

SAF Tehnika A/S
Consolidated Annual Report
for the year ended 30 June 2008

**SAF TEHNIKA A/S
CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2008**

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Report of the Board

Type of activity

SAF Tehnika (hereinafter – the Group) is a designer, producer and distributor of microwave digital radio data transmission equipment used mainly by telecommunications operators by providing voice and data transmission as an alternative to cable channels. The Group offers approximately 200 products comprising solutions for mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as well as state and private companies. The aim of the Group is to provide wireless communications for data and voice transmissions at reasonable prices. The Group believes that its success is based on flexibility, unique approach to scientific research, and ability to provide its customers with high quality solutions at a low price.

Activity of the Group in the reporting year

The Group's net sales for the 12-month period of the financial year 2007/2008 reached LVL 10 650 128 (EUR 15 153 767) representing 80% of the previous financial year's net sales. Key reasons include slowing sales in the prior main markets – Asia and Europe. The Asian region posted a revenue decrease of 41%. This was mostly due to substantial decrease in China sales. Decrease was partially compensated by sales results in India where all forecasted equipment for delayed India project was shipped successfully. Sales volumes in Europe have fallen by 36% as a result of changes in market demand (from PDH to SPDH products). Moreover price erosion is observed in all markets. There is consistent growth in Latin America as a result of good cooperation with the Group's main customers, while Africa showed sharp growth by 38% over the year due to previous initiatives. The CIS region results were largely on par compared to the corresponding period of the prior financial year. Recurring supplies to this region are projected for the coming financial year.

The Group was exporting its products to 70 countries all over the world, and its aggregate exports for the reporting period comprised LVL 10 158 114 (EUR 14 453 694), which is 95.38% from all sales.

The net loss of the Group for the financial year 2007/2008 is LVL 472 492 (EUR 672 296) which mainly reflects lower sales and falling margins due to market consolidation and increasing competition.

Due substantial investments in previous years which allowed to ensure necessary production capacity there were no need for the same level of investments in the reporting period. The Group has invested LVL 218 678 (EUR 311 152) and the largest part of the Group's investment forms investments in product certification, development and production software, production equipment, and IT.

The Group's research and development projects, several marketing activities in financial year 2007/2008 were appraised and supported by government and European Union grants in total amount of LVL 309 723 (EUR 440 696) thereby facilitated the Group's competitiveness in the global telecommunication markets.

The wireless radio market is continuing development in a direction observed in the previous reporting period (FY2006/2007) – such as price erosion decreasing sales profitability, telecom operator market focus mainly on combination of different services such as voice, data and TV communication in the same network. Currently the demand is increasing globally for both higher capacity to be delivered to the user and higher spectral efficiency to be achieved. These trends manifest in a move away from traditional PDH/SDH grade radio systems into new breed of product capable of delivering said features plus more than 16E1 interfaces (SPDH), Ethernet interface for packet data and traditional SDH interfaces as STM-1. In response to that SAF Tehnika is developing its new product line – SAF's Next generation 100 Mbps Microwave Radio System.

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Report of the Board (cont'd)

Research and development

Strong in-house research and development team is one of Group's cornerstones ensuring development of new products and maintenance and enhancement of existing product lines CFM(PDH) and CFQ(SDH) as main preconditions for future growth of the Group.

A number of significant development projects of new products progressed well during the reporting period. Most notably new CFIP product line was announced at Cebit'2008 in March and preparation for production was important activity also. The first product model launched within CFIP line is flexible Ethernet/E1 Full Outdoor system with capacity up to 108Mbps, specifically suitable for future mobile voice network backhauling, data networks, WiMax, and other uses. CFIP platform will serve as a basis for many more new products to address market requirements mentioned while meeting specific price points expected.

Foreign branches and representation offices

The Swedish subsidiary SAF Tehnika Sweden is participating in the development of the SAF radiolink product portfolio which complies with the ETSI-standard.

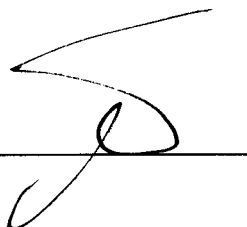
During the last financial year SAF Tehnika Sweden has completed the development work with the SDH radiolink family, the products are in production and have been delivered to customers all over the world. In order to further increase the radiolink-portfolio the Swedish subsidiary is participating in the development of the new IP based radiolinks. These new products will be launched during the current financial year and is a joint development project within the SAF group. The objective is to be able to lower manufacturing costs and offer our customer complete affordable radiolink solutions.

SAF Tehnika Sweden has participated in the development of a high quality user-friendly product-family with affordable prices. The commitment with ongoing development will ensure that this will be the case also in the future.

Future prospects

In the 2008/2009 financial year, the Group plans to keep on developing new products and improving of the existing product range so as to follow latest market trends. New CFIP product line expected to replace CFM products in the coming few years and is ready for production. Currently extensive promotion work has been started. The CFQ product line will continue to be developed according to customers' needs. This is expected to show 50% growth during the 2008/09 financial year. The local presence in regions of largest growth potential – Africa and Asia will be strengthened in this way intensifying local customer services. There will be a slight business strategy change, which will focus more on new and mid-size customers in all regions therefore continuing Group's focus to multiply existing customer base over the World decreasing its customer dependence. Foreseeing further data network growth, the Group will also look for new customers outside the traditional partnership set up. To support this trend special product models are developed to target new customer segment generally coming from data networks.

Normunds Bergs
Chairman of the Board



Riga, 28 October 2008

The annual report has been approved by the general shareholders' meeting on _____ 2008.

Chairman of the general shareholders' meeting _____

**SAF TEHNIKA A/S
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STATEMENT OF BOARD'S RESPONSIBILITIES

The Board of SAF Tehnika A/S (hereinafter – the Company) is responsible for preparing the consolidated financial statements of the Company and its subsidiary (hereinafter – the Group).

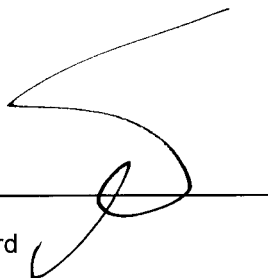
The consolidated financial statements set out on pages 7 to 36 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 30 June 2008 and the results of its financial performance and cash flows for the year then ended.

The above mentioned financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the consolidated financial statements.

The Board of SAF Tehnika A/S is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. The Board is also responsible for the compliance with the laws of the countries in which the Group's companies are operating (Latvia and Sweden).

For the Board,

Normunds Bergs
Chairman of the Board

A handwritten signature in black ink, consisting of a large, stylized 'S' shape with a loop at the bottom, positioned over a horizontal line.

28 October 2008

INDEPENDENT AUDITOR'S REPORT

To the shareholders of "SAF Tehnika" A/S:

Report on the financial statements

We have audited the accompanying consolidated financial statements of "SAF Tehnika" A/S and its subsidiary (the Group), which comprise the Group's consolidated balance sheet as at 30 June 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

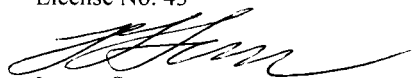
Opinion

In our opinion, the consolidated financial statements of the Group give a true and fair view of the financial position of the Group as of 30 June 2008, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on the management reports

We have read the report of the Management Board (pages 3 to 4) of the annual report and we have not identified any material discrepancies between the historical financial information presented in these reports and the financial statements for the year ended 30 June 2008.

