

JSC "VEF Radiotehnika RRR"
Unified Registration No. 40003286712
Address: Kurzemes prospekts 3, Riga, LV-1067
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

Date of submission: _____

Date of receipt: _____

Riga

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GENERAL INFORMATION

Full name of the Company	<i>JSC "VEF Radiotehnika RRR"</i>			
Legal status of the Company	<i>Public Joint-Stock Company</i>			
Unified Registration No., place and date of issue	<i>40003286712 11.12.1998</i>			
Legal address of the Company	<i>Kurzemes prospekts 3, Riga, LV-1067</i>			
Telephone No.	<i>67418087</i>			
NACE code	<i>26.40</i>	<i>Manufacture of electronic devices</i>		
	<i>68.32</i>	<i>Real estate management with remuneration or based on agreements</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>Inars Klavins</i>			
Council Member	<i>Jekaterina Malejeva</i>			
Board members of the JSC				
Chairman of the Board	<i>Eduards Malejevs</i>			
Board Member	<i>Ēriks Ertmanis</i>			
Reporting year	<i>from</i>	<i>01.01.2014</i>	<i>till</i>	<i>31.12.2014</i>
Previous reporting year	<i>from</i>	<i>01.01.2013</i>	<i>till</i>	<i>31.12.2013</i>
Chief Accountant	<i>Olga Romanko</i>			
Telephone No.	<i>67852054</i>			
Auditor	<i>SIA Potapoviča un Andersone Certified Auditors Company Licence No. 99 Udens Street 12-45, Riga, LV-1007</i>			
	<i>Responsible auditor: Anna Temerova-Allena Certificate No.154</i>			

Management report

Principal activities

During year 2014, the main activities of JSC "VEF Radiotehnika RRR" were:

1. Purchase and sales of acoustic systems and their enclosures;
2. Real estate renting services.

All of the above-mentioned activities have been performed also in year 2013. New types of activities have not been performed.

Operations of the Company during the reporting year

Reporting year results of the Company are the following:

Result before extraordinary items and taxes:	- 512 650 EUR
Deferred corporate income tax:	-
Other taxes:	- 54 278 EUR
Net result:	- 566 928 EUR

Net turnover in year 2013 was LVL 842 494 and it has decreased by 17% compared to the year 2012.

During the reporting year part of the Company's real estate was sold resulting in 1 639 thousand lats decrease in non-current assets revaluation reserve while a gain from disposal of assets amounting to 222 thousand lats was recognised in the income statement.

The Company's current liabilities exceed its current assets.

2013 was a year of significant challenges for JSC "VEF Radiotehnika RRR" when a decision was made to make important adjustments of the results of the previous years to create a solid foundations for sustainable growth in the future. Significant losses were incurred due to recognition of additional impairment losses in respect of the assets recognised in the Company's balance sheet. During the reporting year the management of the Company performed detailed analysis of carrying and recoverable value of its assets, and, based on the historical information, recognised retrospective adjustments in respect of classification and recoverable value of certain assets. Adjustments impact previously reported value of the assets as well as results of previous periods and total equity. Total impact of the adjustment as at 31.12.2011 is decrease in total equity by 529 886 lats and as at 31.12.2012 is decrease in this caption by 763 497 lats.

Going concern

As previously mentioned above, the Company has concludes year 2013 with a loss 408 161 lats, which has resulted from a significant reduction in the sales market sector, as well as impaired assets. As at the end of the reporting year current liabilities of the Company exceed current assets by 2 189 464 lats.

The Company has reached an agreement with AS SEB Banka on prolonging the repayment term from 20 June 2014 to 22 December 2014, until the Company would refinance the loan with different bank. Currently negotiations are run with a number of Latvian banks.

Except bank, the largest creditors of AS VEF Radiotehnika RRR are the State Revenue Service (SRS) and AS Latvenergo. SRS tax debt collection department (SRS TDCD) decision Nr.4.1.1.4/L-7547 from 12 March 2014 cancelled SRS TDCD director's M.Burajs decision from 29 November 2012 on tax support activities and extension of repayment terms and simultaneously with SRS decision Nr.4.1.1.4/20011 from 3 March 2014 incasso applied on VAT payments. In June 2014 with SRS TDCD decision Nr.4.1.1.4/60613 a ban has been applied on reduction of the Company's share capital, as well as a record has been made in the Commercial pledge register on ban to register any new or changed commercial pledges.

The terms of repayment of accounts payable to AS Latvenergo are under negotiation.

The management of the Company considers that the existing situation is temporary and takes actions to restore the income at the previous level. The Company's year 2013 financial statements have been prepared applying the going concern principle.

