

**SAF TEHNIKA A/S**

**ANNUAL ACCOUNTS FOR THE PERIOD  
FROM 1 JULY 2002 TO 30 JUNE 2003**

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**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

**Information on the Company**

Name of the Company	SAF Tehnika A/S
Legal status of the Company	Joint stock company
Number, place and date of registration	000 347 410 Riga, 27 December 1999
Address	Dzirnavu iela 91 Riga, LV-1011 Latvia
Names and addresses of shareholders	Microlink AS, Parnu 158, Tallinn 11317, Estonia (51%) Juris Zieme, Palangas iela 11-23, Riga (10.29%) Didzis Liepkalns, Stērpeles, Birzguļu pag., Ogre district (19.60%) Andrejs Grišāns, Ozolu iela 12, Lielvārde (11.76%) Vents Lācars, Vecgaujas iela 9, Carnikavas pagasts (7.35%)
Names and positions of Board members	Normunds Bergs – Chairman of the Board Didzis Liepkalns – Deputy Chairman of the Board Ramona Ūdre – Board member
Financial year	1 July 2002 – 30 June 2003
Name and address of the auditor and responsible certified auditor	PricewaterhouseCoopers SIA Audit company licence No. 5 Kr. Valdemāra iela 19 Riga, LV-1010 Latvia  Responsible certified auditor: Juris Lapshe Certified auditor Certificate No. 116

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

**Report of the Board of Directors**

**Type of operations**

SAF Tehnika A/S basic operations consist of development, manufacture and sale of telecommunications equipment.

**Performance of the Company during the year**

In its fourth year of operations, SAF Tehnika A/S has increased production capacity by recruiting new employees almost threefold the previous number.

During the financial year, owing to capital investments and increased demand, sales amounts increased threefold.

Company continued increasing of export quantities. In the financial year, revenues from product sales abroad reached 84% (60% in the previous financial year).

**Scientific research and development**

Good prospects for the next years are provided by the fact that the firm mainly focuses on the design of the new products and improvement of the current products, thus supplying increasingly wide-range and higher quality products to its customers.

**Foreign subsidiaries and representation offices**

In June 2003, the Company purchased Estonian company (SAF International), which will deal with the sale of the telecommunications equipment manufactured by SAF Tehnika A/S.

**Post balance sheet events**

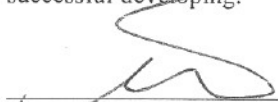
During the period between the last day of the financial year and the date of signing of this report there have been no significant events that would have a material effect on the year end results.

**Distribution of profit proposed by the Board**

The Board has proposed to pay in dividends LVL 150,000 of the profit of the financial year and to transfer the remaining amount in the reserves.

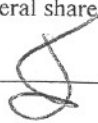
**Future prospects**

In the next financial year, on the basis of investments made during the previous years and the current year, increase of production capacity and the existing demand, the Management of SAF Tehnika A/S considers that the Company has ensured itself in order to continue development, to increase turnover and to continue successful developing.

  
Normunds Bergs  
Chairman of the Board

Riga, 23. 09. 2003

The annual accounts have been approved at the general shareholders' meeting on 23. 09. 2003.

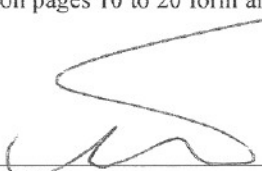
Chairman of the general shareholders' meeting 

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

**Profit and loss account for the period from 01.07.2002 to 30.06.2003**

	Note	12 months to 30.06.2003. Ls	12 months to 30.06.2002. Ls
1. Net sales	1	4,881,291	1,582,877
2. Cost of sales	2	(3,032,357)	(999,539)
3. <b>Gross profit</b>		<b>1,848,934</b>	<b>583,338</b>
4. Selling expenses	3	(492,072)	(418,744)
5. Administrative expenses	4	(205,598)	(73,881)
6. Other operating income		90	62
10. Other interest income and similar income		12	-
12. Interest expenses and similar expenses	5	(90,314)	(38,749)
16. <b>Profit before taxes</b>		<b>1,061,052</b>	<b>52,026</b>
17. Corporate income tax for the reporting year	6	(249,266)	(9,924)
19. <b>Financial year's profit</b>		<b>811,786</b>	<b>42,102</b>

Notes on pages 10 to 20 form an integral part of these financial statements.

