

SAF Tehnika A/S
Consolidated Interim Report
for 12 month of financial year 2004/5

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KEY DATA

AS SAF Tehnika is a designer, producer and distributor of digital microwave point-to-point radio data transmission equipment which offers an alternative to cable channels. AS SAF Tehnika markets its portfolio of approximately 130 products to cellular network operators, data service providers (such as internet service providers and telecommunication companies), governments and private companies.

AS SAF Tehnika is a public joint stock company incorporated under the laws of the Republic of Latvia. The shares of AS SAF Tehnika are quoted on Riga Stock Exchange.

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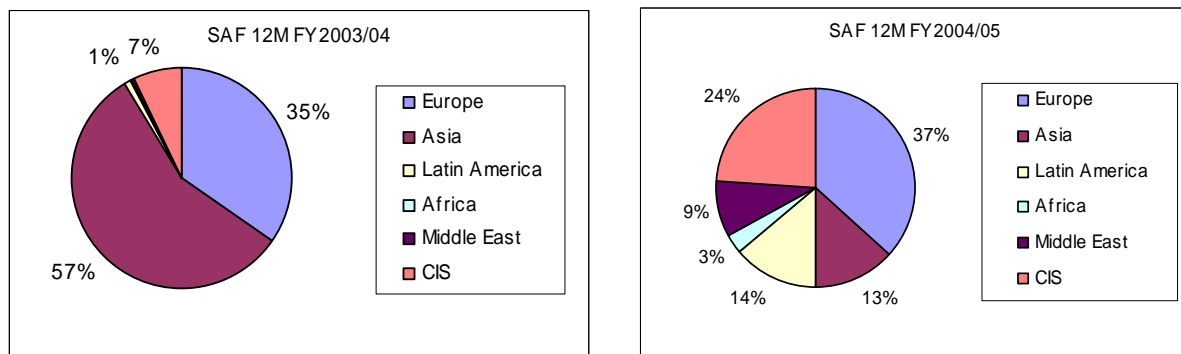
July 26, 2005

Management Report

The Group's consolidated non-audited net sales for 12 month period of financial year 2004/5 were 11 066 676 LVL (15 746 462 EUR). This came within the +/- 15% band range mentioned during the previous quarterly results release (86% of the previous financial year's consolidated audited net sales), despite revenues from China decreasing by over 6 000 000 LVL.

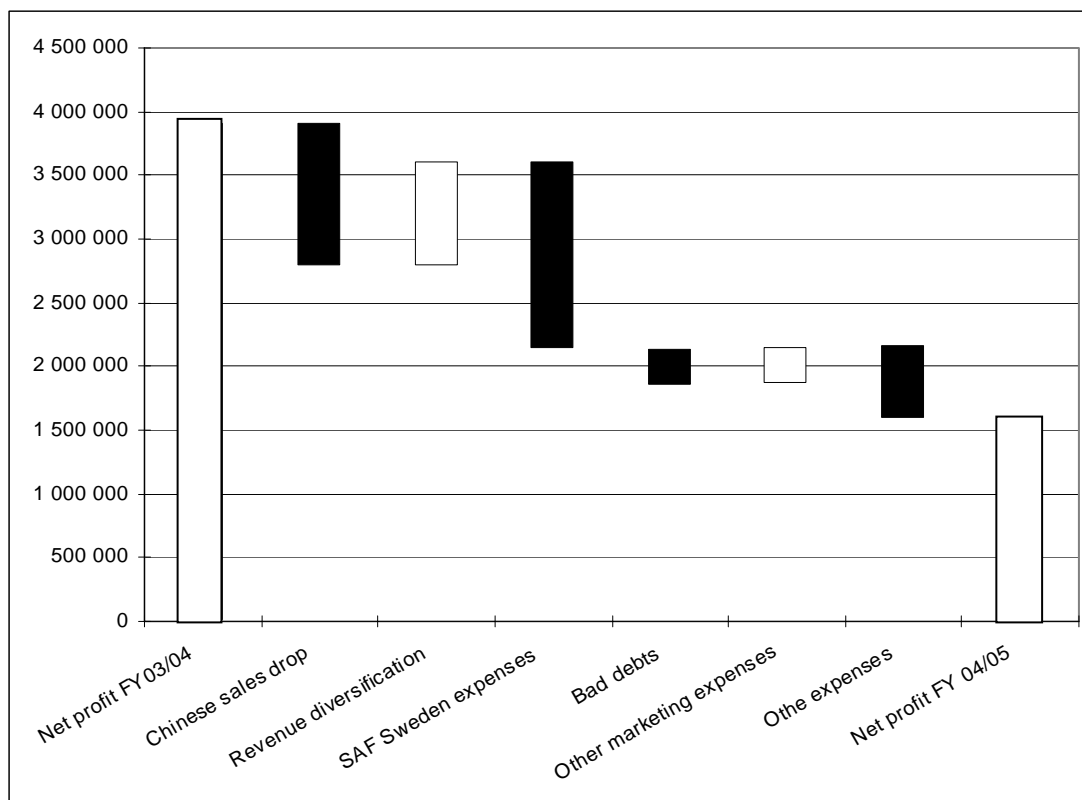
Ongoing successful revenue diversification plans can further be seen in the charts below – in the previous financial year China represent 58% of revenues. Over the past 12 months the company has entered 15 new markets, thereby increasing the total number of active markets sold to by 50% (now 45 countries). Nearly all of the new countries are classed emerging markets.