To absorb the accumulated losses and settle payments to creditors, the option of selling the company-owned non-profile assets that are engaged in business but the possession of which increases the real estate tax burden, is considered. Currently as non-profile assets are considered the administrative building, warehouse and a few land plots.

Currently the Company is negotiation real estate disposal deal with SIA DEPO DIY, as a result of which the Company will be able partly settle its liabilities. Realisation of the deal takes time as there are 4 legal parties involved and in addition, a permission to build new buildings must be received. Consequently, receipt of documents from the state institutions is not so quick as one would like. The management of the Company considers that the execution of the deal might take up to 6 months. Expected selling price is below carrying value of the respective assets, therefore 500 thousand lats impairment of the real estate value has been recognised already in year 2013 financial statements.

If the current situation becomes permanent and will not be dissolved, the Company might be forced to sell also other assets of the Company.

Post balance sheet events

Except as disclosed in the Note 39, from the last day of the financial year to the date of signing this report there have been no other significant events which would impact the year-end results of which would need to be additionally disclosed in the financial statements. On September 19, 2014, Riga City Kurzemes Court decided to start a case of legal protection process of JSC VEF Radiotehnika RRR defining that the legal protection implementation plan is to be agreed till November 19,2014. On November 24, 2014 is received Riga City Kurzemes District Court's decision to prolong development of the legal protection implementation plan up to December 19,2014.

Proposals concerning covering the loss

It is planned to cover year 2013 loss with future periods profits from income generated by renewed production process and with proceeds from disposal of non-profile assets.

Chairman of the Board

Eduards Malejevs

Member of the Board

Ēriks Ertmanis

27.02.2015

Statement of the 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 the preparation of the annual report for the period ended 31 December 2014 appropriate accounting principles were consistently applied and justified and prudent decisions were made.

Management is responsible for application of appropriate accounting principles, safeguarding of the company's assets as well as prevention of fraud and other unlawful activities.

The management of the company confirms, that is has provided information and explanations required for the audit.

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INCOME STATEMENT
FOR THE YEAR ENDED
31.12.2014 (in compliance with the turnover costs method)

	Note	2014	2013
		EUR	EUR
Net turnover	1	818 666	1 198 761
Cost of sales	2	(1 018 483)	(1 617 309)
Gross loss		(199 817)	(418 548)
Selling expenses	3		(20 341)
Administrative expenses	4	(259 853)	(197 123)
Other operating income	5	68 096	349 810
Other operating expenses	6	(139 068)	(177 633)
Interest income and similar income	7		458
Interest expense and similar expenses	8	(67 673)	(81 987)
Loss before extraordinary items and taxes		(598 315)	(545 364)
Deferred corporate income tax for the reporting year	9		55 472
Other taxes	10	(72 371)	(90 869)
Net loss for the year		(670 686)	(580 761)
Earnings (loss) per share (EPS coefficient)		(0,263)	(0,228)

Notes on pages 12 to 28 are an integral part of these financial statements.

Chairman of the Board

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27.02.2015

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BALANCE SHEET as at 31.12.2014

ASSETS	Note	<u>2014</u>	<u>2013</u>
		<u>EUR</u>	<u>EUR</u>
1. Non-current assets			
II. Fixed assets:			
Land, buildings and constructions		2 174 100	2 181 133
Equipment and vehicles		1 368 449	1 550 024
Other fixed assets		26 410	30 777
Total fixed assets:	11	<u>3 568 959</u>	<u>3 761 934</u>
III. Investment properties:			
Total investment properties:	12	<u>3 874 254</u>	<u>3 987 250</u>
Loans to related parties		309 160	309 160
Total non-current financial investments:	17	<u>309 160</u>	<u>309 160</u>
Total non-current assets:		<u>7 752 373</u>	<u>8 058 344</u>
2. Current assets			
I. Inventory:			
Raw materials	13	32 855	18 910
Advance payments for materials	15	1 533	2 839
Total inventory:		<u>34 388</u>	<u>21 749</u>
III. Receivables:			
Trade receivables	16	135 762	33 082
Receivables from related parties	17	66 194	125 235
Other receivables	18	22 423	255
Deferred expenses	19		4 116
Total receivables:		<u>224 379</u>	<u>162 688</u>
V. Cash	20	<u>994</u>	<u>848</u>
Total current assets:		<u>259 761</u>	<u>185 285</u>
TOTAL ASSETS:		<u>8 012 134</u>	<u>8 243 628</u>

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BALANCE SHEET as at 31.12.2014

