

AS "VEF Radiotehnika RRR"

Unified Registration No. 40003286712

Address: Kurzemes prospekts 3, Riga, LV-1067

ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

AS “VEF Radiotehnika RRR”
Annual accounts for the year ended September 30, 2016

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AS "VEF Radiotehnika RRR"
Annual accounts for the year ended September 30, 2016

GENERAL INFORMATION

Full name of the Company	<i>AS "VEF Radiotehnika RRR"</i>
Legal status of the Company	<i>Public Joint-Stock Company</i>
Registration No., place and date of issue	<i>40003286712 1998.12.11</i>
Legal address of the Company	<i>Kurzemes prospekts 3, Riga, LV-1067</i>
Phone number	<i>67418087</i>
NACE code	<i>26.40 Manufacture of electronic devices 68.32 Real estate management with remuneration or based on agreements</i>
Council members	
Chairman of the Council	<i>Janis Salenieks till 12.20.2015</i>
Chairman of the Council	<i>Boriss Livča from 12.20.2015</i>
Council Member	<i>Jurijs Maļejevs till 12.20.2015</i>
Council Member	<i>Inga Sprūga till 12.20.2015</i>
Council Member	<i>Inārs Kļaviņš</i>
Council Member	<i>Jekaterina Maļejeva till 12.20.2015</i>
Council Member	<i>Olga Romaņko from 12.20.2015</i>
Council Member	<i>Genādijs Hotejevs from 12.20.2015</i>
Council Member	<i>Vjačeslavs Mihailovins from 12.20.2015</i>
Board members	
Chairman of the Board	<i>Eduards Maļejevs</i>
Board Member	<i>Ēriks Ertmanis</i>
Administrator of legal protection	<i>Vigo Krastiņš</i>
Reporting year	<i>from 2016.01.01 till 2016.09.30</i>
Previous reporting year	<i>from 2015.01.01 till 2015.12.31</i>
Chief Accountant	<i>Olga Romaņko</i>
Phone number	<i>67852054</i>
Auditor	<i>SIA Potapoviča un Andersone Certified Auditors Company License No. 99 Ūdens Street 12-45, Riga, LV-1007</i> <i>Responsible certified auditor: Anna Temerova-Allena Certificate No. 154</i>

AS “VEF Radiotehnika RRR”
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Management report

Principal activities

The main activities of AS “VEF Radiotehnika RRR” in 2016 were:

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

New types of activities have not been performed. In the future it is planned to restore acoustic systems development, organization of production and sales.

Operations of the Company during the reporting year

Reporting year results of the Company are the following:

Result before extraordinary items and taxes:	(799 262) EUR
Deferred corporate income tax:	0 EUR
Other taxes:	(15 999) EUR
Net result:	(815 261) EUR

Net turnover in 2016 was EUR 771 188. As at 30 September 2016 the Company's current liabilities significantly exceed its current assets the same as it was in previous year.

As at January 5, 2015 Riga Kurzeme District Court announced AS VEF Radiotehnika RRR legal protection process implementation, approved the legal protection process action plan, set the legal protection implementation period till January 5, 2017 and appointed Vigo Krastiņš as an administrator of legal protection.

In order to settle payments to creditors the legal protection process plan provides to sell the Company's owned non-profile assets – real estate, as well as production renewal. In 2015 the Company signed a part of the real estate sale transactions and according to the legal protection process plan partially settled the liabilities to AS SEB bank and State revenue service. In 2016 it is expected to sell a significant portion of the Company's remaining investment property. Please see also Note 38.

The Company's 2015 annual accounts have been prepared applying the going concern principle. The Company's ability to continue operations depends on its ability to realize the provided sale of real estate, as well as restoring production. By the date of approval of these annual accounts the Company has received production orders in amount of 114 thousand euro.

Management of the Company believes that it will be able to stabilize operations of the Company, realize the planned sale of real estate in 2016, settle liabilities to SEB bank and implement the actions provided by legal protection process plan, especially to launch the production process thus restoring profits and positive cash flow. Consequently, the Company's management believes that going concern principle is appropriate basis for preparation of the annual accounts of 2015.

Post balance sheet events

As at 12 February 2016 and 31 May 2016 Riga Kurzeme District Court approved amendments to the Company's legal protection process plan versions amended accordingly on 11 January 2016 and 18 April 2016. The amendments mainly specify the legal protection process implementation timetable in relation to sale of real estate.

Except for the 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.