  
 Normunds Bergrs  
 Chairman of the Board

23.09. 2003

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

Balance sheet as at 30 June 2003

(1)

	Note	30.06.2003 Ls	30.06.2002 Ls
<b>Assets</b>			
<b>Long-term investments</b>			
<b>I. Intangible assets:</b>			
1. Concessions, patents, licences, and similar rights		71,305	28,429
5. Advances for intangible assets		10,764	-
<b>Total intangible assets:</b>	7	<b>82,069</b>	<b>28,429</b>
<b>II. Fixed assets:</b>			
2. Leasehold improvements		37,456	-
3. Equipment and machinery		328,255	158,305
4. Other fixed assets and inventory		130,020	25,812
6. Advances for fixed assets		12,563	3,047
<b>Total fixed assets:</b>	7	<b>508,294</b>	<b>187,164</b>
<b>III. Long-term financial investments:</b>			
1. Investments in subsidiary undertakings		31,654	-
<b>Total long-term financial investments:</b>	8	<b>31,654</b>	<b>-</b>
<b>Total long-term investments:</b>		<b>622,017</b>	<b>215,593</b>
<b>Current assets</b>			
<b>I. Stock:</b>			
1. Raw materials and consumables		895,154	178,377
2. Work-in-progress		943,281	221,897
3. Finished goods and goods for sale		42,263	46,700
5. Advances for goods receivable		83,757	18,076
<b>Total stock:</b>		<b>1,964,455</b>	<b>465,050</b>
<b>II. Debtors:</b>			
1. Trade debtors	9	482,961	79,383
2. Receivables from affiliated companies	10	18,912	149,294
4. Other debtors	11	250,622	8,151
7. Deferred expenses	12	25,189	3,162
<b>Debtors:</b>		<b>777,684</b>	<b>239,990</b>
<b>IV. Cash and bank:</b>	13	<b>1,540</b>	<b>51,115</b>
<b>Total current assets:</b>		<b>2,743,679</b>	<b>756,155</b>
<b>Total assets</b>		<b>3,365,696</b>	<b>971,748</b>

Notes on pages 10 to 20 form an integral part of these financial statements.

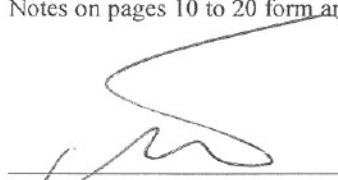
**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

**Balance sheet as at 30 June 2003**

(2)

	Note	30.06.2003 Ls	30.06.2002 Ls
<b>Liabilities</b>			
<b>Shareholders' funds:</b>			
1. Share capital	14	200,303	200,103
2. Share premium		521,679	171,717
3. Reserves		70,645	45,774
4. Retained earnings			
a) previous years' retained earnings		-	(17,231)
b) current year's profit		811,786	42,102
<b>Total shareholders' funds:</b>		<b>1,604,413</b>	<b>442,465</b>
<b>Provisions:</b>			
1. Provisions		34,998	12,337
2. Provisions for taxes		19,298	14,925
<b>Total provisions:</b>	15	<b>54,296</b>	<b>27,262</b>
<b>Creditors:</b>			
<b>Long-term creditors:</b>			
15. Long-term portion of finance leases	20	80,137	24,315
<b>Total long-term creditors:</b>		<b>80,137</b>	<b>24,315</b>
<b>Short-term creditors:</b>			
3. Loans from credit institutions	16	776,194	4,873
4. Other borrowings		-	27,058
6. Trade creditors		395,375	71,821
8. Accounts payable to affiliated companies	17	38,441	332,928
10. Taxes and social insurance	18	256,213	11,372
11. Other creditors	19	69,487	9,449
16. Short-term portion of finance leases	20	91,140	20,205
<b>Total short-term creditors:</b>		<b>1,626,850</b>	<b>477,706</b>
<b>Total liabilities</b>		<b>3,365,696</b>	<b>971,748</b>

Notes on pages 10 to 20 form an integral part of these financial statements.

