



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

JOINT STOCK COMPANY VEF
(Unified registration number 40003001328)

AUDITED FINANCIAL STATEMENTS
For the period ended on December 31, 2007

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



SIA AUDITS 55

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Juridiskā adrese: Bruņinieku iela 69-20, Rīga, LV-1011

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

PVN.reģ.nr.: LV40002023972

Reģ.nr.: 40002023972

INDEPENDENT AUDITORS' REPORT

To the Shareholders of VEF Inc.

Report on the Financial Statements

We have audited the accompanying financial statements on pages 1 to 14 of VEF Inc. which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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.

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

LVL: LV55 UNLA 0002 9004 6840 1

Hansabankas filiāles norēķinu grupa „Rūdolfs”, kods HABALV22

EUR/LVL: LV64 HABA 0551 0108 2978 8



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Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of VEF Inc. as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Annual Accounts Act of the Republic of Latvia.

Without qualifying our opinion, we draw attention that, as of 31 December 2007 the company's short-term liabilities exceed its current assets. To improve "VEF" Inc. financial situation, shareholders resolved a decision about increasing the share capital in 2008 about 2.000.000 LVL, which indicates, that material uncertainty which may cast significant doubt about the company's ability to continue as a going concern, does not exist.

Report on the Management Report

We have read the Management Report and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2007.

Certified auditors' company SIA "AUDITS 55"
Audit company license No. 141

Māra Līguta,
Certified auditor
Certificate No. 55

Member of the Board

Rīga,
04.04.2008





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Report on the Management Board's responsibility to the audited financial statement of JSC „VEF” for the twelve months of 2007

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

Financial statements are prepared based on justifying documents and represent true and clear overview on the Company's Assets and Equity and Liabilities, its financial standing and results of activity as well as cash flows within the reporting period ended on december 31, 2007.

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

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

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

Gints Feņuks
Chairman of the Management Board



MANAGEMENT REPORT

Joint stock company „VEF” is a publicly traded company that is doing business maintaining its real estate and letting office spaces, and also distributing electricity to enterprises located in the territory of the former industrial giant „VEF”.

In the twelve months of 2007 JSC „VEF” had revenues, according to the balance sheet, of 851 303 LVL (1 211 295 EUR) that are 172 579 LVL (245 558 EUR) or 25.43 % more than in the previous year. The company has ended the reported year with net profit of 27 804 LVL (39 562 EUR) . The Board proposes to account the net profit into the losses from the previous years and cover them from future profits.

623 528 shares of JSC „VEF” had been emitted in public offering and are included in the Second List of Riga Stock Exchange. In twelve months of 2007 the price of shares of JSC „VEF” has increased from 0.71 LVL to 1.00 LVL per share. Totally in 2007 at the stock exchange there were made 66 trades with 13 170 shares that amounted 10 922 LVL (15 541 EUR) in value.

As it was reported at the previous general meeting, in 2007 planning of the reconstruction of all buildings on Ūnijas str.4, Bērzaunes str. 7a, Bērzaunes str. 11 and adjoining territories owned by JSC „VEF” were initiated. The following tasks have been accomplished: i) financial projections of the required amount of investments; ii) technical project to build new transformation station; iii) technical project to lay optical fiber cable in the building on Ūnijas str.4; iv) all preparations to complete the two afore-mentioned projects during this year; v) as also performed gardening works in the park according to the plan.

The Management Board of JSC „VEF” has developed a strategy outlining further development of own real estate and attraction of required capital investments. The strategy foresees emission of additional shares to increase the equity that is required to complete the planning phase and attract co-financing from banks to start execution of the development plan.

Since the end of the reported year neither significant nor important events have taken place that could have impact on operations of the company.

