

JSC "VEF Radiotehnika RRR"

Uniform registry Nr. 40003286712

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LEGAL PROTECTION

PROCEDURE PLAN

elaborated - Riga, 4 December, 2014

JSC "VEF Radiotehnika RRR", uniform registry Nr. LV 40003286712, legal address: Riga, Kurzemes prospect 3, LV-1067, hereinafter referred to as the Business entity, with regard to re-start the activities of the Business entity, and to settle with creditors, has elaborated this plan for legal protection procedure:

#### 1. BUSINESS ENTITY DATA, ITS COMMERCIAL ACTIVITIES AND MANAGEMENT STATUS DESCRIPTION ON THE DATE THE PLAN ELABORATION

The Business entity was registered in LR Commercial register on 13.03.1996, the Business entity was re-registered in the Commercial register on 04.08.2004.

The signed capital makes LVL 2,549,084.00 (EUR 3,627,020), the paid up capital makes LVL 2,549,084.00 (EUR 3,627,020).

According to the Business entity charter, its activities (NACE) include: manufacturing of domestic electronic appliances (26.40) and real estate management on a fees or on a contract basis (68.32).

The supervising body of the Business entity is the Managing Board, consisting of five members: Janis Salenieks (p/k: 010148-10341), Jurijs Malejevs (i/c: 240740-10508), Inga Spruga (i/c: 090663-11567), Jekaterina Malejeva (i/c: 311081-10634 ) and Inars Klavinsh (p/k: 180536-11805).

The managing body of the Business entity is the Executive Board, consisting of two members authorized to represent the Business entity separately: the Board chairman authorized to represent the capital entity separately Eduards Malejevs (Latvia), identity code: 270338-12700, a Board member authorized to represent the capital entity separately Eriks Ertmanis, identity code: 100485-11045.

According to the Business entity shareholder registry the Business entity shareholders are:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Portion</b>
Eduards Malejevs	941,880	36.95%
Jurijs Malejevs	864,512	33.91%
Inga Spruga	330,086	12.95%
Jekaterina Malejeva	270,000	10.59%
Other (<5%)	142,606	5.59%
<b>Total</b>	<b>2,549,084</b>	<b>100.00%</b>

The Business entity staff is 9 employees.

Primary activities of the Business entity are not related to financing or lending. 2013 turnover reached EUR 1'198'761 but for September 19, 2014 – EUR 555'446 (37% drop comparing to the same period in 2013). The Business entity finished 2013 business year with losses of EUR 580'761. The Business entity has paid more than EUR 700'000 taxes since the date of its establishment and for years 2013-2014. The Business entity paid more than EUR 122'000 taxes.

The detailed financial status of the Business entity is characterized with its current balance, made up for the status on 19.09.2014, as well as with profit and loss calculation for the period from 01.01.2014 till 19.09.2014, available in legal protection procedure plan enclosed in Annex nr.7.

The current balance for September 19, 2014 shows that the Business entity is an operating enterprise with asset value of EUR 7'953'526. The ownership capital makes EUR 3'926'600, which displays that the value of the Business entity asset exceeds the total creditors' demand. The ordered balance of the Business entity for

September 19, 2014 also shows that the value of long-term investments makes EUR 7'527'901, but the long-term creditor demand is less and makes EUR 546'354. And at the same time, that business activities of the Business entity show long-term liquidity. In turn, the value of the operating assets (EUR 425'624) is much smaller than the short-term creditors' demand (EUR 3'458'100). Losses of the Business entity in the previous year made EUR 580'761 (or 48'397 monthly on the average). In turn, the losses of the Business entity in the period from January 01, 2014 till September 19, 2014 made EUR 364'061 (EUR 37'791 monthly on the average).

And moreover, that average losses in 2014 have decreased by 22%. Excluding from the calculation essential penalty and delay charges amounts for 2014 (EUR 110'605), decrease of average loss made 46% comparing to 2013. All the mentioned above display that the Business entity has short-term financial difficulties in the domain of operating assets.