  
Normunds Bergs  
Chairman of the Board

23. 09. 2003

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

**Statement of changes in equity for the year 2002/2003**

	Fixed capital	Stock premium	Reserve capital	Retained earnings / (losses)	Financial year's profit/ (loss)	Total
	Ls	Ls		Ls	Ls	Ls
<b>As at 30 June 2001</b>	<b>200,003</b>	<b>-</b>	<b>-</b>	<b>(17,231)</b>	<b>45,774</b>	<b>228,546</b>
Increase of share capital	100	171,717	-	-	-	171,817
Distribution of profit of year 2000/2001	-	-	45,774	-	(45,774)	-
Profit for the year	-	-	-	-	42,102	42,102
<b>As at 30 June 2002</b>	<b>200,103</b>	<b>171,717</b>	<b>45,774</b>	<b>(17,231)</b>	<b>42,102</b>	<b>442,465</b>
Increase of share capital	200	349,962	-	-	-	350,162
Distribution of profit of year 2001/2002	-	-	24,871	17,231	(42,102)	-
Profit for the year	-	-	-	-	811,786	811,786
<b>As at 30 June 2003</b>	<b>200,303</b>	<b>521,679</b>	<b>70,645</b>	<b>-</b>	<b>811,786</b>	<b>1,604,413</b>

In the financial statements of the previous year reserve capital in the amount of Ls 45,774 was included in the position 'Retained earnings/(losses) of previous periods'.

Notes on pages 10 to 20 form an integral part of these financial statements.

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

**Cash flow statement for year 2002/2003**

	Note	12 months to 30.06.2003. Ls	12 months to 30.06.2002. Ls
<b>Cash flow from operating activities</b>			
Profit before taxes		1,061,052	52,026
<u>Adjustments for:</u>			
– depreciation of fixed assets		184,659	55,336
– profit from disposal of fixed assets		(372)	-
– provisions for annual leave		22,661	1,614
<b>Cash flow from operating activities before changes in working capital</b>		<b>1,268,000</b>	<b>108,976</b>
Stock (increase)/decrease		(1,499,405)	132,476
Trade debtors' decrease		(537,694)	(59,312)
Trade creditors' increase		48,218	60,373
<b>Cash flow from operating activities</b>		<b>(720,881)</b>	<b>242,513</b>
Corporate income tax paid		(968)	-
<b>Net cash flow from operating activities</b>		<b>(721,849)</b>	<b>242,513</b>
<b>Cash flow from investing activities</b>			
Acquisition of fixed assets		(388,975)	(20,607)
Proceeds from sales of fixed assets		5,685	-
<b>Net cash flow from investing activities</b>		<b>(383,290)</b>	<b>(20,607)</b>
<b>Cash flow from financing activities</b>			
Increase of equity capital		350,162	171,817
Increase/(decrease) of loans		771,321	(314,353)
Finance lease payments		(65,919)	(36,400)
<b>Net cash flow from financing activities</b>		<b>1,055,564</b>	<b>(178,936)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(49,575)</b>	<b>42,970</b>
Cash and cash equivalents at the beginning of the reporting year		51,115	8,145
<b>Cash and cash equivalents at the end of reporting year</b>	13	<b>1,540</b>	<b>51,115</b>

Notes on pages 10 to 20 form an integral part of these financial statements.