Chairman of the Board of JSC „VEF”

G.Feņuks

Member of the Board of JSC „VEF”

T.Kampāne



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 december 31, 2007
Core businesses:	*Power supply - distribution of power; *Letting and renting of real-estate property
Shareholders ² :	As on December 31, 2007: *VEF KOMUNIKĀCIJU SERVISS SIA- 44.87% or 821 071 shares; *FUND ADMINISTRATE LLC - 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 PĒTERIS AVOTIŅŠ
Members of the Supervisory Council:	ANDRIS DENIŅŠ INTS KALNIŅŠ GUNTIS LIPIŅŠ JĀNIS LĀMA
Period of account:	01.01.2007. - 31.12.2007.
Qualified auditor:	Mara Liguta. Certificate Nbr.55 SIA „AUDITS 55” certificate Nbr.141

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
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
			0.702804	0.702804
LONG-TERM INVESTMENTS				
Intangible assets				
Concessions, patents, licences	84	90	120	128
Total intangible assets	84	90	120	128
Fixed Assets				
Land, buildings and other property	4 274 270	4 315 346	6 081 738	6 140 184
Equipment and machinery	23 414	33 885	33 315	48 214
Other fixed assets and inventory	16 517	19 715	23 502	28 052
Advance payments for fixed assets	94 452		134 393	
Total fixed assets	4 408 653	4 368 946	6 272 948	6 216 450
Total long-term investments	4 408 737	4 369 036	6 273 068	6 216 578
Current assets				
Inventory				
Goods for sale				
Total inventory				
Debtors				
Customers and client debts	36 996	20 005	52 640	28 465
Other debtors	27 736	84 078	39 465	119 632
Future period expenses	9 904	14 820	14 092	21 087
Accrued income	32 380	25 220	46 073	35 885
Total debtors	107 016	144 123	152 270	205 069
Cash	16 005	153 233	22 773	218 031
Total Current assets	123 021	297 356	175 043	423 009
TOTAL ASSETS	4 531 758	4 666 392	6 448 111	6 639 678



LIABILITIES	Final balance		Beginning balance	
	LVL	LVL	EUR	EUR
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
			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		586 037		833 856
Total accumulation				
Retained earnings from the previous years	-956 253	-1 556 131	-1 360 626	-2 214 175
Retained earnings of the financial years	27 804	13 842	39 562	19 695
Total stockholder's equity	1 339 849	1 306 524	1 906 433	1 859 016
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	2 599 110	2 777 492	3 698 200	3 952 014
Prepayments from buyers	33 814	32 882	48 113	46 787
Other liabilities	92 398	147 263	131 471	209 536
Deferred tax liability	130 668	40 733	185 924	57 958
Total long-term liabilities	2 855 990	2 998 370	4 063 708	4 266 296
Current liabilities				
Borrowings from credit institutions	213 207	248 032	303 366	352 918
Accounts payable	39 963	33 121	56 862	47 127
Taxes and social security payments	2 521	881	2 203	1 254
Other liabilities	55 232	52 448	76 588	74 627
Future period income	17 295	21 618	24 609	30 760
Total current liabilities	328 218	356 100	465 628	506 685
Total liabilities	3 184 208	3 354 470	4 530 720	4 772 981
TOTAL LIABILITIES&STOCKHOLDER'S EQUITY				
EQUITY	4 531 758	4 666 392	6 448 111	6 639 678

**PROFIT AND LOSSES ACCOUNT FOR YEAR, WHICH ENDS ON DECEMBER
31.2007.**

		LVL 31.12.2007	LVL 31.12.2006	EUR 31.12.2007 - 0.702804	EUR 31.12.2007 - 0.702804
1	2	4	5	4	5
Net turnover		851 303	678 724	1 211 295	965 737
Cost of goods sold	1	-471 960	-345 450	- 671 539	-491 531
Gross profit		379 343	333 274	539 756	474 206
Selling expenses					
Administrative expenses	2	-65 552	-77 811	-93 272	-110 715
Other income from operations	3	7 838	23 958	11 153	34 089
Other expenses from operations	4	- 6 529	-63 946	- 9 290	-90 987
Financial services income	5	5 396	924	7 678	1 315
Financial services expenses	6	- 171 130	-129 670	-243 496	- 184 504
Profit before taxes		149 366	86 729	212 529	123 404
Other taxes	7	-31 627	-32 154	-45 001	-45 751
Deferred tax		-89 935	-40 733	- 127 966	-57 958
Net profit		27 804	13 842	39 562	19 695

