

SAF TEHNIKA A/S

**INTERIM ACCOUNTS FOR
THE 6 MONTHS PERIOD ENDED
31 DECEMBER 2003**

SAF TEHNIKA A/S
ITERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003
Translation from Latvian original

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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 street 91 Riga, LV-1011 Latvia |
| Names and addresses of shareholders | Microlink AS, Parnu 158, Tallinn 11317, Estonia (51%) Juris Zieme, Palangas street 11-23, Riga (10.29%) Didzis Liepkalns, Stērpeles, Birzguļu parish, Ogre district (19.60%) Andrejs Grišāns, Ozolu street 12, Lielvārde (11.76%) Vents Lācars, Vecgaujas street 9, Carnikavas parish (7.35%) |
| Names and positions of Board members | Normunds Bergs – Chairman of the Board Didzis Liepkalns – Deputy Chairman of the Board Ramona Bušmane – Board member |
| Financial period | 1 July 2003 – 31 December 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 |

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Report of the Management

Line of business

The Company's principal activities consist of the development, manufacture and sale of telecommunications equipment.

Performance during the six months

During the reporting period SAF Tehnika A/S boosted its production capacity through increasing its workforce by 75% (the average number of employees for the 12 months ended 30 June 2003 was 48) and through increasing its rented space by 74% on the previous financial year.

As a result of the Company's capital investments and increased demand, its sales during the reporting period rose five times on the corresponding six-month period in 2002.

The Company continued to increase its exports. Revenues from foreign sales reached 95% of total net sales in the reporting period (as against 72% in the corresponding six-month period in 2002).

Research and development

Prospects for the coming periods are good because the Company is strongly focused on developing new products and upgrading existing ones, thus offering an increasingly wide range of top quality products to its customers.

Foreign subsidiaries and representation offices

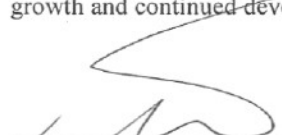
SAF International in Estonia did not carry out any significant activities in the reporting period.

Post balance sheet events

During the period between the last day of the reporting period and the date of signing this report there have been no significant events that would have a material effect on the Company's results for the reporting period.

Future prospects

In view of the prior-year and current-period investments, increased production capacity and existing demand, the management of SAF Tehnika A/S considers that the Company has positioned itself for sales growth and continued development in the future.


Normunds Bergs
Chairman of the Board

Riga, 5 March 2004

The accounts were approved at the General Meeting of Shareholders on 5 March 2004.

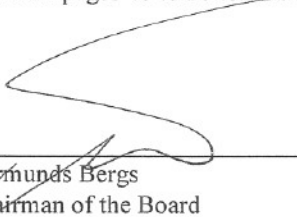

Chairman of the General Meeting

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Profit and loss account for the 6 months period ended 31 December 2003

| | Note | 6 months ended 31.12.2003 Ls | 6 months ended 31.12.2002 Ls |
|---|------|---------------------------------------|---------------------------------------|
| 1. Net sales | 1 | 7 813 536 | 1 587 112 |
| 2. Cost of sales | 2 | (3 503 713) | (906 076) |
| 3. Gross profit | | 4 309 823 | 681 036 |
| 4. Selling expenses | 3 | (541 639) | (196 618) |
| 5. Administrative expenses | 4 | (158 052) | (62 750) |
| 12. Interest expenses and similar expenses | 5 | (181 695) | (27 267) |
| 16. Profit before taxes | | 3 428 437 | 394 401 |
| 17. Corporate income tax for the reporting period | 6 | (641 465) | (124 633) |
| 19. Net profit for the reporting period | | 2 786 972 | 269 768 |

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


Normunds Bergs
Chairman of the Board

5 March 2004

SAF TEHNIKA A/S
INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003
Translation from Latvian original