Proposals for profit distribution

It is planned to cover year 2016 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 Maļejevs

Member of the Board

Ēriks Ertmanis

November 30, 2016

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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 30 September 2016, 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.

Chairman of the Board

Eduards Maļejevs

Member of the Board

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November 30, 2016

AS "VEF Radiotehnika RRR"
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Profit or loss account for the year ended September 30, 2016

	Notes	2016 EUR	2015 EUR
Net sales	1	771 188	804 360
Cost of sales	2	(843 203)	(1 016 107)
Gross loss		(72 015)	(211 747)
Selling expenses	3	(48 557)	(3 098)
Administrative expenses	4	(79 823)	(95 143)
Other operating income	5	129 552	873 851
Other operating expenses	6	(712 799)	(247 777)
Interest expenses and similar expenses	7	(15 620)	(78 038)
Profit before taxes		(799 262)	238 048
Deferred corporate income tax for the reporting year	8	-	(122 505)
Other taxes	9	(15 999)	(72 475)
Current year's profit / (loss)		(815 261)	43 068
Profit/ (loss) per share		(0,320)	0,017

Notes on pages from 11 to 23 are integral part of these financial statements.

Chairman of the Board

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November 30, 2016

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Balance sheet as at 30.09.2016

ASSETS	Note	<u>2016</u>	<u>2015</u>
		EUR	EUR
I. Non-current assets			
II. Fixed assets:			
Land, buildings and constructions		213 885	215 941
Equipment and vehicles		298 978	1 147 850
Other fixed assets		22 494	24 137
Total fixed assets:	10	<u>535 357</u>	<u>1 387 928</u>
III. Investment properties:			
Total investment properties:	11	<u>-</u>	<u>1 242 038</u>
V. Non-current financial investments			
Loans to related parties	16	309 160	309 160
Total non-current financial investments:		<u>309 160</u>	<u>309 160</u>
Total non-current assets:		<u>844 517</u>	<u>2 939 126</u>
2. Current assets			
I. Inventory:			
Raw materials	12	73 839	-
Unfinished goods	13	24697	-
Finished goods and goods for sale	13	20917	-
Advance payments for materials	14	119736	6 896
Total inventory:		<u>239 189</u>	<u>6 896</u>
III. Receivables:			
Trade receivables	15	288 796	157 869
Receivables from related parties	16	90 750	50 784
Other receivables	17	205 262	52 401
Deferred expenses	18	384	983
Total receivables:		<u>585 192</u>	<u>262 037</u>
V. Cash	19	<u>286</u>	<u>8 999</u>
Total current assets:		<u>824 667</u>	<u>277 932</u>
TOTAL ASSETS:		<u>1 669 184</u>	<u>3 217 058</u>

Notes on pages from 11 to 23 are integral part of these financial statements.

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Balance sheet as at 30.09.2016

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2015	2015
		EUR	EUR
1. Shareholders' equity:			
Share capital	20	3 568 718	3 627 020
Long term investment revaluation reserve	22	153 845	153 845
Reserves	20	58302	
Retained earnings/ (accumulated loss):			
a) accumulated loss of previous years	21	(3 465 780)	(3 508 848)
b) current year profit/ (loss)	21	(815 261)	43 068
Total shareholders' equity:		-500 176	315 085
2. Provisions:			
Other provisions	23	10 016	10 016
Total provisions:		10 016	10 016
3. Liabilities:			
I. Non-current liabilities:			
Loans from credit institutions	24	-	-
Deferred tax	32	-	-
Trade creditors	26	550 489	538 371
Payables to related parties	27	183 132	183 132
Deferred income	31	297 676	301 226
Total non-current liabilities:		1 031 297	1 022 729
II. Current liabilities:			
Loans from credit institutions	24		679 845
Advances from customers	25	18 722	25 000
Trade accounts payable	26	784 897	821 667
Payables to related parties	27	-	-
Taxes and social security liabilities	28, 34	250 651	283 339
Other creditors	29	33 202	30 127
Accrued liabilities	30	40 575	29 250
Total current liabilities:		1 128 047	1 869 228
Total liabilities:		2 159 344	2 891 957
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		1 669 184	3 217 058

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November 30, 2016

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Cash flow statement for the year ended 30 September 2016 (indirect method)