## 2. CURRENT FINANCIAL STATUS OF THE BUSINESS ENTITY.

In 2005 the Business entity upgraded the production equipment. Using European Union co-financing and SEB Bank loan it managed to purchase new, up-to-date production equipment.

The equipment is ment for production of acoustic systems and printed circuit boards.

The Bank loan was to be paid back till 2015, but in 2008-2009 owing to the global and country's economic crisis the bank demanded credit tranche and loan pay back within one year. These events together with drop of demand for the Business entity products turned into abrupt reduction of operating assets and partly shut down the enterprise activities.

Part of the Business entity income consisted of revenues from real estate lease, but the crisis of 2008-2009 also seriously affected the real estate sector. It negatively affected both engagement of premises and solvency of lessees. There arose the situation when payment of lease service fees became impossible.

Financial problems led to production turnover reduction to minimum. After constructive negotiations with the bank, we agreed about further cooperation and so far continue cooperation with SEB Bank. The Business entity made a decision to lease the production equipment and, partly, the premises. But taking into account that the Business entity had current acoustic systems sale contracts with the exclusive dealer in CIS countries JSC Rufino, its continued sales of production manufactured by third parties with use of leased equipment and premises in the related market. The mentioned above factors directly affected the Business entity solvency and fulfillment of obligations to creditors. In that bottleneck situation the revenues in full were used to cover the current payments to service suppliers for rendered services, interest payments to insured creditors and tax payments, still they were not enough to cover fully all payment obligations.

As the result the Business entity has accumulated essential debts to creditors.

In attempt to save the enterprise incidental assets are being sold at the moment. During the last years there have already been sold numerous real estate properties thus having decreased the obligations to creditors.

Upon sale of the production buildings in 2009 and 2011, and of the plot of land in 2013, in 2013 there were started negotiations with a potential buyer of real estate, which continued for more than a year, and with regard of successful deal the 13-storey office building was vacated from lessees, to commission it to a potential buyer as soon as possible, but the deal failed due to its complicated structure and along with this the enterprise lost part of its rent revenues.

### 3. ALL LIABILITIES OF THE BUSINESS ENTITY

Referring to conditions in paragraph 40 part 4 Item 1 of Insolvency law, we specify that all the Business entity liabilities make EUR 3'629'178.45.

- Obligations to insured creditors EUR 1'789'587.57;
- Obligations to uninsured creditors EUR 1'839'590.88, including obligations to associating enterprises in the context of "Enterprise income tax" EUR 189'935.76.

The detailed review of the Business entity liabilities and corresponding explanations are presented in Annex nr.1 of Legal Protection procedure plan.

### 4. LIABILITIES, WHICH PAYMENT OR FULFILLMENT TERM BECAME DUE BEFORE THE START OF LEGAL PROTECTION PROCEDURE OR DURING IT

Referring to conditions in paragraph 40 part 4 Item 2 of Insolvency law, we specify that all the Business entity liabilities, which payment or fulfillment terms became due before application for legal protection procedure make EUR 2'090'127.13, and which payment or fulfillment term became due during legal protection procedure make EUR 1'539'051.32), and among others include the following positions:

- Liabilities, claimed by creditors to court EUR 24'518.33;
- Liabilities, secured by the Business entity EUR 0,00;

The detailed review of the Business entity liabilities and corresponding explanations are presented in Annex nr.1 of Legal Protection procedure plan.

### 5. LIABILITIES, REMAINING NON-PAYMENT BUT CHANGING THE BUSINESS ENTITY ASSET COMPOSITION

Referring to conditions in paragraph 40 part 4 Item 3 of Insolvency law, we specify that the Business entity has no liabilities remaining non-payment but changing the asset composition.