Deloitte Audits Latvia SIA
License No. 43



Inguna Stasa
Board member
Sworn Auditor
Certificate No. 145

Rīga, Latvia
28 October 2008

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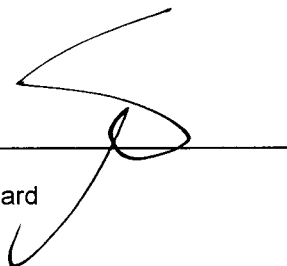
Consolidated balance sheet

	Notes	30 June		30 June	
		2008 LVL	2007 LVL	2008 EUR	2007 EUR
ASSETS					
Non-current assets					
Property, plant and equipment	6	1 007 978	1 366 598	1 434 223	1 944 494
Intangible assets	7	529 420	600 335	753 297	854 200
Non-current financial assets	8	590	590	839	839
Deferred tax assets	15	100 051	138 680	142 359	197 324
		1 638 039	2 106 203	2 330 718	2 996 857
Current assets					
Inventories	9	2 895 414	5 438 158	4 119 802	7 737 802
Corporate income tax prepaid		95 410	351 086	135 756	499 550
Trade receivables	10	2 521 670	2 356 115	3 588 013	3 352 450
Other receivables	11	106 215	257 594	151 131	366 523
Prepaid expense		75 376	73 860	107 252	105 093
Derivatives	12	61	-	87	-
Cash and cash equivalents	13	1 950 035	299 588	2 774 650	426 275
		7 644 181	8 776 401	10 876 691	12 487 693
Total assets		9 282 220	10 882 604	13 207 409	15 484 550
EQUITY					
Share capital	14	2 970 180	2 970 180	4 226 185	4 226 185
Share premium		2 004 204	2 004 204	2 851 725	2 851 725
Currency translation reserve		5 106	15 968	7 265	22 720
Retained earnings		2 918 194	3 390 686	4 152 216	4 824 512
Total equity		7 897 684	8 381 038	11 237 391	11 925 142
LIABILITIES					
Current liabilities					
Payables	16	1 379 377	1 029 031	1 962 677	1 464 179
Borrowings	17	5 159	1 467 416	7 341	2 087 945
Deferred income		-	5 119	-	7 284
Total liabilities		1 384 536	2 501 566	1 970 018	3 559 408
Total equity and liabilities		9 282 220	10 882 604	13 207 409	15 484 550

The accompanying notes on pages 12 to 36 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 7 to 36 were approved by the Board and signed on its behalf by:

Normunds Bergs
Chairman of the Board



28 October 2008

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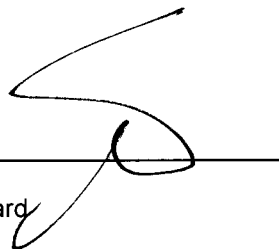
Consolidated income statement

	Notes	Year ended 30 June		Year ended 30 June	
		2008 LVL	2007 LVL	2008 EUR	2007 EUR
Sales	18	10 650 128	13 362 094	15 153 767	19 012 547
Cost of sales	19	(9 169 084)	(10 456 368)	(13 046 431)	(14 878 071)
Gross profit		1 481 044	2 905 726	2 107 336	4 134 476
Selling and marketing costs	20	(1 450 140)	(1 825 480)	(2 063 363)	(2 597 424)
Administrative expense	21	(741 029)	(927 984)	(1 054 389)	(1 320 402)
Other income	22	334 202	251 816	475 526	358 302
Financial revenue		31 063	6 549	44 199	9 318
Financial expense	23	(90 236)	(180 753)	(128 395)	(257 188)
(Loss)/ Profit before taxes		(435 096)	229 874	(619 086)	327 082
Corporate income tax	24	(37 396)	(70 292)	(53 210)	(100 017)
(Loss)/ Profit for the year		(472 492)	159 582	(672 296)	227 065
Attributable to:					
Shareholders of the Company		(472 492)	159 582	(672 296)	227 065
Earnings per share attributable to the shareholders of the Company (LVL per share)					
– basic	25	-0.16	0.05	-0.23	0.08
– diluted	25	-0.16	0.05	-0.23	0.08

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Normunds Bergs
Chairman of the Board



28 October 2008

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Consolidated statement of changes in equity

	Share capital (Note 14)	Share premium	Currency translation reserve	Retained earnings	Total
	LVL	LVL	LVL	LVL	LVL
Balance as at 30 June 2006	2 970 180	2 004 204	(5 544)	3 825 140	8 793 980
Currency translation difference	-	-	21 512	-	21 512
Total income and expense for the year recognized directly in equity	-	-	21 512	-	21 512
Profit for the year	-	-	-	159 582	159 582
Total income and expense for the year	-	-	21 512	159 582	181 094
Dividends for 2005/2006	-	-	-	(594 036)	(594 036)
Balance as at 30 June 2007	2 970 180	2 004 204	15 968	3 390 686	8 381 038
Currency translation difference	-	-	(10 862)	-	(10 862)
Total income and expense for the year recognized directly in equity	-	-	(10 862)	-	(10 862)
Loss for the year	-	-	-	(472 492)	(472 492)
Total income and expense for the year	-	-	(10 862)	(472 492)	(483 354)
Balance as at 30 June 2008	2 970 180	2 004 204	5 106	2 918 194	7 897 684

The accompanying notes on pages 12 to 36 are an integral part of these consolidated financial statements.

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Consolidated statement of changes in equity

	Share capital (Note 14) EUR	Share premium EUR	Currency translation reserve EUR	Retained earnings EUR	Total EUR
Balance as at 30 June 2006	4 226 185	2 851 725	(7 888)	5 442 684	12 512 706
Currency translation difference	-	-	30 608	-	30 608
Total income and expense for the year recognized directly in equity	-	-	30 608	-	30 608
Profit for the year	-	-	-	227 065	227 065
Total income and expense for the year	-	-	30 608	227 065	257 673
Dividends for 2005/2006	-	-	-	(845 237)	(845 237)
Balance as at 30 June 2007	4 226 185	2 851 725	22 720	4 824 512	11 925 142
Currency translation difference	-	-	(15 455)	-	(15 455)
Total income and expense for the year recognized directly in equity	-	-	(15 455)	-	(15 455)
Loss for the year	-	-	-	(672 296)	(672 296)
Total income and expense for the year	-	-	(15 455)	(672 296)	(687 751)
Balance as at 30 June 2008	4 226 185	2 851 725	7 265	4 152 216	11 237 391

The accompanying notes on pages 12 to 36 are an integral part of these consolidated financial statements.

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Consolidated cash flow statement

