SAF Tehnika A/S
Annual Report
for the year ended 30 June 2007

Content

Information about the Company

Name of the company	SAF Tehnika A/S
Legal status of the company	Joint stock company
Registration number, place and date of registration	000 347 410 Riga, 27 December 1999 Registered with the Commercial Register on 10 March 2004
Address	Ganību dambis 24a Riga, LV-1005 Latvia
Full names of the shareholders	Normunds Bergs (9.74%) Juris Ziema (8.71%) Didzis Liepkalns (17.05%) Andrejs Grišāns (10.03%) Vents Lācars (6.08%) Other shareholders – 48.39%
Names and positions of Council Members	Vents Lācars – Chairman of the Council Juris Ziema – Deputy Chairman of the Council Andrejs Grišāns – Council Member Ivars Šenbergs – Council Member Janis Bergs – Council Member
Names and positions of Board Members	Normunds Bergs –Chairman of the Board Didzis Liepkalns – Deputy Chairman of the Board Aleksis Orlovs – Board Member Janis Ennitis – Board Member
Reporting period	1 July 2006 – 30 June 2007
Name and address of the auditor and sworn auditor in charge	Ernst & Young Baltic SIA Commercial Company's Licence No. 17 Kronvalda bulvāris 3-5 Riga, LV-1010 Latvia Sworn Auditor in Charge: Ivars Ragainis Sworn Auditor's Certificate No. 159

Type of activity

SAF Tehnika A/S (hereinafter – the Company) 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 Company 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 SAF Tehnika A/S is to provide wireless communications for data and voice transmissions at reasonable prices. The Company 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 Company in the reporting year

The Company's net sales for the 12-month period of the financial year 2006/2007 reached LVL 13 411 682 (EUR 19 083 104), largely on par compared to the corresponding period of the prior financial year. The CIS region demonstrated 12 month revenue growth of 42% due to the successful cooperation with several notable GSM, CDMA and alternative operators in Russia, Ukraine, Tajikistan and Azerbaijan. Recurring supplies to this region are projected for the coming financial year.
The Asian region posted a revenue decrease of 16%. This was mostly due to the delay of the India project. Sales volumes to China were at the same levels as in the previous financial year 2005/6. Currently SAF Tehnika has already received the first order for the delayed India project and partial deliveries commenced in July. The 33% decrease of sales volumes in Latin America is mainly influenced by lower demand in Columbia and the impact of Brazilian market regulations, which provide competition protection to local manufacturers.
Sales to the African region increased by 82% during the financial year. Sales volumes in Europe have grown by 18% as a result of increasing demand for the SAF SDH (high capacity) product line, which was launched in 2006.

The Company was exporting its products to 62 country all over the world, and its aggregate exports for the reporting period comprised LVL 12 462 426 (EUR 17 732 536), which is by largely on par with the prior financial year.

The net loss of the Company for the financial year 2006/2007 is LVL 6 622 (EUR 9 422). The main reasons for the profit decrease were the delay of the large-scale shipments in FY 2006/7 Q4, as well as the high operational costs. The cost cutting plan was fully implemented in June. June staff expenses were 28% lower compared with FY 2006/2007 March, while the headcount reduction was 13%.

The Company increased its production capacity in the reporting year by having invested LVL 1 250 191 (EUR 1 778 862) in acquisition of new tangible and intangible assets. The new CFQ (SDH) series products were successfully launched to the market during the reporting period. The new SDH product's sales growth has exceeded expectations in FY 2006/2007. Now SDH products are introduced in all regions of the World and received clear acceptance by customers.

After the consolidation the Point to Point (P2P) wireless radio market has showed price erosion decreasing sales profitability. In telecom operator market main focus is on combining different services such as voice, data and TV communication in the same network demanding higher data capacities. Worldwide grows in internet utilization demands faster data networks to cover customer growing needs. Growing demand of data capacity influences increase of demand for high capacity products. As SDH products are two times more expressive than PDH products, currently significant part of demand migrates to Super PDH products, which offer higher capacity than PDH and are priced less than SDH. SAF Tehnika plans to launch the new hybrid (Super PDH) product during the 2007/8 financial year.

According to the resolution of the shareholders' meeting, the Company paid dividends of LVL 0,20 (EUR 0,28) per share, and cancelled 60 000 dematerialized employee motivation title shares without voting rights according to terms of reduction of share capital.

Report of the Board (cont'd)

Research and development

One of the Company's priorities is development of new products as well as the improvement of existing ones, thereby constantly offering more qualitative and diverse solutions, which is one of the corner stones business achievements. In the reporting year, the Company developed and improved several products of the CFM (PDH) line, and continued working on the development of the CFQ line products. Moreover, in response to growing demands for low-cost microwave radios with high data-rate transmission capacity, the Company commenced the development of CFP (Super PDH) family of microwave digital radio with Ethernet interface. Commonly known in the telecommunications industry as Super-PDH, this type of microwave radio will use higher-capacity modulation than existing PDH radios and will combine both PDH and SDH functionality. The result will be enhanced data transmission capacity - up to 68 Mbps in contrast to the 34 Mbps that is currently available from traditional PDH radios. In addition, the new radio will cost considerably less than SDH radios. The Company believes this project will markedly raise the technical competence of participants and will promote the growth of R&D in Latvia. The launch of the new product resulting from this research program is anticipated in the beginning of 2008.

Foreign branches and representation offices

The Swedish subsidiary SAF Tehnika Sweden develops a radio-link product portfolio which complies with the international SDH-standard (ETSI).

During the last financial year SAF Tehnika Sweden completed the development of 13Ghz and 38Ghz radio equipment, these are now in production and are being delivered to customers. In order to further increase the SDH-portfolio a number of new development projects have started. These new projects will, during current financial year, increase the portfolio and make it more complete. The objective is to increase the functionality in order to offer our customer more complete affordable SDH radio-link solutions.

SAF Tehnika Sweden has developed 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 2007/2008 financial year, the Company plans to keep on developing new products and improving the existing product range in accordance with the latest market tendencies. Previous investments in market development should bring more stable business in all regions decreasing influence of large projects on revenues.

Mostly all countries in Europe are covered by active partner network. Largest growth is expected in Africa. Projects in Asia and particularly in India were delayed, but have been already restarted in Q1 of financial year 2007/2008 and large order from Cambodia is expected during first half of 2007/2008 financial year.

Expectations in the Middle East are conservative and growth could be achieved only by accessing new customers in such countries as Egypt, Saudi Arabia or Bangladesh. Existing situation in CIS are very promising and further business growth is expected generally in Russia and countries of central Asia.

Dividends suggested by the Board

Board proposal is not to pay dividend in respect of the financial year 2006/2007.