Earnings per share (EPS)**EPS on 31.12.2007-0.01519****LVL- 0.02161EUR**

Chairman of the Board

G.Feņuks

Member of the Board

T.Kampane



CASH FLOW STATEMENT FOR YEAR THAT ENDS ON DECEMBER 31, 2007

	2007 31.12. LVL	2006 31.12. LVL	2007 31.12. EUR 0.702804	2006 31.12. EUR 0.702804
I. CASH FLOW FROM OPERATING ACTIVITIES				
Profit before outstanding items and taxes (+)	149 366	86 729	212 529	123 404
<i>Adjustments:</i>				
fixed assets depreciation (+)	63 774	60 749	90 742	86 438
intangible assets depreciation (+)	5	5	7	7
increase/decrease in provisions	2 303	5 398	3 277	7 681
profit or losses from exchange rates fluctuation (+/-)	154	-32 889	219	-46 797
financial service income	-5 396	924	-7 678	1 315
long-term investment reestimation reserve (+)	5 522		7 857	
financial services income	171 130	129 670	243 496	184 343
<i>Profit or losses before adjustments from current assets and liabilities</i>	386 858	250 586	550 449	356 391
<i>Adjustments:</i>				
debtors : increase (-); decrease (+)	- 37 107	51 566	-52 798	73 372
inventory: increase (-); decrease (+)		13 685		19 472
liabilities: increase (-); decrease (+)	-103 747	189 332	-147 619	269 395
<i>Gross cash provide by operating activities</i>	246 004	505 169	350 032	718 791
Payments for financial	- 171 130	- 129 670	-243 496	-184 504
Income tax payments				
<i>Net cash provided by operating activities before outstanding items:</i>	74 874	375 499	106 536	534 126
Cash flow from outstanding items (-/+)				
Net cash provided by operating activities :	74 874	375 499	106 536	534 126
II. CASH FLOWS FROM INVESTING ACTIVITIES :				
Fixed assets purchase	-4 137	-715 218	-5 886	-1 017 664
Interest received	5 396	924	7 678	1 315
Net cash used in investing activities :	1 259	-714 294	1 792	- 1 016 349
III. CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings received		537 231		764 411
Expenses for borrowings repayment	-213 207	-248 032	-303 366	-352 918
Net cash provided by financing activities :	-213 207	-289 199	-303 366	-411 493
IV. Exchange rate fluctuation result :	-154	-32 889	-219	-46 797
Net cash flom	-137 228	-82 485	-195 258	- 117 366
CASH AT BEGINNING OF YEAR	153 233	235 718	218 031	335 396
CASH AT END OF YEAR	16 005	153 233	22 773	218 031



**STATEMENT OF CHANGES IN EQUITY FOR YEAR THAT ENDS ON
DECEMBER 31, 2007**

	31.12.2007 LVL	31.12.2006 LVL	31.12.2007 EUR 0.702804	31.12.2006 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	432 868	432 868	615 916	615 916
Increase from	5 522		7 857	
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	586 037	586 037	833 855	833 855
Increase from				
Decrease from	586 037		833 855	
Balance at the end of the financial year		586 037		833 855
Retained earnings				
Balance at the beginning of the financial year	-1 542 289	-1 556 131	-2 194 480	-2 214 175
Profit or losses of the financial year	27 804	13 842	39 562	19 695
Dividendes				
Included in accumulations	586 037		833 855	
Balance at the end of the financial year	-928 448	-1 542 289	-1 321 063	-2 194 480
Stockholder's equity (total)				
Balance at the beginning of the financial year	1 306 524	1 292 681	1 859 016	1 839 321
Balance at the end of the financial year	1 339 849	1 306 524	1 906 433	1 859 016



**JSC VEF
FINANCIAL STATEMENTS' APPENDIXES
FOR YEAR, WHICH ENDS ON DECEMBER 31, 2007**

1. ACCOUNTING AND ASSESSMENT METHODS – COMMON PRINCIPLES

Basis for financial statements preparation

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

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

Accounting principles used

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

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

Financial year

Financial year is 12 months, from 01.01.2007 to 31.12.2007.

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 2 812 317 LVL (4 001 566 EUR).