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	<u>2014</u>	<u>2013</u>
		<u>EUR</u>	<u>EUR</u>
1. Shareholders' equity:			
Share capital	21	3 627 019	3 627 019
Non-current assets revaluation reserve	23	3 551 418	3 551 418
Accumulated losses:			
a) accumulated losses of previous years	22	- 2 887 744	- 2 306 983
b) current year loss	22	- 670 686	- 580 761
Total shareholders' equity:		<u>3 620 007</u>	<u>4 290 693</u>
2. Provisions:			
Other provisions	24	22 472	22 472
Total provisions:		<u>22 472</u>	<u>22 472</u>
3. Liabilities:			
I. Non-current liabilities:			
Deferred tax	34	546 354	546 354
Trade accounts payable	27	522 009	
Payables to related parties	37	189 936	
Taxes and social security liabilities	25		83 497
Total non-current liabilities:		<u>1 258 299</u>	<u>629 851</u>
II. Current liabilities:			
Loans from credit institutions	26	1 486 845	1 517 503
Other loans	27		157 092
Advances from customers	28	568	804
Trade accounts payable	29	808 506	979 425
Payables to related parties	30	33 291	90 677
Taxes and social security liabilities	31	694 964	435 948
Other liabilities	32	31 639	45 498
Accrued liabilities	33	55 543	73 665
Total current liabilities:		<u>3 111 356</u>	<u>3 300 612</u>
Total liabilities:		<u>4 369 655</u>	<u>3 930 463</u>
TOTAL LIABILITIES :		<u>8 012 134</u>	<u>8 243 628</u>

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CASH FLOW STATEMENT FOR THE PERIOD ENDED
31.12.2014 (indirect method)

I. Cash flow from operating activities	2014	2013
	EUR	EUR
<i>Loss before extraordinary items and taxes</i>	(598 315)	(545 364)
<i>Adjustments for:</i>		
a) depreciation of fixed assets and investment properties	310 973	332 726
c) provisions (excluding provisions for doubtful receivables)		4 789
d) gains or losses from foreign currency exchange rate fluctuations	322	679
g) other income from interest or similar income		(458)
h) profit/loss from sale of fixed assets		(315 860)
i) interest payments and similar activities	72 371	81 987
k) depreciation of revalued fixed assets		(33 950)
Loss before working capital and current liabilities adjustments	(214 649)	(475 451)
<i>Adjustments for:</i>		
a) debtors increase (-) or decrease (+)	(33 642)	179 209
b) inventory increase (-) or decrease (+)	(12 639)	90 869
c) accounts payable to suppliers and other creditors increase (+) or decrease (-)	132 032	261 918
Gross cash flow from operating activities	(128 898)	56 545
Interest payments	(72 371)	(73 787)
Real estate tax payments	(12 927)	(110 762)
Cash flow before extraordinary items	(214 196)	(128 004)
Net cash flow from operating activity	(214 196)	(128 004)
II. Cash flow from investing activities		
Acquisition of fixed assets and intangibles	(4 996)	(67 086)
Proceeds from disposal of fixed assets and intangibles		584 961
Interest received		458
Net cash flow from investing activities	(4 996)	518 334
III. Cash flow from financing activities		
Loans received	249 996	157 092
Loans repaid	(30 658)	(533 392)
Financial lease payments		(13 792)
Net cash flow from financing activities	219 338	(390 092)
IV. Foreign exchange rate differences	-	-
V. Net cash flow for the year	146	238
VI. Cash and cash equivalents at the beginning of the period	848	610
VII. Cash and cash equivalents at the end of the period	994	848

Notes on pages 12 to 28 are an integral part of these financial statements.

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27.02.2015

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR 31.12.2014

	Share capital	Non-current assets revaluation reserve	Result of the reporting year	Previous year's retained earnings	Total shareholders' equity
	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2012	3 627 020	6 156 031	(1 057 282)	(1 249 698)	7 476 071
Result carried over	-	-	1 057 282	(1 057 282)	-
Loss for the year	-	-	(580 761)	-	(580 761)
Fixed assets revaluation reserve	-	(2 604 616)	-	-	(2 604 616)
Balance as at 31 December 2013	3 627 020	3 551 415	(580 761)	(2 306 982)	4 290 694
Result carried over	-	-	580 761	(580 761)	-
Loss for the year	-	-	(670 686)	-	(670 686)
Fixed assets revaluation reserve	-	-	-	-	-
Balance as at 31 December 2014	3 627 020	3 551 415	(566 928)	(2 887 743)	3 620 007

*- for explanations of the retrospective adjustments please refer to Accounting policies and methods section.

Notes on pages 12 to 28 are an integral part of these financial statements.