12 month revenue breakdown comparative charts:



The consolidated net profit of the Group for financial year 2004/5 (incorporating SAF Tehnika Sweden) was 1 591 654 LVL (2 264 720 EUR). Without incorporating SAF Tehnika Sweden (effectively a R&D operation, acquired in mid-2004), the Group's consolidated net profit would reach 2 700 000 LVL (3 840 000 EUR). Net margin impact compared with the previous year mostly relates to decreased turnover (less beneficial economies of scale) and SAF Tehnika Sweden costs. We note that ongoing developments such as the new common modem project are being undertaken in order to address this issue. The key determinant to better profitability measures solely rests on increased turnover due to absolute fixed cost levels.

The waterfall chart on the following page shows the major influences on the net profit for the company in financial year 2004/5 compared with the previous one.



□ - increase

■ - decrease

Guidance:

As noted in the 9 month results, Chinese mobile operators have delayed infrastructure investments while they await 3G license auction outcomes. The market is still awaiting developments on this front.

While not specifying absolute amounts, management is confident of better results in FY 2005/06 as a result of the revenue diversification success following the unexpected slowdown encountered in the Chinese market.

Marketing activities:

SAF Tehnika has signed contracts with all of Sweden's Tele2 subsidiaries in Russia. Furthermore SAF Tehnika has become an official supplier for Russia's second-largest mobile network operator VimpelCom.

On June 30, 2005 the group employed 132 people.

