

AS "VEF Radiotehnika RRR"

Unified Registration No. 40003286712

Address: Kurzemes prospekts 3, Riga, LV-1067

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

**AS “VEF Radiotehnika RRR”
Annual accounts for the year ended 31 December 2017**

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AS "VEF Radiotehnika RRR"
Annual accounts for the year ended 31 December 2017

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 68.20 Real estate management with remuneration or based on agreements</i>
Council members	
Chairman of the Council	<i>Boriss Livča</i>
Council Member	<i>Inārs Kļaviņš</i>
Council Member	<i>Olga Romaņko</i>
Council Member	<i>Genādijs Hotejevs</i>
Council Member	<i>Vjačeslavs Mihailovins</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 2017.01.01 till 2017.12.31</i>
Previous reporting year	<i>from 2016.01.01 till 2016.12.31</i>
Chief Accountant	<i>Olga Romaņko</i>
Phone number	<i>67852054</i>
Auditor	<i>SIA Grant Thornton Baltic Certified Auditors Company License No. 155 Blaumana Street 22, Riga, LV-1011</i>
	<i>Responsible certified auditor: Ingrida Latimira Certificate No. 47</i>

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Management report

Types of activi

The main activities of AS "VEF Radiotehnika RRR" in 2017 were:

1. Real estate renting services;
2. Manufacturing of acoustic systems; purchase and sale of their enclosures.

When compared with the previous reporting period, no new main activities have been included.

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:	1224 950 EUR
Net result:	1 224 950 EUR

In 2017, net turnover amounted to 788, 941 EUR which is 19,5 % less when compared to 2016. On 31 December 2017, similarly to 31 December 2016, the Company's current assets exceeded its short-term liabilities by 87,120 EUR.

On January 31, 2017, Riga City Kurzemes Court decided to terminate the legal protection process of JSC "VEF Radiotehnika RRR".

By reducing the remaining unsettled claims under the principal debt of the non-secured creditors by 80%, the Company increased its profit by 1272 thousands EUR ; in the result Company`s equity is positive.

The Financial Statement of the Company for 2017 has been designed on an ongoing concern basis. Ongoing operation of the Company depends on the ability to restore and increase its production capacity.

In 2017, the Company delivered its products and services for its customers abroad, incl. Poland, Hungary, Italy, Russia, Estonia and other countries; the respective markets development activities are implemented by our highly-skilled sales and distribution specialists.

Thus, the management of the Company considers that it is appropriate to design its Financial Statement for 2017 on an ongoing concern basis.

The public Annual Report is approved by shareholder meeting taking place on 27 April 2018.

Management of financial risks

In most cases, the company`s financial assets consist of debts of its buyers and customers, given in euros. Its financial liabilities mostly consist of debts to the Company`s suppliers for goods and services, given in various currencies, thus the Company is subject to the currency risk. Funds of the Company are placed in the Latvian financial institutions. There is no substantial difference between the book value and the fair value of the financial assets and liabilities. The Company did not use any financial derivatives in the reporting period.

Post balance sheet events

On 9 January 2018, the extraordinary meeting of shareholders of JSC "VEF Radiotehnika RRR" decided to reduce the equity capital of the Company, the meeting also approved the rules for equity capital reduction and the amendments to the Articles of Association of the Company by specifying the reduced equity capital. The equity capital of the Company is reduced by EUR 3,313,809.20. The equity capital is reduced in accordance with Section 262, Paragraph one, Clause 3 of Commercial Law-by reducing the nominal value of stock of the Company. Following the reduction, the Company`s equity is EUR 254,908.40.

Apart from the above information, no other events have occurred since the date of the reporting year which could considerably affect the report assessment or which would require additional explanation in this financial statement.

Further operation of the Company

At the end of the reporting period, the Company`s profit amounted to as much as 1,224,950 EUR, which was mainly ensured by write-offs of creditor debts following the legal protection proceedings of JSC "VEF Radiotehnika RRR".

The Company also experienced losses relating to its main activities which were caused by changes in its income structure. In 2017, the Company increased products acoustic (radio/audio) systems. According to the estimates of Company`s management, in 2018, income from sales of its products will amount to 525,400 EUR and income from its economic operations will exceed the respective expenses by 50,397 EUR, and the positive operation-related cashflow will ensure funds for addressing liquidity problems.

Proposals for profit distribution

It is planned to use the profit from 2017 in order to cover the losses of previous periods.