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27.02.2015

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Annexes to the Financial Statements

1. Accounting Policies and Utilized methods

National currency of Latvian Republic - EURO, shortened - EUR is used in the data in the Financial Statements.

General Principles

The Annual Report is prepared in accordance with the corresponding laws of the Republic of Latvia - "Law On Accounting" and "Law on Annual Reports", the Cabinet Regulation No 488 "Application of Law on Annual Reports" the Cabinet Regulation No 481 "Contents and procedure for the preparation of the cash flow report and report of changes in shareholders' equity".

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.

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Reporting period: from 01.01.2014. to 31.12.2014

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:

	31.12.2014	31.12.2013
USD	0,822	0,725

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:

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* Buildings and constructions	1-5	%
* Technological equipment	10-20	%
* Transport vehicles	10-20	%
* Furniture	10-20	%
* Other fixed assets	10-20	%
* Mobile phones	35	%
* Computers and other data storage units	15-35	%
* Depreciation on land plots is not calculated.		

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

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

Rent

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

Hire-purchase (Financial leasing)

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

Long-term financial investments

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

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

Investments in subsidiaries and related Company shareholding.

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

Inventory valuation

Received and issued goods management

is performed with help of computer software "IC". Uninterrupted inventory method is applied in monitoring wholesale movement of goods. During the reporting year, warehouse management software reflected every movement of inventory- sale, internal movement, return of goods to the supplier, return of goods from buyers. The goal of annual inventory is to check the correctness of inventory movement management system. Inventories are valued using FIFO method.

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

Unused material values and stocks at the end of reporting period are valued on historic cost basis, with addition of additional costs

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(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 Value Added Tax.

Income and expenses acknowledgement

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

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

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

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

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

3. Incomes which arise if other parties use Company's assets and thus receive interest, royalties or dividends,

can be recognised using the following methods, if:

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

Incomes are recognised, using the following methods:

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

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

All significant cost items are processed per accumulation principle.

Cash and cash equivalents

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

Financial Asset's or Liability's real value

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

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Accounts Payable

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

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

Reserves

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

Provisions for unused vacations

Amount of the provisions is calculated by dividing the total salaries for 2014 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

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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.

Reclassification of subjects (items)

In 2014, due to changes in legislation and opinion of management, no changes have been made in classification of items in comparison with 2013.report.

Chairman of the Board

Eduards Malejevs

Member of the Board

Ēriks Ertmanis

27.02.2015

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Notes to the income statements

(1) Net Turnover

Type of activity	2014	2013
	EUR	EUR
Income from exports of finished goods	18 932	28 358
Income from rent of premises	115 033	179 814
Income from sale of finished goods in the local market		257 177
Income from utility services	679 580	672 196
Income from sale of materials	5 121	61 216
Total	818 666	1 198 761

Division of net turnover by geographical markets

	2014	2013
	EUR	EUR
Latvia	799 734	1 170 403
Russia	18 932	28 358
Total	818 666	1 198 761

(2) Cost of goods sold

Cost type	2014	2014	2013
	EUR	EUR	EUR
Personnel costs	17 842		32 212
Provisions for leave and social security			1 352
Depreciation of fixed assets	155 747		177 501
Depreciation of fixed assets (project 124000075)	155 226		155 226
Write-off of miscellaneous items	35 278		48 642
Changes in finished goods inventory	5 896		268 160
Changes in purchased materials and goods inventory			129 534
Production services	506		4 126
Ongoing maintenance and repair	16 893		71 704
Real estate property maintenance	630 697		725 976
Other costs	398		2 876
Total	1 018 483		1 617 309

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Notes to the income statement (continued)

		<u>2014</u>	<u>2013</u>
		<u>EUR</u>	<u>EUR</u>
(3) Selling expenses			
	Cost type		
	Goods' transportation costs	1 800	9 905
	Commissions paid	- 3 439	5 970
	Sales costs	833	3 672
	Advertising costs	806	794
	Total	-	20 341

		<u>2014</u>	<u>2013</u>
		<u>EUR</u>	<u>EUR</u>
(4) Administrative expenses			
	Cost type		
	Personnel costs	46 100	81 565
	Provisions for leave and social security		3 437
	Representation costs	899	2 022
	Office expenses	1 369	2 298
	Communication expenses	8 692	11 568
	Bank expenses	3 702	18 933
	Transportation costs	593	6 784
	Accounting and legal expenses	30 419	44 399
	Consulting services	163 981	11 692
	Other administrative costs	4 098	14 425
	Total	259 853	197 123

