

**SAF Tehnika A/S**  
**Consolidated Interim Report**  
**for 6 month of financial year 2005/6**

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## KEY DATA

SAF Tehnika is a telecommunication company engaged in development, production and distribution of digital microwave radio equipment. The functionality of SAF products includes digital voice and data transmission. Company's portfolio consists of approximately 130 products and comprises solutions for mobile network operators, data service providers, state and private companies. Since its establishment in 1999, SAF Tehnika has succeeded in becoming an international player and has been able to compete with such multinational corporations as Ericsson, Nokia, Siemens and NEC. Through the acquisition of Viking Microwave on June 1, 2004, SAF Tehnika has considerably improved its R&D capacity.

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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Aleksis Orlovs

Member of the Management Board

January 26, 2006

## Share and Shareholdings

### SAF Tehnika shareholders (over 5%) as of 25.11.2005

Name	Ownership interest (%)
Hansapank AS Clients Account	20.13%
Didzis Liepkalns	17.05%
Andrejs Grišāns	10.03%
Normunds Bergs	9.74%
Juris Ziema	8.71%
Skandinaviska Enskilda Banken AB Clients Account	8.59%
Nordea Bank Finland PLC Clients Account	6.31%
Vents Lācars	6.08%

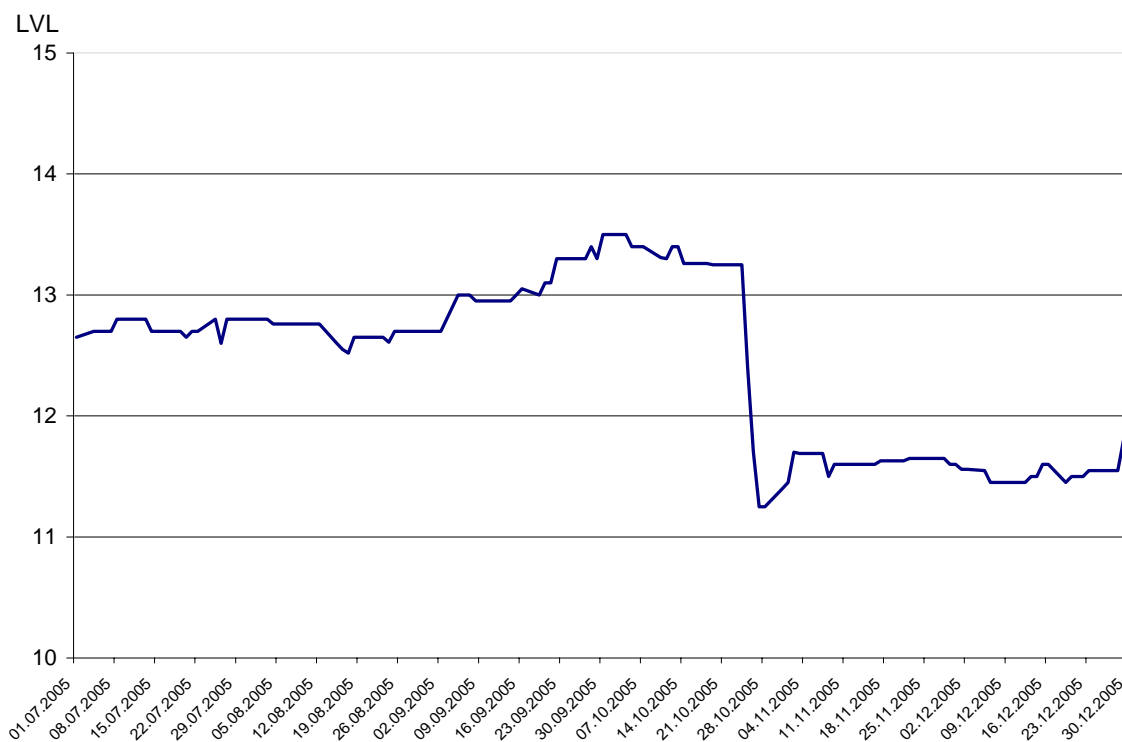
### SAF Tehnika share price development for the reporting period

SAF Tehnika (SAF1R)

Period: 2005-07-01 - 2005-12-31

Currency: LVL

Marketplace: RSE



## Information on management and supervisory board members

### SAF Tehnika Management Board:

<b>Name</b>	<b>Position</b>	<b>Ownership interest (%)</b>
Normunds Bergs	Chairman	owns 9.74% of shares
Didzis Liepkalns	Vice Chairman	owns 17.05% of shares
Aleksis Orlovs	Member	

### SAF Tehnika Supervisory Board:

<b>Name</b>	<b>Position</b>	<b>Ownership interest (%)</b>
Vents Lācars	Chairman	owns 6.08% of shares
Juris Ziema	Vice-Chairman	owns 8.71% of shares
Andrejs Grišāns	Member	owns 10.03% of shares
Ivars Šenbergs	Member	

## **Information on professional and educational background of the management board members**

### **Normunds Bergs**

Normunds Bergs, born in 1963, is Chairman of the Board and Chief Executive Officer of SAF Tehnika A/S. Mr. Bergs is one of the founders of SIA Fortech (co-founding company of SAF Tehnika A/S) where during the periods from 1990 to 1992 and 1999 to 2000 he acted as Managing Director and General Director, respectively. Following SIA Fortech's merger with AS Microlink in 2000, Mr. Bergs became Chief Executive Officer of SAF Tehnika A/S and a member of the Management Board of AS Microlink. From 1992 to 1999, Mr. Bergs worked for World Trade Center Riga, where he was holding the position of General Director and became a Member of the Board of Directors in 1998. Mr. Bergs graduated from the Riga Technical University with a degree in radio engineering in 1986. Since 1998, he has been a lecturer at the Riga Business School

### **Didzis Liepkalns,**

Didzis Liepkalns, born in 1962, co-founded the Company in 2000 and serves as Deputy Chairman of the Board and Technical Director. Mr. Liepkalns graduated from the Riga Technical University with a degree in radio engineering in 1985.