Consolidated balance sheet

ASSETS	Note	30.06.2005	30.06.2004	30.06.2005	30.06.2004
CURRENT ASSETS		LVL	LVL	EUR	EUR
Cash and bank	1	105 197	298 625	149 682	450 415
Short-term investments			553 632		835 040
Customer receivables					
Accounts receivable	2	2 012 590	2 784 893	2 863 658	4 200 442
Allowance for uncollectible receivables	2	-286 085	-19 493	-407 063	-29 401
Total		1 726 505	2 765 400	2 456 595	4 171 041
Other receivables					
Advances receivable		1 664		2 368	
Other current receivables		13 662	42 095	19 439	63 492
Derrivative financial instruments	5		4 446		6 706
Total		15 326	46 541	21 807	70 198
Prepaid expenses	3				
Prepaid taxes		175 919	147 422	250 310	222 356
Other prepaid expenses		61 517	20 748	87 531	31 294
Total		237 436	168 170	337 841	253 650
Inventories	4				
Raw materials		1 927 073	1 084 916	2 741 978	1 636 374
Work-in-progress		2 198 079	1 613 406	3 127 585	2 433 493
Finished goods		428 851	312 330	610 200	471 086
Merchandise purchased for resale		2 570		3 657	
Prepayments to suppliers		70 253	31 407	99 960	47 371
Total		4 626 826	3 042 059	6 583 380	4 588 324
TOTAL CURRENT ASSETS		6 711 290	6 874 427	9 549 305	10 368 668
NON-CURRENT ASSETS					
Long-term financial assets					
Shares in subsidiaries			31 654		47 744
Total			31 654		47 744
NON-CURRENT physical assets					
Plant and equipment		1 345 324	1 007 065	1 914 223	1 518 953
Other equipment and fixtures		626 156	481 493	890 940	726 234
Accumulated depreciation		-926 669	-470 696	-1 318 531	-709 949
Prepayments for noncurrent physical assets		192	24 312	273	36 670
Total		1 045 003	1 042 174	1 486 905	1 571 906
Intangible assets					
Purchased licenses, trademarks etc.		141 666	125 624	201 573	189 478
Goodwill		525 854	511 051	748 223	770 816
Prepayments for intangible assets		26 876	12 272	38 241	18 510
Total		694 396	648 947	988 037	978 804
TOTAL NON-CURRENT ASSETS		1 739 399	1 722 775	2 474 942	2 598 454
TOTAL ASSETS		8 450 689	8 597 202	12 024 247	12 967 122

Consolidated balance sheet

		30.06.2005	30.06.2004	30.06.2005	30.06.2004
LIABILITIES AND OWNERS' EQUITY	Note	LVL	LVL	EUR	EUR
CURRENT LIABILITIES					
Debt obligations					
Short-term loans from financial institutons		6 101	2 519	8 681	3 799
Derivative financial instruments	5	8 988	468	12 789	706
Total		15 089	2 987	21 470	4 505
Customer prepayments for goods and services		29		40	
Trade and other payables	6	366 415	616 893	521 362	930 457
Tax liabilities	7	32 882	705 060	46 787	1 063 439
Accrued expenses	8				
Salary-related accrued expenses		338 973	245 286	482 315	369 964
Other accrued expenses		1 373	11	1 954	17
Total		340 346	245 297	484 269	369 981
Provisions	9				
Deferred income tax liability		29 422	29 422	41 864	44 377
Other provisions		165 344	73 676	235 263	111 125
Total		194 766	103 098	277 127	155 502
TOTAL LIABILITIES		949 527	1 673 335	1 351 055	2 523 884
OWNERS' EQUITY					
Share capital	10	2 970 180	990 060	4 226 186	1 493 303
Paid in capital over par		2 004 204	2 005 199	2 851 726	3 024 433
Other reserves		1 023 402	10 311	1 456 170	15 552
Retained earnings		-62 702		-89 217	
Net profit for the financial year		1 591 654	3 920 569	2 264 720	5 913 377
Currency translation reserve		-25 576	-2 272	-36 393	-3 427
TOTAL OWNERS' EQUITY		7 501 162	6 923 867	10 673 192	10 443 238
TOTAL LIABILITIES AND OWNERS' EQUITY		8 450 689	8 597 202	12 024 247	12 967 122

Consolidated income statement for 12 months of the financial year 2004/05

	30.06.2005	30.06.2004	30.06.2005	30.06.2004
	LVL	LVL	EUR	EUR
Net sales	11 066 393	12 818 452	15 746 058	19 334 015
Other operating income	283	583	403	879
Total income	11 066 676	12 819 035	15 746 461	19 334 894
Direct cost of goods sold or services rendered	-5 264 431	-5 332 166	-7 490 611	-8 042 483
Marketing, advertising and public relations expenses	-412 558	-702 649	-587 017	-1 059 802
Bad receivables	-266 592	20 257	-379 326	30 554
Operating expenses	-739 092	-483 916	-1 051 633	-729 888
Salaries, bonuses and social expenses	-1 807 137	-925 377	-2 571 324	-1 395 742
Depreciation expense	-553 439	-333 372	-787 473	-502 824
Other expenses	-4 129	-1 498	-5 875	-2 259
Operating expenses	-9 047 378	-7 758 721	-12 873 259	-11 702 444
EBIT	2 019 298	5 060 314	2 873 202	7 632 450
Financial income (except ForEx rate difference)	2 933	11 329	4 173	17 087
Financial costs (except ForEx rate difference)	-44 229	-109 806	-62 932	-165 620
Foreign exchange +gain/(loss)	23 836	-153 545	33 916	-231 591
Financial items	-17 460	-252 022	-24 843	-380 124
EBT	2 001 838	4 808 292	2 848 359	7 252 326
Income tax expenses	-410 184	-887 723	-583 639	-1 338 949
Net profit	1 591 654	3 920 569	2 264 720	5 913 377
EPS (earnings per share)	0.90	2.21	1.28	3.33