		<u>2014</u>	<u>2013</u>
		<u>EUR</u>	<u>EUR</u>
(5) Other operating income			
	Type on income		
	Selling of real estate assets (net income)		315 860
	Amortization of long-term investment revaluation reserves	68 096	33 950
	Total	68 096	349 810

		<u>2014</u>	<u>2013</u>
		<u>EUR</u>	<u>EUR</u>
(6) Other operating expenses			
	Type of income/expense		
	Net profits from foreign exchange rate fluctuations	868	882
	Penalties	117 174	52 369
	Bad debts written off	6 573	31 609
	Provisions for unsecured debts	1 964	85 136
	Expenditures not related to economic activity	12 010	7 637
	Expenditures related to economic activity (inventory losses)	479	
	Total	139 068	177 633

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Notes to the income statement (continued)

(7) Interest income and similar income		2014	2013
Type of income		EUR	EUR
Interest received			458
Total		-	458

(8) Interest expense and similar expenses		2014	2013
Type of cost		EUR	EUR
Loan interest paid		67 673	81 987
Total		67 673	81 987

(9) Corporate income tax for the reporting year		2014	2013
Type of cost		EUR	EUR
Deferred tax (Note No.34)			- 55 472
Total			- 55 472

Accumulated tax losses carried forward for corporate income tax purposes amount to 1 597 435 lats as at 31 December 2013.

In concordance with the legislation of the Republic of Latvia, tax losses that have been incurred until 2007 can be covered chronologically from the taxable income of the subsequent eight years. Annual taxable income from later periods of taxation:

	Amount of loss	Expiry term
	EUR	
2007 loss for corporate income tax purposes	1 091 651	2015
2008 loss for corporate income tax purposes	519 048	-
2009 loss for corporate income tax purposes	332 712	-
2010 loss for corporate income tax purposes	115 226	-
2013 loss for corporate income tax purposes	214 309	-
Total	2 272 946	-

(10) Other taxes		2014	2013
Type of cost		EUR	EUR
Real estate tax, land		9 246	12 545
Real estate tax, buildings and structures		63 125	78 323
Total		72 371	90 869

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Notes to the financial statements

Notes to the balance sheet as at 31 december 2014

(11) Fixed Assets

	Land	Buildings and constructions	Technological equipment	Other fixed assets	Total EUR
Historical cost					
31.12.2013.	2 077 050	150 356	3 337 162	211 800	5 776 369
Acquired	-	-	4 996	-	4 996
Disposed	-	-	-	-	-
31.12.2014	2 077 050	150 356	3 342 158	211 800	5 781 365
Depreciation					
31.12.2013		46 273	1 787 139	181 023	2 014 435
Calculated	-	7 033	186 571	4 373	197 977
Disposed	-	-	-	-	-
31.12.2014.		53 306	1 973 710	185 396	2 212 412
Net book value					
31.12.2013	2 077 050	104 083	1 550 023	30 777	3 761 934
Net book value					
31.12.2014	2 077 050	97 050	1 368 449	26 410	3 568 959

Cadastre value of real estate is 5085152 EUR on 31.12.2013 (31.12.2012: 6428351 EUR).

Buildings, constructions, technological equipment and cars are insured.

See Note No. 26 for information on the pledged assets.

Residual value of the fixed assets purchased on financial lease as at 31 December 2013 is EUR 0 (31.12.2012: EUR 25821).

(12) Investment properties

	EUR
Historical value	
31.12.2013	5 473 899
Written-off	
30.09.2014	5 473 899
Depreciation	
31.12.2013	1 486 649
Calculated	112 996
Disposed	
Impairment	
30.09.2014	1 599 645
Carrying value 31.12.2013	3 987 250
Carrying value 30.09.2014	3 874 254

On 31.12.2012 investment properties were reclassified from fixed assets (land, buildings), due to the fact that these fixed assets were handed over for rent to the manufacturing companies, that produce goods according to orders of JSC Radiotehnika RRR.

Since the Company currently is negotiation real estate disposal deal with SIA DEPO DIY and expected selling price is below current revalued value of the respective asset, then an impairment of 500 000 lats has been recognised, correspondingly reducing the non-current asset revaluation reserve.

The Company's income from the rent of investment properties was 126 374 lats in 2013 (2012: 262 015 lats).

The Company's maintenance costs of investment properties was 61 394 lats in 2013 (2012: 35 164 lats).

See Note No. 26 for information on the pledged assets.