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Normunds Bergs
Chairman of the Board

Riga, 26 October 2007

The annual report was approved by the shareholders' meeting on ____ ____________ 2007.

Chairman of the shareholders' meeting ________________________

STATEMENT OF BOARD'S RESPONSIBILITIES

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

The financial statements set out on pages 8 to 37 are prepared in accordance with the source documents and present fairly the financial position of the Company as at 30 June 2007 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 financial statements.

The Board of SAF Tehnika A/S is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. The Board is also responsible for the compliance with the Latvian state laws.

For the Board,

Normunds Bergs
Chairman of the Board

26 October 2007

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT

To the shareholder(s) of AS SAF Tehnika

Report on the Financial Statements

We have audited 2006/2007 financial statements of AS SAF Tehnika (the "Company"), which are set out on pages 8 through 37 of the accompanying 2006/2007 Annual Report and which comprise the balance sheet as at 30 June 2007, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU. 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 financial statements give a true and fair view of the financial position of AS SAF Tehnika as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 30 June 2007 (included on pages 4 through 5 of the accompanying 2006/2007 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 30 June 2007.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Personal ID code: 250873-12964
Chairperson of the Board

Ivars Ragainis
Personal ID code: 090480-11034
Latvian Sworn Auditor
Certificate No. 159

Riga, 26 October 2007

Balance sheet

	Notes	30 June 2007 LVL	30 June 2006 LVL	30 June 2007 EUR	30 June 2006 EUR
ASSETS					
Non-current assets					
Property, plant and equipment	5	1 318 619	825 992	1 876 227	1 175 281
Intangible assets	5	123 953	141 948	176 369	201 974
Prepayments for property,plant,equipment and intangible assets	5	20 762	69 119	29 541	98 347
Investments in related company	6	645 569	645 569	918 562	918 562
Non-current financial assets		590	17 641	839	25 101
Deferred tax assets	12	46 673	26 477	66 410	37 673
		2 156 166	**1 726 746**	**3 067 948**	**2 456 938**
Current assets					
Inventories	7	5 411 276	4 411 664	7 699 552	6 277 232
Corporate income tax		351 086	285 625	499 550	406 408
Receivables	8	2 356 115	2 975 796	3 352 450	4 234 176
Receivables from related company		-	178 329	-	253 739
Other receivables	9	248 398	281 401	353 439	400 398
Prepaid expense		48 120	56 788	68 469	80 802
Derivatives	10	-	21 593	-	30 724
Cash and cash equivalents	11	266 515	1 120 201	379 216	1 593 903
		8 681 510	**9 331 397**	**12 352 676**	**13 277 382**
Total assets		**10 837 676**	**11 058 143**	**15 420 624**	**15 734 320**
EQUITY					
Share capital	13	2 970 180	2 970 180	4 226 185	4 226 186
Share premium		2 004 204	2 004 204	2 851 725	2 851 725
Personnel shares		-	60 000	-	85 372
Retained earnings		3 405 554	3 946 212	4 845 667	5 614 954
Total equity		**8 379 938**	**8 980 596**	**11 923 577**	**12 778 237**
LIABILITIES					
Current liabilities					
Payables	14	814 823	2 038 126	1 159 389	2 899 992
Payables to related company		170 380	829	242 429	1 180
Borrowings	15	1 467 416	7 292	2 087 945	10 376
Deferred income		5 119	31 300	7 284	44 535
Total liabilities		**2 457 738**	**2 077 547**	**3 497 047**	**2 956 083**
Total equity and liabilities		**10 837 676**	**11 058 143**	**15 420 624**	**15 734 320**

The accompanying notes on pages 13 to 37 are an integral part of these financial statements.

The financial statements on pages 8 to 37 were approved by the Board and signed on its behalf by:

Normunds Bergs
Chairman of the Board

26 October 2007

Income statement

	Notes	Year ended 30 June 2007 LVL	Year ended 30 June 2006 LVL	Year ended 30 June 2007 EUR	Year ended 30 June 2006 EUR
Sales	16	13 411 682	13 007 322	19 083 104	18 507 752
Cost of sales	17	(10 855 329)	(9 480 894)	(15 445 741)	(13 490 097)
Gross profit		**2 556 353**	**3 526 428**	**3 637 363**	**5 017 655**
Selling and marketing costs	18	(1 819 435)	(1 388 924)	(2 588 823)	(1 976 261)
Administrative expense	19	(788 648)	(640 564)	(1 122 145)	(911 440)
Other income	20	243 691	102 475	346 741	145 809
Financial revenue		5 099	49 800	7 255	70 859
Financial costs	21	(179 135)	(200 175)	(254 886)	(284 823)
Profit before taxes		**17 925**	**1 449 040**	**25 505**	**2 061 799**
Corporate income tax	22	(24 547)	(182 090)	(34 927)	(259 092)
Profit for the year		**(6 622)**	**1 266 950**	**(9 422)**	**1 802 707**
Attributable to:					
Shareholders of the Company		**(6 622)**	**1 266 950**	**(9 422)**	**1 802 707**
		(6 622)	**1 266 950**	**(9 422)**	**1 802 707**
Earnings per share attributable to the shareholders of the Company (LVL per share)					
– basic	24	-0.002	0.427	-0.003	0.607
– diluted	24	-0.002	0.427	-0.003	0.607

The accompanying notes on pages 13 to 37 are an integral part of these financial statements.

Normunds Bergs
Chairman of the Board

26 October, 2007

Statement of changes in equity

	Share capital *(Note 13)* LVL	Share premium LVL	Personnel shares LVL	Reserves LVL	Retained earnings LVL	Total LVL
Balance as at 30 June 2005	**2 970 180**	**2 004 204**	**-**	**1 023 402**	**1 381 253**	**7 379 039**
Effect of changes in accounting policies	-	-	-	-	631 625	631 625
Balance as at 30 June 2005 (as adjusted)	2 970 180	2 004 204	-	1 023 402	**2 012 878**	8 010 664
Issue of personnel shares	-	-	60 000	-	(60 000)	-
Transfer of reserves to retained earnings	-	-	-	(1 023 402)	1 023 402	-
Dividends for 2004/2005	-	-	-	-	(297 018)	(297 018)
Profit for the period	-	-	-	-	1 905 745	1 905 745
Balance as at 30 June 2006	**2 970 180**	**2 004 204**	**60 000**	**-**	**4 585 007**	**9 619 391**
Effect of changes in accounting policies	-	-	-	-	(638 795)	(638 795)
Balance as at 30 June 2006 (as adjusted)	**2 970 180**	**2 004 204**	**60 000**	**-**	**3 946 212**	**8 980 596**
Cancellation of personnel shares	-	-	(60 000)	-	60 000	-
Dividends for 2005/2006	-	-	-	-	(594 036)	(594 036)
Profit for the period	-	-	-	-	(6 622)	(6 622)
Balance as at 30 June 2007	**2 970 180**	**2 004 204**	**-**	**-**	**3 405 554**	**8 379 938**

The accompanying notes on pages 13 to 37 are an integral part of these financial statements.