Chairman of the Board

Eduards Maļejevs

Member of the Board

Ēriks Ertmanis

27 April, 2018

**AS “VEF Radiotehnika RRR”
Annual accounts for the year ended 31 December 2017**

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 2017, 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

Ēriks Ertmanis

27 April, 2018

AS "VEF Radiotehnika RRR"
Annual accounts for the year ended 31 December 2017

Profit or loss account for the year ended 31 December 2017

	Notes	2017 EUR	2016 EUR
Net sales	1	788 941	979 652
b) other operating activities		788 941	979 652
Cost of sales	2	(674 186)	(1 088 940)
Gross loss		114 755	(109 288)
Selling expenses	3	(22 897)	(57 931)
Administrative expenses	4	(64 020)	(108 462)
Other operating income	5	1 342 987	148 840
Other operating expenses	6	(145 761)	(862 220)
Interest expenses and similar expenses	7	(114)	(15 620)
Profit before taxes		1 224 950	(1 004 681)
Current year's profit / (loss)		1 224 950	(1 004 681)
Profit/ (loss) per share		0.481	(0.394)

Notes on pages from 11 to 18 are integral part of these financial statements.

Chairman of the Board Eduards Maļejevs

Member of the Board Ēriks Ertmanis

Chief Accountant Olga Romanko

27 April, 2017

AS "VEF Radiotehnika RRR"
Annual accounts for the year ended 31 December 2017

Balance sheet as at 31.12.2017

ASSETS	Note	<u>2017</u>	<u>2016</u>
		EUR	EUR
I. Non-current assets			
II. Fixed assets:			
I. Real estate renting services			
Land, buildings and constructions		266 902	120 888
Equipment and vehicles		208 368	276 006
Other fixed assets		21 818	21 946
Total fixed assets:	8	<u>497 088</u>	<u>418 840</u>
V. Long-term financial investments			
Loans to related parties	13	-	309 160
Total non-current financial investments:		-	<u>309 160</u>
Total long-term financial investments:		<u>497 088</u>	<u>728 000</u>
2. Current assets			
I. Inventory:			
Raw materials	9	35 708	13 471
Work in progress	10	14 870	49 363
Finished goods and goods for sale	10	14 003	31 111
Advance payments for materials	11	16 078	9 157
Total inventory:		<u>80 659</u>	<u>103 102</u>
III. Receivables:			
Trade receivables	12	157 476	67 970
Receivables from related parties	13	320 927	76 583
Other receivables	14	7 878	218 426
Prepaid expenses	15	429	9
Total receivables:		<u>486 710</u>	<u>362 988</u>
V. Cash			
Total current assets:	16	<u>5 351</u>	<u>393</u>
TOTAL ASSETS:		<u>1 069 808</u>	<u>1 194 483</u>

Notes on pages from 11 to 20 are integral part of these financial statements.

AS "VEF Radiotehnika RRR"
Annual accounts for the year ended 31 December 2017

Balance sheet as at 31.12.2017

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2017	2016
		EUR	EUR
1. Shareholders' equity:			
Share capital	17	3 568 718	3 568 718
Long term investment revaluation reserve	19	160 202	60 649
Reserves		58 302	58 302
Retained earnings/ (accumulated loss):			
a) accumulated loss of previous years	18	(4 470 434)	(3 465 753)
b) current year profit/ (loss)	18	1 224 950	(1 004 681)
Total shareholders' equity:		541 738	(782 765)
3. Liabilities:			
I. Non-current liabilities:			
Trade accounts payable	22	47 206	-
Taxes and social security liabilities	24	18 868	-
Total non-current liabilities:		66 074	-
II. Current liabilities:			
Loans from other creditors	20	6 029	13 597
Advances from customers	21	1 507	7 201
Trade accounts payable	22	208 008	1 191 550
Payables to related parties	23	163 931	165 098
Taxes and social security liabilities	24	35 048	243 902
Other creditors	25	20 522	17 849
Accrued liabilities	26	26 951	40 375
Deferred income	27	-	297 676
Total current liabilities:		461 996	1977 248
Total liabilities:		528 070	1 977 248
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		1 069 808	1 194 483

Notes on pages from 11 to 18 are integral part of these financial statements.