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Notes to the Balance Sheet (continued)

	<u>2014</u>	<u>2013</u>
	<u>EUR</u>	<u>EUR</u>
(13) Raw materials		
Raw materials	23 986	9 832
Inventory in use	8 869	9 078
Unfinished goods	68 612	68 612
Finished goods and goods in warehouse	(68 612)	(68 612)
Total	<u>32 855</u>	<u>18 910</u>

	<u>2014</u>	<u>2013</u>
	<u>EUR</u>	<u>EUR</u>
(15) Advance payments for goods		
Advance payments for materials	1 533	2 839
Total	<u>1 533</u>	<u>2 839</u>

	<u>2014</u>	<u>2013</u>
	<u>EUR</u>	<u>EUR</u>
(16) Trade receivables		
Receivables (non-residents)	24 963	34 672
Receivables (residents)	237 739	154 742
The savings are not safe for customers	-126 940	(156 332)
Total	<u>135 762</u>	<u>33 082</u>

	<u>2014</u>	<u>2013</u>
	<u>EUR</u>	<u>EUR</u>
(17.) Associated companies debts		
Associate company long-term debts	<u>309 160</u>	<u>309 160</u>
Trade accounts payable	63 844	55 325
Loans	-	-
Advance payments for services	2 350	69 910
Total short term debts:	<u>66 194</u>	<u>125 235</u>
Total	<u>375 354</u>	<u>434 395</u>

On 12 November 2012, the Company issued non-interest bearing unsecured loan of EUR 309160 SIA Imanta Retail Park ,LV40103265172, with maturity date on 10 November 2013. On 11 November 2013 the maturity date was changed to 12 November 2018. As legal protection process initiated on 17 March 2014 was terminated on 12 May 2014, the management of the Company considers the loan fully recoverable.

	<u>2014</u>	<u>2013</u>
	<u>EUR</u>	<u>EUR</u>
18. Other receivables		
VAT confirmed (unpaid invoices)		
VAT overpaid to the state budget		
Loans to employees	5 094	7 248
Provisions for loans to employees	-	7 248
Settlements with employees	22 423	255
Total	<u>16 879</u>	<u>255</u>

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Notes to the Balance Sheet (continued)

19. Deferred costs	2014		2013	
	EUR		EUR	
Insurance costs				3 736
Other costs				380
Total		-		4 116

20. Cash and cash equivalents	2014		2013	
	EUR		EUR	
Cash in bank accounts		994		848
Total		994		848

21. Information on company's share capital

On 31.12.2014 company's share capital consisted of 2 549 084 registered and fully paid shares with nominal value of LVL 1 each. Largest shareholders of JSC "VEF Radiotehnika RRR" are:

Shareholders	Number of shares		Value			
			LVL		EUR	
	31.12.2014	31/12/2013.	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Eduards Malejevs	941 880	941 880	941 880	941 880	1 340 175	1 340 175
Jurijs Malejevs	864 512	864 512	864 512	864 512	1 230 090	1 230 090
Inga Sprūga	330 086	330 086	330 086	330 086	469 670	469 670
Jekaterina Malejeva	270 000	270 000	270 000	270 000	384 175	384 175
Others (<5%)	142 606	142 606	142 606	142 606	202 910	202 910
Total:	2 549 084	2 549 084	2 549 084	2 549 084	3 627 020	3 627 020

22. Retained earnings/losses

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

	2014		2013	
	EUR		EUR	
Previous years' retained earnings/losses		(2 887 744)		(2 306 980)
Current year profit/loss		(670 686)		(580 761)
Total		(3 558 430)		(2 887 741)

23. Long term investment revaluation reserve

	2014		2013	
	LVL		EUR	
Pārskata gada sākumā		3 551 418		6 156 034
Izslēgti/pārdoti ilgtermiņa ieguldījumi				(2 318 868)
Pārskata gada amortizācija				(33 950)
Atzīts ilgtermiņa ieguldījumu vērtības samazinājums				(711 436)
Atliktā uzņēmumu ienākuma nodokļu saistību daļa				459 638
Pārskata gada beigās		3 551 418		3 551 418

According to Ober Haus Real Estate Company report on real estate market value from 30.06.2011, the non-current assets of the Company were revalued (land and buildings).

During 2013 part of the real estate (warehouse) was sold and non-current assets revaluation reserve was decreased accordingly.