	Note	Year ended 30 June		Year ended 30 June	
		30.06.2008	30.06.2007	30.06.2008	30.06.2007
		LVL	LVL	EUR	EUR
(Loss)/Profit before tax		(435 096)	229 874	(619 086)	327 082
<u>Adjustments for:</u>					
- depreciation	6	482 383	628 846	686 369	894 768
- amortization	7	172 891	156 242	246 002	222 312
- changes in allowance for slow-moving inventories	9	(144 280)	86 843	(205 292)	123 566
- changes in accruals for unused annual leave	16	(26 936)	38 320	(38 326)	54 524
- changes in allowances for bad debtors	10	(45 856)	(28 279)	(65 247)	(40 237)
- interest income		(31 063)	(6 549)	(44 199)	(9 318)
- interest expense	23	24 070	92 185	34 249	131 167
- (gain)/loss from revaluation of derivative financial instruments	23	(61)	21 593	(87)	30 724
- (gain)/loss from sale of PPE		252	(14 637)	359	(20 827)
- receipt of government grant	22	(309 723)	(207 783)	(440 696)	(295 649)
- cancellation of loan		-	17 050	-	24 260
- allowance for loan to LETERA	8	-	44 458	-	63 258
Cash generated from operations before changes in working capital		(313 419)	1 058 163	(445 954)	1 505 630
Inventories decrease/(increase)		2 678 633	(1 056 821)	3 811 351	(1 503 721)
Receivables decrease		44 939	752 058	63 942	1 070 083
Payables increase/ (decrease)		377 282	(1 278 153)	536 824	(1 818 648)
Cash generated from (used in) operating activities		2 787 435	(524 753)	3 966 163	(746 656)
Receipt of government grant	22	292 814	39 589	416 637	56 330
Interest paid	23	(24 070)	(92 185)	(34 249)	(131 167)
Income tax repaid/(paid)		255 676	(1 768)	363 794	(2 516)
Net cash generated from/(used in) operating activities		3 311 855	(579 117)	4 712 345	(824 009)
Cash flow from investing activities					
Purchases of property, plant and equipment	6	(132 485)	(1 230 449)	(188 509)	(1 750 771)
Proceeds from sale of PPE		16 274	103 916	23 156	147 859
Purchases of intangible assets	7	(109 366)	(79 843)	(155 614)	(113 606)
Interest received		28 077	11 060	39 950	15 737
Issued long-term borrowings	8	-	(44 458)	-	(63 258)
Net cash (used in) investing activities		(197 500)	(1 239 774)	(281 017)	(1 764 039)
Cash flows from financing activities					
Proceeds from borrowings		(1 462 257)	1 459 960	(2 080 604)	2 077 336
Dividends paid to Company's shareholders	26	-	(594 036)	-	(845 237)
Net cash (used in)/generated from financing activities		(1 462 257)	865 924	(2 080 604)	1 232 099
Effect of exchange rate changes		(1 651)	7 922	(2 349)	11 271
Net increase/ (decrease) in cash and cash equivalents		1 650 447	(945 045)	2 348 375	(1 344 678)
Cash and cash equivalents at the beginning of the year		299 588	1 244 633	426 275	1 770 953
Cash and cash equivalents at the end of the year	13	1 950 035	299 588	2 774 650	426 275

The accompanying notes on pages 12 to 36 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

The core business activity of SAF Tehnika A/S (hereinafter – the Company) and its subsidiary SAF Tehnika Sweden AB (hereinafter – the Group) comprises the design, production and distribution of microwave radio data transmission equipment offering an alternative to cable channels. The Group offers approximately 200 products to mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as well as state and private companies. The Company owns 100% subsidiary SAF Tehnika Sweden AB, established in May 2004, which is engaged in the development of microwave radio equipment.

The Company is a public joint stock company incorporated under the laws of the Republic of Latvia. The address of its registered office is Ganību dambis 24a, Riga, Latvia.

The shares of the Company are listed on Riga Stock Exchange, Latvia.

These consolidated financial statements were approved by the Board on 28 October 2008. The Company's shareholders have the power to amend the consolidated financial statements after the issue.

2. Summary of significant accounting policies

The principal accounting and measurement policies adopted in the preparation of these consolidated financial statements are set out below:

A Basis of preparation

The consolidated financial statements of SAF Tehnika have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Group has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Group's financial statements had they been endorsed by the EU at the balance sheet date.

The accounting policies used by the Group are consistent with those used in the previous accounting period. The consolidated financial statements have been prepared under the historical cost convention except for certain financial assets (e.g. derivatives are measured at fair value).

Standards and Interpretations effective in the current period

In the current year, the Group has adopted:

- IFRS 7 *Financial Instruments: Disclosures*. IFRS 7 requires disclosures that enable users to evaluate significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments;
- Amendment to IAS 1 *Presentation of Financial Statements ("Capital disclosures")*. This amendment requires Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes of managing capital;
- IFRIC 10 *Interim Financial Reporting and Impairment*. This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost;
- IFRIC 11 *IFRS 2: Group and Treasury Share Transactions*. The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.

The adoption of the above Standards and Interpretations did not have material impact on the financial statements of the Group except for additional disclosures in the financial statements mainly related to financial instruments.

Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

B Consolidation and business acquisition

Subsidiaries involved in the consolidation are companies in which the Parent Company directly or indirectly owns more than a half of the voting rights or has otherwise obtained the power to govern their operations. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether or not the Parent Company controls another company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries or businesses.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed on the acquisition date, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combinations are initially measured at their fair values on the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

C Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in lats (LVL), which is the Company's functional and presentation currency. According to the requirements of Riga Stock Exchange, all balances are also stated in euros (EUR). For disclosure purposes, the currency translation has been performed by applying the official currency exchange rate determined by the Bank of Latvia, i.e. EUR 1 = LVL 0.702804.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of the Group entities (none of which having the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing rate at the date of the respective balance sheet;
- (ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity or business are treated as assets and liabilities of the foreign entity and translated at the closing rate.

D Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Current repairs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets to allocate their cost to the estimated residual values applying the following depreciation rates:

	% per annum
Mobile phones	50
Technological equipment	33.33
Transport vehicles	20
Other fixtures and fittings	25

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of leasehold improvement and the term of lease.

The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount (see Note G).

Gains and losses on disposals are determined by comparing proceeds with the respective carrying amount and included in the income statement.

E Intangible assets other than goodwill

(a) Intangible assets arising from development

Intangible assets arising from development are measured on initial recognition at cost. Subsequently, these are measured at cost less any accumulated amortisation and any accumulated impairment losses. The cost of intangible assets acquired in a business combination corresponds to their fair value on the acquisition date.

Amortization is charged from the moment when the underlying assets are available for use. The amortization is calculated using the straight line method to allocate the cost of product prototypes over the estimated useful life of 10 years.

(b) Trademarks and licenses

Trademarks and licenses have a definite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis to allocate the costs of trademarks and licenses over their estimated useful life, which usually is 3 years.

(c) Software

Acquired computer software licenses are capitalised on the basis of the purchase and installation costs. These costs are amortised over their estimated useful lives of three years.

Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

F Research and development

Research costs are expensed as incurred. An intangible asset arising from the development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intentions to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and any accumulated impairment losses. Any expenditure capitalized is amortized over the period of expected future sales from the related project.

G Impairment of assets

Intangible assets that are not put in use or have an indefinite useful life (incl. goodwill) are not subject to amortisation and are reviewed for impairment on an annual basis. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

H Segments

A geographical segment provides products or services within a particular economic environment that is subject to risks and benefits different from those of components operating in other economic environments. A business segment is a group of assets and operations providing products or services that are subject to risks and benefits different from those of other business segments.

I Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is stated on a first-in, first-out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Costs of finished goods and work-in-progress include cost of materials.

J Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect the full amount due according to the original terms. The amount of the allowance is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Change in allowance is recognised in the income statement.

K Cash and cash equivalents

Cash and cash equivalents comprise current bank accounts balances and deposits, and short-term highly liquid investments with an original maturity of three months or less.

L Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are charged against the share premium account.

Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

M Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group is entitled to postpone the settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognized as an expense when incurred.

N Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business acquisition that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

O Employee benefits

The Group makes social insurance contributions under the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The Group pays fixed contributions to a privately administered pension insurance plan. The Group will have no legal or constructive obligations to pay further contributions if the statutory fund or the private pension plan cannot settle their liabilities towards the employees. The cost of these payments is included into the income statement in the same period as the related salary cost.

P Revenue recognition

Revenue comprises the fair value of the goods and services sold, net of value-added tax, discounts and inter-Group sales. Revenue is recognised as follows:

(a) Sale of goods

Sale of goods is recognised when a Group entity has passed the significant risks and rewards of ownership of the goods to the customer, i.e. delivered products to the customer and the customer has accepted the products in accordance with the contract terms, and collectibility of the related receivables is reasonably assured.