Statement of changes in equity

	Share capital *(Note 13)* EUR	Share premium EUR	Personnel shares EUR	Reserves EUR	Retained earnings EUR	Total EUR
Balance as at 30 June 2005	**4 226 186**	**2 851 725**	**-**	**1 456 170**	**1 965 346**	**10 499 427**
Effect of changes in accounting policies	-	-	-	-	898 721	898 721
Balance as at 30 June 2005 (as adjusted)	**4 226 186**	**2 851 725**	-	1 456 170	2 864 067	11 398 148
Issue of personnel shares	-	-	85 372	-	(85 372)	-
Transfer of reserves to retained earnings	-	-	-	(1 456 170)	1 456 170	-
Dividends for 2004/2005	-	-	-	-	(422 619)	(422 619)
Profit for the period	-	-	-	-	2 711 631	2 711 631
Balance as at 30 June 2006	**4 226 186**	**2 851 725**	**85 372**	**-**	**6 523 877**	**13 687 160**
Effect of changes in accounting policies	-	-	-	-	(908 923)	(908 923)
Balance as at 30 June 2006 (as adjusted)	**4 226 185**	**2 851 725**	**85 372**	**-**	**5 614 954**	**12 778 237**
Cancellation of personnel shares	-	-	(85 372)	-	85 372	-
Dividends for 2005/2006	-	-	-	-	(845 237)	(845 237)
Profit for the period	-	-	-	-	(9 422)	(9 422)
Balance as at 30 June 2007	**4 226 185**	**2 851 725**	**-**	**-**	**4 845 667**	**11 923 577**

The accompanying notes on pages 13 to 37 are an integral part of these financial statements.

Cash flow statement

	Notes	Year ended 30 June		Year ended 30 June	
		30.06.2007 LVL	30.06.2006 LVL	30.06.2007 EUR	30.06.2006 EUR
Profit before tax		17 925	1 449 040	25 505	2 061 799
Adjustments for:					
- depreciation	5	616 551	554 155	877 273	788 491
- amortization	5	109 693	107 670	156 079	153 201
- changes in provisions for slow-moving inventories	7	50 522	74 538	71 887	106 058
- changes in accruals for unused annual leave	14	27 381	15 948	38 960	22 692
- changes in allowances for bad debtors	8	(28 279)	(66 368)	(40 237)	(94 433)
- interest income		(5 098)	(19 220)	(7 254)	(27 348)
- interest expense	21	91 863	2 280	130 709	3 244
- (gain)/loss from revaluation of derivative financial instruments	10	21 593	(30 581)	30 724	(43 513)
- receipt of government grant	20	(207 783)	(100 958)	(295 649)	(143 650)
- cancellation of long term loan		17 050	-	24 260	-
- allowance for loan to LETERA		44 458		63 258	
- (gain)/loss from sale of PPE		(14 637)	1 422	(20 827)	2 023
Cash generated from operations before changes in working capital		**741 239**	**1 987 926**	**1 054 688**	**2 828 564**
Inventories increase		(1 014 813)	(118 694)	(1 443 949)	(168 886)
Receivables (decrease)/ increase		741 259	(1 289 229)	1 054 717	(1 834 408)
Payables increase/ (decrease)		(1 081 133)	1 400 046	(1 538 314)	1 992 086
Cash generated from operating activities		**(613 448)**	**1 980 049**	**(872 858)**	**2 817 356**
Receipt of government grant		39 589	100 958	56 330	143 650
Interest paid		(91 863)	(2 280)	(130 709)	(3 244)
Income tax paid		(1 768)	(280 801)	(2 516)	(399 544)
Net cash generated from operating activities		**(667 490)**	**1 797 926**	**(949 753)**	**2 558 218**
Cash flow from investing activities					
Purchases of property, plant and equipment		(1 170 350)	(348 433)	(1 665 258)	(495 775)
Proceeds from sale of PPE		103 916	1 260	147 859	1 793
Purchases of intangible assets		(79 841)	(115 262)	(113 604)	(164 003)
Interest received		9 611	14 709	13 675	20 929
Issued long-term borrowings		(44 458)	(17 641)	(63 258)	(25 101)
Net cash (used in) investing activities		**(1 181 122)**	**(465 367)**	**(1 680 586)**	**(662 157)**
Cash flows from financing activities					
Proceeds from borrowings		1 460 124	1 191	2 077 569	1 695
Repayment of loan to related company		128 499	-	182 838	-
Dividends paid to Company's shareholders	25	(594 036)	(297 018)	(845 237)	(422 619)
Net cash (used in) financing activities		**994 587**	**(295 827)**	**1 415 170**	**(420 924)**
Effect of exchange rate changes		339	(800)	482	(1 138)
Net increase/ (decrease) in cash and cash equivalents		**(853 686)**	**1 035 932**	**(1 214 687)**	**1 473 999**
Cash and cash equivalents at the beginning of the year		1 120 201	84 269	1 593 903	119 904
Cash and cash equivalents at the end of the year	11	**266 515**	**1 120 201**	**379 216**	**1 593 903**

The accompanying notes on pages 13 to 37 are an integral part of these financial statements.

Notes to the financial statements

1. General information

The core business activity of SAF Tehnika A/S (hereinafter – the Company) comprises the design, production and distribution of microwave radio data transmission equipment offering an alternative to cable channels. The Company 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 financial statements were approved by the Board on 26 October 2007.

The Company's shareholders have the power to amend the financial statements after the issue.

The annual full reporting period for the Company is set from 1 July until 30 June.

2. Summary of significant accounting policies

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

A Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements have been prepared under the historical cost convention except for certain financial assets (e.g. derivatives are measured at fair value).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. The accounting policies used by the Company are consistent with those used in the previous accounting period.

Early adoption of standards

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 30 June 2006, except for the adoption of new Standards and Interpretations, noted below. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Company.

- IFRS 7 Financial instruments: Disclosures
  The Company adopted IFRS 7 as of 1 January 2007. IFRS 7 requires disclosures that enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. Full IFRS 7 disclosures will be provided in annual financial statements of the Company.
- IFRIC 9 Reassessment of Embedded Derivatives
  The Company adopted IFRIC Interpretation 9 as of January 2007, which states that the date to assess the existence of an embedded derivative is the date that entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- IFRIC 10 Interim Financial reporting and Impairment

The Company adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must 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.