I. Cash flow from operating activities	Note	2016	2015
		EUR	EUR
Loss before extraordinary items and taxes		(799 262)	238 048
Adjustments for:			
a) depreciation of fixed assets and investment properties		234 938	340 224
c) provisions (excluding provisions for doubtful receivables)		-	208 027
d) gains or losses from foreign currency exchange rate fluctuations		-	-
g) other income from interest or similar income		-	-
h) profit/loss from sale of fixed assets		(129 552)	(827 957)
i) interest payments and similar activities		15 620	78 038
k) depreciation of revalued fixed assets		-	(30 389)
l) Impairment of fixed assets		684 320	
Loss before working capital and current liabilities adjustments		6 064	5 991
Adjustments for:			
a) debtors increase (-) or decrease (+)		(322 583)	(53 650)
b) inventory increase (-) or decrease (+)		(119 453)	(4 880)
c) accounts payable to suppliers and other creditors increase (+) or decrease (-)		(83 300)	(113 344)
Gross cash flow from operating activities		(519 272)	(165 883)
Interest payments		(15 620)	(78 038)
Real estate tax payments		(66 296)	(98 601)
Cash flow before extraordinary items		(601 188)	(342 522)
Net cash flow from operating activity		(601 188)	(342 522)
II. Cash flow from investing activities			
Acquisition of fixed assets and intangibles		(8 041)	(1 641)
Proceeds from disposal of fixed assets and intangibles		1 300 000	1 159 100
Interest received			
Net cash flow from investing activities		1 291 959	1 157 459
III. Cash flow from financing activities			
Loans received		-	-
Loans repaid		(690 485)	(807 000)
Financial lease payments		-	-
Net cash flow from financing activities		(690 485)	(807 000)
IV. Foreign exchange rate differences			-
V. Net cash flow for the year		(8 713)	7 937
VI. Cash and cash equivalents at the beginning of the period		8 999	1 062
VII. Cash and cash equivalents at the end of the period	20	286	8 999

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Statement of changes in equity for the year ended September 30, 2016

	Share capital	Long term investment revaluation reserve	Legal Reserves	Result of the reporting year	Previous year's retained earnings/ (accumulated loss)	Total shareholders' equity
	EUR	EUR		EUR	EUR	EUR
Balance as on December 31, 2014	3 627 020	3 063 860		(621 071)	(2 887 773)	3 182 036
Loss carried over	-	-		621 071	(621 071)	-
Loss for the year	-	-		43 068	-	43 068
Correction of previous years	-	-		-	(4)	(4)
Change in revaluation reserve	-	(2 910 015)		-	-	(2 910 015)
Balance as on December 31, 2015	3 627 020	153 845		43 068	(3 508 848)	315 085
Loss carried over	-	-		(43 068)	43 068	-
Profit for the year	-	-		(815 261)	-	(815 261)
Rounding effect	-	-		-	-	-
Change in revaluation reserve	(58 302)		58 302	-	-	-
Balance as on September 30, 2016	3 568 718	153 845	58 302	(815 261)	(3 465 780)	(500 176)

Notes on pages from 11 to 23 are integral part of these financial statements.

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November 30, 2016

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Notes

Accounting policies and 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.

Changes to the accounting policies

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

Reclassifications

In 2016 there have been no changes in classification of items in comparison with the 2015.

Transactions in foreign currency

At the end of the reporting year foreign currency cash balance and balances of advances and loans denominated in foreign currencies as well as other debtors' or creditors' debts payable in foreign currencies are translated from the foreign currency to the euro in accordance with the foreign exchange rates in force on the last date of the reporting year. The resulting profit or loss is charged to the profit and loss account.

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

	2016.09.30	2015.12.31
USD	1.1161	1.0887

Long-term and short-term items

The following amount are shown in the current assets:

- * that shall be used or realized during the usual working cycle of the Company;
 - * that are mainly for trading purposes or are of short-term nature and can be realized 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.

Fixed Assets

Fixed assets are physical objects with useful life over 12 calendar months and acquisition value of 70 EUR and more. All fixed assets are valued by their acquisition value.

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

* Buildings and constructions	1-5	%
* Technological equipment	5-20	%
* 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.