(b) Rendering of services

Revenue is recognised in the period when the services are rendered.

Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

R Leases

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease period.

S Dividend payment

Dividends payable to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

T Government grants

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on systematic basis to the costs that is intended to compensate. Where the grant relates to an asset, the fair value is credit to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

U Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following Standards and Interpretations were in issue but not yet effective:

- IAS 1 *Comprehensive Revision (amendment)* (effective for accounting periods beginning on or after 1 January 2009, however, not yet adopted by EU). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period;
- IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009, however, not yet adopted by EU). According to this amendment borrowing costs, that are directly attributable to the acquisition, construction and production of a qualifying asset, should form part of the cost of that asset;
- IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers;
- IFRIC 12 *Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008, however, not yet adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards to account for the obligations they undertake and rights they receive in service concession arrangements;
- IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008, however, not yet adopted by EU). The interpretation specifies how customer loyalty programs should be accounted for;

Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

U Standards and Interpretations in issue not yet adopted (cont'd)

- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008, however, not yet adopted by EU). The interpretation provides guidelines on how to assess the limit in IAS 19 Employee benefits on the amount of the surplus that can be recognised as an asset. It also explains how this limit may be influenced by a minimum funding requirement.

The Group anticipates that adoptions of the above Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

3. Financial risk management

(1) Financial risk factors

The Group's activities expose it to a variety of financial risks:

- (a) Foreign currency risk;
- (b) Credit risk;
- (c) Liquidity risk.
- (d) Cash flow interest rate risk

The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise its potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The responsibility for risk management lies with the Finance Department. The Finance Department identifies and evaluates risks and seeks for solutions to avoid financial risks in close co-operation with other Group's operating units.

(a) Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk mainly arising from U.S. dollar fluctuations.

Foreign currency risk primarily arises from future commercial transactions and recognised assets – cash and trade receivables and liabilities – accounts payables and borrowings. To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, the Group uses forward FX contracts. The foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency different from the entity's functional currency. The Finance Department manages the net open position in each foreign currency by signing forward FX contracts or maintaining borrowings (in form of credit line) in appropriate currency and amount.

The Group's risk management policy is to hedge 65% - 85% of expected transactions (mainly export sales) in U.S dollars for the following 6 months.

Notes to the consolidated financial statements (cont'd)

3. Financial risk management (cont'd)

(b) Credit risk

From time to time the Group has significant exposure of credit risk with its overseas customers. The Group's policy is to ensure that wholesale of products is carried out with customers having appropriate credit histories. If the customers are residing in countries with high credit risk, then Letters of Credit issued by reputable credit institutions are used as credit risk management instruments. In situations where no Letters of Credit can be obtained from reputable credit institutions, the prepayments from the customers are requested.

As at 30 June 2008, the Group's credit risk exposure to a single customer amounted to 17.01 % of the total trade receivables (30.07.2007: 29.57%). The outstanding debt of this customer is supported by Letter of Credit. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and derivatives, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group's maximum credit risk exposure amounts to LVL 4 749 358 or 51.17% to total assets (30.06.2007: LVL 3 338 833 or 30.68% to total assets).

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through short-term borrowings secured by the Letters of Credit terms. Due to the dynamic nature of the core operations, the Finance Department aims to maintain flexibility in funding by obtaining available credit lines.

During reporting period 5 million EUR multi-currency credit line was available assigned by Nordea bank Finland plc Latvia branch according to the agreement concluded on February 21 2007. Since 1 July 2008 credit line amount was decreased to 3 million EUR evaluating potential necessity. The assigned overdraft facility has not been used as at 30 June 2008 (see Note 17 Borrowings).

(d) Cash flow interest rate risk

As the Group does not have significant interest bearing assets, the Group's income and cash flows are largely independent of changes in market interest rates. The Group's cash flows from interest bearing liabilities are dependent on current market interest rates.

(2) Accounting for derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which derivative contract is entered to and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives that do not qualify as hedge accounting are taken directly to profit or loss for the year.

The fair value of forward currency contracts is calculated as by reference to current forward exchange rates for contracts with similar maturity profiles.

(3) Fair value

The carrying amounts of all financial assets and liabilities approximate their fair value.

4. Management of the capital structure

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity, comprising issued capital, retained earnings.

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Notes to the consolidated financial statements (cont'd)

4. Management of the capital structure (cont'd)

The gearing ratio at the year end was as follows:

	30/06/2008	30/06/2007	30/06/2008	30/06/2007
	LVL	LVL	EUR	EUR
Debt	1 384 536	2 501 566	1 970 018	3 559 408
Cash and cash in bank	(1 950 035)	(299 588)	(2 774 650)	(426 275)
Net debt	(565 499)	2 201 978	(804 632)	3 133 133
Equity	7 897 684	8 381 038	11 237 391	11 925 142
Debt to equity ratio	18%	30%	18%	30%
Net debt to equity ratio	-7%	26%	-7%	26%

5. Key estimates and assumptions

International Financial Reporting Standards as adopted by the EU and the legislation of the Republic of Latvia require that in preparing the financial statements, the management of the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of off-balance sheet assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The following are the critical judgements and key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period;
- the Group reviews property, plant and equipment and intangible assets assesses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use.
- the Group estimates allowance for impairment of receivables.

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Notes to the consolidated financial statements (cont'd)

6. Property, plant and equipment

	Leasehold improvements	Equipment and machinery	Other assets	Prepay- ments for assets	Total
	LVL	LVL	LVL	LVL	LVL
Year ended 30/06/2007					
Opening net carrying amount	271 555	438 928	115 509	31 782	857 774
Additions	363 734	711 245	155 470	-	1 230 449
Reclassified	-	-	31 673	(31 673)	-
Depreciation charge	(43 651)	(509 165)	(76 030)	-	(628 846)
Disposals	-	(66 219)	(26 624)	-	(92 843)
Result of FX rate changes	-	64	-	-	64
Closing net carrying amount	591 638	574 853	199 998	109	1 366 598
Year ended 30/06/2008					
Opening net carrying amount	591 638	574 853	199 998	109	1 366 598
Additions	4 389	89 753	15 170	-	109 312
Reclassified	-	-	-	23 173	23 173
Depreciation charge	(68 477)	(349 351)	(64 555)	-	(482 383)
Disposals	-	(602)	(7 531)	-	(8 133)
Result of FX rate changes	-	(580)	(9)	-	(589)
Closing net carrying amount	527 550	314 073	143 073	23 282	1 007 978
As at 30/06/2006					
Cost	391 713	1 583 145	296 522	31 782	2 303 162
Accumulated depreciation	(120 158)	(1 144 217)	(181 013)	-	(1 445 388)
Net carrying amount	271 555	438 928	115 509	31 782	857 774
As at 30/06/2007					
Cost	755 447	1 968 188	412 813	109	3 136 557
Accumulated depreciation	(163 809)	(1 393 335)	(212 815)	-	(1 769 959)
Net carrying amount	591 638	574 853	199 998	109	1 366 598
As at 30/06/2008					
Cost	759 836	2 057 339	420 452	23 282	3 260 909
Accumulated depreciation	(232 286)	(1 743 266)	(277 379)	-	(2 252 931)
Net carrying amount	527 550	314 073	143 073	23 282	1 007 978

During the reporting year, the Group did not enter into any operating or finance lease agreements.