### 6. FULFILLMENT SCHEDULE TO CREDITORS FOR LIABILITIES, WHICH PAYMENT OR FULFILLMENT TERM BECAME DUE BEFORE THE START OF LEGAL PROTECTION PROCEDURE OR DURING IT

Referring to conditions in paragraph 40 part 4 Item 4 of Insolvency law and in paragraph 38 part 2 conditions of Insolvency law, we specify that during the procedure of legal protection there is planned to settle with creditors for the amount of EUR 2'669'421.99. The detailed plan of creditors demand correction according to legal protection procedure plan (Item 9) is given in Annex nr. 2, remaining the integral part of the action plan.

The detailed plan of creditor demands settling is given in Annex nr.3, remaining the integral part of the action plan.

### 7. TOTAL AMOUNT OF PLANNED REVENUES DURING THE PROCEDURE OF LEGAL PROTECTION

Referring to conditions in paragraph 40 part 4 Item 5 of Insolvency law we specify that taking into account the forecasted revenues of the Business entity, during the whole procedure of legal protection the Business entity is planning to achieve revenues in amount of EUR 5'807'813.70 (see Annex nr.4 of the action plan).

The Business entity revenues will be formed from business activities revenues, i.e. from real estate and equipment lease, public utility services and sale of the Business entity production. In addition, the Business entity is planning to sell the non-core capital assets and to involve some investor with regard to increase the capital assets.

During the first three months of legal protection procedure the Business entity is planning to cooperate actively with realtors with regard to increase real estate lease revenues by 30%, gradually reducing the portion of vacant premises from 30% on the date of the plan elaboration to 10% by the end of the 3<sup>rd</sup> month of the plan implementation. Revenues from public services (mostly electric power supply, and heating and water supply and sewerage) are planned based on historical experience of the Business entity, without any essential changes in the scope of services. Based on historical experience the plan considers that the Business entity raises revenue from rendering public services, and it fluctuates within EUR 100-4'600 a month depending on a season. In addition the plan considers gradually reduce the amount of customers debts through active work with customers during the first three months, thus earning additional positive money flow in amount around EUR 29 000.

Taking into account the failed deal of the office building sale with an adjacent plot of land (cadastral number 01000802326) to a potential buyer, the Business entity has performed alternative search of investors and upin the date of the plan elaboration it started negotiations with one of them, with signing of the protocol of intent (Annex Nr. 11) on purchase of the mentioned above property for EUR 950'000, which would provide the enterprise with the net profit of EUR 940'000. The property sale price corresponds to assessment of property made by Ober Haus Real Estate Latvia Ltd (Annex Nr.13). The plan of legal protection procedure considers that the mentioned above property sale negotiations last five months and the deal will be concluded by the end of the 6<sup>th</sup> month. The planned sale of the office building will not affect negatively the amount of the Business entity revenues, as the building is vacant and for the moment is not used for business.

Sale of the office building will let reduce the amount of expenses, as the Business entity will not have to pay real estate tax and insurances for the sold building, also the interest rate payment will decrease almost by a half taking into account that it is planned to cover partly the insured creditor demand, SEB Bank, demanded amounts, and fully settle the insured creditor, State Income Department requirement from the property sale amount. Totally the costs have to decrease for at least EUR 7'100 a month that will let improve essentially the Business entity money flow starting with the 7<sup>th</sup> month of the plan and together with other revenue optimization activities mentioned above, there is considered that on the average monthly money flow will make about EUR 11,000, or EUR 132,000 annually.

Based upon the optimized money flow the Business entity is planning to involve an investor with regard to renovate production of acoustic systems and professional acoustic bodies with using its own resources. The legal protection plan considers that an investor will be involved during the 13<sup>th</sup> month, by increasing the core capital for EUR 1,450,000, as is the subject of current negotiations with a potential investor (the protocol of intent with a potential investor Annex nr.12). From this amount EUR 797,485 will be used for complete settling the insured creditors demands, EUR 559'896 - for partial settling of the uninsured creditor demands, and the remaining amount will be directed to provision of production process operating capital. Upon re-start of production it is considered that revenues from premises and equipment lease will decrease for EUR 6'050 a month during 13<sup>th</sup> month of the legal protection procedure as related assets will be needed for provision of production process.