Balance sheet as at 31 December 2003

(1)

| | Note | 31.12.2003 Ls | 30.06.2003 Ls |
|--|------|------------------|------------------|
| Assets | | | |
| Long-term investments | | | |
| I. Intangible assets: | | | |
| 1. Concessions, patents, licenses and similar rights | | 135 820 | 71 305 |
| 5. Advances for intangible assets | | 9 376 | 10 764 |
| Total intangible assets: | 7 | 145 196 | 82 069 |
| II. Fixed assets: | | | |
| 2. Leasehold improvements | | 110 470 | 37 456 |
| 3. Equipment and machinery | | 396 140 | 328 255 |
| 4. Other fixed assets | | 140 402 | 130 020 |
| 6. Advances for fixed assets | | 10 611 | 12 563 |
| Total fixed assets: | 7 | 657 623 | 508 294 |
| III. Long-term financial investments: | | | |
| 1. Investments in subsidiary undertakings | | 31 654 | 31 654 |
| Total long-term financial investments: | 8 | 31 654 | 31 654 |
| Total long-term investments: | | 834 473 | 622 017 |
| Current assets | | | |
| I. Inventories: | | | |
| 1. Raw materials and consumables | | 911 489 | 895 154 |
| 2. Work-in-progress | | 1 142 681 | 943 281 |
| 3. Finished goods and goods for sale | | 91 613 | 42 263 |
| 5. Advances for goods receivable | | 18 132 | 83 757 |
| Total inventories: | | 2 163 915 | 1 964 455 |
| II. Debtors: | | | |
| 1. Trade debtors | 9 | 2 432 605 | 482 961 |
| 2. Receivables from affiliated companies | 10 | 45 383 | 18 912 |
| 4. Other debtors | 11 | 128 943 | 250 622 |
| 7. Deferred expenses | 12 | 22 705 | 25 189 |
| Total debtors: | | 2 629 636 | 777 684 |
| IV. Cash and bank: | | | |
| | | 80 454 | 1 540 |
| Total current assets: | | 4 874 005 | 2 743 679 |
| Total assets | | 5 708 478 | 3 365 696 |

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

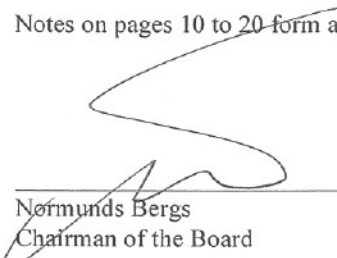
SAF TEHNIKA A/S
INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003
Translation from Latvian original

Balance sheet as at 31 December 2003

(2)

| | Note | 31.12.2003 Ls | 30.06.2003 Ls |
|--|------|------------------|------------------|
| Liabilities | | | |
| Shareholders' funds: | | | |
| 1. Share capital | 13 | 200 303 | 200 303 |
| 2. Share premium | | 521 679 | 521 679 |
| 4. Reserves | | | |
| c) statutory reserves | | 732 431 | 70 645 |
| 5. Retained earnings | | | |
| b) current period's profit | | 2 786 972 | 811 786 |
| Total shareholders' funds: | | 4 241 385 | 1 604 413 |
| Provisions: | | | |
| 2. Provisions for taxes | | 17 115 | 19 298 |
| 3. Other provisions | | 46 521 | 50 298 |
| Total provisions: | 14 | 63 636 | 69 596 |
| Creditors: | | | |
| Long-term creditors: | | | |
| 4. Other borrowings | | 99 032 | 80 137 |
| Total long-term creditors: | 19 | 99 032 | 80 137 |
| Short-term creditors: | | | |
| 3. Loans from credit institutions | 15 | 696 | 776 194 |
| 4. Other borrowings | 19 | 113 771 | 91 140 |
| 6. Trade creditors | | 392 063 | 395 375 |
| 8. Accounts payable to affiliated companies | 16 | 16 623 | 38 441 |
| 10. Taxes and social insurance | 17 | 610 445 | 256 213 |
| 11. Other creditors | 18 | 57 577 | 54 187 |
| 14. Prior period's unpaid dividends | | 113 250 | - |
| Total short-term creditors: | | 1 304 425 | 1 611 550 |
| Total liabilities and shareholders' funds | | 5 708 478 | 3 365 696 |