Notes to the financial statements (cont'd)

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

B Segment reporting

A business segment is a Company of assets and operations providing products or services that are subject to risks and benefits different from those of other business 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.

C Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in lats (LVL), which is the Company's functional and presentation currency.

(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.

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 Company 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.

Notes to the financial statements (cont'd)

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

E Intangible assets

(a) 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.

(b) 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.

Costs related to the development or maintenance of software are recognised as expense as incurred.

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 Company 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 ability of resources to complete and the availability 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 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 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 Companyed at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

H 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.

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. Finished goods and work-in-progress are stated at cost of materials.

Notes to the financial statements (cont'd)

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

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 Company 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 equivalent

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.

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 Company 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 income 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 financial statements. However, if the deferred income 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 or loss, it is not accounted for. Deferred income 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 income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the financial statements (cont'd)

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

O Employee benefits

The Company 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 Company pays fixed contributions to a privately administered pension insurance plan. The Company 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 and discounts. Revenue is recognised as follows:

(a) Sale of goods
Sale of goods is recognised when a Company 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.

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 Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

T Investments in subsidiaries

Investments in subsidiaries are stated in accordance with the cost method whereby investments are carried at cost. The investor recognises income from the investment only where the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

U New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations are mandatory for accounting periods beginning on or after 1 January 2007. The Company's assessment of the impact of these new and amended standards and interpretations is set out below:

(a) IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments.

(b) IFRS 8 Operating Segments (effective once adopted by EU, but not earlier than for annual 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. IFRS 8 supersedes IAS 14 Segment Reporting.

(c) Amendment to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.

(d) Amendment to IAS 23 ("Borrowing costs") (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009). According to this amendment, borrowing costs, that are directly attributable to the acquisition, construction or production of a qualifying asset should form part of the cost of that asset.

(e) IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). 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.

(f) IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). 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.

(g) IFRIC 12 Service Concession Agreements (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

(h) IFRIC 13 Customer Loyalty Programmes (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 July 2008). The interpretation specifies how customer loyalty programs should be accounted for.

(i) IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation provides guidance 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 Company has estimated that initial application of these standards would have effect on some of the disclosures in the financial statements but would not require material adjustments of the figures.

3. Financial risk management

(1) Financial risk factors

The Company's activities expose it to a variety of financial risks:
(a) foreign currency risk
(b) credit risk
(c) liquidity risk
(d) cash flow and interest rate risk.

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

Notes to the financial statements (cont'd)

3. Financial risk management (cont'd)

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 Company's operating units.

(a) Foreign currency risk
The Company 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 and liabilities. To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, the Company 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 Company's risk management policy is to hedge 65% - 85% of expected transactions (mainly export sales) in U.S dollars for the following 6 months.

(b) Credit risk
From time to time the Company has significant concentration of credit risk with its overseas customers. The Company'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 2007, the Company's credit risk concentration to single customer amounted to 29.57% of the total trade receivables (30.06.2006: 54%). 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 Company, which comprise cash and cash equivalents and derivatives, the Company'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 Company's maximum credit risk concentration amounts to LVL 2 547 553 or 23,51% to total assets.

(c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through current 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 providing available credit lines.

(d) Cash flow and interest rate risk
Interest rate risk is primarily caused by the potential fluctuations of LIBOR and EURIBOR and the changing of the average interest rates of banks.

(2) Accounting for derivative financial instruments

The Company 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.

Notes to the financial statements (cont'd)

3. Financial risk management (cont'd)

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

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

(3) Fair value

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

4. Key estimates and assumptions

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Notes to the financial statements (cont'd)

5. Property, plant, equipments and intangible assets

	Intangible assets	Leasehold improvements	Equipment and machinery	Other assets	Prepayments for assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Year ended 30/06/2006						
Opening net carrying amount	141 666	258 680	622 384	163 747	27 068	1 213 545
Additions	107 952	60 687	250 487	26 652	42 243	488 021
Reclassified	-	-	-	192	(192)	-
Depreciation charge	(107 670)	(47 812)	(432 325)	(74 018)	-	(661 825)
Disposals	-	-	(1 618)	(1 064)		(2 682)
Closing net carrying amount	**141 948**	**271 555**	**438 928**	**115 509**	**69 119**	**1 037 059**
Year ended 30/06/2007						
Opening net carrying amount	141 948	271 555	438 928	115 509	69 119	1 037 059
Additions	79 842	363 734	651 699	154 916	-	1 250 191
Reclassified	16 684			31 673	(48 357)	-
Depreciation charge	(109 693)	(43 651)	(496 986)	(75 914)	-	(726 244)
Disposals	(4 828)	-	(66 219)	(26 625)	-	(97 672)
Closing net carrying amount	**123 953**	**591 638**	**527 422**	**199 559**	**20 762**	**1 463 334**
As at 30/06/2005						
Cost	352 696	331 026	1 345 324	295 130	27 068	2 351 244
Accumulated depreciation	(211 030)	(72 346)	(722 940)	(131 383)	-	(1 137 699)
Net carrying amount	**141 666**	**258 680**	**622 384**	**163 747**	**27 068**	**1 213 545**
As at 30/06/2006						
Cost	460 648	391 713	1 583 145	296 522	69 119	2 801 147
Accumulated depreciation	(318 700)	(120 158)	(1 144 217)	(181 013)	-	(1 764 088)
Net carrying amount	**141 948**	**271 555**	**438 928**	**115 509**	**69 119**	**1 037 059**
As at 30/06/2007						
Cost	548 608	755 447	1 908 578	412 258	20 762	3 645 653
Accumulated depreciation	(424 655)	(163 809)	(1 381 156)	(212 699)	-	(2 182 319)
Net carrying amount	**123 953**	**591 638**	**527 422**	**199 559**	**20 762**	**1 463 334**

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

Depreciation of LVL 525 762 (2005/2006: LVL 457 535) is included in the income statement caption *Cost of sales*; depreciation of LVL 116 373 (2005/2006: Ls 109 489) – *in Selling and marketing costs*; and depreciation of LVL 84 109 (2005/2006: LVL 94 801) – in *Administrative 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 1 203 164 (2005/2006: LVL 647 877).