Fixed assets depreciation are calculated from acquisition costs less residual value. If the residual value is immaterial, it is not considered. Repairs and maintenance are charged to the profit and loss account during the period in which they are incurred. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

Interest costs on borrowing to finance the fixed assets under construction and other direct charges related to the particular fixed asset under construction are capitalized, during the period of time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset. Capitalization of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Investment property

Investment property is land, buildings, parts of buildings and constructions that the Company (as an owner or lessee in finance lease agreement) holds with the intention to gain rental (lease) income or gain increase in value of the investment by means of market value increase of the asset. The property is not utilized for production purposes. Service provision, administrative needs or other ordinary business activities of the company. Investment properties are initially recognized at acquisition cost, including transaction costs. After initial recognition investment properties are valued at revalued amounts (please see fixed assets recognition and depreciation accounting policy). Investment property is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized. Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

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Inventory valuation

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.

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 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 analyzing each debtor and by performing debt comparison. Bad debts are written off when the likelihood of recovering the debt becomes unrealistic and impossible.

Net turnover

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

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue from sale of goods outside Latvia is recognized based on the terms of delivery.

Income and expenses acknowledgement

1. Income from sale of goods is recognized 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 recognized 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;

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

All significant cost items are processed per accumulation principle.

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 multiplying the average wage of employees in the last six months per day by the amount of accrued but unused annual leave at the end of the reporting year.

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 European Central bank 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.

Estimates and assumptions

The preparation of annual accounts requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Thus actual results may differ from these calculations. Legislation of the Republic of Latvia states that when preparing annual accounts, 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 income and expenses for the reporting period. Actual results may differ from these estimates (for example, deferred Corporate Income Tax liabilities, vacation provisions etc.).

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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 recognized only when, if possibility that the funds will be paid out becomes founded. Possible assets in these Financial Statements are not recognized. Possible assets are shown in the Financial Statements only when there is enough proof that the economic 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.

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(1) Net Turnover

Type of activity	2016	2015
	EUR	EUR
Income from exports of finished goods	53 370	-
Income from rent of premises	186 490	105 456
Income from sale of finished goods in the local market	13 816	578
Income from utility services	514 740	682 735
Income from sale of materials	2 772	15 591
Total	771 188	804 360

Division of net turnover by geographical markets

Latvia	717 818	804 360
Austria	41 365	
Russia	9 657	
Italy	1 556	
Czech	792	
Total	771 188	804 360

(2) Cost of goods sold

Cost type	2016	2015
	EUR	EUR
Personnel costs	33 750	1 591
Provisions for annual leave and social security	-	(755)
Depreciation of fixed assets	118 519	184 999
Depreciation of fixed assets (project 124000075)	116 419	155 225
Write-off of low-value inventory	3 086	3 792
Change in stocks of finished goods	-	-
Change in stock of purchased materials and goods	16 397	5 546
Ongoing maintenance and repair	104 994	77 629
Real estate maintenance, including utilities	448 965	586 011
Other costs	1 073	2 089
Total	843 203	1 016 107

(3) Selling expenses

Cost type	2016	2015
	EUR	EUR
Goods' transportation costs	-	-
Commissions paid	48 000	2 810
Other selling expenses (marketing)	-	-
Advertising costs	557	288
Total	48 557	3 098

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	2016	2015
	EUR	EUR
(4) Administrative expenses		
Cost type		
Personnel costs	35 524	33 234
Provisions for annual leave and social security	-	(1 915)
Representation costs	1 308	1 178
Office expenses	3 806	2 033
Communication expenses	5 700	7 669
Bank expenses	2 322	3 699
Transportation costs	-	-
Accounting and legal expenses	14 264	23 873
Consulting services	10 810	15 400
Other administrative costs	6 089	9 972
Total	79 823	95 143

	2016	2015
	EUR	EUR
(5) Other operating income		
Type on income		
Net income from sale of real estate *	129 190	827 970
Debt write-off	-	15 492
Amortization of long-term investment revaluation reserve	-	30 389
Other income	362	-
Total	129 552	873 851

*See also Notes 11 and 22.

	2016	2015
	EUR	EUR
(6) Other operating expenses		
Type of income/expense		
Net loss from foreign exchange rate fluctuations	188	1 216
Penalties	19 996	31 559
Bad debts written off	3 337	-
Provisions for unsecured debts	-	3 974
Provision for impairment of investment properties *	689 278	210 716
Previous years' expenditure	-	-
Expenditures not related to economic activity	-	339
Total	712 799	247 777

*See also Note 11.