Notes to the Balance Sheet (continued)

24. Other provisions

**Provision for unused vacation
leave**

	EUR
As at 31 December 2013	<u>22 472</u>
Increase	
As at 30 September 2014	<u><u>22 472</u></u>

27. Trade accounts payable (long-term)

	<u>2014</u>	<u>2013</u>
	<u>EUR</u>	<u>EUR</u>
Trade accounts payable to non-residents	150 000	29 440
Trade accounts payable to residents	372 009	949 985

Total 522 009 979 425

25. Taxes payable(non-current)

	<u>2014</u>	<u>2013</u>
	<u>EUR</u>	<u>EUR</u>
Natural resources tax	83 497	83497
Total	<u>83 497</u>	<u>83 497</u>

The SRS tax debt collection department decision Nr.4.1.1.4/L-7547 from 12 March 2014 cancelled SRS TDCD director's M.Burajs decision from 29 November 2012 on tax support activities and extension of repayment terms. Accordingly tax debts became current. Please also see Note 39.

26. Current loans from credit institutions

	<u>2014</u>	<u>2013</u>
	<u>EUR</u>	<u>EUR</u>
Loan from JSC SEB Banka (EUR)	1 486 845	1 517 503
Total	<u>1 486 845</u>	<u>1 517 503</u>

In accordance with Loan Agreement Nr.KD04277, 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. Maximum amount of pledge is 4784000 EUR.

The carrying value of pledged assets is 7749183 EUR as at 31 December 2013 (31.12.2012: 11314228)

The loans bears interest rate based on 3m EURIBOR plus fixed margin of 4.5%.

27. Other loans (short-term)

	<u>2014</u>	<u>2013</u>
	<u>EUR</u>	<u>EUR</u>
Other loans		157 092
Total	<u>-</u>	<u>157 092</u>

28. Advances from customers

	<u>2014</u>	<u>2013</u>
	<u>EUR</u>	<u>EUR</u>
Advances from residents	568	804
Total	<u>568</u>	<u>804</u>

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Notes to the Balance Sheet (continued)

29. Trade accounts payable (short-term)	2014	2013
	EUR	EUR
Trade accounts payable to non-residents		29 440
Trade accounts payable to residents	841 797	949 985
Total	841 797	979 425
30. the Debt to associated companies	2014	2013
	EUR	EUR
Loans		55 208
Payment for services	33 291	35 469
Kopā	33 291	90 677
31. Taxes and social insurance payments	2014	2013
	EUR	EUR
Personal Income Tax	92 140	81 028
State Social Insurance payments	121 723	103 376
Value Added Tax	77 099	70 007
Real estate tax for land, building and constructions	401 101	178 630
Nature resources tax	2 847	2 901
Corporate risk tax	54	6
Total	694 964	435 948
32. Other liabilities	2014	2013
	EUR	EUR
Salaries	14 386	18 167
Advance settlement amounts		545
Security	17 253	22 685
Other creditors		4 101
Total	31 639	45 498
33. Accumulated obligated	2014	2013
	EUR	EUR
Current expense	55 543	67 238
Uzkrājumi PVN auditam		6 427
Total	55 543	73 665

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Notes to the financial statements

Other notes

(35.1.) Average number of employees during the year

Average number of employees during the year

Year 2014	Year 2013
15	24

(35.2.) Total personnel costs

- Salaries

- Social security payments

- Corporate risk duty

- including:

Management salaries

- Salaries

- Social security payments

- Corporate risk duty

- total:

2014	2013
EUR	EUR
37 180	113 777
52 129	92 416
11 795	21 256
67	105
17 075	18 237
5 396	5 901
8	10
22 479	24 148

(36) Taxes, duties and compulsory social insurance contributions

Type of tax	(-) underpayment, (+) overpayment NAP non-			(-) underpayment, (+) overpayment NAP non-		
	31.12.2013.	current	Calculated	Paid	current	31.12.2014
Value added tax	42 215	-	10 691	9 325	-	43 581
penalties resulting from the tax audit	2 194	-		-	-	2 194
delay payments	25 597		5 727		-	31 324
Personal income tax	50 934		8 879	3 214	-	56 599
delay payments	30 094		5 447		-	35 541
State social security obligatory payments	69 168		14 564	4 152	-	79 580
delay payments	34 209		7 934		-	42 143
Corporate risk duty	6		62	15	-	53
delay payments	-		1	-	-	1
Nature resources tax	1 534			289	-	1 245
delay payments	1 367		233		-	1 600
Real estate tax	155 228		199 667	12 927		341 968
delay payments	23 402		35 731	-		59 133
	435 948		288 936	29 922	-	694 964
Tax overpayment	0					0
Tax debt	435 948					694 964
Including delay payments	116 863					171 936

(37) Transactions with related parties

The company's shareholders have significant impact on SIA "Baltlains", SIA "Imanta Retail Park", SIA "Albatross un partneri", SIA "Erelux" and SIA "Balt-East".