Chairman of the Board

Eduards Maļejevs

Member of the Board

Ēriks Ertmanis

Chief Accountant

Olga Romanko

27 April, 2016

AS "VEF Radiotehnika RRR"
Annual accounts for the year ended 31 December 2017

Cash flow statement for the year ended 31 December 2017 (indirect method)

I. Cash flow from operating activities	Note	<u>2017</u>	<u>2016</u>
		<u>EUR</u>	<u>EUR</u>
<i>Loss before extraordinary items and taxes</i>		<u>1 224 950</u>	<u>(1 004 681)</u>
<i>Adjustments for:</i>			
a) depreciation of fixed assets and investment properties		80 725	259 152
h) profit/loss from sale of fixed assets		(3 352)	(131 208)
i) interest payments and similar activities		114	15 620
k) depreciation of revalued fixed assets		-	(896)
<i>Loss before working capital and current liabilities adjustments</i>		<u>1 302 437</u>	<u>(862 013)</u>
<i>Adjustments for:</i>			
a) debtors increase (-) or decrease (+)		(89 506)	89 899
b) inventory increase (-) or decrease (+)		22 423	(93 945)
c) accounts payable to suppliers and other creditors increase (+) or decrease (-)		(1 132 470)	341 285
<i>Gross cash flow from operating activities</i>		<u>102 884</u>	<u>(524 774)</u>
Interest payments		(114)	(15 620)
Real estate tax payments		(34 176)	(88 367)
<i>Cash flow before extraordinary items</i>		<u>68 594</u>	<u>(628 761)</u>
<i>Net cash flow from operating activity</i>		<u>68 594</u>	<u>(628 761)</u>
II. Cash flow from investing activities			
Acquisition of fixed assets and intangibles		(71 818)	-
Proceeds from disposal of fixed assets and intangibles		15 750	1 300 000
Net cash flow from investing activities		<u>(56 068)</u>	<u>1 300 000</u>
III. Cash flow from financing activities			
Loans repaid		(7 568)	(679 845)
Net cash flow from financing activities		<u>(7 568)</u>	<u>(679 845)</u>
V. Net cash flow for the year		<u>4 958</u>	<u>(8 606)</u>
VI. Cash and cash equivalents at the beginning of the period		<u>393</u>	<u>8 999</u>
VII. Cash and cash equivalents at the end of the period	16	<u><u>5 351</u></u>	<u><u>393</u></u>

Notes on pages from 11 to 18 are integral part of these financial statements.

Chairman of the Board

Eduards Malejevs

Member of the Board

Ēriks Ertmanis

Chief Accountant

Olga Romanko

27 April, 2018

AS “VEF Radiotehnika RRR”
Annual accounts for the year ended 31 December 2017

Statement of changes in equity for the year ended 31 December 2017

	Share capital	Reserve	Long term investment revaluation reserve	Result of the reporting year	Previous year's retained earnings/ (accumulated loss)	Total shareholders' equity
	EUR	EUR	EUR	EUR	EUR	EUR
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	-
Loss for the year	-		-	(1 004 681)	-	(1 004 681)
Correction of previous years	(58 302)	58 302	-	-	27	27
Change in revaluation reserve	-		(93 196)		-	(93 196)
Balance as on December 31, 2016	3 568 718	58 302	60 649	(1 004 681)	(3 508 848)	(782 765)
Loss carried over	-		-	1 004 681	(1 004 681)	-
Profit for the year	-		-	1 224 950	-	1 224 950
Change in revaluation reserve			99 553	-	-	99 553
Balance as on December 31, 2017	3 568 718	58302	160 202	1 224 950	(4 470 434)	541 738

Notes on pages from 11 to18 are integral part of these financial statements.

Chairman of the Board

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27 April, 2017

AS "VEF Radiotehnika RRR"
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Notes

Accounting policies and methods

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 2017 there have been no changes in classification of items in comparison with the 2016.

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:

	2017.12.31	2016.12.31
RUB	69.392	64.300
USD	1.1993	1,0541

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.

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.

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Annual accounts for the year ended 31 December 2017

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

In the reporting year, the corporate income tax is calculated pursuant to the requirements under the Law "On Corporate Income Tax" in relation to the taxable income; thus, the applicable tax rate is 15%.

Starting from 2018, the corporate income tax will be calculated for distributed profit by applying a tax rate of 20%. The corporate income tax will be accepted at the time when the shareholders of the Company adopt their decision on profit distribution or when such expenses are further development of the Company (deemed profit distribution).

Tax liabilities are compared with State Revenue Service data.

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.).