Depreciation of LVL 375 969 (2006/2007: LVL 520 110) is included in the income statement caption *Cost of sales*; depreciation of LVL 49 562 (2006/2007: LVL 49 596) – in *Selling and marketing costs*; and depreciation of LVL 54 949 (2006/2007: LVL 59 140) – in *Administrative expense* and depreciation of LVL 1 903 (2006/2007: LVL 1 633) – in *Other administration expense*.

The acquisition cost of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to LVL 1 314 733 (2006/2007: LVL 1 016 158).

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Notes to the consolidated financial statements (cont'd)

6. Property, plant and equipment

	Leasehold improvements	Equipment and machinery	Other assets	Prepay- ments for assets	Total
	EUR	EUR	EUR	EUR	EUR
Year ended 30/06/2007					
Opening net carrying amount	386 388	624 538	164 354	45 222	1 220 502
Additions	517 547	1 012 010	221 214	-	1 750 771
Reclassified	-	-	45 067	(45 067)	-
Depreciation charge	(62 110)	(724 477)	(108 181)	-	(894 768)
Disposals	-	(94 220)	(37 882)	-	(132 102)
Result of FX rate changes	-	91	-	-	91
Closing net carrying amount	841 825	817 942	284 572	155	1 944 494
Year ended 30/06/2008					
Opening net carrying amount	841 825	817 942	284 572	155	1 944 494
Additions	6 245	127 707	21 586	-	155 538
Reclassified	-	-	-	32 972	32 972
Depreciation charge	(97 434)	(497 081)	(91 854)	-	(686 369)
Disposals	-	(857)	(10 716)	-	(11 573)
Result of FX rate changes	-	(825)	(14)	-	(839)
Closing net carrying amount	750 636	446 886	203 574	33 127	1 434 223
As at 30/06/2006					
Cost	557 357	2 252 612	421 913	45 222	3 277 104
Accumulated depreciation	(170 969)	(1 628 074)	(257 559)	-	(2 056 602)
Net carrying amount	386 388	624 538	164 354	45 222	1 220 502
As at 30/06/2007					
Cost	1 074 904	2 800 479	587 381	155	4 462 919
Accumulated depreciation	(233 079)	(1 982 537)	(302 809)	-	(2 518 425)
Net carrying amount	841 825	817 942	284 572	155	1 944 494
As at 30/06/2008					
Cost	1 081 149	2 927 329	598 250	33 127	4 639 855
Accumulated depreciation	(330 513)	(2 480 443)	(394 676)	-	(3 205 632)
Net carrying amount	750 636	446 886	203 574	33 127	1 434 223

During the reporting year, the Group did not enter into any operating or finance lease agreements.

Depreciation of EUR 534 957 (2006/2007: EUR 740 050) is included in the income statement caption *Cost of sales*; depreciation of EUR 70 520 (2006/2007: EUR 70 569) – in *Selling and marketing costs*; and depreciation of EUR 78 185 (2006/2007: EUR 84 149) – in *Administrative expense* and depreciation of EUR 2 707 (2006/2007: EUR 2 324) in *Other administration expense*.

The acquisition cost of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to EUR 1 870 697 (2006/2007: EUR 1 445 863).

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Notes to the consolidated financial statements (cont'd)

7. Intangible assets

	Product prototypes	Trademarks and licenses	Software	Prepayments	Intangible assets under development	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Year ended 30/06/2007						
Opening net carrying amount	299 998	65 988	75 960	37 337	203 356	682 639
Additions	-	61 419	18 424	-	-	79 843
Reclassified	134 140	16 684	-	(16 684)	(134 140)	-
Amortisation charge	(46 549)	(51 877)	(57 816)	-	-	(156 242)
Disposals	-	-	(4 829)	-	-	(4 829)
Result of FX rate changes	(543)	-	-	-	(533)	(1 076)
Closing net carrying amount	387 046	92 214	31 739	20 653	68 683	600 335
Year ended 30/06/2008						
Opening net carrying amount	387 046	92 214	31 739	20 653	68 683	600 335
Additions	-	58 207	51 159	-	-	109 366
Reclassified	67 508	7 946	-	(7 946)	(67 508)	-
Amortisation charge	(46 311)	(68 055)	(58 525)	-	-	(172 891)
Result of FX rate changes	(6 215)	-	-	-	(1 175)	(7 390)
Closing net carrying amount	402 028	90 312	24 373	12 707	-	529 420
As at 30/06/2006						
Cost	333 776	198 524	262 124	37 337	203 356	1 035 117
Accumulated amortisation	(33 778)	(132 536)	(186 164)	-	-	(352 478)
Net carrying amount	299 998	65 988	75 960	37 337	203 356	682 639
As at 30/06/2007						
Cost	467 373	276 627	271 981	20 653	68 683	1 105 317
Accumulated amortisation	(80 327)	(184 413)	(240 242)	-	-	(504 982)
Net carrying amount	387 046	92 214	31 739	20 653	68 683	600 335
As at 30/06/2008						
Cost	528 666	342 780	323 140	12 707	-	1 207 293
Accumulated amortisation	(126 638)	(252 468)	(298 767)	-	-	(677 873)
Net carrying amount	402 028	90 312	24 373	12 707	-	529 420

Amortisation of LVL 86 119 (2006/2007: LVL 62 517) is included in the income statement caption *Cost of sales*; amortisation of LVL 72 913 (2006/2007: LVL 66 777) – in *Selling and marketing costs*; and amortisation of LVL 13 859 (2006/2007: LVL 25 316) – in *Administrative expense*.

The acquisition cost of fully depreciated Intangible assets that are still in use at the end of financial year amounted to LVL 266 530 (2006/2007: LVL 187 006).

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Notes to the consolidated financial statements (cont'd)

7. Intangible assets

	Product prototy - pes EUR	Trademarks and licenses EUR	Software EUR	Prepay - ments EUR	Intangible assets under development EUR	Total EUR
Year ended 30/06/2007						
Opening net carrying amount	426 859	93 892	108 081	53 126	289 350	971 308
Additions	-	87 391	26 215	-	-	113 606
Reclassified	190 864	23 739	-	(23 739)	(190 864)	-
Amortisation charge	(66 233)	(73 814)	(82 265)	-	-	(222 312)
Disposals	-	-	(6 871)	-	-	(6 871)
Result of FX rate changes	(773)	-	-	-	(758)	(1 531)
Closing net carrying amount	550 717	131 208	45 160	29 387	97 728	854 200
Year ended 30/06/2008						
Opening net carrying amount	550 717	131 209	45 161	29 387	97 727	854 201
Additions	-	82 821	72 793	-	-	155 614
Reclassified	96 055	11 306	-	(11 306)	(96 055)	-
Amortisation charge	(65 895)	(96 834)	(83 273)	-	-	(246 002)
Result of FX rate changes	(8 844)	-	-	-	(1 672)	(10 516)
Closing net carrying amount	572 033	128 502	34 681	18 081	-	753 297
As at 30/06/2006						
Cost	474 920	282 474	372 969	53 126	289 350	1 472 839
Accumulated amortisation	(48 061)	(188 582)	(264 888)	-	-	(501 531)
Net carrying amount	426 859	93 892	108 081	53 126	289 350	971 308
As at 30/06/2007						
Cost	665 011	393 604	386 994	29 387	97 728	1 572 724
Accumulated amortisation	(114 294)	(262 396)	(341 834)	-	-	(718 524)
Net carrying amount	550 717	131 208	45 160	29 387	97 728	854 200
As at 30/06/2008						
Cost	752 223	487 732	459 788	18 081	-	1 717 824
Accumulated amortisation	(180 190)	(359 230)	(425 107)	-	-	(964 527)
Net carrying amount	572 033	128 502	34 681	18 081	-	753 297

Amortisation of EUR 122 535 (2006/2007: EUR 88 953) is included in the income statement caption *Cost of sales*; amortisation of EUR 103 746 (2006/2007: EUR 95 015) – in *Selling and marketing costs*; and amortisation of EUR 19 720 (2006/2007: EUR 36 021) – in *Administrative expense*.