	2016	2015
	EUR	EUR
(7) Interest expense and similar expenses		
Type of costs		
Loan interest paid	15 620	78 038
Total	15 620	78 038

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	2016	2015
	EUR	EUR
(8) Corporate income tax for the reporting year		
Deferred tax (Note No. 32)	-	122 505
Current corporate income tax	-	-
Total	-	122 505
Profit/ (loss) before taxation	238 048	(617 988)
Theoretically calculated tax	35 707	(92 698)
Non-deductible expenses and non-taxable income net difference	7 670	23 410
Accumulated tax losses lost in previous years	37 606	-
Changes in unrecognized deferred tax asset	41 522	-
Tax charge	122 505	(69 288)

Accumulated tax losses carried forward for corporate income tax purposes amount to 1 525 450 EUR as at 31 December 2015. In accordance 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 EUR	Expiry term
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	214 117	-
2014 loss for corporate income tax purposes	344 347	-
Total	1 525 450	

	2016	2015
	EUR	EUR
(9) Other taxes		
Real estate tax, land	4 381	9 246
Real estate tax, buildings and constructions	11 618	63 229
Total	15 999	72 475

(10) Fixed Assets

	Land	Buildings and constructions	Technological equipment	Other fixed assets	Total EUR
Historical cost					
31.12.2015.	117 436	150 356	3 309 970	66 056	3 643 818
Acquired	-	-	8 041	-	8 041
Disposed	-	-	(692 360)	-	(692 360)
Reclassified to investment properties	-	-	-	-	-
30.09.2016.	117 436	150 356	2 625 651	66 056	2 959 499
Depreciation					
31.12.2015.	-	51 851	2 162 120	41 919	2 255 890
Calculated	-	2 056	164 553	1 643	168 252
Disposed	-	-	-	-	-
30.09.2016.	-	53 907	2 326 673	43 562	2 424 142
Net book value					
31.12.2015.	117 436	98 505	1 147 850	34 137	1 387 928
Net book value					
30.09.2016.	117 436	96 449	298 978	22 494	535 357

Cadastral value of real estate (including investment property) is EUR 1 526 182 as at 31.12.2015 (31.12.2014: 5 085 152 EUR). Buildings, constructions, technological equipment and cars are insured. See Note No. 26 for information on the pledged assets.

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(11) Investment properties

	EUR
Historical value	
31.12.2015	4 880 637
Reclassified	
Disposed	(1 999 039)
30.09.2016	2 881 598
Depreciation	
31.12.2015	3 638 599
Calculated	66 686
Disposed	
Impairment of long-term investment revaluation reserves (Note 22)	
Impairment recognized in the income statement (Note 11)	(823 686)
30.09.2016	2 881 598
Carrying value 31.12.2015	1 242 038
Carrying value 30.09.2016	-

Investment property consists of land and buildings that are leased to the manufacturing companies.

During the reporting year the land from fixed assets was reclassified to investment property, because it is planned to sell the land in 2016.

The Company's income from the rent of investment properties in 2016 was EUR 109 102 (in 2015: 105 456 EUR).

The Company's maintenance costs of investment properties in 2016 was EUR 69 127 (in 2015: 19 862 EUR), net of utilities and depreciation.

See Note No. 24 for information on the pledged assets.

(12) Raw materials

	2016	2015
	EUR	EUR
Raw materials	73 839	
Inventory in use	7 161	7 161
Provision for inventory loss	(7 161)	(7 161)
Total	73 839	-

(13) Work in progress and finished goods

	2016	2015
	EUR	EUR
Unfinished goods	24 697	
Finished goods and goods in warehouse	65 526	44 609
Provision for decrease in value	(44 609)	(44 609)
Total	45 614	-

(14) Advance payments for goods

	2016	2015
	EUR	EUR
Advances(residents)	111 697	6 896
Advances (non-residents)	8 039	
Total	119 736	6 896

(15) Trade receivables

	2016	2015
	EUR	EUR
Receivables (non-residents)	-	-
Receivables (residents)	416 415	285 488
Provisions for doubtful debtors	(127 619)	(127 619)
Total	288 796	157 869

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(16) Receivables from related parties	2016	2015
	EUR	EUR
Loans (non-current)*	309 160	309 160
Payments for goods	90 750	50 784
Advance payments for services	-	-
Provisions for receivables from related parties	-	-
Total current receivables:	90 750	50 784
Total	399 910	359 944

*On 12 November 2012 the Company issued non-interest bearing unsecured loan of EUR 309 160 to the related company SIA "Imanta Retail Park" with maturity on 10 November 2013. On 11 November 2013 the maturity date was changed to 12 November 2018. According to SIA "Imanta Retail Park" audited 2015 annual accounts, the Company's net cash flow is negative and its short-term liabilities significantly exceed its current assets. Although SIA "Imanta Retail Park" net result of 2015 is positive, it is not from the main operations, but from sale of real estate.