Total revenues planned from production sale make EUR 1'065'010 during the whole legal protection procedure. The Business entity is planning to sell the biggest part of production on export markets using the effective contract on acoustic system sale with the exclusive dealer in CIS countries Rufino Ltd, in turn having

cooperation contracts with leading household equipment trade chains, such as "MediaMarkt-Saturn", „M-Video”, „Tehnosila” and Eldorado Russia, „Patio” and "5<sup>th</sup> Element" in Belorussia, as well as “Digis” in Kazakhstan. Taking into account that export partners are large and well-known companies in their markets, the Business entity is planning to use factoring methods with regard to reduce its need in operating assets.

Considering a large scope of export there is planned that from 13<sup>th</sup> till 18<sup>th</sup> procedure month the Business entity will have an overpaid amount of VAT. Accordingly the plan considers income from overpaid VAT payback within two months since the moment of overpay statement.

In addition to the mentioned above, it should be noted that according to the situation for the date of legal protection procedure plan elaboration, the Business entity has not a record of any facts or conditions that might affect negatively the ability to perform its business activities, in regular and in planned scope.

#### 8. THE PLANNED TOTAL OF THE BUSINESS ENTITY EXPENSES DURING THE LEGAL PROTECTION PROTECTION

Referring to conditions in paragraph 40 part 4 Item 6 of Insolvency law, we specify that in concern of the planned expenses of the Business entity, during the whole legal protection procedure the Business entity is planning its expenses in amount of EUR 5'807'719.63 (see Annex nr.14 of Legal protection procedure plan).

The Business entit expenses include

- 1) Costs of the Business entity legal protection procedure (EUR 3'138'297.63);
- 2) Finance for settling the creditors demands (EUR 2'669'421.99)

The Business entity expenses in terms of the legal protection procedure may be split into three main groups by their nature: real estate management costs, production costs and administrative costs.

Real estate management costs are planned based on historical experience of the Business entity. The biggest part in this group form public services costs, which fluctuate depending on a season within EUR 57'000-93'000 monthly. As it was mentioned before in Item 7 of the legal protection procedure plan the Business entity earns revenues from public services rendering, and they fluctuate between EUR 100-4'600 monthly depending on a season. After the planned sale of the office building real estate tax, insurance and interest rate payments will decrease essentially.

In concern of the planned re-start of production, in 12<sup>th</sup> procedure month there will grow essentially raw materials and service purchase costs, as well as sale and marketing costs and salary costs, as there will appear about 20 new working positions that will increase salaries by EUR 14'000 monthly. Total production costs in terms of the legal protection procedure are planned to make EUR 977'759, which is less than the planned income from production sale.

As for administrative costs, they are planned based on historical experience of the Business entity and the plan does not consider essential changes of their amount during the procedure. It should be noted, that after settling the insured creditors demands interest payments will decrease essentially in the 13<sup>th</sup> procedure month.

In terms of the legal protection procedure the planned profit-loss statement and the legal protection procedure costs are split out in detail in Aneex nr.4 of the procedure plan, being an integral part of the plan.

## 9. METHODS APPLIED IN THE LEGAL PROTECTION PROCEDURE

Referring to conditions in paragraph 38 part 1 of Insolvency law, one or more methods are applied in the legal protection procedure.

Referring to conditions in paragraph 40 part 4 Item 7 of Insolvency law, we specify that with regard to settle the creditor demands according to the Business entity money flow as to implement the plan of legal protection procedure, the following methods are being applied:

9.1 Proportional amortization or reduction of principal debt, penalties or interest (Paragraph 38 part 2 of Insolvency law).