The acquisition cost of fully depreciated Intangible assets that are still in use at the end of financial year amounted to EUR 379 238 (2006/2007: 266 085).

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8. Non-current financial assets

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Loan to Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija	44 458	44 458	63 258	63 258
Other loans	590	590	839	839
Allowance for loan to Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija	(44 458)	(44 458)	(63 258)	(63 258)
	590	590	839	839

9. Inventories

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Raw materials	786 448	1 861 485	1 119 014	2 648 655
Work in progress	1 843 850	3 312 931	2 623 562	4 713 876
Finished goods	500 143	643 049	711 639	914 976
Allowance for slow-moving items	(235 027)	(379 307)	(334 413)	(539 705)
	2 895 414	5 438 158	4 119 802	7 737 802

During the reporting year, additional allowance for slow-moving items of LVL 144 280 (EUR 205 292) (2006/2007: LVL 87 173 (EUR 124 036)) were established and included in cost of sales.

10. Trade receivables

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Trade receivables	2 667 252	2 547 553	3 795 158	3 624 842
Allowances for bad and doubtful trade receivables	(145 582)	(191 438)	(207 145)	(272 392)
Trade receivables, net	2 521 670	2 356 115	3 588 013	3 352 450

Trade receivables comprise 11 Letters of Credit with original payment term up to 180 days for amount of LVL 674 418 (EUR 959 610) (2006/2007: LVL 1 053 551 (EUR 1 499 068)). As at 30 June 2008, the fair value of receivables approximated to their carrying amount.

In the reporting year, the decrease of allowances for bad and doubtful trade receivables was included in the income statement caption as administrative expense in amount of LVL 45 856 (EUR 65 247) (2006/2007 – decrease of LVL 28 279 (EUR 40 237)), and written-off receivables of LVL 11 880 (EUR 16 905) (see Note 21).

Split of Trade receivables by currencies expressed in LVL

	30/06/2008 LVL	30/06/2008 %	30/06/2007 LVL	30/06/2007 %
LVL	3 015	0.11	35 605	1.40
USD	1 021 291	38.29	1 572 172	61.71
EUR	1 642 946	61.60	939 776	36.89
Trade receivables	2 667 252	100%	2 547 553	100%

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10. Trade receivables (cont'd)

Aging analysis of Trade receivables

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Not due	2 145 944	1 986 052	3 053 403	2 825 899
Overdue 0 - 89	399 031	445 845	567 770	634 380
Overdue 90 – and more	122 277	115 656	173 985	164 563
	2 667 252	2 547 553	3 795 158	3 624 842

Allowances for bad and doubtful trade receivables

	LVL	EUR
Allowances for bad and doubtful trade receivables as of 30 June 2007	191 438	272 392
Written-off	(11 880)	(16 905)
Increase	89 308	127 074
Decrease	(123 284)	(175 416)
Allowances for bad and doubtful trade receivables at 30 June 2008	145 582	207 145

11. Other receivables

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Government grant*	11 790	173 313	16 776	246 602
VAT receivable	71 406	43 013	101 602	61 202
Prepayments to suppliers	19 844	15 491	28 235	22 042
Other receivables	3 175	25 777	4 518	36 677
	106 215	257 594	151 131	366 523

* - Government grants relates to projects on participation in international exhibitions.

12. Derivatives

	30/06/2008		30/06/2007		30/06/2008		30/06/2007	
	Assets LVL	Liabilities LVL	Assets LVL	Liabilities LVL	Assets EUR	Liabilities EUR	Assets EUR	Liabilities EUR
Forward FX contracts	61	-	-	-	87	-	-	-

13. Cash and cash equivalents

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Cash at bank	523 824	233 290	745 334	331 941
Short-term bank deposits	1 426 211	66 298	2 029 316	94 334
	1 950 035	299 588	2 774 650	426 275

As at 30 June 2008 free cash resources were deposited both in overnight deposits and short term deposits up to one month period. The average annual interest rate on overnight deposits was 2.6 %, short term deposits 4.37 %. As at 30 June 2007 the annual interest rate on short term bank deposits (overnight deposits) was 2.73% for LVL.

Notes to the consolidated financial statements (cont'd)

14. Share capital

As at 30 June 2008, the registered, issued and paid-up share capital is LVL 2 970 180 (EUR 4 226 185) and consists of 2 970 180 ordinary bearer shares with unlimited voting rights (2006/2007: 2 970 180 shares).

15. Deferred corporate income tax (asset)/ liability

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Deferred tax (asset)/ liability at the beginning of the year	(138 680)	(149 627)	(197 324)	(212 900)
Change in deferred tax liability during the reporting year (see Note 24)	37 396	25 549	53 210	36 353
Changes in foreign exchange rates	1 233	(14 602)	1 755	(20 777)
Deferred tax (asset)/ liability at the end of the year	(100 051)	(138 680)	(142 359)	(197 324)

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial accounting and tax purposes:

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Temporary difference on fixed asset depreciation and intangible asset amortisation (to be reversed after more than 12 months)	1 598	16 530	2 274	23 520
Temporary difference on vacation pay reserve (to be reversed within 12 months)	(18 009)	(19 642)	(25 624)	(27 948)
Temporary difference on allowance for slow-moving and obsolete inventories (to be reversed within 12 months)	(31 749)	(43 561)	(45 175)	(61 982)
Temporary difference on tax losses carried forward	(51 891)	(92 007)	(73 834)	(130 914)
Deferred tax (asset)/ liability, net	(100 051)	(138 680)	(142 359)	(197 324)

No offsetting of deferred tax liabilities and assets arising in different jurisdictions has been performed.

Deferred income tax asset for the Group is recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

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16. Payables

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Trade payables	733 702	445 434	1 043 964	633 795
Vacation pay reserve	223 323	250 259	317 760	356 086
Taxes and social insurance contributions	114 585	111 079	163 040	158 051
Other payables	236 931	182 869	337 122	260 200
Prepayments from customers	70 836	39 390	100 791	56 047
	1 379 377	1 029 031	1 962 677	1 464 179

During the reporting period decrease in unused vacation pay included in Income Statement amounted to LVL 26 936 (EUR 38 326) (2006/2007: increase LVL 38 320 (EUR 54 524)).

17. Borrowings

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Bank overdrafts and credit cards	5 159	1 467 416	7 341	2 087 945

The Group has not used assigned multi-currency overdraft facility LVL 3 514 020 (EUR 5 000 000) as at 30 June 2007. The balance of unused overdrafts as at 30 June 2007 was LVL 2 095 224 (EUR 2 981 235). The interest rate for the bank was the respective overnight interbank rate plus a margin 0.85% The bank overdraft has been secured by a commercial pledge of all the Group's receivables and inventory.

18. Segment information

a) The Group's operations may be divided into two major structural units by product type –CFM (PDH) and CFQ (SDH) product lines. These structural units are used as a basis for providing information about the primary segments of the Group, i.e. business segments. Production, as well as research and development are organised and managed for each product line (CFM and CFQ) separately.

The CFM product line, or plesiochronous digital hierarchy radio equipment, is offered as a digital microwave radio communications system operating over 7, 8, 13, 15, 18, 23, 26, and 38 GHz frequency bands, as well as ensuring wireless point-to-point channels for digitalised voice and data transmission. CFM is available with 4, 8, 16, or 34 Mbps full-duplex data transmission rate. The demand for this product in Asia basically accounts for this market share.