Notes to the financial statements (cont'd)

5. Property, plant, equipments and intangible assets

	Intangible assets	Leasehold improvements	Equipment and machinery	Other assets	Prepayments for assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Year ended 30/06/2006						
Opening net carrying amount	201 573	368 068	885 573	232 991	38 514	1 726 719
Additions	153 602	86 350	356 411	37 922	60 106	694 391
Reclassified	-	-	-	273	(273)	-
Depreciation charge	(153 201)	(68 030)	(615 143)	(105 318)	-	(941 692)
Disposals	-	-	(2 302)	(1 514)	-	(3 816)
Closing net carrying amount	**201 974**	**386 388**	**624 539**	**164 354**	**98 347**	**1 475 602**
Year ended 30/06/2007						
Opening net carrying amount	201 974	386 388	624 539	164 354	98 347	1 475 602
Additions	113 605	517 547	927 284	220 426	-	1 778 862
Reclassified	23 739	-	-	45 067	(68 806)	-
Depreciation charge	(156 079)	(62 110)	(707 147)	(108 016)	-	(1 033 352)
Disposals	(6 870)	-	(94 221)	(37 884)	-	(138 975)
Closing net carrying amount	**176 369**	**841 825**	**750 455**	**283 947**	**29 541**	**2 082 137**
As at 30/06/2005						
Cost	501 841	471 008	1 914 224	419 932	38 514	3 345 519
Accumulated depreciation	(300 268)	(102 940)	(1 028 651)	(186 941)	-	(1 618 800)
Net carrying amount	**201 573**	**368 068**	**885 573**	**232 991**	**38 514**	**1 726 719**
As at 30/06/2006						
Cost	655 443	557 357	2 252 613	421 912	98 347	3 985 672
Accumulated depreciation	(453 469)	(170 969)	(1 628 074)	(257 558)	-	(2 510 070)
Net carrying amount	**201 974**	**386 388**	**624 539**	**164 354**	**98 347**	**1 475 602**
As at 30/06/2007						
Cost	780 599	1 074 904	2 715 663	586 590	29 541	5 187 297
Accumulated depreciation	(604 230)	(233 079)	(1 965 208)	(302 643)	-	(3 105 160)
Net carrying amount	**176 369**	**841 825**	**750 455**	**283 947**	**29 541**	**2 082 137**

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

Depreciation of EUR 748 092 (2005/2006: EUR 651 014) is included in the income statement caption *Cost of sales*; depreciation of EUR 165 584 (2005/2006: EUR 155 789) – *in Selling and marketing costs*; and depreciation of EUR 119 676 (2005/2006: EUR 134 889) – in *Administrative 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 1 711 948 (2005/2006: EUR 921 846).

Notes to the financial statements (cont'd)

6. Investments in related companies

(a) Investment in subsidiary

Name	Equity share 30/06/2007 %	Equity share 30/06/2006 %
SAF Tehnika Sweden AB	100	100

On 13 May 2004, the Company established a subsidiary - SAF Tehnika Sweden AB – by making a monetary contribution into the subsidiary's share capital in the amount of LVL 7 170 (EUR 10 202).

On 22 August 2005, the Company capitalised a portion of the current loan issued to SAF Tehnika Sweden AB in the amount of LVL 638 399 (EUR 908 360), thus increasing the value of its investment to LVL 645 569 (EUR 918 562).

(b) Information about subsidiary

		Equity		Profit/ loss for the reporting year	
Name	Address	30/06/2007 LVL	30/06/2006 LVL	2006/2007 LVL	2005/2006 LVL
SAF Tehnika Sweden AB *	E. A .Rosengrens gata 22, Vastra Frolunda, Sweden	408 772	294 907	114 639	287 287

* SAF Tehnika Sweden AB organised and operating in Sweden is fully owned by the Company.

		Equity		Profit/ loss for the reporting year	
Name	Address	30/06/2007 EUR	30/06/2006 EUR	2006/2007 EUR	2005/2006 EUR
SAF Tehnika Sweden AB *	E. A .Rosengrens gata 22, Vastra Frolunda, Sweden	581 630	419 615	163 117	408 773

7. Inventories

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Raw materials*	1 745 700	2 527 773	2 483 908	3 596 697
Work in progress	3 312 931	1 635 281	4 713 876	2 326 795
Finished goods*:	643 049	488 492	914 976	695 061
- at net realizable value	814 489	724 434	1 158 913	1 030 777
- at cost	643 049	488 492	914 976	695 061
Allowance for slow-moving items	(290 404)	(239 882)	(413 208)	(341 321)
	5 411 276	**4 411 664**	**7 699 552**	**6 277 232**

During the reporting year, additional provisions for slow-moving items of LVL 50 522 (EUR 71 886) (2005/2006: LVL 74 538 (EUR 106 058)) were established and included in cost of sales.
The carrying amount of inventories carried at fair value less cost to sell is LVL 342 379 (EUR 487 161) (2005/2006 178 932 (EUR 254 597)).
* As at 30 June 2007, finished goods include goods in transit amounting to LVL 39 590 (EUR 56 331) (2005/2006: LVL 44 971(EUR 63 988).

Notes to the financial statements (cont'd)

8. Receivables

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Trade receivables	2 547 553	3 195 513	3 624 842	4 546 805
Allowances for bad and doubtful trade receivables	(191 438)	(219 717)	(272 392)	(312 629)
Trade receivables, net	**2 356 115**	**2 975 796**	**3 352 450**	**4 234 176**

Trade receivables comprise 5 Letters of Credit with original payment term up to 180 days for amount of LVL 1 053 551 (EUR 1 499 068) (2005/2006: LVL 1 880 252 (EUR 2 675 358)). As at 30 June 2007, 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 28 279 (EUR 40 237) (2005/2006 – decrease of LVL 66 368 (EUR 94 433)) *(see Note 19).*

9. Other receivables

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Government grant *	173 313	-	246 602	-
VAT receivable (see Note 23)	34 814	227 135	49 536	323 184
Other receivables	24 780	27 338	35 259	38 899
Prepayments to suppliers	15 491	26 928	22 042	38 315
	248 398	**281 401**	**353 439**	**400 398**

* - Government grants relates to projects on participation in international exhibitions, on increasing employee qualification, and for support in development of new products.