**(1) Net turnover**

Turnover consists of revenues that the Company gained in the first twelve months of 2007 from its core business-service provision without VAT

Type of commercial operations	2007.31.12	2006.31.12	2007.31.12	2006.31.12
	LVL	LVL	EUR	EUR
equipment		584		831
power supply, distribution and servicing	191 551	176 608	272 553	251 291
water supply and sewage services	13 566	6 858	19 303	9 758
office renting service	493 457	406 228	702 126	578 010
utility services	151 449	85 826	215 492	122 119
other income	1 280	2 620	1 821	3 728
Total	851 303	678 724	1 211 295	965 737

Distribution of net turnover by geographical markets

Country	2007.31.12	2006.31.12	2007.31.12	2006.31.12
	LVL	LVL	EUR	EUR
Latvia	851 303	678 724	1 211 295	965 737
Total	851 303	678 724	1 211 295	965 737

(2) Cost of sales

	2007.31.12	2006.31.12	2007.31.12	2006.31.12
	LVL	LVL	EUR	EUR
personnel	56 836	36 354	80 870	51 727
depreciation	63 774	60 754	90 742	86 445
transport	10 269	8 306	15 125	11 818
other outstanding costs	194 880	142 238	277 289	202 386
personnel training	497	102	707	145
telecommunication service	1 862	1 792	2 648	2 550
other costs tied to commercial operations	71 007	37 901	101 034	53 928
insurance (buildings)	5 244	5 721	7 462	8 140
maintenance of buildings 1 and 1a	60 747	49 636	86 435	70 626
land rent to LPA	6 379	1 969	9 075	2 802
depreciation of license	5	5	7	7
other cost	99	541	141	770
Total	471 960	345 450	671 539	491 538



(3) Costs of administration	2007.31.12	2006.31.12	2007.31.12	2006.31.12
	LVL	LVL	EUR	EUR
personnel	44 872	59 659	63 847	84 887
telecommunication service	1 861	1 791	2 649	2 548
office supplies	1 752	1 244	2 493	1 770
cash turnover expenses	235	187	334	266
transport expenses for administrative needs	10 630	8 306	15 125	11 818
representative expenses	288	173	410	245
legal assistance or raid	14	751	20	1069
RFB annual fee	5 000	5000	7 114	7 114
audit cost	900	700	1 281	996
Total	65 552	77 811	93 272	110 713

(4) Other revenues from commercial operation	2007.31.12	2006.31.12	2007.31.12	2006.31.12
	LVL	LVL	EUR	EUR
disposal of fixed assets		10 214		14 533
finances	164	669	233	952
1/5 of revenue from writing-off PS purchase	1 347	1 684	1 917	2 396
1/5 from financial support given for Gold equipment	2 977	3 721	4 236	5 295
other revenues	2 063	7 670	2 935	10 913
insurance recompense	1 287		1 831	
Total	7 838	23 958	11 239	34 089

(5) Other costs of commercial operations	2007.31.12	2006.31.12	2007.31.12	2006.31.12
	LVL	LVL	EUR	EUR
losses from changes in currency rates	154	32 889	219	46 797
40% of representative costs	167	117	238	166
donations to Latvian orphans fund	355	252	505	359
other provision	2 303	5 398	3 277	7 681
allowances and bonuses	2 398	1 745	3 412	2 483
Other costs	1 152	23 545	1 639	33 502
Total	6 529	63 946	9 377	90 988



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

	2007.31.12	2006.31.12	2007.31.12	2006.31.12
	LVL	LVL	EUR	EUR
interest from balances of accounts	5 396	924	7 678	1 315
Total	5 396	924	7 678	1 315

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

	2007.31.12	2006.31.12	2007.31.12	2006.31.12
	LVL	LVL	EUR	EUR
credit interests	159 641	117 264	227 149	166 852
interest to LPA for long term buy-out of land	11 489	12 406	16 347	17 652
Total	171 130	129 670	243 496	184 504

(8) **Other taxes**

	2007.31.12	2006.31.12	2007.31.12	2006.31.12
	LVL	LVL	EUR	EUR
real estate tax (buildings)	30 245	30 755	43 035	43 760
real estate tax (land)	1 382	1 399	1 966	1 991
Total	31 627	32 154	45 001	45 751