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


Normunds Bergs
Chairman of the Board

5 March 2004

SAF TEHNIKA A/S
INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003

Translation from Latvian original

Statement of changes in equity for the 6 months period ended 31 December 2003

| | Share capital Ls | Share premium Ls | Statutory reserve | Accumulated losses Ls | Current period's profit Ls | Total Ls |
|-------------------------------|---------------------|------------------------|----------------------|-----------------------------|----------------------------------|------------------|
| As at 30 June 2002 | 200 103 | 171 717 | 45 774 | (17 231) | 42 102 | 442 465 |
| Profit for the period | - | - | - | - | 269 768 | 269 768 |
| As at 31 December 2003 | 200 103 | 171 717 | 45 774 | (17 231) | 311 870 | 712 233 |
| Increase of share capital | 200 | 349 962 | - | - | - | 350 162 |
| Allocation of profit | - | - | 24 871 | 17 231 | (42 102) | - |
| Profit for the period | - | - | - | - | 542 018 | 542 018 |
| As at 30 June 2003 | 200 303 | 521 679 | 70 645 | - | 811 786 | 1 604 413 |
| Distribution to shareholders | - | - | - | - | (150 000) | (150 000) |
| Transfer to reserves | - | - | 661 786 | - | (661 786) | - |
| Profit for the period | - | - | - | - | 2 786 972 | 2 786 972 |
| As at 31 December 2003 | 200 303 | 521 679 | 732 431 | - | 2 786 972 | 4 241 385 |

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

SAF TEHNIKA A/S
INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003
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Cash flow statement for the 6 months period ended 31 December 2003

| | Note | 6 months ended 31.12.2003 Ls | 6 months ended 31.12.2002 Ls |
|--|------|---------------------------------------|---------------------------------------|
| Cash flow from operating activities | | | |
| Profit before taxes | | 3 428 437 | 394 401 |
| <u>Adjustments for:</u> | | | |
| – depreciation and amortisation | 7 | 148 632 | 68 648 |
| – loss on disposal of fixed assets | | - | 66 |
| – provisions for bad and doubtful accounts receivable | 4 | (13 389) | 15 607 |
| – provisions for slow moving inventories | | 11 006 | - |
| – provisions for annual leave | 14 | 11 523 | 6 786 |
| – provisions for trade commissions | 14 | (15 300) | 30 310 |
| Cash flow from operating activities before changes in working capital | | 3 570 909 | 515 818 |
| Inventories increase | | (210 466) | (399 120) |
| Trade debtors' increase | | (1 898 644) | (157 558) |
| Trade creditors' increase | | 15 367 | 190 437 |
| Cash flow from operating activities before tax paid | | 1 477 166 | 149 577 |
| Corporate income tax paid | 17 | (241 548) | (4 654) |
| Net cash flow from operating activities | | 1 235 618 | 144 923 |
| Cash flow from investing activities | | | |
| Acquisition of fixed assets and intangible assets | | (245 374) | (100 907) |
| Proceeds from sales of fixed assets | | 177 | - |
| Investment in subsidiary | | (31 255) | - |
| Net cash flow used in investing activities | | (276 452) | (100 907) |
| Cash flow from financing activities | | | |
| Dividends paid | | (36 750) | - |
| Finance lease payments | | (68 004) | (48 538) |
| Repayment of borrowings | | (775 498) | (30 178) |
| Net cash used in from financing activities | | (880 252) | (78 716) |
| Net increase/(decrease) in cash and cash equivalents | | 78 914 | (34 700) |
| Cash and cash equivalents at the beginning of the reporting period | | 1 540 | 51 115 |
| Cash and cash equivalents at the end of reporting period* | | 80 454 | 16 415 |

* Comparative figures of the cash flow statement have been prepared for the 6 months period ended 31 December 2002, hereby the position "Cash and cash equivalents at the end of reporting period" does not match the position "Cash and bank" of the balance sheet as at 30 June 2003.