(17) Other receivables	2016	2015
	EUR	EUR
Settlements with employees	12 169	1 008
Other debtors	70 513	1 203
Settlements with management	596	42
Loans to employees	7 248	7 248
Provision for loans to employees	(7 248)	(7 248)
Short-term loan SIA LAS-RT for launch of production	122 580	50 148
Total	205 858	52 401

(18) Deferred expenses	2016	2015
	EUR	EUR
Insurance costs	384	983
Other costs	-	-
Total	384	413

(19) Cash and cash equivalents	2016	2015
	EUR	EUR
Cash in bank accounts	286	8 999
Total	286	8 999

(20) Information on the Company's share capital

As at December 31, 2015 the subscribed and fully paid share capital consists of 2 549 084 ordinary shares with a nominal value of 1.40 EUR each. Share capital is presented according to the official exchange rate, converting from lats to euro, therefore value of one share is not expressed in full euro. Denomination of share capital from lats to euro was registered on August 08, 2016

AS "VEF Radiotehnika RRR" major shareholders are:

Shareholders	Number of shares		Value			
			LVL		EUR	
			2016.09.30	2015.12.31	2016.09.30	2015.12.31
Eduards Malejevs	741 880	741 880	741 880	741 880	1 038 632	1 055 600
Jurijs Malejevs	864 512	864 512	864 512	864 512	1 210 317	1 230 090
Armands Malejevs	264 519	264 519	264 519	264 519	370 327	376 378
Inga Sprūga	65 567	65 567	65 567	65 567	91 794	93 293
Jekaterina Malejeva	270 000	270 000	270 000	270 000	378 000	384 175
Ēriks Ertmanis	200 000	200 000	200 000	200 000	280 000	284 574
Others (<5%)	142 606	142 606	142 606	142 606	199 648	202 910
Total:	2 549 084	2 549 084	2 549 084	2 549 084	3 568 718	3 627 020

AS "VEF Radiotehnika RRR" shares are listed on the list of shares are quoted on the AS Nasdag Riga second list.

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Chairman of the Board Eduards Maļejevs owns 741 880 shares;
 Member of the Board Ēriks Ertmanis owns 200 000 shares;
 Member of the Council Genādijs Hotejevs owns 1 624 shares;
 Member of the Council Vjačeslavs Mihailovins owns 695 shares.

(21) Retained earnings/(accumulated loss)

In accordance with decisions of Shareholders' meetings, the accumulated loss of previous years to be covered with the next years' profits.

	2016	2015
	EUR	EUR
Previous years' accumulated loss	(3 465 780)	(3 508 844)
Correction	-	(4)
Current year's profit/(loss)	(815 261)	43 068
Total	(4 281 041)	(3 465 780)

(22) Long-term investment revaluation reserve

	2016	2015
	EUR	EUR
Opening balance	153 845	3 063 863
Disposed non-current assets		(806 739)
Depreciation charge for the reporting year		(30 389)
Impairment of non-current assets		(2 586 422)
Deferred corporate income tax part		513 532
Closing balance	153 845	153 845

The Company's fixed assets (land and buildings) were revalued according to Ober Haus Real Estate Company report on the real estate market value dated with 30.06.2011. In the reporting year a certified real estate valuator assessed the value of real estate provided for sale. Consequently in the reporting year was recognized impairment of investment property aligning the net book value to the assessed market value and setting the revaluation reserve in amount of EUR 2 586 422.

(23) Other provisions

	Provision for unused vacation leave EUR
As at 31 December 2015	10 016
Decrease	-
As at 30 September 2016	10 016

(24) Loans from credit institutions

	2016	2015
	EUR	EUR
Loan from AS SEB Banka – long-term part	-	690 485
Loan from AS SEB Banka – short-term part	-	796 360
Total	-	1 486 845

In accordance with the loan Agreement No. KD04277 and KD08128, the obligations are secured with a primary pledge of the real estate property located at Kurzemes prospekts 3, Riga (Land book section No. 18732) and a primary commercial pledge on fixed assets, purchased under Project No.124000075 for the amount of 4 784 000 EUR.

The residual value of pledged fixed assets and investment property is indicated in Notes 10 and 11.

Interest rate applied to the loan is 3-month EURIBOR plus fixed rate 4.5%.