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

**Notes**

**Accounting policies**

**(a) General principles**

Annual accounts are prepared in accordance with the laws of the Republic of Latvia 'On Accounting' and 'On the Annual Accounts of Companies'.

The profit and loss account is prepared in accordance with the turnover model.

The cash flow statement has been prepared using indirect cash flow method.

The accounting policies and valuation methods used by the Company are consistent with those used in the previous accounting period, except for changes in depreciation as described in the accounting policies note (d).

**(b) Net sales**

Net sales represent the total of goods sold during the year net of value added tax.

**(c) Foreign currency translation into Lats**

SAF Tehnika A/S maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted to Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place.

Assets and liabilities denominated in foreign currencies are translated into Lats in accordance with the official Bank of Latvia exchange rate for the last day of the reporting period. The resulting profit or loss is charged to the profit and loss account.

	<b>30.06.2003</b>	<b>30.06.2002</b>
	<b>Ls</b>	<b>Ls</b>
1 USD	0.569	0.605
1 EUR	0.652	0.596

**(d) Intangible assets and fixed assets**

Intangible assets and fixed assets are recorded at historic cost net of accumulated depreciation.

Depreciation is calculated on a straight-line basis during estimated useful life of relevant intangible and fixed assets to write the relevant fixed asset to its estimated residual value over its estimated useful life as follows:

	<b>% per annum</b>
Mobile phones	50
Technological equipment	33.33
Motor vehicles	20
Other fixtures and fittings	25

Licenses are amortized during their estimated useful life that usually is 2 years.

Leasehold improvements and repairs are amortized on a straight-line basis during the period of lease.

Useful life of intangible assets and fixed assets has been changed in the reporting year, by reconsidering and changing depreciation rates of individual fixed assets categories and types, in order the principles of amortization/depreciation of intangible assets/fixed assets of the Company would be compliance with the policy of the Parent company. The said change was made on 1 July 2002.

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

Notes (continued)

Accounting policies (continued)

(d) Intangible assets and fixed assets (continued)

	Previous rate % per annum	New rate % per annum
Technological equipment	25	33.33
Programs	25	33.33
Other equipment and accessories	20	25

(e) **Stock**

Stock is recorded at the lower of cost and net realisable value. The stock cost has been determined using FIFO method. Where required, slow moving, obsolete or damaged stock has been written down.

(f) **Accounts receivable**

Accounts receivable are recorded in the balance sheet at their net value, being original invoice amount less provisions made to cover anticipated loss on bad and doubtful accounts receivable. Provisions for bad and doubtful accounts receivable are established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions for bad and doubtful accounts receivable is the difference between the original invoice amount and the recoverable amount. The Company makes provisions on the basis of assessment of individual debtors' liabilities.

(g) **Finance leases**

Leases of assets under which the Company has substantially all the risks and rewards of ownership are classified as financial leases. Finance leases are capitalized at the inception of the lease at the present value of the minimum lease payments. The interest element of lease payments is charged to the profit and loss account over the lease period.

(h) **Investments in subsidiary undertakings**

Investments in subsidiary undertakings and associated companies are accounted for under the equity method. In accordance with this accounting method the investments in the subsidiary undertakings are reflected in the balance sheet at an amount that represents the Company's share of the net assets of the subsidiary undertakings and the carrying value of the goodwill arising on acquisition.

(i) **Taxation**

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided for using liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. Temporary differences arise mainly from different fixed asset depreciation rates. Where an overall deferred taxation asset arises, it is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

(j) **Provisions for unused annual leave**

Amount of provision for unused annual leave is determined by multiplying the average wage of employees for the last six months per day by the amount of accrued but unused annual leave at the end of the reporting year.

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

Notes (continued)

**Accounting policies (continued)**

**(k) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances of current account with banks. Bank overdrafts are included within short-term 'loans from credit institutions' on the balance sheet.