In terms of the legal protection procedure it is planned to pay delay penalties and penalty charges in full in the group of uninsured creditor demands. In terms of the legal protection procedure it is planned to reduce the amount of delay penalties for 50% and the amount of penalty charges for 65%.

9.2 Period of grace for obligations fulfillment (Paragraph 38 part 1 of Insolvency law). According the mentioned method in terms of the whole procedure of legal protection it is planned to postpone fulfillment of obligations to insured creditors for 6 months, at the end of this term to settle 54% of insured creditor demands (SID – in full, SEB – partly) from real estate sale revenues. The remaining part of insured creditor demands is planned to be settled in the 13<sup>th</sup> procedure month, along with involvement of an investor, which will increase the capital asset.

Concerning uninsured creditor demands there is planned to postpone their settling till the 13<sup>th</sup> procedure month, when we plan to involve an investor, increasing the capital asset and starting with the 16<sup>th</sup> procedure month, after re-start of the Business entity production and establishment of constant money flow, it is planned to settle uninsured creditor demands at monthly intervals.

Postponement of obligations fulfillment till the 6<sup>th</sup> procedure month is necessary to let the Business entity money flow stabilize, but in 7<sup>th</sup> -13<sup>th</sup> months – to use the spare finance to increase the operating assets for production needs.

9.3 Movable or real property disposition or encumbrance, to achieve extension of creditor demands fulfillment term or settling the creditor demands (Paragraph 38 Part 1 Item 2 of Insolvency law).

As it was stated in Item 7 of the plan there is planned to sell the office building with an adjacent plot of land (cadastral number 01000802326) with net revenue of EUR 940'000 in the 6<sup>th</sup> procedure month.

9.4 Increase of the Business entity capital asset (Paragraph 38 Part 1 Item 3 of Insolvency law).

As it was stated in Item 7, based on improved money flow, the Business entity is planning to involve an investor with regard to re-start production of acoustic systems and professional acoustic bodies in the 13<sup>th</sup> procedure month, thus increasing the capital asset for EUR 1'450'000,000.

Of this amount EUR 797,485 will be used for full settlement of insured creditor demands, EUR 556'168.78 for partial settlement of uninsured creditor demands, but the remaining amount will be directed to provide the production operating assets.

9.5 Other methods corresponding to goals of the legal protection procedure (Paragraph 38 Part 1 Item 5 of Insolvency law).

The Business entity has reached the agreement with the following uninsured and associated creditors about postponement of obligations fulfillment until the end of the legal protection procedure:

- SIA Knops;
- SIA LAS-RT;
- SIA Albatross Firma Tukuma rajonā
- SIA Erelux;
- SIA Imanta Retail Park
- Westhold Impex Ltd.

Related creditors acceptance letters are enclosed in Annex Nr. 9.

#### 10. CURRENT AND PLANNED BUSINESS ACTIVITIES OF THE BUSINESS ENTITY

Referring to conditions in paragraph 40 part 4 Item 8 of Insolvency law we specify that during the legal protection procedure the Business entity will continue its business activities (NACE): production of domestic electronic appliances (26.40) and real estate management on a fees or on a contract basis (68.32).

#### 11. TERM OF THE LEGAL PROTECTION PROCEDURE IMPLEMENTATION

Referring to conditions in paragraph 40 part 4 Item 9 and in paragraph 48 of Insolvency law the specified term of implementation is 2 (two) years since that date of Judgement on legal protection procedure start.

#### 12. DEALS THAT THE BUSINESS ENTITY IS AUTHORIZED TO EXECUTE WITHOUT ADMINISTRATOR APPROVALS AND WITHOUT AMMENMENTS IN THE PLAN OF THE LEGAL PROTECTION PROCEDURE

Referring to conditions in paragraph 40 part 4 Item 10 of Insolvency law the Business entity is authorized to execute deals without administrator approvals and amendments in the plan of the legal protection procedure which amount should not exceed 1% (one percent) of total creditor demands amount on the date of the legal protection procedure plan during the plan implementation. The Business entity is authorized to execute deals related to involvement of different specialists, including consultants, property disposition, maintenance and /or repairs. The mentioned limitation does not include the deals related to the Business entity general daily business activities.