As at 10 December 2014 AS "SEB banka" announced that the loan maturity is 19 December 2014.

According to the approved legal protection plan the Company repaid to AS "SEB banka" 807 00 EUR in 2015 and in 2016 it is to repay the remaining amount of 690 485 EUR.

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(25) Advances from customers	2016	2015
	EUR	EUR
Advances from non-residents		
Advances from residents	18 722	25 000
Total	18 722	25 000

(26) Trade accounts payable	2016	2015
	EUR	EUR
Long-term part:		
Trade accounts payable to non-residents	150 000	150 000
Trade accounts payable to residents	400 489	388 371
Long-term part total	550 489	538 371
Short-term part:		
Trade accounts payable to non-residents		232
Trade accounts payable to residents	784 897	821 435
Short-term part total	784 897	821 667
Trade accounts payable total	1 335 386	1 360 038

Within the framework of the legal protection plan it was agreed with suppliers on delay of payments, setting the repayment term on 5 January 2017, which is after the implementation of the legal protection plan.

In 2014 trade payables (who agreed on delay of payments) was reclassified to long-term creditors and included in position "Trade accounts payable".

(27) Payables to related parties	2016	2015
	EUR	EUR
Long-term part:		
Loans	142 099	142 099
Payment for services	41 033	41 033
Long-term part total	183 132	183 132
Short-term part:		
Payment for services	-	-
Short-term part total	-	-
Payables to related parties total	183 132	183 132

Within the legal protection plan it was agreed to transfer the creditor claims to long-term.

(28) Taxes and social insurance payments	2016	2015
	EUR	EUR
Personal Income Tax	11 917	1 572
State Social Insurance payments	16 367	1 783
Value Added Tax	6 423	922
Real estate tax for land, building and constructions	228 760	279 056
Nature resources tax	-	-
Corporate risk tax	30	6
Total	250 651	283 339

(29) Other creditors	2016	2015
	EUR	EUR
Salaries	9 267	6 884
Advance settlement amounts	-	126
Security	23 935	23 317
Total	33 202	30 127

(30) Accrued liabilities	2016	2015
	EUR	EUR
Current expense	40 575	29 250
Provision for VAT audit	-	-

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	40 575	29 250
	2016	2015
	EUR	EUR
(31) Deferred income		
Legal protection plan fine		
Long-term part:		
Financial and Capital Market Commission	-	3 550
Latvenergo AS	73 489	73 489
Riga City Council Finance Department	108 100	108 100
The State Revenue Service	107 389	107 389
AS RĪgas siltums	8 698	8 698
Long-term part total	297 676	301 226

In case of successful implementation of legal protection plan, the Company will be extinguished from fine and penalty payments.

	2 016	2015
	EUR	EUR
(32) Deferred tax		
Deferred tax liability opening balance	-	391 027
Deferred tax change during the reporting year <i>(refer to Note 9) charged to the income statement</i>	-	122 505
Deferred tax change during the reporting year <i>charged to the revaluation reserve</i>	-	(513 532)
Deferred tax liability closing balance	-	-

Deferred tax has been calculated from the following temporary differences between the assets and liabilities balance sheet and tax values:

	2 016	2 015
	EUR	EUR
Temporary difference on fixed assets depreciation	-	180 569
Land revaluation effect	-	15 994
Provision for slow moving inventory	-	(7 766)
Provision for unused annual leave	-	(1 502)
Tax loss carried forward	-	(288 817)
Unrecognized changes in deferred tax asset	-	41 522
Deferred tax liability	-	-

Deferred income tax asset is not recognized in the reporting year, as there is no certainty that in future it could be used.

	2016	2015
(33.1.) Average number of employees during the year		
Average number of employees during the year	16	15
	2016	2015
	EUR	EUR
(33.2.) Total personnel costs	69 274	34 825
- Salaries	56 324	28 587
- Social security payments	12 898	6 192
- Corporate risk duty	52	46
Including:		
<i>Management salaries</i>		
- Salaries	6 480	10 046
- Social security payments	2 036	2 183
- Corporate risk duty	6	9
Total:	5 682	12 238

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(34) Taxes and social insurance payments

Type of tax	31.12.2015.	Moved to other taxes	Calculated	Paid	30.06.2016.
Value added tax	921	4 054	(10 445)	(953)	(6 423)
Personal income tax	1 572	-	10 345		11 917
State social security obligatory payments	1 784	(4 054)	18 638		16 367
Business risk duty	6	-	52	(28)	30
Natural resource tax	-	-	-	-	-
Real estate tax	266 875	-	15 999	(54 144)	228 760
-delay payment	12 181	-		(12 181)	-
	283 339		34 589	(67 276)	250 651
Tax overpayment	-				-
Tax debt	283 339				250 651
Including delay payment	12 181				-

(35) Transactions with related parties

The Company's shareholders have significant impact on SIA "Imanta Retail Park" and company "Albatross" Tukuma rajonā.