**(l) Comparatives**

During the year 2002 the Company changed the classification of several profit and loss account, balance sheet and cash flow positions. The comparatives for previous reporting period have been restated to comply with the changes made in the year 2002.

**(m) Consolidation principles**

The subsidiary undertaking was not consolidated due to insignificance of the financial information of the subsidiary.

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

**Notes (continued)**

**(1) Net sales**

	12 months to 30.06.2003. Ls	12 months to 30.06.2002. Ls
Income from sales of goods	4,869,248	1,572,097
Income from services provided	12,043	10,780
	<u>4,881,291</u>	<u>1,582,877</u>

**(2) Cost of sales**

Direct cost of production	2,456,853	723,729
Salary (incl. provisions for annual leave)	243,769	116,977
Depreciation of fixed assets and intangible assets	140,890	45,639
Social insurance (incl. provisions for annual leave)	59,635	29,921
Delivery expenses	36,454	19,749
Lease of premises	35,652	32,376
Low-value inventory	18,942	2,395
Public utilities costs	15,206	10,942
Transportation costs	10,731	9,136
Other production costs	14 225	8,675
	<u>3,032,357</u>	<u>999 539</u>

**(3) Selling expenses**

Advertising and marketing costs	370,068	359,198
Salary expenses (incl. provisions for annual leave)	55,696	25,843
Business trip expenses	20,555	10,789
Depreciation of fixed assets and intangible investment	14,546	2,280
Social insurance (incl. provisions for annual leave)	13,633	6,657
Other selling and distribution expenses	17,574	13,977
	<u>492,072</u>	<u>418,744</u>

**(4) Administrative expenses**

Provisions for doubtful trade debtors	39,750	(652)
Salary expenses (incl. provisions for annual leave)	31,510	6,646
Depreciation of fixed assets and intangible investment	29,224	7,417
Financial and management consultations	17,787	31,232
Bank commissions	13,745	2,976
Office expenses	9,679	1,001
IT services	9,240	2,502
Communication expenses	8,925	1,230
Social insurance (incl. provisions for annual leave)	7,477	1,733
Representation costs	6,346	3,291
Other administrative expenses	31,915	16,505
	<u>205,598</u>	<u>73,881</u>

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

Notes (continued)

**(5) Interest payments and similar expenses**

	12 months to 30.06.2003. Ls	12 months to 30.06.2002. Ls
Interest expenses	(38,111)	(15,253)
Net losses on foreign exchange	(52,203)	(23,496)
	<u>(90,314)</u>	<u>(38,749)</u>

**(6) Corporate income tax for the reporting year**

Deferred tax charge (see Note 15(a))	4,373	6,407
Corporate income tax charge for the current year	244,893	3,517
	<u>249,266</u>	<u>9,924</u>

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 22% rate stipulated by the law to profit/(loss) before taxation:

Profit before taxation	1,061,052	52,026
Theoretically calculated tax at a tax rate of 22 % (2001 – 25%)	233,431	13,007
Expenses not deductible for tax purposes	20,882	374
Tax discount for donations	(900)	(85)
Use of previous years' losses for corporate income tax purposes	-	(818)
Effect of changes in enacted tax rates	(4,147)	(2,554)
<b>Tax charge</b>	<u>249,266</u>	<u>9,924</u>

Deferred tax is calculated by using the enacted tax rates.

Year	Tax rate
2002/2003	22%
2003/2004	19%
2004/2005 and thereafter	15%

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

Notes (continued)

**(7) Fixed assets and intangible assets**

	<b>Intangible assets</b>	<b>Leasehold improvements</b>	<b>Equipment and machinery</b>	<b>Other fixed assets and inventory</b>	<b>Total</b>
	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>
<b>Cost</b>					
30.06.2002	41,868	-	212,174	32,369	286,411
Additions	80,496	42,925	298,763	122,278	544,462
Disposals	-	-	(2,902)	(7,096)	(9,998)
30.06.2003	122,364	42,925	508,035	147,551	820,875
<b>Depreciation</b>					
30.06.2002	13,439	-	53,869	6,557	73,865
Charge for the period	37,620	5,469	126,896	14,674	184,659
For disposed	-	-	(985)	(3,700)	(4,685)
30.06.2003	51,059	5,469	179,780	17,531	253,839
<b>Net book value</b>					
30.06.2002	28,429	-	158,305	25,812	212,546
<b>Net book value</b>					
30.06.2003	71,305	37,456	328,255	130,020	567,036