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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Annual accounts for the year ended 31 December 2017

(1) Net Turnover

Type of activity	2017	2016
	EUR	EUR
Income from exports of finished goods	78 095	73 640
Income from rent of premises	995	186 885
Income from sale of finished goods in the local market	82 361	25 361
Income from utilities service provided to third parties	586 682	689 341
Income from sale of materials	40 808	4 425
Total	788 941	979 652

(2) Cost of goods sold

Cost type	2017	2016
	EUR	EUR
Personnel costs	30 657	48 135
Provisions for annual leave and social security	-	1 620
Depreciation of fixed assets	43 511	132 986
Depreciation of fixed assets (project 124000075)	37 214	126 166
Write-off of low-value inventory	226	7 431
Change in stocks of finished goods	(82 679)	(176 580)
Change in stock of purchased materials and goods	219 638	173 066
Ongoing maintenance and repair	26 701	130 952
Real estate maintenance, including utilities	392 343	616 028
Other taxes	4 928	21 332
Other costs	1 647	7 805
Total	674 186	1 088 940

(3) Selling expenses

Cost type	2017	2016
	EUR	EUR
Goods' transportation costs	8 459	6
Commissions paid	12 588	56 070
Other selling expenses (marketing)	1 459	1 305
Advertising costs	391	550
Total	22 897	57 931

(4) Administrative expenses

Cost type	2017	2016
	EUR	EUR
Personnel costs	39 850	45 845
Provisions for annual leave and social security	(809)	2 802
Representation costs	3 035	2 067
Office expenses	2 843	4 836
Communication expenses	2 293	7 815
Bank expenses	1 785	2 600
Accounting and legal expenses	7 223	21 801
Consulting services	-	10 925
Other administrative costs	7 800	9 771
Total	64 020	108 462

(5) Other operating income

Type on income	2017	2016
	EUR	EUR
Net income from sale of real estate	3 352	131 208
Debt write-off	1 327 778	17 632
Other income	11 847	-
Total	1 342 987	148 840

AS "VEF Radiotehnika RRR"
Annual accounts for the year ended 31 December 2017

(6) Other operating expenses

Type of income/expense	2017	2016
	EUR	EUR
Net loss from foreign exchange rate fluctuations	1 929	129
Penalties	28 274	32 574
Bad debts written off	109 719	8 870
Provisions for unsecured debts	4 808	133 120
Previous year expenses	773	
Technological equipment	-	684 320
Expenditures not related to economic activity	258	2 052
Expenditure related to economic activity		1 155
Total	145 761	862 220

(7) Interest expense and similar expenses

Type of costs	2017	2016
	EUR	EUR
Loan interest paid	114	15 620
Total	114	15 620

(8) Fixed Assets

	Real estate	Technological equipment	Other fixed assets	Total EUR
Historical cost				
01.01.2017	175 492	2 625 649	66 056	2 867 197
Acquired	149 518	19 958	1 895	171 371
Disposed		(382 160)	(9)	(382 160)
Reclassified	79	245		315
31.12.2017.	325 089	2 263 692	67 942	2 656 723
Depreciation				
01.01.2017	54 604	2 349 643	44 110	2 448 357
Depreciation charge	3 503	75 200	2 022	80 725
Disposed	-	(369 762)	(8)	(369 762)
Reclassified	80	243		315
31.12.2017.	58 187	2 055 324	46 124	2 529 397
Net book value				
01.01.2017	120 888	276 006	21 946	418 840
31.12.2017.	266 902	208 368	21 818	497 088