#### 13. REPORTING PROCEDURE TO INFORM CREDITORS ON PROGRESS OF THE LEGAL PROTECTION PROCEURE IMPLEMENTATION

Referring to conditions in paragraph 40 part 4 Item 11 of Insolvency law we specify that the legal protection procedure plan of the Business entity is sent to each creditor by registered mail to an appropriate legal address. Further creditors will be informed on progress of the legal protection procedure implementation upon a creditor request, by registered mail report or via safe electronic correspondence sent to the specified e-mail.

#### 14. THE ADMINISTRATOR ACTING IN THE LEGAL PROTECTION PROCEDURE

Referring to conditions in paragraph 40 part 4 Item 12 of Insolvency law we specify that



The administrator of the Business entity legal protection procedure is a certified administrator Vigo Krastinsh, identity code: 111278-12318, certificate nr. 00164, working address: Blaumaņa street 10, Riga, LV-1011, contact information – tel.: 67226696, e-mail: vigo.krastins@skdz.lv.

Conditions in Paragraph 20 of Insolvency law are not applicable to the Administrator. There is reached an agreement with the administrator (Annex Nr.5) about charge fees of the administrator in amount of EUR 1'000,00 in terms of the legal protection procedure, with additional payment of VAT.

Creditors approval of this plan of the Business entity legal protection procedure at the same time is considered as their agreement and consent that a certified administrator Vigo Krastinsh is appointed as the Business entity legal protection procedure administrator, as well as that Vigo Krastinsh is recommended to court as the Business entity legal protection procedure administrator.

The Administrator did not take part in elaboration of this plan of the legal protection procedure.

#### 15. THE LIST OF THE BUSINESS ENTITY MORTGAGED PROPERTY, NEEDED FOR IMPLEMENTATION OF THE LEGAL PROTECTION PROCEDURE AND BEING THE SUBJECT OF LIMITATIONS, RESTRICTING INSURED CREDITORS TO EXECUTE THEIR RIGHTS TO THE BUSINESS ENTITY PROPERTY SECURING THEIR DEMANDS, UNTIL THE END OF THE LEGAL PROTECTION PROCEDURE

Referring to conditions in paragraph 40 part 4 Item 13 of Insolvency law we specify that the Business entity mortgaged property needed for implementation of the legal protection procedure and being the subject of limitations, restricting insured creditors to execute their rights to the Business entity property, securing their demands, until the end of the legal protection procedure is listed in Annex nr. 10.

The mentioned Business entity property is needed for implementation of the legal protection procedure. Part of the legal protection procedure revenues, costs and expenses is based on it and on its use for gaining profit, to cover creditor demands. Along with this it is dramatically needed for implementation of the legal protection procedure and insured creditors will not execute their mortgage rights during the legal protection procedure.

#### 16. PROTECTION OF INSURED CREDITORS INTEREST AND REIMBURSEMENT TO INSURED CREDITORS FOR LIMITATION OF THEIR RIGHTS

The Business entity will make all the current payments, i.e. payments according to regulations or concluded contracts after the start of the legal protection procedure implementation, in the order and terms specified in the mentioned contracts and regulations, unless otherwise stated in the plan of the legal protection procedure.

For creditor demands, becoming due for payment before or during the legal protection procedure, the order and the term of refundment are specified in Annex Nr. 1.

Costs that arise if the mortgaged property included into the plan of the legal protection procedure is damaged or loses its value during the legal protection procedure, refer to costs of insolvency proceedings of the value of property mortgaged to secure insured creditor demands of amount of its reduction.

