EUR 0.702804 | 31.03.2007 EUR 0.702804 |
|--|---------------------------|---------------------------|--|--|
| Stockholder's equity | | | | |
| Balance at the beginning of the financial year | 1 829 908 | 1 829 908 | 2 603 724 | 2 603 724 |
| Increase from | | | | |
| Decrease from | | | | |
| Balance at the end of the financial year | 1 829 908 | 1 829 908 | 2 603 724 | 2 603 724 |
| Long-term investments revaluation reserve | | | | |
| Balance at the beginning of the financial year | 438 390 | 432 868 | 623 773 | 615 916 |
| Increase from | | | | |
| Decrease from | | | | |
| Balance at the end of the financial year | 438 390 | 432 868 | 623 773 | 615 916 |
| Accumulations | | | | |
| Balance at the beginning of the financial year | | | | |
| Increase from | | | | |
| Decrease from | | | | |
| Balance at the end of the financial year | | | | |
| Retained earnings | | | | |
| Balance at the beginning of the financial year | -928 449 | -956 252 | -1 321 064 | -1 360 624 |
| Profit or losses of the financial year | 13 823 | 40 223 | 19 669 | 57 232 |
| Dividendes | | | | |
| Included in accumulations | | | | |
| Balance at the end of the financial year | -914 626 | -16 029 | - 1 301 396 | - 1 303 392 |
| Stockholder's equity (total) | | | | |
| Balance at the beginning of the financial year | 1 346 747 | 1 297 384 | 1 916 248 | 1 846 011 |
| Balance at the end of the financial year | 1 353 672 | 1 346 747 | 1 926 102 | 1 916 248 |



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

1. ACCOUNTING AND ASSESSMENT METHODS – COMMON PRINCIPLES

Basis for financial statements preparation

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

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

Accounting principles used

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

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

Financial year

Financial year is 03 months, from 01.01.2008 to 31.03.2008.

Money and foreign currency revaluation

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

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

Long-term and short-term items

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



Fixed assets and nonmaterial investment depreciation

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

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

Income tax

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

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

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

Credit line

There is a credit line opened in JSC "SEB Latvijas Unibanka". It is included in the long-term liabilities and the balance at the end of the financial period is 2 759 015 LVL (3 925 725 EUR).

**(1) Net turnover**

Turnover consists of revenues that the Company gained in the first 03 months of 2008 from its core business-service provision without VAT

| Type of commercial operations | 2008.31.03 LVL | 2007.31.03 LVL | 2008.31.03 EUR | 2007.31.03 EUR |
|--|-------------------|-------------------|-------------------|-------------------|
| equipment | | | | |
| power supply, distribution and servicing | 48 866 | 47 548 | 69 530 | 67 654 |
| water supply and sewage services | 4 186 | 1 736 | 5 956 | 2 470 |
| office renting service | 134 666 | 120 731 | 191 613 | 171 785 |
| utility services | 42 072 | 41 518 | 59 863 | 59 075 |
| Total | 229 790 | 211 533 | 326 962 | 300 984 |

Distribution of net turnover by geographical markets

| Country | 2008.31.03 LVL | 2007.31.03 LVL | 2008.31.03 EUR | 2007.31.03 EUR |
|--------------|-------------------|-------------------|-------------------|-------------------|
| Latvia | 229 790 | 211 533 | 326 962 | 300 984 |
| Total | 229 790 | 211 533 | 326 962 | 300 984 |

(2) Cost of sales

| | 2008.31.03 LVL | 2007.31.03 LVL | 2008.31.03 EUR | 2007.31.03 EUR |
|---|-------------------|-------------------|-------------------|-------------------|
| personnel | 20 103 | 10 382 | 28 604 | 14 772 |
| depreciation | 15 135 | 16 580 | 21 535 | 23 591 |
| transport | 1 682 | 2 310 | 2 393 | 3 287 |
| other outstanding costs | 51 998 | 55 197 | 73 987 | 78 538 |
| personnel training | 102 | 131 | 145 | 186 |
| telecommunication service | 349 | 384 | 497 | 547 |
| other costs tied to commercial operations | 11 465 | 7 497 | 16 313 | 10 667 |
| insurance (buildings) | 1 115 | 675 | 1 587 | 961 |
| maintenance of buildings 1 and 1a | 17 454 | 14 850 | 24 835 | 21 130 |
| land rent to LPA | 8 671 | 443 | 12 338 | 630 |
| depreciation of license | 1 | 2 | 1 | 3 |
| Total | 128 075 | 108 451 | 182 234 | 154 312 |