(9) Raw materials

	2017	2016
	EUR	EUR
Raw materials	35 708	13 471
Total	35 707	13 471

(10) Work in progress and finished goods

	2017	2016
	EUR	EUR
Work in progress	14 870	49 363
Total	14 870	49 363

AS "VEF Radiotehnika RRR"
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Finished goods and in warehouse	54 635	75 355
Provision for decrease in value	(40 632)	(44 244)
Total	14 003	31 111
(11) Advance payments for goods		
	2017	2016
	EUR	EUR
Advance (non-residents)	13 187	6 724
Advance (residents)	2 891	2 433
Total	16 078	9 157
(12) Trade receivables		
	2017	2016
	EUR	EUR
Receivables(non-residents)	60 819	-
Receivables (residents)	101 465	285 488
Provisions for doubtful debtors	(187 557)	(127 619)
Total	157 476	157 869
(13) Receivables from related parties		
	2017	2016
	EUR	EUR
Loans (non-current)*	-	309 160
Payments for goods	11 767	76 583
Short-term loans	309 160	-
Total current receivables:	320 927	76 583
Total	320 927	385 743
<p>*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, because SIA "Imanta Retail Park" was subordinated loan in relation to its loan from AS ABLV Bank. According to SIA "Imanta Retail Park" audited 2017 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 2017 is positive, it is not from the main operations, but from sale of real estate.</p>		
(14) Other receivables		
	2017	2016
	EUR	EUR
Settlements with employees	362	12 292
Other debtors	7 516	380
Settlements with management	-	11 378
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	-	227 012
Provision for loan SIA LAS-RT	-	(32 636)
Total	7 878	218 426
(15) Deferred expenses		
	2017	2016
	EUR	EUR
Insurance costs	7	9
Other expenses	422	-
Total	429	9
(16) Cash and cash equivalents		
	2017	2016
	EUR	EUR
Cash in bank accounts	5 351	393
Total	5 351	393
(17) Information on the Company's share capital		

As at 31 December 2017 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

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AS "VEF Radiotehnika RRR" major shareholders are:

Shareholders	Number of shares		Value			
			LVL		EUR	
	2017.12.31	2016.12.31	2017.12.31	2016.12.31	2017.12.31	2016.12.31
Eduards Malejevs	741 880	941 880	741 880	941 880	1 038 632	1 340 175
Jurijs Malejevs	864 512	864 512	864 512	864 512	1 210 317	1 230 090
Armands Malejevs	264 519	-	264 519	-	370 327	-
Inga Sprūga	65 567	330 086	65 567	330 086	91 794	469 670
Jekaterina Malejeva	270 000	270 000	270 000	270 000	378 000	384 175
Ēriks Ertmanis	200 000	-	200 000	-	280 000	-
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.

Chairman of Board Eduards Malejevs own 741 880 shares;
Member of the Board Eriks Ertmanis owns 200 00 shares;
Members of the Council Genadijs Hotejevs owns 1 624 shares;
Member of the Council Vjacheslavs Mihailovins owns 695 shares.

(18) 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.

	2017	2016
	EUR	EUR
Previous years' accumulated loss	(4 470 434)	(3 465 780)
Correction	-	27
Current year's profit/(loss)	1 224 950	(1 004 681)
Total	(3 245 484)	(4 470 434)

(19) Long-term investment revaluation reserve

	2017	2016
	EUR	EUR
Opening balance	60 679	153 845
Depreciation charge for the reporting year	-	(896)
Impairment of non-current assets	-	(92 300)
Deferred corporate income tax part	99 523	-
Closing balance	160 202	60 649

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 29.08.2016.

The Company's fixed assets (land and buildings) were revalued according to VCG ekspertu group Company report on the real estate market value dated with 17.05.2017

(20) Other loans

	2017	2016
	EUR	EUR
Lizing	1 029	-
Other loans	5 000	13 597
Total	6 029	13 597

(21) Advances from customers

	2017	2016
	EUR	EUR
Advances from non-residents	1 507	-
Advances from residents	-	7 201
Total	1 507	7 201

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(22) Trade accounts payable

	2017	2016
	EUR	EUR
Long-term part:		
Trade accounts payable to non-residents	47 206	-
Long-term part total	47 206	-
Short-term part:		
Trade accounts payable to non-residents	-	190
Trade accounts payable to residents	208 009	1 191 360
Legal protection process	-	852 950
Short-term part total	208 009	1 191 550
Trade accounts payable total	255 215	1 191 550

(23) Payables to related parties

	2017	2016
	EUR	EUR
Short-term part:		
Loans	163 931	125 970
Payment for services	-	39 128
Legal protection process	-	146 506
Short-term part total	163 931	165 098
Payables to related parties total	163 931	165 098

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

(24) Taxes and social insurance payments

	2017	2016
	EUR	EUR
Long-term part		
Taxes and social insurance payments	18 868	-
Short-term part:		
01.01.2017	243 902	283 339
Changes in the reference year	(208 854)	(13 593)
31.12.2017	35 048	243 902
Total	53 916	243 902

(25) Other creditors

	2017	2016
	EUR	EUR
Salaries	14 899	12 444
Advance settlement amounts	364	146
Security	5 259	5 259
Total	20 522	17 849

(26) Accrued liabilities

	2017	2016
	EUR	EUR
Current expense	13 513	25 937
Provision for unused vacation leave	13 438	14 438
Total	26 951	40 375

(27) Deferred income

	2017	2016
	EUR	EUR
Legal protection plan fine		
Long-term part:		
Latvenergo AS	-	73 489
Riga City Council Finance Department	-	108 100
The State Revenue Service	-	107 389
AS Rīgas siltums	-	8 698
Long-term part total	-	297 676

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

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	2017	2016
(30 Average number of employees during the year		
Average number of employees during the year	15	17

(31) Transactions with related parties

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

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 2017..