10. Derivatives

	30/06/2007		30/06/2006		30/06/2007		30/06/2006	
	Assets LVL	Liabilities LVL	Assets LVL	Liabilities LVL	Assets EUR	Liabilities EUR	Assets EUR	Liabilities EUR
Forward FX contracts	-	-	21 593	-	-	-	30 724	-

11. Cash and cash equivalents

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Cash at bank	200 217	420 201	284 882	597 893
Short-term bank deposits	66 298	700 000	94 334	996 010
	266 515	**1 120 201**	**379 216**	**1 593 903**

As at 30 June 2007 the annual interest rate on short-term bank deposits (overnight deposits) was 2.73% for LVL (as at 30 June 2006 on short-term (three months) bank deposits was 4.00%)

Notes to the financial statements (cont'd)

12. Deferred corporate income tax (asset)/ liability

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Deferred tax liability at the beginning of the year	(26 477)	15 082	(37 673)	21 460
Change in deferred tax liability during the reporting year (see Note 22)	(20 196)	(41 559)	(28 737)	(59 133)
Deferred tax (asset)/ liability at the end of the year	**(46 673)**	**(26 477)**	**(66 410)**	**(37 673)**

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

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Temporary difference on fixed asset depreciation and intangible asset amortisation	16 529	25 040	23 519	35 629
Temporary difference on vacation pay reserve	(19 642)	(15 535)	(27 948)	(22 104)
Temporary difference on provisions for slow-moving and obsolete inventories	(43 560)	(35 982)	(61 981)	(51 198)
Deferred tax (asset)/ liability, net	**(46 673)**	**(26 477)**	**(66 410)**	**(37 673)**

No offsetting of deferred tax liabilities and assets has been performed.

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

13. Share capital

As at 30 June 2007, 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 (2005/2006: 2 970 180 shares).

Notes to the financial statements (cont'd)

14. Payables

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Trade payables	407 729	1 696 969	580 146	2 414 569
Vacation pay reserve	130 944	103 563	186 317	147 357
Taxes and social insurance contributions (see Note 23)	56 870	48 636	80 919	69 203
Other payables	179 890	179 729	255 960	255 731
Prepayments from customers	39 390	9 229	56 047	13 132
	814 823	**2 038 126**	**1 159 389**	**2 899 992**

During the reporting period increase in unused vacation pay included in Income Statement amounted to LVL 27 381 (EUR 38 960) (2005/2006: LVL 15 949 (EUR 22 692)).

15. Borrowings

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Bank overdrafts	**1 467 416**	**7 292**	**2 087 945**	**10 376**

The fair values of the borrowings approximate to their carrying values. All borrowings are due in less than 6 months. The balance of unused overdrafts as at 30 June 2007 was LVL 2 095 224 (EUR 2 981 235 (30 June 2006: LVL 23 024 (EUR 32 760)). The interest rate for the bank overdraft is one year Libor + 0.85%. The bank overdraft has been secured by a commercial pledge of all the Company's receivables and inventory.

16. Segment information and sales

a) The Company'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 Company, 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.

Notes to the financial statements (cont'd)

16. Segment information and sales (cont'd)

	CFQ		CFM		Other		Total	
	2006/7	2005/6	2006/7	2005/6	2006/7	2005/6	2006/7	2005/6
		LVL		LVL		LVL		LVL
Assets								
Segment assets	1 095 489	267 039	7 685 197	7 328 397	653 118	1 421 212	9 433 804	9 016 648
Undivided assets							1 403 872	2 041 495
Total assets							**10 837 676**	**11 058 143**
Segment liabilities	88 482	26 919	677 096	1 608 740	115 133	294 025	880 711	1 929 684
Undivided liabilities							1 577 027	147 863
Total liabilities							**2 457 738**	**2 077 547**
Income	1 437 128	136 438	10 381 565	10 942 553	1 592 989	1 928 331	13 411 682	13 007 322
Segment results	**(1 055 069)**	**(1 210 122)**	**3 236 185**	**4 095 577**	**375 237**	**640 973**	**2 556 353**	**3 526 428**
Undivided expense							(2 608 083)	(2 029 488)
Profit from operations							**(51 730)**	**1 496 940**
Other income							243 691	102 475
Financial expense, net							(174 036)	(150 375)
Profit before taxes							**17 925**	**1 449 040**
Corporate income tax							(24 547)	(182 090)
Profit for the year							**(6 622)**	**1 266 950**
Other information								
Additions of property plant and equipment and intangible assets	136 515	77 630	741 829	205 065	6 019	691	884 363	283 386
Undivided additions of property plant and equipment and intangible assets							365 828	204 635
Total additions of property plant and equipment and intangible assets							**1 250 191**	**488 021**
Depreciation and amortization	205 437	113 295	316 784	344 240	3 542	3 157	525 763	460 692
Undivided depreciation and amortization							200 481	201 133
Total depreciation and amortization							**726 244**	**661 825**

Notes to the financial statements (cont'd)

16. Segment information and sales (cont'd)

	CFQ		CFM		Other		Total	
	2006/7	2005/6	2006/7	2005/6	2006/7	2005/6	2006/7	2005/6
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets								
Segment assets	1 558 740	379 962	10 935 050	10 427 370	929 304	2 022 202	13 423 094	12 829 534
Undivided assets							1 997 530	2 904 786
Total assets							**15 420 624**	**15 734 320**
Segment liabilities	125 899	38 302	963 421	2 289 031	163 820	418 360	1 253 140	2 745 693
Undivided liabilities							2 243 907	210 390
Total liabilities							**3 497 047**	**2 956 083**
Income	2 044 849	194 134	14 771 636	15 569 850	2 266 619	2 743 768	19 083 104	18 507 752
Segment results	**(1 501 228)**	**(1 721 848)**	**4 604 676**	**5 827 481**	**533 915**	**912 022**	**3 637 363**	**5 017 655**
Undivided expense							(3 710 968)	(2 887 701)
Profit from operations							**(73 605)**	**2 129 954**
Other income							346 741	145 809
Financial expense, net							(247 631)	(213 964)
Profit before taxes							**25 505**	**2 061 799**
Corporate income tax							(34 927)	(259 092)
Profit for the year							**(9 422)**	**1 802 707**
Other information								
Additions of property plant and equipment and intangible assets	194 243	110 458	1 055 528	291 781	8 564	983	1 258 335	403 222
Undivided additions of property plant and equipment and intangible assets							520 527	291 169
Total additions of property plant and equipment and intangible assets							**1 778 862**	**694 391**
Depreciation and amortization	292 311	161 204	450 743	489 809	5 039	4 493	748 093	655 506
Undivided depreciation and amortization							285 259	286 186
Total depreciation and amortization							**1 033 352**	**941 692**

Notes to the financial statements (cont'd)

16. Segment information and sales (cont'd)

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

	Net sales		Assets	
	2006/7	2005/6	30/06/2007	30/06/2006
	LVL	LVL	LVL	LVL
Asia	3 515 948	4 181 024	841 871	1 918 385
America	1 514 860	2 260 658	381 624	82 778
Africa	783 896	430 603	59 354	117 339
Europe	4 136 143	3 511 664	270 504	421 398
CIS	2 780 634	1 962 377	450 320	357 094
Middle East	680 201	660 996	352 442	128 293
	13 411 682	**13 007 322**	**2 356 115**	**3 025 287**
Unallocated assets	-	-	8 481 561	8 032 856
	13 411 682	**13 007 322**	**10 837 676**	**11 058 143**