*EPS for FY03/04 adjusted for bonus issue

Consolidated income statement for Q4 of the financial year 2004/05

	30.06.2005	30.06.2004	30.06.2005	30.06.2004
	LVL	LVL	EUR	EUR
Net sales	2 746 972	3 308 555	3 908 589	4 990 279
Other operating income	-1	397	-1	599
Total income	2 746 971	3 308 952	3 908 588	4 990 878
Direct cost of goods sold or services rendered	-1 266 302	-1 549 502	-1 801 785	-2 337 107
Marketing, advertising and public relations expenses	-145 240	-191 736	-206 658	-289 195
Bad receivables	-162 834	30 204	-231 692	45 557
Operating expenses	-220 515	-198 816	-313 765	-299 873
Salaries, bonuses and social expenses	-487 715	-300 060	-693 956	-452 579
Depreciation expense	-149 183	-97 715	-212 268	-147 383
Other expenses	-107	-441	-153	-666
Operating expenses	-2 431 896	-2 308 066	-3 460 277	-3 481 246
EBIT	315 075	1 000 886	448 311	1 509 632
Financial income (except ForEx rate difference)	98	5 143	139	7 757
Financial costs (except ForEx rate difference)	-7 808	1 585	-11 110	2 391
Foreign exchange +gain/(loss)	22 822	-28 782	32 473	-43 412
Financial items	15 112	-22 054	21 502	-33 264
EBT	330 187	978 832	469 813	1 476 368
Income tax expenses	-81 300	-150 632	-115 679	-227 198
Net profit	248 887	828 200	354 134	1 249 170

Consolidated cash flow statement for 12 months of the financial year 2004/05

	30.06.2005	30.06.2004	30.06.2005	30.06.2004
	LVL	LVL	EUR	EUR
CASH GENERATED FROM OPERATIONS (of which)	901 417	1 831 734	1 282 601	2 762 796
Cash received from customers	11 855 491	10 452 779	16 868 844	15 765 881
Cash paid to suppliers and employees	-9 958 872	-8 379 497	-14 170 198	-12 638 759
Paid income tax	-995 202	-241 548	-1 416 045	-364 326
NET CASH USED IN INVESTING ACTIVITIES (of which)	-673 114	-1 216 315	-957 755	-1 834 562
Business acquisition	-135 771	-636 525	-193 185	-960 067
Cash received from other long-term investments SAF Group	27 447		39 054	0
Cash paid for purchasing non-current physical assets	-568 498	-590 493	-808 900	-890 638
Cash received from the sale of non-current physical assets	229	3 571	326	5 386
Loans given	-72 520		-103 187	0
Cash received from repayment of loans given	71 547		101 802	0
Interest received	4 452	7 132	6 335	10 757
NET CASH USED IN FINANCING ACTIVITIES (of which)	-975 363	235 298	-1 387 817	354 899
Cash received from issuance		1 551 157	0	2 339 603
Short-term loans received	-3 736	-773 675	-5 316	-1 166 931
Cash paid as capital lease payments		-280 803	0	-423 534
Paid interest	-26 824	-111 381	-38 167	-167 995
Dividends paid	-944 803	-150 000	-1 344 334	-226 244
TOTAL CASH FLOW:	-747 060	850 717	-1 062 971	1 283 133
Cash and cash equivalents as at the beginning of period	852 257	1 540	1 212 653	2 323
Cash and cash equivalents as at the end of period	105 197	852 257	149 682	1 285 456
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	-747 060	850 717	-1 062 971	1 283 133