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

SAF TEHNIKA A/S
INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003

Translation from Latvian original

Notes

Accounting policies

(a) General principles

The annual full reporting period for the Company is set from July 1 through June 30. These financial statements have been prepared for interim reporting period for 6 months from July 1, 2003 through December 31, 2003. These financial statements are prepared in accordance with the requirements of 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.

(b) Net sales

Net sales represent the total of goods sold during the period 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.

Monetary 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.

| | 31.12.2003 | 30.06.2003 |
|-------|-------------------|-------------------|
| | Ls | Ls |
| 1 USD | 0.541 | 0.569 |
| 1 EUR | 0.674 | 0.652 |

(d) Intangible assets and fixed assets

Intangible assets and fixed assets are recorded at historic cost net of accumulated depreciation/amortisation. Depreciation is calculated on a straight-line basis to write down each fixed asset to its estimated residual value over its estimated useful life at the following rates set by the management:

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

Licenses are amortized on a straight-line basis over their estimated useful life that usually is 2 years.

Current repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

The cost of capital repairs is included in the carrying amount of the asset and is depreciated over the remaining useful life of the related asset.

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.

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Translation from Latvian original

Notes (continued)

Accounting policies (continued)

(d) Intangible assets and fixed assets (continued)

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the profit and loss account in the period in which they are incurred.

(e) Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realisable value of inventories is lower than its cost, inventories are revaluated. Provisions are created for slow moving inventories.

(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 finance leases. Finance leases are capitalised at the inception of lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The interest element of lease payments is charged to the profit and loss account during the period in which they are incurred.

(h) Investments in subsidiary undertakings

Investments in subsidiary undertakings 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.

At the end of the reporting period the carrying amount of the investments in subsidiary undertakings is increased or decreased to recognise the Company's share of profits or losses of the subsidiary undertakings after the date of acquisition. These changes to the investments carrying amount are reflected in the Company's profit and loss account

As the subsidiary is not material the Company uses exemption provided by the paragraph 2 of the Article 10 of the law "On Consolidated Annual Accounts" and does not prepare consolidated financial statements.

(i) Taxation

Corporate income tax for the reporting period is included in the financial statements based on expected average annual corporate income tax rate.

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.

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INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003

Translation from Latvian original

Notes (continued)

Accounting policies (continued)

(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 period.

(k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances of current account with banks.

(l) Related parties

Related parties are defined as Company's shareholders, members of the Board of Directors, their close relatives and companies in which they have a significant influence or control.

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INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003
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Notes (continued)

(1) Net sales

| | 6 months ended 31.12.2003 Ls | 6 months ended 31.12.2002 Ls |
|-------------------------------|---------------------------------------|---------------------------------------|
| Income from sales of goods | 7 803 915 | 1 582 676 |
| Income from services provided | 9 621 | 4 436 |
| | <u>7 813 536</u> | <u>1 587 112</u> |

(2) Cost of sales

| | | |
|---|------------------|----------------|
| Purchases and subcontractors | 3 014 565 | 686 312 |
| Salary expenses (incl. provisions for annual leave) | 238 061 | 81 210 |
| Social insurance (incl. provisions for annual leave) | 51 972 | 26 025 |
| Depreciation and amortisation of fixed assets and intangible assets | 104 844 | 55 989 |
| Delivery expenses | 23 117 | 15 999 |
| Lease of premises | 27 646 | 11 547 |
| Supplies | 8 827 | 5 666 |
| Public utilities costs | 7 745 | 10 794 |
| Transportation costs | 5 462 | 5 272 |
| Other production costs | 21 474 | 7 262 |
| | <u>3 503 713</u> | <u>906 076</u> |