	Net sales		Assets	
	2006/7	2005/6	30/06/2007	30/06/2006
	EUR	EUR	EUR	EUR
Asia	5 002 743	5 949 061	1 197 875	2 729 616
America	2 155 451	3 216 627	543 002	117 782
Africa	1 115 383	612 693	84 453	166 958
Europe	5 885 202	4 996 648	384 893	599 595
CIS	3 956 486	2 792 211	640 748	508 099
Middle East	967 839	940 512	501 479	182 544
	19 083 104	**18 507 752**	**3 352 450**	**4 304 594**
Unallocated assets	-	-	12 068 174	11 429 726
	19 083 104	**18 507 752**	**15 420 624**	**15 734 320**

Notes to the financial statements (cont'd)

17. Cost of sales

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Purchases of components and subcontractors services	8 705 841	7 773 725	12 387 296	11 061 014
Salary expenses (including accruals for vacation pay)	1 065 702	817 042	1 516 357	1 162 546
Depreciation and amortization (*see Note 5*)	525 762	457 535	748 092	651 014
Social insurance (including accruals for vacation pay)	251 919	197 363	358 448	280 822
Rent of premises	87 616	64 812	124 666	92 219
Public utilities costs	64 733	34 527	92 107	49 127
Low value inventory	22 939	10 239	32 639	14 569
Transportation expenses	22 201	20 304	31 589	28 890
Other production costs	108 616	105 347	154 547	149 896
	10 855 329	**9 480 894**	**15 445 741**	**13 490 097**

Research and development related expenses of LVL 2 087 294 (EUR 2 969 952) (2005/2006: LVL 1 891 228 (EUR 2 690 975)) are included in the income statement caption cost of sales.

18. Selling and marketing costs

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Advertising and marketing costs	607 424	610 744	864 286	869 010
Wages and salaries (incl. vacation pay reserve)	517 436	277 040	736 245	394 192
Business trips	260 749	167 819	371 012	238 785
Depreciation and amortisation (*see Note 5*)	116 373	109 489	165 584	155 789
Social insurance contributions (incl. vacation pay reserve)	114 521	62 019	162 949	88 245
Delivery costs	111 254	90 228	158 300	128 383
Other selling and distribution costs	91 678	71 585	130 447	101 857
	1 819 435	**1 388 924**	**2 588 823**	**1 976 261**

Notes to the financial statements (cont'd)

19. Administrative expense

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Wages and salaries (incl. vacation pay reserve)	186 390	166 126	265 209	236 376
Depreciation and amortisation (*see Note 5*)	82 476	93 597	117 353	133 177
Training expenses	60 922	27 332	86 684	38 890
Representation expense	49 990	32 933	71 129	46 859
IT services	47 231	75 136	67 204	106 909
Bank charges	44 425	36 182	63 211	51 482
Sponsorship	36 870	53 488	52 461	76 107
Social insurance contributions (incl. vacation pay reserve)	34 668	33 905	49 328	48 242
Business trips	13 432	16 464	19 112	23 426
Public utilities costs	11 357	6 833	16 160	9 722
Office maintenance costs	9 788	8 850	13 927	12 592
Insurance expenses	9 782	11 154	13 919	15 871
Rent of premises	9 363	8 368	13 322	11 907
Communications expense	8 310	11 084	11 824	15 771
Allowance for bad and doubtful receivables	(28 279)	(64 767)	(40 237)	(92 155)
Other administration expense	211 923	123 879	301 539	176 264
	788 648	**640 564**	**1 122 145**	**911 440**

20. Other income

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Government grant	207 783	100 958	295 649	143 650
Other income	35 908	1 517	51 092	2 159
	243 691	**102 475**	**346 741**	**145 809**

The Company has received LVL 39 589 (EUR 56 331) (2005/2006 – LVL 100 958 (EUR 143 650)) of government grant. The residual value LVL 173 313 (EUR 246 602) is receivable (*see Note 9*) and LVL 5 119 (EUR 7 284) deferred income.

21. Financial expense, net

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Interest expense	91 863	2 280	130 709	3 244
Loss from changes in fair value of derivatives	21 593	-	30 724	-
Currency exchange loss, net	65 679	197 895	93 453	281 579
	179 135	**200 175**	**254 886**	**284 823**

Notes to the financial statements (cont'd)

22. Corporate income tax

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Change in deferred tax liability (see Note 12)	(20 196)	(41 559)	(28 737)	(59 133)
Corporate income tax charge for the current reporting year	44 743	223 649	63 664	318 225
	24 547	**182 090**	**34 927**	**259 092**

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

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Profit before taxation	**17 925**	**1 449 040**	**25 505**	**2 061 799**
Tax rate	15%	15%	15%	15%
Theoretically calculated tax	2 689	217 356	3 826	309 270
Expenses not deductible for tax purposes	33 044	10 199	47 017	14 513
Tax relief on donations	(11 186)	(45 465)	(15 916)	(64 691)
Tax charge	**24 547**	**182 090**	**34 927**	**259 092**

The State Revenue Service may inspect the Company's books and records for the last 2.5 years (starting from 1 January 2005) and impose additional tax charges with penalty interest and penalties. The Company'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).

Notes to the financial statements (cont'd)

23. Tax payable

	VAT	Natural resource tax	Social insurance contri-butions	Personal income tax	Corporate income tax	Unemploy-ment risk duty	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Payable as at 30.06.2006.	**-**	**-**	**29 845**	**18 753**	**-**	**38**	**48 636**
(Receivable)*as at 30.06.2006.	**(227 135)**	**-**	**-**	**-**	**(285 625)**	**-**	**(512 760)**
Calculated for the period	(1 055 166)	2 267	551 569	401 966	72 138	516	(26 710)
Transferred to/from other taxes	634 157	-	(472 071)	(25 743)	(135 831)	(512)	-
Repaid by SRS	613 330	-	(3 335)	-	-	-	609 995
Paid in the period	-	(2 267)	(72 350)	(371 804)	(1 768)	(2)	(448 191)
Payable as at 30.06.2006.	**-**	**-**	**33 658**	**23 172**	**-**	**40**	**56 870**
(Receivable)*as at 30.06.2006.	**(34 814)**	**-**	**-**	**-**	**(351 086)**	**-**	**(385 900)**