Referring to conditions in paragraph 40 part 4 Item 14 of Insolvency law reimbursement to insured creditors for limitation of their rights during the legal protection procedure is not specified.

#### 17. CONFORMITY OF THE LEGAL PROTECTION PROCEDURE TO PARAGRAPH 40 ITEM 4 PART 15 OF INSOLVENCY LAW

This plan of the legal protection procedure according to Paragraph 40 Item 4 Part 15 of Insolvency law provide that gain of the creditors, who did not agree the plan of the legal protection procedure, in result of the legal protection procedure implementation will be at least the same as in the case of insolvency proceedings, due to the following reasons:

1) Assets of the Business entity (EUR) for 19.09.2014.g. consist of the following positions:

1. Long-term investments

II. Capital assets

1. Plots of land, buildings, facilities and perennial planting 6 088 363

2. Equipment and machinery 1 411 695

3. Other capital assets and inventory 27 843

II. TOTAL: 7 257 901

1 SUBTOTAL 7 257 901

2. Operating assets

I. Savings

1. Raw materials, basic and supplement materials 29 869

5. Advance payments for goods and services 2 422

I. TOTAL : 32 291

III. Debtors

1. Debts of customers and consumers 44 906

3. Debts of associated companies 21 612

4. Other debtors 323 195

7. Future costs 3 485

III. TOTAL: 393 199

V. Cash 135

2 SUBTOTAL 425 624

ACTIVE BALANCE 7 953 526

In case the Business entity insolvency proceedings were announced,

Referring to plots of land, buildings and perennial planting belonging to the Business entity (EUR 6'088'363), as well as to a part of equioment and machinery (EUR 1'138'322), insured creditors will execute their collateral receiver rights and will fully cover the insured part of demand. According to the Business entity calculations based on real observations, the value of sold related assets during insolvency proceedings will make 25-35% from their balance value, as their disposition is executed by reduced price, without reasonable activities in involvement of potential buyers, to provide the rate of turnover principle stated in Insolvency law. Furthermore, it is well-known that during insolvency proceedings the groups of intermediary buyers try to obtain the sold property of debtors for the lowest price possible, to be able to re-sell it later for a much higher price, thus obtaining disproportional profit. Along with this, by opinion of the Business entity, after settling of all the insured creditor demands, it could be possible to get back money from disposed mortgaged property approximately in amount of

EUR 615'000 that would be directed to settling of insolvency proceedings costs and uninsured creditor demands.

□ The debts of associated companies (EUR 21'612) consist of SIA Baltlains debt; SIA Baltlains have initiated the legal protection procedure that heavily trouble return of this debt, and there exist a real possibility that referring to the rate of turnover principle and process efficiency principle stated in Insolvency law, the insolvency process administrator might refuse claiming such a demand.

□ Other debtors of the Business entity (EUR 309'159.95) consist of SIA Imanta Retail Park debt, which according to Agreement Nr.12-FP-0052/06 from 13.11.2012. between ABLV Bank AS, SIA Imanta Retail Park and AS VEF Radiotehnika RRR, subordinates to A/s ABLV bank loan to SIA Imanta Retail Park, and is to be paid back only after loan obligations fulfillment to ABLV Bank AS that is planned not earlier than November 05, 2018 according to the terms of the loan agreement. That is why payment of this debt is impossible in the near future and essentially lower the opportunity to settle the demands for uninsured creditors, should there is initiated the Business entity insolvency proceedings instead of the legal protection procedure.