(3) Selling expenses

| | | |
|---|----------------|----------------|
| Advertising and marketing costs | 410 630 | 161 858 |
| Salary expenses (incl. provisions for annual leave) | 54 995 | 18 087 |
| Social insurance (incl. provisions for annual leave) | 12 527 | 4 519 |
| Business trip expenses | 28 124 | 1 465 |
| Depreciation and amortisation of fixed assets and intangible assets | 21 549 | 2 828 |
| Other selling and distribution expenses | 13 814 | 7 861 |
| | <u>541 639</u> | <u>196 618</u> |

(4) Administrative expenses

| | | |
|---|----------------|---------------|
| Salary expenses (incl. provisions for annual leave) | 39 828 | 5 363 |
| Social insurance (incl. provisions for annual leave) | 8 001 | 1 176 |
| Depreciation and amortisation of fixed assets and intangible assets | 22 239 | 9 831 |
| Provisions for bad and doubtful accounts receivable | - | 15 607 |
| Decrease in provisions for bad and doubtful accounts receivable | (13 389) | - |
| Financial and management consultations | 4 294 | 12 265 |
| Bank commissions | 15 974 | 4 890 |
| Office expenses | 8 230 | 866 |
| IT services | 6 245 | 3 938 |
| Communication expenses | 5 626 | 933 |
| Representation costs | 9 975 | 1 426 |
| Other administrative expenses | 51 029 | 6 455 |
| | <u>158 052</u> | <u>62 750</u> |

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Notes (continued)

(5) Interest expenses and similar expenses

| | 6 months ended 31.12.2003 Ls | 6 months ended 31.12.2002 Ls |
|------------------------------|---------------------------------------|---------------------------------------|
| Interest expenses | 86 650 | 8 999 |
| Net loss on foreign exchange | 95 045 | 18 268 |
| | <u>181 695</u> | <u>27 267</u> |

(6) Corporate income tax for the reporting period

| | | |
|---|----------------|----------------|
| (Decrease) / increase in deferred tax (see Note 14 (a)) | (2 183) | 2 187 |
| Corporate income tax charge for the current period | 643 648 | 122 446 |
| | <u>641 465</u> | <u>124 633</u> |

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 19% rate stipulated by the law to profit before taxation:

| | |
|--|-----------------------|
| Profit before taxation | 3 428 437 |
| Theoretically calculated tax at a tax rate of 19% | 651 403 |
| Tax effect from expenses not deductible for tax purposes | 3 501 |
| Tax discount for donations | (12 920) |
| Effect of changes in enacted tax rates | (519) |
| Tax charge | <u>641 465</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% |

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INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003

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Notes (continued)

(7) Intangible assets and fixed assets

| | Intangible assets | Leasehold improvements | Equipment and machinery | Other fixed assets | Advances for fixed assets | Total |
|----------------------------------|------------------------------|-----------------------------------|--|-------------------------------|--|----------------|
| | Ls | Ls | Ls | Ls | Ls | Ls |
| Cost | | | | | | |
| 30.06.2003 | 122 364 | 42 925 | 508 035 | 147 551 | 23 327 | 844 202 |
| Additions | 79 318 | 82 412 | 152 269 | 27 279 | 19 987 | 361 265 |
| Reclassifications | 10 764 | - | 11 179 | 1 384 | (23 327) | - |
| Disposals | - | - | (649) | - | - | (649) |
| 31.12.2003 | 212 446 | 125 337 | 670 834 | 176 214 | 19 987 | 1 204 818 |
| Depreciation | | | | | | |
| 30.06.2003 | 51 059 | 5 469 | 179 780 | 17 531 | - | 253 839 |
| Charge for the period | 25 567 | 9 398 | 95 386 | 18 281 | - | 148 632 |
| For disposed | - | - | (472) | - | - | (472) |
| 31.12.2003 | 76 626 | 14 867 | 274 694 | 35 812 | - | 401 999 |
| Net book value 30.06.2003 | 71 305 | 37 456 | 328 255 | 130 020 | 23 327 | 590 363 |
| Net book value 31.12.2003 | 135 820 | 110 470 | 396 140 | 140 402 | 19 987 | 802 819 |