Advance payments for intangible assets are Ls 10,764 as at 30.06.2003 (Ls 0 as at 30.06.2002).

Advance payments for fixed assets are Ls 12,563 as at 30.06.2003 (Ls 3,047 as at 30.06.2002).

Due to changes in rates for depreciation of fixed assets, the calculated depreciation has increased by approximately Ls 50,000 in the reporting year.

Fixed assets of Ls 175,767 were acquired during the reporting year (2001: Ls 78,038) on the basis finance lease. Net book value of these fixed assets is Ls 150,420 as at 30 June 2003 (2001: Ls 40,456). The ownership of those fixed assets will be transferred to the Company only after settlement of all lease liabilities.

Intangible assets comprise licences and other similar rights, and computer software.

**(8) Long-term financial investments**

On 20 June 2003, the Company concluded a contract with Estonian joint stock company I-Vorgu Teenuste on purchase of 54,000 (100%) shares. Payment has not been made yet as on 30 June 2003. Acquisition price was equal to company's equity value. The Company uses the equity method for accounting for financial investments. In July 2003, the name of acquired company was changed to SAF International.

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

Notes (continued)

**(8) Long-term financial investments (continued)**

**(a) Information on subsidiary undertaking**

Name	Address	Equity		Profit of the reporting year	
		30.06.2003	30.06.2002	2002/2003	2001/2002
		Ls	Ls	Ls	Ls
SAF	Parnu 158, Tallinn	31,654	-	843	-
International	11317, Estonia				

SAF International basic operations consist of manufacture and trade with telecommunication equipment.

**(9) Trade debtors**

	30.06.2003	30.06.2002
	Ls	Ls
Trade debtors	522,711	79,383
Provisions for bad and doubtful trade debtors	(39,750)	-
	<u>482,961</u>	<u>79,383</u>

**(10) Debts of affiliated companies**

Microlink Latvija SIA	1,285	108,741
Fortek Informacines Technologijos	17,627	40,553
	<u>18 912</u>	<u>149 294</u>

**(11) Other debtors**

VAT overpaid (see Note 18)	200,126	-
VAT accepted	41,208	7,755
Import VAT advances	977	21
Amounts paid to suppliers which shall be returned	7,931	-
Other debtors	380	375
	<u>250,622</u>	<u>8,151</u>

**(12) Deferred expenses**

Prepayment for participation at exposition	17,429	-
Prepayment for insurance (employees and property)	3 706	-
Other deferred expenses	4,054	3,162
	<u>25,189</u>	<u>3,162</u>

**(13) Cash and bank**

Cash in hand	-	395
Cash in bank	1,540	50,720
	<u>1,540</u>	<u>51,115</u>

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

Notes (continued)

**(14) Share capital**

As at 30 June 2003 the share capital consists of 200,300 ordinary shares with the voting rights, and 3 ordinary shares without the voting rights. Nominal value of share is Ls 1. As at 30 June 2003 share capital is fully paid.

**(15) Provisions**

	Provisions for taxes	Provisions for unused annual leave	Total
	Ls	Ls	Ls
30 June 2002	14,925	12,337*	27 262
Increase	4,373	22,661	27,034
30 June 2003	<u>19,298</u>	<u>34,998</u>	<u>54,296</u>

\* - Provisions for unused annual leave were included in 'Other creditors' in the previous financial statements.