Statement of changes in consolidated equity for the 12 months period ended June 30 2005

	Share capital	Share premium	Other rezerves	Currency translation rezerves	Accumulated profit	Current period's profit	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
As at 30 June 2003	200 303	521 679	70 645	-	811 786	-	1 604 413
Issue of share capital	67 637	1 531 649	-	-	-	-	1 599 286
Costs of issue of share capital	-	-48 129	-	-	-	-	-48 129
Dividend relating to 2002/2003	-	-	-	-	-150 000	-	-150 000
Allocation of profit	-	-	661 786	-	-661 786	-	-
Issue of share capital	722 120	-	-722 120	-	-	-	-
Currency translation difference	-	-	-	-2 272	-	-	-2 272
Profit for the year	-	-	-	-	-	3 920 569	3 920 569
As at 30 June 2004	990 060	2 005 199	10 311	-2 272	-	3 920 569	6 923 867
Not distributed profit relating to 2003/2004	-	-	-	-	3 920 569	-3 920 569	-
Issue of share capital	1 980 120	-	-	-	-1 980 120	-	-
Costs of issue of share capital	-	-995	-	-	-	-	-995
Dividend relating to 2003/2004	-	-	-	-	-990 060	-	-990 060
Allocation of profit	-	-	1 013 091	-	-1 013 091	-	-
Currency translation difference	-	-	-	-23 304	-	-	-23 304
Profit for the year	-	-	-	-	-	1 591 654	1 591 654
As at 30 June 2005	2 970 180	2 004 204	1 023 402	-25 576	-62 702	1 591 654	7 501 162

Statement of changes in consolidated equity for the 12 months period ended June 30 2005

	Share capital	Share premium	Other reserves	Currency translation reserves	Accumulated profit	Current period's profit	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 30 June 2003	302 116	786 846	106 554	-	1 224 414	-	2 419 929
Issue of share capital	102 017	2 310 179	-	-	-	-	2 412 196
Costs of issue of share capital	-	-72 593	-	-	-	-	-72 593
Dividend relating to 2002/2003	-	-	-	-	-226 244	-	-226 244
Allocation of profit	-	-	998 169	-	-998 169	-	-
Issue of share capital	1 089 170	-	-1 089 170	-	-	-	-
Currency translation difference	-	J	-	-3 427	-	-	-3 427
Profit for the year	-	-	-	-	-	5 913 377	5 913 377
As at 30 June 2004	1 493 303	3 024 433	15 553	-3 427	-	5 913 377	10 443 238
Not distributed profit relating to 2003/2004	-	-	-	-	5 578 467	-5 913 377	-
Issue of share capital	2 817 457	-	-	-	-2 817 457	-	-
Costs of issue of share capital	-	-1 416	-	-	-	-	-1 416
Dividend relating to 2003/2004	-	-	-	-	-1 408 728	-	-1 408 728
Allocation of profit	-	-	1 441 499	-	-1 441 499	-	-
Currency translation difference	-	-	-	-33 159	-	-	-33 159
Profit for the year	-	-	-	-	-	2 400 685	2 400 685
As at 30 June 2005	4 310 760	3 023 017	1 457 052	-36 585	-89 217	2 400 685	11 065 710

Notes for consolidated interim report

Accounting methods and principles used in preparing the consolidated interim report.

This consolidated Interim Report of SAF Tehnika Group has been prepared in accordance with the source documents and present fairly the financial position of the Group as of 30 June 2005 and the results of its operations and cash flows for the 12 month period ended 30 June 2005

This consolidated Interim Report has been prepared in accordance with International Financial Reporting Standards (IFRS) on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. The Interim Report has been prepared based on the same accounting principles applied in the Consolidated Financial Statements for the year ended on June 30, 2004.

This Interim Report has not been audited or otherwise checked by auditors.

The Interim Report has been prepared in Latvian Lats and Euro.