During the reporting period fixed assets in amount of Ls 92 820 were acquired under finance lease (2002/2003: Ls 175 767). The ownership of those fixed assets will be transferred to the Company only after settlement of all lease liabilities. Intangible assets include patents, licenses and computer software.

(8) Long-term financial investments

On 20 June 2003 the Company purchased 54 000 shares of Estonian joint stock company "I-Vorgu Teenuste". In July 2003 the name of acquired subsidiary was changed to "SAF International". The Company owns 100% of share capital of "SAF International".

(a) Information on subsidiary undertaking

| Name | Address | Net equity | | Profit of the reporting period | |
|---------------------|--------------------------------------|-------------------|-------------------|--|--|
| | | 31.12.2003 | 30.06.2003 | 6 months ended 31.12.2003 | 6 months ended 31.12.2002 |
| | | Ls | Ls | Ls | Ls |
| "SAF International" | Parnu 158, Tallinn 11317, Estonia | 31 654 | 31 654 | (1 527) | - |

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INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003

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Notes (continued)

(9) Trade debtors

| | 31.12.2003 | 30.06.2003 |
|---|-------------------------|-----------------------|
| | Ls | Ls |
| Trade debtors | 2 458 966 | 522 711 |
| Provisions for bad and doubtful accounts receivable | (26 361) | (39 750) |
| | <u>2 432 605</u> | <u>482 961</u> |

(10) Receivables from affiliated companies

| | | |
|-----------------------------------|----------------------|----------------------|
| Microlink Latvija SIA | 30 803 | 1 285 |
| Fortek Informacines Technologijos | 14 580 | 17 627 |
| | <u>45 383</u> | <u>18 912</u> |

(11) Other debtors

| | | |
|---|-----------------------|-----------------------|
| VAT overpaid (see Note 17) | 87 426 | 200 126 |
| VAT accepted | 39 689 | 41 208 |
| Import VAT advances | - | 977 |
| Amounts paid to suppliers which shall be returned | - | 7 931 |
| Other debtors | 1 828 | 380 |
| | <u>128 943</u> | <u>250 622</u> |

(12) Deferred expenses

| | | |
|--|----------------------|----------------------|
| Prepayment for participation at exhibition | 14 317 | 17 429 |
| Prepayment for insurance | 4 408 | 3 706 |
| Other deferred expenses | 3 980 | 4 054 |
| | <u>22 705</u> | <u>25 189</u> |

(13) Share capital

As at 31 December 2003, the registered, subscribed and fully paid share capital consists of 200 300 ordinary shares with voting rights, and 3 ordinary shares without voting rights. Nominal value of share is Ls 1.

(14) Provisions

| Provisions for taxes | Provisions for unused annual leave | Provisions for trade commissions | Total |
|---------------------------------|---|---|--------------|
| Ls | Ls | | Ls |

SAF TEHNIKA A/S
INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003
Translation from Latvian original

Notes (continued)

(14) Provisions (continued)

(a) Provisions for deferred tax liability

| | 6 months ended 31.12.2003 Ls | 6 months ended 31.12.2002 Ls |
|---|---------------------------------------|---------------------------------------|
| Deferred tax liability at the beginning of the reporting period | 19 298 | 14 925 |
| (Decrease)/ increase of deferred tax liability during the reporting period (see Note 6) | (2 183) | 2 187 |
| Deferred tax liability at the end of the reporting period | 17 115 | 17 112 |