The CFQ product line, or synchronous digital hierarchy radio equipment, is a digital point-to-point radio system providing high capacity (up to 155 Mbps) data transmission over from 7 to 38 GHz frequency bands. The product is basically exported to developed European countries where the demand for high capacity data transmission possibilities is dominating.

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18. Segment information (cont'd)

	CFQ		CFM		Other		Total	
	2007/8	2006/7	2007/8	2006/7	2007/8	2006/7	2007/8	2006/7
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Assets								
Segment assets	1 349 690	1 620 380	4 880 449	7 804 289	658 257	654 773	6 888 396	10 079 442
Undivided assets							2 393 824	803 162
Total assets							9 282 220	10 882 604
Segment liabilities	256 586	197 649	824 736	595 208	180 124	89 688	1 261 446	882 545
Undivided liabilities							123 090	1 619 021
Total liabilities							1 384 536	2 501 566
Income	1 444 963	1 428 510	7 553 502	10 405 813	1 651 663	1 527 771	10 650 128	13 362 094
Segment results	(405 397)	(451 884)	1 457 705	3 039 983	315 812	317 628	1 368 120	2 905 726
Undivided expense							(2 078 245)	(2 753 464)
(Loss)/Profit from operations							(710 125)	152 262
Other income							334 203	251 816
Financial expense, net							(59 174)	(174 204)
(Loss)/Profit before taxes							(435 096)	229 874
Corporate income tax							(37 396)	(70 292)
(Loss)/Profit for the year							(472 492)	159 582
Other information								
Additions of property plant and equipment and intangible assets	1 302	186 474	94 206	742 318	210	6 019	95 718	934 811
Undivided additions of property plant and equipment and intangible assets							122 960	375 481
Total additions of property plant and equipment and intangible assets							218 678	1 310 292
Depreciation and amortization	101 864	262 198	352 045	316 886	3 213	3 542	457 122	582 626
Undivided depreciation and amortization							198 152	202 462
Total depreciation and amortization							655 274	785 088

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Notes to the consolidated financial statements (cont'd)

18. Segment information (cont'd)

	CFQ		CFM		Other		Total	
	2007/8 EUR	2006/7 EUR	2007/8 EUR	2006/7 EUR	2007/8 EUR	2006/7 EUR	2007/8 EUR	2006/7 EUR
Assets								
Segment assets	1 920 436	2 305 593	6 944 253	11 104 503	936 616	931 658	9 801 305	14 341 754
Undivided assets							3 406 104	1 142 796
Total assets							13 207 409	15 484 550
Segment liabilities								
Segment liabilities	365 089	281 229	1 173 494	846 905	256 293	127 615	1 794 876	1 255 749
Undivided liabilities							175 142	2 303 659
Total liabilities							1 970 018	3 559 408
Income								
Income	2 055 997	2 032 587	10 747 665	14 806 138	2 350 105	2 173 822	15 153 767	19 012 547
Segment results	(576 828)	(642 973)	2 074 127	4 325 506	449 360	451 943	1 946 659	4 134 476
Undivided expense							(2 957 076)	(3 917 826)
(Loss)/Profit from operations							(1 010 417)	216 650
Other income							475 528	358 302
Financial expense, net							(84 197)	(247 870)
(Loss)/Profit before taxes							(619 086)	327 082
Corporate income tax							(53 210)	(100 017)
(Loss)/Profit for the year							(672 296)	227 065
Other information								
Additions of property plant and equipment and intangible assets								
Additions of property plant and equipment and intangible assets	1 853	265 329	134 043	1 056 223	299	8 564	136 194	1 330 116
Undivided additions of property plant and equipment and intangible assets							174 958	534 261
Total additions of property plant and equipment and intangible assets							311 152	1 864 377
Depreciation and amortization								
Depreciation and amortization	144 939	373 074	500 915	450 888	4 571	5 040	650 426	829 002
Undivided depreciation and amortization							281 945	288 078
Total depreciation and amortization							932 371	1 117 080

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Notes to the consolidated financial statements (cont'd)

18. Segment information (cont'd)

b) This note provides information about division of the Group's turnover and assets by geographical segments (customer location).

	Net sales		Assets	
	2007/8	2006/7	30/06/2008	30/06/2007
	LVL	LVL	LVL	LVL
Asia	2 072 583	3 515 948	113 757	841 871
America	1 598 122	1 514 860	503 111	381 624
Africa	1 084 962	783 896	86 592	59 354
Europe	2 625 372	4 086 555	482 207	270 504
CIS	2 640 707	2 780 634	526 660	450 320
Middle East	628 382	680 201	809 343	352 442
	10 650 128	13 362 094	2 521 670	2 356 115
Unallocated assets	-	-	6 760 550	8 526 489
	10 650 128	13 362 094	9 282 220	10 882 604

	Net sales		Assets	
	2007/8	2006/7	30/06/2008	30/06/2007
	EUR	EUR	EUR	EUR
Asia	2 949 020	5 002 743	161 862	1 197 875
America	2 273 923	2 155 452	715 862	543 002
Africa	1 543 762	1 115 384	123 209	84 453
Europe	3 735 567	5 814 645	686 119	384 893
CIS	3 757 387	3 956 486	749 370	640 748
Middle East	894 108	967 837	1 151 592	501 479
	15 153 767	19 012 547	3 588 014	3 352 450
Unallocated assets	-	-	9 619 395	12 132 100
	15 153 767	19 012 547	13 207 409	15 484 550

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19. Cost of sales

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Purchases of components and subcontractors services	6 385 563	7 335 454	9 085 838	10 437 411
Salary expenses (including accruals for vacation pay)	1 362 223	1 526 781	1 938 269	2 172 414
Depreciation and amortization (see Note 5-6)	462 088	582 626	657 492	829 002
Social insurance (including accruals for vacation pay)	360 879	398 360	513 485	566 815
Rent of premises	108 273	113 087	154 059	160 908
Inventory impairment	144 280	87 173	205 292	124 036
Public utilities costs	98 076	83 430	139 550	118 710
Low value inventory	9 228	22 939	13 130	32 639
Car expenses	23 738	22 201	33 775	31 589
Other production costs	214 736	284 317	305 541	404 547
	9 169 084	10 456 368	13 046 431	14 878 071

Research and development related expenses of LVL 1 400 489 (EUR 1 992 716) (2006/2007: LVL 1 633 406 (EUR 2 324 127)) are included in the income statement caption cost of sales.