**(a) Provisions for taxes**

	30.06.2003	30.06.2002
	Ls	Ls
Deferred tax liability at the beginning of the reporting year	14,925	8,518
Increase of deferred tax liability during the reporting year (see Note 6)	4,373	6,407
Deferred tax liability at the end of the reporting year	<u>19,298</u>	<u>14,925</u>

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

Temporary difference on fixed assets depreciation	28,855	18,009
Temporary difference on provisions for unused annual	(6,650)	(3,084)
Accruals for trade commissions	(2,907)	-
Deferred tax liability	<u>19,298</u>	<u>14,925</u>

**(16) Loans from credit institutions**

Overdraft at Nordea bank	6	-
Overdraft Hansabanka	776,188	4,873*
	<u>776,194</u>	<u>4,873</u>

\* - Overdraft liability to Hansabanka was included in 'Other creditors' in the previous financial statements.

On March 6 2001, Hansbanka A/S as one party and MicroLink AS, MicroLink Latvia SIA, SAF Tehnika A/S, Delfi A/S, Baltijas Datoru Akadēmija SIA un MicroLink Netcoms SIA (all together – the Group) as other party entered into "General contract for total limit allocation for the Group".

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

Notes (continued)

**(16) Loans from credit institutions (continued)**

Contract allocates total credit limit to the Group in order to carry out borrowing, guarantee and foreign currency exchange deals. On June 30, 2003 total limit is Ls 3 460 000 and fixed interest rate 7.6% per annum.

Members of the Group are solidary liable to Hansbanka for all liabilities arising from above mentioned contract and all related contracts in case any of members of the Group is not able to fulfill its obligations against the bank.

MicroLink AS determines maximal credit line limits to undertakings of the Group. On 30 June 2003, the granted credit line limit to SAF Tehnika A/S is USD 1,000,000 and Ls 481,495.

As a security for the overdraft in Hansabank, all Company assets have been pledged with maximal claim amount of Ls 2.4 million:

- Fixed assets and accessories, except for mechanical motor vehicles, pledge of what is not compulsory prohibited, as common property at the moment of pledge, as well as further shares of common property;
- Intangible assets, claim rights, long-term financial investments, participation in capitals, deposits and stock, pledging of what is not compulsory prohibited, as common property at the moment of pledge, as well as further shares of common property.

**(17) Accounts payable to affiliated companies**

	30.06.2003 Ls	30.06.2002 Ls
MicroLink Data AS	31,654	-
MicroLink AS	4,260	324,632
MicroLink Latvija SIA	2,443	5,642
MicroLink ServIT A/S	84	2,654
	<u>38,441</u>	<u>332,928</u>

**(18) Taxes and social insurance**

	VAT	Natural resources tax	Social insurance	Personal income tax	Corporate income tax	Entrepre- neurship risk state duty	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
<b>Liability 30.06.2002</b>	<b>412</b>	<b>-</b>	<b>4,589</b>	<b>2,854</b>	<b>3,517</b>	<b>-</b>	<b>11,372</b>
Charge for 2002/2003	(672,987)	490	95,501	62,124	249,414	276	(265,182)
Penalties calculated for 2002/2003	102	-	-	-	-	-	102
Transferred to other taxes	126,750	(17)	(74,377)	(41,641)	(10,715)	-	-
Returned by the SRS	347,582	-	-	-	-	-	347,582
Paid in 2002/2003	(1,985)	(437)	(14,716)	(19,462)	(968)	(219)	(37,787)
<b>Liability 30.06.2003</b>	<b>-</b>	<b>36</b>	<b>10,997</b>	<b>3,875</b>	<b>241,248</b>	<b>57</b>	<b>256,213</b>
<b>(Overpaid)</b>							
<b>30.06.2003</b>	<b>(200,126)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(200,126)</b>

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

Notes (continued)

**(19) Other creditors**

	30.06.2003	30.06.2002
	Ls	Ls
Salaries	20,835	9,003
Calculated bonuses	33,294	-
Other creditors	15,358	446
	<u>69,487</u>	<u>9,449</u>