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

| | 31.12.2003. Ls | 30.06.2003. Ls |
|--|-------------------|-------------------|
| Temporary difference on fixed assets depreciation | 25 744 | 28 855 |
| Temporary difference on provisions for unused annual leave and slow moving inventories | (8 629) | (6 650) |
| Temporary differences on provisions for trade commissions | - | (2 907) |
| Deferred tax liability | 17 115 | 19 298 |

(15) Loans from credit institutions

| | | |
|--------------------------|------------|----------------|
| Overdraft at Nordea bank | - | 6 |
| Overdraft at Hansapanka | 73 | - |
| Overdraft Hansabanka | 623 | 776 188 |
| | 696 | 776 194 |

The parent company Microlink AS determines maximal credit line limits to the Group companies, including SAF Tehnika A/S. As at 31 December 2003 the granted credit line limit to SAF Tehnika A/S is USD 500 000 with 6 months LIBOR+2.5% interest rate on drawn down amounts, and Ls 481 495 with 3 months Rigibor+2.5% interest rate on drawn down amounts.

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

- Fixed assets except for mechanical motor vehicles, pledge of what is not explicitly prohibited, as common property at the moment of pledge, as well as further shares of common property;

SAF TEHNIKA A/S
INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003
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Notes (continued)

(16) Accounts payable to affiliated companies

| | 31.12.2003. | 30.06.2003. |
|-----------------------|---------------|---------------|
| | Ls | Ls |
| Microlink Data AS | - | 31 654 |
| Microlink AS | 3 013 | 4 260 |
| Microlink Latvija SIA | 13 610 | 2 443 |
| MicroLink ServIT A/S | - | 84 |
| | <u>16 623</u> | <u>38 441</u> |

(17) Taxes and social insurance

| | VAT | Natural resources tax | Social insurance | Personal income tax | Corporate income tax | Insolvency risk duty | Total |
|--|-----------------|-----------------------------|---------------------|------------------------|-------------------------|-------------------------|-----------------|
| | Ls | Ls | Ls | Ls | Ls | Ls | Ls |
| Liability 30.06.2003 | - | 36 | 10 997 | 3 875 | 241 248 | 57 | 256 213 |
| (Overpaid)* 30.06.2003 | (200 126) | - | - | - | - | - | (200 126) |
| Charge for the reporting period | (603 679) | 121 | 109 605 | 77 987 | 643 648 | 388 | 228 070 |
| Penalties calculated for the reporting period | 7 | - | - | 8 | - | - | 15 |
| Transferred to other taxes | 213 372 | - | (95 749) | (40 834) | (76 789) | - | - |
| Returned by the SRS | 503 000 | - | (447) | - | - | - | 502 553 |
| Paid in the reporting period | - | (87) | (22) | (21 673) | (241 548) | (376) | (263 706) |
| Liability 31.12.2003 | <u>-</u> | <u>70</u> | <u>24 384</u> | <u>19 363</u> | <u>566 559</u> | <u>69</u> | <u>610 445</u> |
| (Overpaid)* 31.12.2003 | <u>(87 426)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(87 426)</u> |

* See Note 11.

(18) Other creditors

| | 31.12.2003 | 30.06.2003 |
|-----------------|---------------|---------------|
| | Ls | Ls |
| Salaries | 57 292 | 20 835 |
| Accrued bonuses | - | 33 294 |
| Other creditors | 285 | 58 |
| | <u>57 577</u> | <u>54 187</u> |

SAF TEHNIKA A/S
INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003
Translation from Latvian original

Notes (continued)

(19) Finance leases

The terms of payments are as follows:

| | 31.12.2003 | 30.06.2003 |
|-----------------------------------|----------------|----------------|
| | Ls | Ls |
| Short-term finance lease payments | 113 771 | 91 140 |
| Long-term finance lease payments | 99 032 | 80 137 |
| | <u>212 803</u> | <u>171 277</u> |

SAF Tehnika A/S has entered into finance lease contracts for rent of cars and production machinery (see also note 7). The following interest rates are applicable to the finance leases - 6 months Libor + 2.80 – 3.00% fixed rate; 3 months Libor + 3.00% fixed rate; 4.00 – 5.40% fixed rate + 1.86 – 4.00% floating rate determined by lender based on interest rate market trends; and 7.50% fixed rate.