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"	2017	375 323	398 428	-	320 927	156 963
	2016	563 656	339 543	-	385 743	6 152
"Albatross" Tukuma rajonā	2017	-	-	-	-	-
	2016	-	-	-	-	158 946
E.Maļejevs	2017	-	-	6 968	-	6 968
	2016	-	-	-	-	-
TOTAL	2017	375 323	398 428	-	320 927	163 931
TOTAL	2016	563 656	339 553	-	385 743	165 098

Post balance sheet events

On 9 January 2018, the extraordinary meeting of shareholders of JSC "VEF Radiotehnika RRR" decided to reduce the equity capital of the Company, the meeting also approved the rules for equity capital reduction and the amendments to the Articles of Association of the Company by specifying the reduced equity capital. The equity capital of the Company is reduced by EUR 3,313,809.20. The equity capital is reduced in accordance with Section 262, Paragraph one, Clause 3 of Commercial Law-by reducing the nominal value of stock of the Company. Following the reduction, the Company's equity is EUR 254,908.40.

Apart from the above information, no other events have occurred since the date of the reporting year which could considerably affect the report assessment or which would require additional explanation in this financial statement.

Further operation of the Company

At the end of the reporting period, the Company's profit amounted to as much as 1,224,950 EUR, which was mainly ensured by write-offs of creditor debts following the legal protection proceedings of JSC "VEF Radiotehnika RRR".

The Company also experienced losses relating to its main activities which were caused by changes in its income structure. In 2017, the Company increased products acoustic (radio/audio) systems. According to the estimates of Company's management, in 2018, income from sales of its products will amount to 525,400 EUR and income from its economic operations will exceed the respective expenses by 50,397 EUR, and the positive operation-related cashflow will ensure funds for addressing liquidity problems.

Proposals for profit distribution

It is planned to use the profit from 2017 in order to cover the losses of previous periods.

Chairman of the Board Eduards Maļejevs

Member of the Board Ēriks Ertmanis

Chief Accountant Olga Romanko

27 April, 2018



INDEPENDENT AUDITORS' REPORT

To the Shareholders of VEF Radiotehnika RRR AS

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of AS "VEF Radiotehnika RRR" ("the Company") set out on pages 6 to 21 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2017,
- the profit and loss statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion the accompanying financial statements give a true and fair view of the financial position of AS VEF RADIOTEHNIKA RRR as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements section of our report*.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention the financial statements, which indicates that the Company incurred a net profit of 1 mil EUR during the year ended 31 December 2017 which is calculated principally from the write-off of creditor's claims after the legal protection process. If the Company had no opportunity to write off these creditor debts, then the losses for the reporting year would be 118 037 EUR. Along with other matters as set forth in Note 31, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter

We draw attention to Note 1 to the financial statement which states that revenues from public utilities service provided to third parties are 586 682 EUR are not Company's income from core business and Note 32 to the financial statements, were effect on the Company's financial position of the legal protection process ending at 31 January 2017 is disclosed. Our opinion is not modified in respect of those matters.



Key audit matters

In addition to the matters described in the *Material Uncertainty Related to Going Concern* section and *Emphasis of Matter* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Reporting on Other Information

The Company management is responsible for the other information. The other information comprises:

- the Management Report, as set out on page 4 of the accompanying Annual Report,
- the information about Company as set out on page 3 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 5 of the accompanying Annual Report,
- the Statement of Corporate Governance, as published on homepage of Nasdaq Baltic market www.nasdaqbaltic.com and is publicly available.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia – other information

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We were appointed by those charged with governance on 15 November 2017 to audit the financial statements of AS "VEF Radiotehnika RRR" for the year ended 31 December 2017. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2016 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia we have not provided to the Company the prohibited non-audit services



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(NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

The responsible certified auditor on the audit resulting in this independent auditors' report is Ingrīda Latimira.

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Silvija Gulbe
Member of the Board

Riga, 27 April 2018

Ingrīda Latimira
Sworn auditor
Certificate No. 47