	VAT	Natural resource tax	Social insurance contri-butions	Personal income tax	Corporate income tax	Unemploy-ment risk duty	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Payable as at 30.06.2006.	**-**	**-**	**42 466**	**26 683**	**-**	**54**	**69 203**
(Receivable)*as at 30.06.2006.	**(323 184)**	**-**	**-**	**-**	**(406 408)**	**-**	**(729 592)**
Calculated for the period	(1 501 366)	3 226	784 812	571 946	102 643	734	(38 005)
Transferred to/from other taxes	902 324	-	(671 697)	(36 629)	(193 270)	(728)	-
Repaid by SRS	872 690	-	(4 745)	-	-	-	867 945
Paid in the period	-	(3 226)	(102 945)	(529 029)	(2 515)	(3)	(637 718)
Payable as at 30.06.2006.	**-**	**-**	**47 891**	**32 971**	**-**	**57**	**80 919**
(Receivable)*as at 30.06.2006.	**(49 536)**	**-**	**-**	**-**	**(499 550)**	**-**	**(549 086)**

Notes to the financial statements (cont'd)

24. 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 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Profit for the reporting year (a)	(6 622)	1 266 950	(9 422)	1 802 707
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	**-0.002**	**0.427**	**-0.003**	**0.607**

25. Dividends per share

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Dividends paid	594 036	297 018	845 237	422 619
Number of shares upon payment	2 970 180	2 970 180	2 970 180	2 970 180
Dividends per share for the reporting year (a/b), LVL	**0.20**	**0.10**	**0.28**	**0.14**

Company's management proposal is not to pay dividends in respect of the financial year 2006/2007.

26. Related party transactions

Remuneration to the Board and the Council

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Remuneration to the Board Members				
· salaries*	130 158	94 754	185 198	134 823
· social insurance contributions*	18 799	15 987	26 749	22 747
Remuneration to the Council Members				
· salaries*	86 701	69 475	123 364	98 855
· social insurance contributions*	14 882	15 944	21 175	22 686
Total	**250 540**	**196 160**	**356 486**	**279 111**

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

Notes to the financial statements (cont'd)

26. Related party transactions (cont'd)

During the period from 1 July 2006 until 30 June 2007, the Company sold its products to SAF Tehnika Sweden AB for the total amount of LVL 45 896 (EUR 65 304), provided lease of tangible assets for the amount of LVL 56 926 (EUR 80 998) and other services for the total amount of LVL 3 258 (EUR 4 636).

During the period from 1 July 2006 until 30 June 2007, the Company received research and advisory services from SAF Tehnika Sweden AB for the total amount of LVL 1 337 590 (EUR 1 903 219) and other services totalling LVL 28 006 (EUR 39 849). Besides the Company bought goods from SAF Tehnika Sweden AB for the total amount of LVL 15 993 (EUR 22 756).

During the period from 1 July 2006 until 30 June 2007, the Company has received repayment of a current interest-free loan from SAF Tehnika Sweden AB of LVL 128 499 (EUR 182 837).

The chairman of the Board is shareholder of CityCredit SIA, FMS SIA and Namīpašumu pārvalde SIA as well as member of the Board in Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija and Latvijas Telekomunikāciju Asociācija.
The council member Janis Bergs is chairman of the Board and shareholder of FMS SIA.
The council member Ivars Šenbergs is Chairman of the Board and shareholder of Namīpašumu pārvalde SIA

During the period from 1 July 2006 until 30 June 2007 the Company has paid to Latvijas Telekomunikāciju asociācija LVL 1 000 (EUR 1 423) and to Latvijas Elektrotehnikas Rūpniecības Asociācija LVL 2 125 (EUR 3 024) as membership fee. In the same period SAF Tehnika A/S provided service to Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija for the total amount of LVL 1836 (EUR 2 612).

During the period 1 July 2006 until 30 June 2007, the Company has lent an amount of EUR 34,800 and LVL 20 000 to the organization Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija, according to the long-term borrowing agreement. The maturity of the loan is 31.12.2016. The loan is interest-free.

During the period from 1 July 2006 until 30 June 2007, the Company has received services from CityCredit SIA (related party from 17 March 2006) in the amount of LVL 255 (EUR 363).

During the period from 1 July 2006 until 30 June 2007, the Company has received services from FMS SIA (related party from 30 June 2006) in the amount of LVL 28 916 (EUR 41 144). Besides Company provided services to FMS SIA for the total amount of LVL 23 600 (EUR 33 580) and sold goods for the total amount of LVL 170 (EUR 242).

During the period from 1 July 2006 until 30 June 2007 the Company sold goods to Namīpašumu pārvalde SIA for the total amount of LVL 474 (EUR 674).

Notes to the financial statements (cont'd)

27. Personnel expense

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Wages and salaries*	1 769 528	1 260 209	2 517 812	1 793 116
Social insurance contributions*	401 109	293 287	570 727	417 310
Contributions to pension funds (incl. social insurance contributions)	14 329	15 475	20 388	22 019
Total	**2 184 966**	**1 568 971**	**3 108 927**	**2 232 445**

* 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.

28. Average number of employees

	Year ended 30/06/2007	Year ended 30/06/2006
Average number of personnel employed during the reporting year:	**168**	**126**

29. 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 m^2 for consideration. The premises are locates at Ganību dambis 24a. The agreement expires on 1 March 2016.

According to the signed agreements, the Company has the following lease payment commitments as at 30 June 2007.

	LVL	EUR
1 year	99 736	141 912
2 – 5 years	404 618	575 720
More than 5 years	370 900	527 742
	875 254	**1 245 374**

30. Contingent liabilities

The Company 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 Company has given guarantees in the ordinary course of business amounting to LVL 173 777 (EUR 247 262) (2005/2006: LVL 186 427 (EUR 265 262) to third parties.

As collateral for above guarantees, the Company has pledged one debtor receivables for a maximum amount of LVL 430 300 (EUR 612 262).

Notes to the financial statements (cont'd)

31. Going concern

The Company closed the reporting year with negative operating cash flow of LVL 667 thousand (EUR 950 thousand) and net loses of LVL 7 thousand (EUR 9 thousand) that is by 1 274 thousand (EUR 1 812 thousand) lower than in previous reporting period. The main reason for the decreased profitability was a delay of several large sales orders.

The Company's management believes that the existing situation is temporary and takes measures to ensure profitability at the previous level. The Company has implemented cost-cutting plan and has decreased salaries to personnel by 15 – 30%. Moreover, Company has started the process of reorienting its sales strategy from participation only in large tenders to building a network of smaller clients that make regular purchases, thus, optimising cash flow.

Current assets of the Company are higher than current liabilities. Although all borrowings are due in less than 6 month, they can be covered by debtor balances that mainly have payment terms within 6 month period. Currently there is also no indication that Company will not be able to prolong overdraft agreements.

32. 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 Company as at 30 June 2007 or its financial performance and cash flows for the year then ended..