(20) Average number of employees

| | 6 months ended 31.12.2003 | 6 months ended 31.12.2002 |
|--|---------------------------------|---------------------------------|
| Average number of employees during the reporting period: | <u>84</u> | <u>36</u> |

(21) Management remuneration

| | Ls | Ls |
|-------------------------------|---------------|---------------|
| Board members' remuneration | | |
| · salary expenses | 36 958 | 13 300 |
| · social insurance | 6 048 | 3 395 |
| Other management remuneration | | |
| · salary expenses | 20 711 | 51 |
| · social insurance | 5 020 | 13 |
| Total | <u>68 737</u> | <u>16 759</u> |

(22) Rent agreements

The Company entered into rent agreement No. S-116/02 on 10 December 2002 with Dambis A/S for rent of premises of 3441.10 m² in the building located at Ganību dambis 24a. The contract has been entered into for the period till 1 March 2010.

According to the agreements, the Company has following rent commitments:

| | Ls |
|--------------|----------------|
| 1 year | 94 398 |
| 2 – 5 years | 243 779 |
| Over 5 years | 69 405 |
| | <u>407 582</u> |

SAF TEHNIKA A/S
INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2003

Translation from Latvian original

Notes (continued)

(23) Related party transactions

At the end of the reporting period affiliated company Microlink Latvija SIA owed to the Company Ls 30 803. The said debt consists of a debt for goods sold in the amount of Ls 29 994 and of performed equipment repair works in the amount of Ls 809. During the reporting period the Company sold finished goods to Microlink Latvia SIA worth Ls 141 446 and performed repairs worth Ls 8 675, as well as purchased fixed assets for Ls 48 328. During the reporting period the Company received services from Microlink Latvia SIA worth Ls 12 688 and purchased raw materials for Ls 1 283.

As at 31 December 2003 affiliated company Fortek Informacines Technologijos owed to the Company for products sold in the amount of Ls 14 580. During the reporting period the Company sold finished goods to Fortek Informacines Technologijos worth Ls 414 567.

Company's debt to its parent company (Microlink A/S) equals to Ls 3 013 as at 31 December 2003. The said debt consists of the payment in the amount of Ls 811 for provided overdraft and interest payments in the amount of Ls 2 202. During the reporting period the Company paid Ls 28 558 in interest to its parent company and received services worth Ls 1 065.

Total debt of the Company to affiliated company Microlink Latvija SIA equals to Ls 13 610 as at 31 December 2003. The said debt includes payment for fixed assets purchased in the amount of Ls 10 229 and Ls 3 381 for services provided.

(24) Commitments

SAF Tehnika A/S has issued a bid guarantee to Nepal Telecommunication Corporation in the amount of USD 85 000 for the supply of goods. The bid guarantee is valid till 27 April 2004.

(25) Subsequent events

There are no subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Company as at 31 December 2003.

Translation from Latvian original

AUDITORS' REPORT

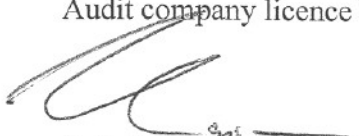
To the shareholders of SAF Tehnika A/S

We have audited the financial statements on pages 5 to 20 of SAF Tehnika A/S for the 6 months period ended 31 December 2003. The audited financial statements include the balance sheet as of 31 December 2003, related profit and loss account, statement of changes in equity and cash flow statement for the 6 months period ended 31 December 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 31 December 2003, and of the results of its operations and its cash flows for the 6 months period ended 31 December 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

Riga, 5 March 2004