In 2015 the shareholders sold their shares in SIA "Baltlains".

The goods are sold to related parties and bought from related parties on market based prices. Outstanding commitments at the end of the year not secured and settlement is made in cash. No guaranties have been received or issued in respect of related party transactions neither in 2015 nor in 2016.

Related party		Sales to related parties	Purchases from related parties	Loans received	Amounts owed by related Parties as at 31 December	Amounts owed to related parties as at 31 December
SIA Imanta Retail Park"	2015	459 148	23 833	-	338 568	5 207
	2016	155 707	99 292	-	399 910	5 207
"Albatross" Tukuma rajonā	2015	36 329	9 558	-	19 331	177 925
	2016	-	-	-		177 925
TOTAL	2015	495 477	33 391	-	357 899	183 132
TOTAL	2016	155 707	99 292	-	399 910	183 132

Balance sheet item "other receivables" includes a claim against the Company's management in amount of 596 EUR.

(36) Remuneration to certified auditors

Certified auditors fee in respect of year 2015 financial statements audit is 4 840 euro.

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(37) Post balance sheet events

The Riga City Kurzeme District Court has approved amendments to JSC "VEF Radiotehnika RRR" legal protection process action plan (September 30, 2016 version) on November 03, 2016. Amendments to the legal protection plan states that this the remaining until now uncovered unsecured creditors' claims will reduced on the principal debt of 80% and will be covered by 20% during the legal protection plan.

As at 12 February 2016 and 31 May 2016 Riga Kurzeme District Court approved amendments to the Company's legal protection process plan versions amended accordingly on 11 January 2016 and 18 April 2016. The amendments mainly specify the extension of alienation period to two months of the undivided share of the land plot 6967/7842 and building located at Kurzemes prospekts 3D, Riga.

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.

(38) Going concern of the Company

As at September 19, 2014 Riga Kurzeme District Court decided to initiate AS VEF Radiotehnika RRR legal protection proceedings. As at January 5, 2015 Riga Kurzeme District Court announced AS VEF Radiotehnika RRR legal protection process implementation, approved the legal protection process action plan, set the legal protection implementation period till January 5, 2017 and appointed Vigo Krasņiņš as an administrator of legal protection.

The repayment term of the loan from AS SEB Banka ended as at 19 December 2014. Payments to the bank are made according to the approved legal protection plan approved on 5 January 2015.

In order to obtain funds the legal protection process plan provides to sell the Company's owned non-profile assets – real estate. In October 2015 the Company realized a part of the planned real estate sales. Sales price was EUR 945 000. As a result the Company settled liabilities to State revenue service and partially settled liabilities to AS SEB bank. The deal was part of the legal protection process plan.

In 2016 it is planned to sell part of the remaining investment properties of the Company. The mentioned properties were evaluated by an independent certified expert in 2015 and impairment of residual value was recognized in the annual accounts for the year ended 31 December 2015. On 28 December 2015 the management of the Company has signed a letter of intent on sale of real estate and on 20 April 2016 the Company received a confirmation from AS "Latvijas pasta banka" that it considers a possibility to finance real estate acquisition of the potential buyer. The intended selling price is EUR 1 300 000. The letter of intent provides the Company's rights to lease the necessary production premises after sale of the real estate.

The Company's result of the year is current year s lost of EUR 815 261, however it is not operating result, but effect from sale of real estate. The Company's revenue from lease has increased and the Company has been able to resume production. As at the end of the reporting year current liabilities of the Company exceed its current assets by 303 thousand.

Despite the above, the Company's management believes that it will be able to stabilize the Company's operations by selling real estate, settling liabilities with SEB bank and implementing measures provided in the legal protection process action plan- especially launching production process thereby restoring the Company's revenues, profits and positive cash flow. Consequently, the Company's management believes that the Company's annual accounts have been correctly prepared applying the going concern principle.

Chairman of the Board

Eduards Maļejevs

Member of the Board

Ēriks Ertmanis

November 30, 2016