□ As we see, in case of insolvency proceedings initiation for the Business entity at present state, uninsured creditors will have an opportunity to claim for the Business entity cash (EUR 135), as well as for the Business entity debts (EUR 44'906), for unencumbered capital assets (EUR 301'216) and savings (29'869), as well as for earned surplus revenues (EUR 615'000) after sale of capital assets and settling of insured creditor demands. Though gain and disposition of these assets causes related costs, which are directed to settlement of priority creditor demands. Furthermore gain and disposition of these assets is connected both with re-estimation and with a possibility to get to the intermediate buyers of dispositioned property, who will definitely reduce the amounts received from sale. Anyway gain or disposition of those assets is connected with the rate of turnover principle and the process efficiency principle stated in Insolvency law, which terms limit essentially the opportunities to proceed with the most applicable activities aiming to gain 100% of the mentioned assets value. That is why 100% gain of these assets is not possible in the nearest future and considerably decrease the opportunity for uninsured creditors to receive money covering their demands, should there is initiated the Business entity insolvency proceedings instead of the legal protection procedure.

Thus, by appraising the ability of the Business entity to settle the uninsured creditor demands (EUR 1'839'591) with remaining, unencumbered assets, it must be admitted that the uninsured creditor demands could be covered for approximately 39%. In turn, during the Business entity legal protection procedure it is planned to cover 51% of uninsured creditor demands, but remaining 49% would be covered after completion of the legal protection procedure.

2) In case of the potential Business entity insolvency proceedings initiation duration of judicial settlement of creditor demands can be dramatically longer than the planned terms of the legal protection procedure. Along with this the legal protection procedure is much more profitable than insolvency proceedings, as creditors cover their demands much faster.

3) During the procedure the Business entity will make current tax payments, not only continue provision of employment to its employees, but also will establish new working places (about 20), promote growth of Latvian production export, and fulfill current obligations to the Business entity creditors.

## 18. RIGHTS OF PERSONS PROVIDING FINANCING FOR IMPLEMENTATION OF THE LEGAL PROTECTION PROCEDURE (LPP) PLAN

Persons, who provide financing for implementation of this LPP plan, proportionally to the provided amount, have priority in refundment of the provided amounts, i.e. such amounts are refunded in the first place. Should LPP is terminated and in parallel insolvency proceedings are initiated, the given priority remains in force and demands to the Business entity, arising from the financing provided for this plan implementation, are considered to become the insolvency proceedings costs.

## **Annexes**

Annex 1 – the Business entity liabilities, which term of payment or fulfillment became due before the start of the the legal protection procedure and the Business entity obligations, which payment or fulfillment term became due after the start of the legal protection procedure, including uninsured creditors, insured creditors and associated companies.

Annex 2 – Correction of the Business entity obligations Komerccsabiedrības in terms of the legal protection procedure plan (complete calculation).

Annex 3 – Time schedule of the Business entity obligations fulfillment relating to those creditors, whose terms refundment or fulfillment became due before the start of the legal protection procedure or during the legal protection procedure (complete calculation; calculation is trimmed to monthly level).

Annex 4 – revenues, costs, expenses of the Business entity legal protection procedure (financial flow forecast) (complete calculation; calculation is trimmed to monthly level).

Annex 5 – Agreement on appointment of Administrator of the Business entity legal protection procedure.

Annex 6 – Agreement and approval form of the Business entity legal protection procedure plan.

Annex 7 – The current balance for 19 September, 2014, profit-loss statement for the period from 01.01.2014 till 19.09.2014.

Annex 8 - AS SEB Banka consent statement on the Business entity legal protection procedure plan activities.

Annex 9 – Creditors consent statement on payment postponement until the end of the legal protection procedure.

Annex 10 – The list of the Business entity mortgaged property that is needed for implementation of the legal protection procedure plan and being the subject of limitations, restricting insured creditors to execute their rights to the Business entity property, securing their demands, until the end of the legal protection procedure.

Annex 11 – Protocol of intent on purchase of the real estate (cadastral number 01000802326).

Annex 12 – Protocol of intent to increase of capital assets signed with the investor.

Annex 13 - Appraisal of the office building and anadjacent plot of land (cadastral number 01000802326).

VEF Radiotehnika RRR AS Chairman of the Board

Eduards Malejevs