20. Selling and marketing costs

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Advertising and marketing costs	483 941	623 495	688 586	887 153
Wages and salaries (incl. vacation pay reserve)	398 287	517 436	566 711	736 245
Business trips	175 926	260 749	250 320	371 012
Delivery costs	105 025	117 050	149 437	166 547
Depreciation and amortisation (see Note 5-6)	122 475	116 373	174 266	165 584
Social insurance contributions (incl. vacation pay reserve)	86 824	114 521	123 539	162 949
Other selling and distribution costs	77 662	75 856	110 504	107 934
	1 450 140	1 825 480	2 063 363	2 597 424

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Notes to the consolidated financial statements (cont'd)

21. Administrative expense

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Wages and salaries (incl. vacation pay reserve)	270 397	235 033	384 740	334 422
Depreciation and amortisation (see Note 5-6)	68 808	84 456	97 905	120 170
IT services	43 139	50 944	61 381	72 487
Social insurance contributions (incl. vacation pay reserve)	66 090	50 357	94 038	71 652
Representation expense	26 218	50 088	37 305	71 269
Bank charges	31 323	44 851	44 569	63 817
Allowance for loan to LETERA	-	44 458	-	63 258
Sponsorship	6 000	36 870	8 537	52 461
Office maintenance costs	10 326	15 380	14 692	21 884
Business trips	12 817	14 109	18 237	20 075
Communications expense	7 416	9 889	10 552	14 071
Allowance for bad and doubtful receivables	(33 976)	(28 279)	(48 342)	(40 237)
Other administration expense	232 471	319 828	330 775	455 073
	741 029	927 984	1 054 389	1 320 402

22. Other income

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Government grant	309 723	207 783	440 696	295 649
Other income	24 479	44 033	34 830	62 653
	334 202	251 816	475 526	358 302

The Company has received payment amounting to LVL 292 814 (EUR 416 637) (2006/2007 – LVL 39 589 (EUR 56 331)) of the government grant. The residual amount LVL 11 790 (EUR 16 775) is recorded receivable (see Note 11) and LVL 5 119 (EUR 7 284) was received in 2006/2007 financial year.

23. Financial expense

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Interest expense	24 070	92 185	34 249	131 167
Loss from changes in fair value of derivatives	(61)	21 593	(87)	30 724
Currency exchange loss, net	66 227	66 975	94 233	95 297
	90 236	180 753	128 395	257 188

Notes to the consolidated financial statements (cont'd)

24. Corporate income tax

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Change in deferred tax asset (see Note 15)	37 396	25 549	53 210	63 664
Corporate income tax charge for the current reporting year	-	44 743	-	36 353
	37 396	70 292	53 210	100 017

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the statutory 15% rate to the Group's profit before taxation:

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Profit before taxation	(435 096)	229 874	(619 086)	327 082
Tax rate	15%	15%	15%	15%
Theoretically calculated tax	(65 264)	34 481	(92 863)	49 062
Expenses not deductible for tax purposes	(2 934)	26 178	(4 175)	37 249
Effect of different tax rates	17 864	20 819	25 419	29 622
Tax relief on donations	-	(11 186)	-	(15 916)
Consolidation difference	(7 236)	-	(10 295)	-
Unrecognized deferred tax asset	94 966	-	135 124	-
Tax charge	37 396	70 292	53 210	100 017

The State Revenue Service may inspect the Company's books and records for the last 2.5 years (starting from 1 January 2006) and impose additional tax charges with penalty interest and penalties. The Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect. (The State Revenue Service had not performed all-inclusive tax audit at the balance sheet date).

25. Earnings per share

Basic earnings per share are calculated by dividing the profit by the weighted average number of shares during the year.

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
(Loss)/Profit for the reporting year (a)	(472 492)	159 582	(672 296)	227 065
Ordinary shares as at 1 July (b)	2 970 180	2 970 180	2 970 180	2 970 180
Basic earnings per share for the reporting year (a/b), LVL	-0.16	0.05	-0.23	0.08

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26. Dividends per share

	Year ended 30/06/2008	Year ended 30/06/2007	Year ended 30/06/2008	Year ended 30/06/2007
	LVL	LVL	EUR	EUR
Dividends paid (a)	-	594 036	-	845 237
Number of shares upon payment (b)	2 970 180	2 970 180	2 970 180	2 970 180
Dividends per share for the reporting year (a/b), LVL	-	0.20	-	0.28

27. Related party transactions

Remuneration to the Board and the Council

	Year ended 30/06/2008	Year ended 30/06/2007	Year ended 30/06/2008	Year ended 30/06/2007
	LVL	LVL	EUR	EUR
Remuneration to the Board Members				
· salaries	120 026	130 158*	170 782	185 198*
· social insurance contributions	23 578	18 799*	33 548	26 749*
Remuneration to the Council Members				
· salaries	62 415	86 701*	88 809	123 364*
· social insurance contributions	14 291	14 882*	20 334	21 175*
Total	220 310	250 540	313 473	356 486

* Salaries and social insurance contributions include accruals for bonuses for the reporting year results.

During the period from 1 July 2007 until 30 June 2008, the Company sold its products to other related parties for the total amount of LVL 444 572 (EUR 632 569) and provided services – LVL 5 121 (EUR 7 287).

During the period from 1 July 2007 until 30 June 2008, the Company bought goods from related parties for the total amount of LVL 9 950 (EUR 14 158), bought tangible assets – LVL 26 742 (EUR 38 050) and received services – LVL 21 782 (EUR 30 993).

As at 30 June 2008, the Company has not paid to related parties for the total amount LVL 13 543 (EUR 19 270).

28. Personnel expense

	Year ended 30/06/2008	Year ended 30/06/2007	Year ended 30/06/2008	Year ended 30/06/2007
	LVL	LVL	EUR	EUR
Wages and salaries	2 030 906	2 279 250*	2 889 718	3 243 081*
Social insurance contributions	513 793	563 238*	731 062	801 415*
Contributions to pension funds**	88 975	94 276	126 600	134 143
Total	2 633 674	2 936 764	3 747 380	4 178 639

* Salaries and social insurance contributions include accruals for bonuses for the reporting year results.

** Contributions to pension funds are made on behalf of the employees of SAF Sweden Tehnika AB.

Notes to the consolidated financial statements (cont'd)

29. Average number of employees of the Group

	Year ended 30/06/2008	Year ended 30/06/2007
Average number of personnel employed by the group during the reporting year:	172	182

The average number of employees includes 15 employees hired for subsidiary SAF Tehnika Sweden AB.

30. Operating lease

Lease agreement No. S-116/02, dated 10 December 2002, was signed with Dambis A/S. According to the agreement, the lessor commissions and SAF Tehnika A/S accepts premises in the total area of 5 851 m² for consideration. The premises are located at Ganību dambis 24a, Riga, Latvia. The agreement expires on 1 March 2016.

Lease agreement No. 0803, dated 3 July 2008, was signed with Odec Fastigheter AB. According to the agreement, the lessor commissions and SAF Tehnika Sweden AB accepts premises in the total area of 630 m² for consideration. The premises are located at E A Rosengren gata 22, Goteborg, Sweden. The agreement expires on 31 December 2011.

According to the signed agreement, the Group has the following lease payment commitments as at 30 June 2008.

	LVL	EUR
1 year	115 179	163 885
2 – 5 years	489 916	697 088
More than 5 years	269 745	383 813
	874 840	1 244 786

31. Contingent liabilities

The Group has contingent liabilities in respect of the bank arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities. The Group has given guarantees in the ordinary course of business amounting to LVL 51 584 (EUR 73 397) (2006/2007: LVL 173 777 (EUR 247 262) to third parties.

32. Going concern

The Group closed the reporting year with positive operating cash flow of LVL 3 312 thousand (EUR 4 712 thousand) contrary to the last financial year where negative operating cash flow of LVL 579 thousand (EUR 824 thousand) was recorded therefore proving correctness of the company's strategy by widening partners network in different regions and implementing tight cost control and thus optimising cash flow. Net loss for the reporting period amounted to LVL 472 thousand (EUR 672 thousand).

The Group's management believes that the existing situation is temporary and takes measures to ensure profitability at the previous level by increasing sale volumes based on current product portfolio and introducing new CF IP product line.

Current assets of the Group are higher than current liabilities. There are no outstanding borrowings. Currently there is also no indication that Group will not be able to prolong overdraft agreements.

33. Events after balance sheet date

As of the last day of the reporting year until the date of signing these financial statements there have been no events which would have any material impact on the financial position of the Group as at 30 June 2008 or its financial performance and cash flows for the year then ended.