The goods are sold to related parties and bought from related parties on normal (market based) prices. Outstanding commitments at the end of the year are in no way secured and settlement is made in cash. No guaranties have been received or issued in respect of related party transactions neither in 2013 or 2014.

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Related party		Sales to related parties	Purchases from related parties	Loans issued	Loans received	Amounts owed by related parties	Amounts owed to related parties
SIA Imanta Retail Park"	2013	437 620	133 791	309 160	-	410 872	-
	2014	165 813	57 650	309 160	-	372 818	5 207
SIA "Baltlains"	2013	1 093		23 230	-	17 114	-
	2014		-	2 536	-	2 536	-
SIA "Albatross un parteri"	2013	15 395		-		-	
	2014	242		-		-	
Erelux SIA	2013	-	8 608	-	-	-	4 347
	2014	-	16 390	-	-	-	18 569
SIA "Firma Albatross Tukuma rajonā"	2013						
	2014				191 057		191 057
Balt-East SIA	2013	-	5 625	-	-	-	5 252
	2014	-	3 443	-	-	-	8 394
TOTAL	2012	453 015	95 639	229 307	0	254 907	94 390
TOTAL	2013	166 823	104 032	311 696	191 057	375 354	223 227

(38) Remuneration to certified auditors

Certified auditors fees in respect of year 2013 financial statements audit is EUR 5166 .

During the reporting year the Company has also received expert services on tax issues, for which a fee of EUR 689 have been received.

(39) Post balance sheet events

In July 2014 the Company has reached an agreement with AS SEB Banka on prolonging the repayment term from 20 June 2014 to 19 December 2014

In March 2014 SRS tax debt collection department (SRS TDCD) cancelled decision on tax support activities and extension of repayment terms making all tax debts of the Company current. Simultaneously SRS applied incasso on VAT payments. In June 2014 SRS TDCD has banned reduction of the Company's share capital, as well as a record has been made in the Commercial pledge register on ban to register any new or changed commercial pledges.

On August 29, 2014, the Riga City Council, the Municipal Revenue cancelled the decision on tax support activities and the extension of the payment term, leading real estate tax debts became short-term.

Currently the Company is negotiation real estate disposal deal with SIA DEPO DIY, as a result of which the Company will be able partly settle its liabilities. Realisation of the deal takes time as there are 4 legal parties involved and in addition, a permission to build new buildings must be received. Consequently, receipt of documents from the state institutions is not so quick as one would like. The management of the Company considers that the execution of the deal might take up to 6 months. Expected selling price is below carrying value of the respective assets, therefore 500 thousand lats impairment of the real estate value has been recognised in year 2013 financial statements.

Except as disclosed above, from the last day of the financial year to the date of signing this report there have been no other significant events which would impact the year-end results of which would need to be additionally disclosed in the financial statements.

On September 19, 2014, Riga City Kurzemes Court decided to start a case of legal protection process of JSC VEF Radiotehnika RRR defining that the legal protection implementation plan is to be agreed till November 19,2014.

On November 24, 2014 is received Riga City Kurzemes District Court's decision to prolong development of the legal protection implementation plan up to December 19,2014.

On January 05, 2015 the Riga City Kurzeme District Court has approved JSC "VEF Radiotehnika RRR" legal protection process action plan and made decision to appoint an administrator of JSC "VEF Radiotehnika RRR", reg. Nr.40003286712, legal protection certified administrator Vigo Krastiņū, Nr.00164 certificate, apprenticeship Blaumaņa iela 10, Riga, LV-1011.

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(40) Going concern

The Company's net turnover has significantly decreased in 2014 and it has concluded reporting year with a net loss of 670 686 euro, which has resulted from a significant reduction in the sales market sector, as well as impaired assets. As at the end of the reporting year current liabilities of the Company exceed current assets by 2 851 595 euro.

The management of the Company considers that the existing situation is temporary and takes actions to restore the income at the previous level. The Company's year 2014 financial statements have been prepared applying the going concern principle.

To absorb the accumulated losses and settle payments to creditors, the option of selling the company-owned non-profile assets that are engaged in business but the possession of which increases the real estate tax burden, is considered. Currently as non-profile assets are considered the administrative building, warehouse and a few land plots.

As disclosed in Note 39, the management of the Company takes certain measures in order to improve the situation - an agreement has been achieved with the bank on repayment term extension until December 2014 and real estate disposal is negotiated in order to settle part of outstanding liabilities.

However, if the current situation becomes permanent and will not be dissolved, the Company might be forced to sell also other assets of the Company.

The financial statements on pages 1 to 28 are approved and signed.

Chairman of the Board

Eduards Malejevs

Member of the Board

Ēriks Ertmanis