**(20) Finance leases**

Finance lease liabilities – minimum lease payments:

Current:		
Finance lease payments	97 788	23 197
Non-current:		
Finance lease payments due within 1-5 years	83 436	32 004
Future finance charges on finance leases	(9 947)	(10 681)
Present value of finance lease liabilities	<u>171 277</u>	<u>44 520*</u>

The present value of finance leases is as follows:

Current:		
Finance lease payments	91 140	20 205
Non-current:		
Finance lease payments due within 1-5 years	80 137	24 315
	<u>171,277</u>	<u>44,520*</u>

\*- in the financial statement of the previous year finance lease liabilities were disclosed without value added tax.

AS SAF Tehnika has entered into finance lease contracts for rent of cars and production machinery (see note 7 as well).

**(21) Average number of employees**

	12 months to 30.06.2003.	12 months to 30.06.2002.
Average number of employees during the reporting year:	<u>48</u>	<u>25</u>

**SAF TEHNIKA A/S**  
**ANNUAL ACCOUNTS FOR THE PERIOD FROM 1 JULY 2002 TO 30 JUNE 2003**

Notes (continued)

**(22) Management remuneration**

	12 months to 30.06.2003. Ls	12 months to 30.06.2002. Ls
Board members' remuneration		
· salary expenses	36,586	23,352
· social insurance	9,003	5,681
Other management remuneration		
· salary expenses	11,009	366
· social insurance	2,652	95
	<u>59,250</u>	<u>29,494</u>

**(23) Rent and lease agreements**

**Lease Contract No. S-116/02, concluded on 10 December 2002**

The contract concluded with Dambis A/S to agree that the Lessor delivers and SAF Tehnika A/S accepts for use the premises of total area 1,978.5 sq.m in the building situated at Ganību dambis 24a, for charge. The contract has been concluded for 2 years.

**(24) Related party transactions**

At the end of the reporting year, affiliated company Microlink Latvija SIA owed to the Company Ls 1,285. The said debt consists of a debt for goods sold in the amount of Ls 1,126 and of performed equipment repair works in the amount of Ls 159.

On 30 June 2003, affiliated company Fortek Informācijas Tehnoloģijas owed to the Company for products sold in the amount of Ls 17,627.

Company's debt to its parent company (Microlink A/S) equals to Ls 4,260 as at 30 June 2003. The said debt is for overdraft interest in June.

In June 2003, the Company concluded an agreement with Microlink Data AS (Estonia) on purchase of I-Vorgu Teenuste AS for Ls 31,654. As at 30.06.2003, the said amount has not been paid.

Total debt of the Company to affiliated company Microlink Latvija SIA equals to Ls 2,443 on 30 June 2003. The said debt includes payment for fixed assets purchased in the amount of Ls 1,563 and Ls 880 for services provided.

On 30 June 2003, the Company had debt to affiliated company Microlink ServIT for IT services in the amount of Ls 84.

## AUDITORS' REPORT

### **To the shareholders of SAF Tehnika a/s**

We have audited the financial statements on pages 5 to 20 of SAF Tehnika a/s for the 12 months period ended 30 June 2003. The audited financial statements include the balance sheet as of 30 June 2003, related profit and loss account, statement of changes in equity and cash flow statement for the 12 months period ended 30 June 2003 and note disclosure. These financial statements are the responsibility of SAF Tehnika a/s management. 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 issued by International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of SAF Tehnika a/s as of 30 June 2003, and of the results of its operations and its cash flows for the 12 months period ended 30 June 2003 in accordance with the requirements of the law On the Annual Accounts of Companies of the Republic of Latvia.

PricewaterhouseCoopers SIA  
Audit company licence No. 5



Juris Lapshe  
Personal ID: 250670-10408  
Certified auditor  
Certificate No. 116

Member of the Board

23 September 2003