Currency Exchange rate for LVL/EUR 0.6630, as on 30.06.2004

Currency Exchange rate for LVL/EUR 0.7028, as on 30.06.2005

Note 1 Cash and Bank

	30.06.2005.	30.06.2004
	Ls	Ls
Bank accounts	50 191	60 977
Short-term bank deposits	55 006	237 648
Deposits in money market fund	-	553 632
	<u>105 197</u>	<u>852 257</u>

Cash and Bank, in comparison with the 12 month period of the previous financial year 2003/4, decreased due to the considerable money outflow for Income tax and Dividend payments

Note 2 Customer receivables

	30.06.2005	30.06.2004
	Ls	Ls
Accounts receivables	2 012 590	2 784 893
Provisions for bad and doubtful accounts receivable	(286 085)	(19 493)
	<u>1 726 505</u>	<u>2 765 400</u>

Accounts receivables, in comparison with the 12 month period of the previous financial year 2003/4, decreased due to the discounting of Letters of Credit in order to optimize working capital. Provisions for bad and doubtful accounts receivable, in comparison with the 12 month period of the previous financial year 2003/4, increased due to sales portfolio diversification and new market entry.

Note 3 Prepaid expenses

	30.06.2005	30.06.2004
	Ls	Ls
Prepaid taxes	175 919	147 422
Prepaid participation at exhibition	6 027	-
Prepaid insurance fees	8 883	4 028
Prepaid software maintenance year fees	15 293	5 612
Other prepaid expenses	31 314	11 108
	<u>237 436</u>	<u>168 170</u>

Note 4 Inventories

	30.06.2005.	30.06.2004.
	Ls	Ls
Raw materials	1 927 073	1 084 916
Work-in- progress	2 198 079	1 613 406
Finished goods	428 851	312 330
Merchandise purchased for resale	2 570	-
Prepayments to suppliers	70 253	31 407
	4 626 826	3 042 059

Inventories, in comparison with the 12 month period of the previous financial year 2003-2004, increased as the group created additional reserves for a wider product assortment as a result of the ongoing revenue diversification process.

Note 5 Derivative financial instruments

	30.06.2005		30.06.2004	
	Assets	Liabilities	Assets	Liabilities
	Ls	Ls	Ls	Ls
Forward foreign Exchange contracts – cash flow hedges	-	8 988	4 446	468

From the beginning of calendar year 2004 SAF Tehnika implemented a currency hedging system and uses forward foreign exchange contracts to hedge cash flows.

Note 6 Trade and other payables

	30.06.2005.	30.06.2004.
	Ls	Ls
Accounts payable	366 415	484 944
Payable for acquisition of business		131 949
	366 415	616 893

Supplier payables, in comparison with the 12 month period of the previous financial year 2003-2004, decreased due to lower turnover.

Note 7 Tax liabilities

	30.06.2005.	30.06.2004.
	Ls	Ls
Current income tax liabilities	-	648 006
Personal income tax	12 981	10 903
Social tax	19 854	46 082
Insolvency risk duty	42	36
Tax for natural resources	5	33
	32 882	705 060

Tax liabilities, in comparison with the 12 month period of the previous financial year 2003-2004, decreased due to the paid in advance Income tax in Financial Year 2004-2005.

Note 8 Accrued expenses

	30.06.2005.	30.06.2004.
	Ls	Ls
Salaries	164 681	108 551
Calculated bonuses	73 508	64 669
Accruals for annual leave	100 784	72 066
Other accrued expenses	1 373	11
	<u>340 346</u>	<u>245 297</u>

Note 9 Provisions

	30.06.2005.	30.06.2004.
	Ls	Ls
Increase in deferred tax	29 422	29 422
Provisions for slow moving inventories	165 344	73 676
	<u>194 766</u>	<u>103 098</u>

Note 10 Share capital

The total number of authorized, issued and fully paid ordinary shares with voting rights is 2 970 180 shares following the 2 for 1 bonus issue in December 2004 (30.06.2004: 990 060 shares). The nominal value of one share is Ls 1.