(3) Costs of administration

| | 2008.31.03 LVL | 2007.31.03 LVL | 2008.31.03 EUR | 2007.31.03 EUR |
|--|-------------------|-------------------|-------------------|-------------------|
|--|-------------------|-------------------|-------------------|-------------------|



| | | | | |
|---|---------------|---------------|---------------|---------------|
| personnel | 13 844 | 11 249 | 19 698 | 16 006 |
| telecommunication service | 349 | 384 | 496 | 546 |
| office supplies | 493 | 274 | 702 | 390 |
| cash turnover expenses | 57 | 46 | 81 | 65 |
| transport expenses for administrative needs | 1 681 | 2 310 | 2 392 | 3 287 |
| representative expenses | 69 | 27 | 98 | 38 |
| legal assistance or raid | | 14 | | 20 |
| RFB annual fee | 1 250 | 1 250 | 1 779 | 1 779 |
| Total | 17 743 | 15 554 | 25 246 | 22 131 |

(4) **Other revenues from commercial operation**

| | 2008.31.03 LVL | 2007.31.03 LVL | 2008.31.03 EUR | 2006.31.12 EUR |
|---|-------------------|-------------------|-------------------|-------------------|
| disposal of fixed assets | | | | |
| fines | 66 | 77 | 94 | 110 |
| 1/5 of revenue from writing-off PS purchase | 269 | 337 | 383 | 479 |
| 1/5 from financial support given for Gold equipment | 595 | 744 | 847 | 1 059 |
| other revenues | | | | |
| insurance recompense | | | | |
| revenues from changes in currency rates | 27 | | 38 | |
| losses from changes in currency rates | | | | |
| Total | 957 | 1 158 | 1 362 | 1 648 |

(5) **Other costs of commercial operations**

| | 2008.31.03 LVL | 2007.31.03 LVL | 2008.31.03 EUR | 2007.31.03 EUR |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| losses from changes in currency rates | | 283 | | 403 |
| 40% of representative costs | 46 | 18 | 65 | 26 |
| donations to Latvian orphans fund | 100 | 50 | 142 | 71 |
| allowances and bonuses | 812 | 253 | 1 156 | 360 |
| Other costs | | 10 | | 14 |
| Total | 958 | 614 | 1 363 | 874 |

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

| | 2008.31.03 LVL | 2007.31.03 LVL | 2008.31.03 EUR | 2007.31.03 EUR |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| interest from balances of accounts | 3 964 | 694 | 5 640 | 987 |



| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 3 964 | 694 | 5 640 | 987 |
| Total | <hr/> <hr/> | | | |
| Payments of interest and similar expenses | | | | |
| (7) | 2008.31.03 | 2007.31.03 | 2008.31.03 | 2007.31.03 |
| | LVL | LVL | EUR | EUR |
| | <hr/> | | | |
| credit interests | 42 338 | 37 291 | 60 241 | 53 060 |
| interest to LPA for long term buy-out of land | 2 156 | 2 276 | 3 068 | 3 239 |
| | <hr/> | | | |
| Total | 44 494 | 39 567 | 63 309 | 56 299 |
| | <hr/> <hr/> | | | |
| Other taxes | | | | |
| (8) | 2008.31.03 | 2007.31.03 | 2008.31.03 | 2007.31.03 |
| | LVL | LVL | EUR | EUR |
| | <hr/> | | | |
| real estate tax (buildings) | 6 683 | 7 594 | 9 509 | 10 805 |
| real estate tax (land) | 451 | 1 382 | 642 | 1 967 |
| | <hr/> | | | |
| Total | 7 134 | 8 976 | 10 151 | 12 772 |
| | <hr/> <hr/> | | | |