### **Aleksis Orlovs**

Aleksis Orlovs, born in 1974, is Board Member and Chief Financial Officer. Prior to joining the Company in 2004, he served as Chief Executive Officer of A/S MicroLink ServIT from 2001 to 2003. From 2000 to 2001 Mr. Orlovs was holding the positions of Chief Executive Officer and Chairman of the Board of Delfi A/S. From 1998 to 2000, he was the Chief Executive Officer of A/S MicroLink Datori. Mr. Orlovs holds a Master of Business Administration (MBA) degree from the Riga Business School which he received in 2004, as well as he holds a Master of Science degree in International Business and Law and a Bachelor degree in Economics from the University of Latvia, which he received in 2000 and 1998, respectively.

## **Information on professional and educational background of the supervisory board members**

### **Vents Lācars,**

Vents Lācars, born in 1968, is a Member of the Supervisory Council and Sales and Marketing Director of SAF Tehnika A/S. Before co-founding the Company, from 1992 to 2000, he worked in SIA Fortech, where throughout his career he held positions of programmer, lead programmer, project manager in the networking department and networking department manager. From 1990 to 1992, Mr. Lācars worked as a programmer at state electric utility company Latvenergo. Mr. Lācars graduated from the University of Latvia with a degree in physics and mathematics in 1994.

### **Juris Ziema,**

Juris Ziema, born in 1964, co-founder of the Company, is a Member of the Supervisory Council and Production Department Manager. From 1998 to 2000 he worked as an engineer at D. Liepkalns private enterprise SAF. From 1987 to 1999 Mr. Ziema served as an engineer at the Institute of Electronic Engineer and Computer Science. Mr. Ziema received a degree in radio engineering from the Riga Technical University in 1987

### **Andrejs Grišāns**

Andrejs Grišāns, born in 1964, is Production Department Manager of SAF. Mr. Grišāns has 20 years of experience in the engineering industry and is one of the founders of SAF. Prior to joining the Company, he owned and managed a private company specializing in electronic equipment engineering, production and distribution. From 1992 to 1996, Mr. Grišāns was involved in entrepreneurial activities in the field of radio engineering. He served as engineer-constructor at the Institute of Polymer Mechanics from 1989 to 1990 and in SIA Orbita from 1980 to 1984. Mr. Grišāns graduated from the Riga Technical University with a degree in radio engineering in 1980.

### **Ivars Šenbergs**

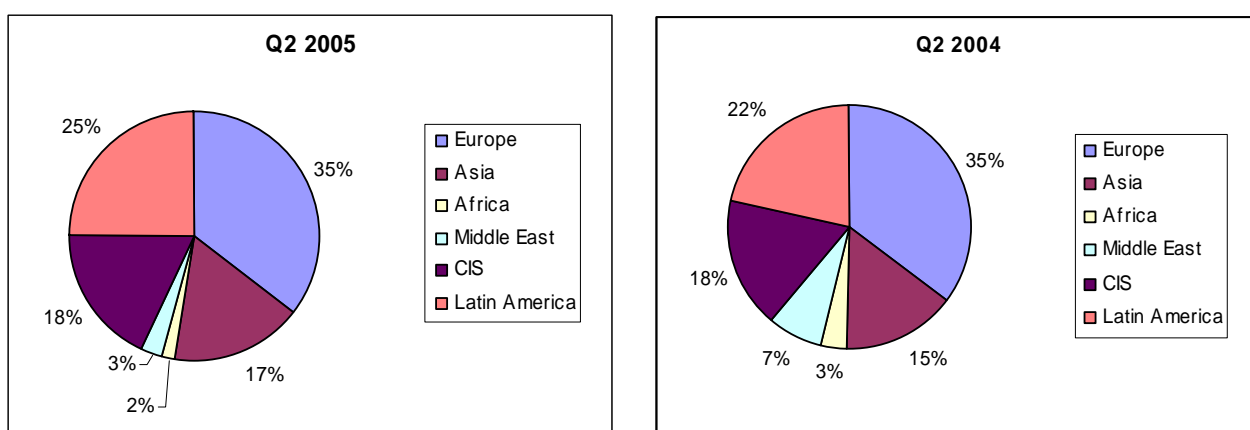
Ivars Šenbergs, born in 1962, from November 2004, Member of the Board of SIA „Juridiskais Audits” and Chairman of the Board of SIA „Namīpašumu pārvalde”. From 1999 until 2000 worked as SIA „Fortek” Finance and Administrative Director. Graduated Law Faculty of University of Latvia.

## Management Report

The Group's consolidated non-audited net sales for Quarter 2 of financial year 2005/6 were 3 588 477 LVL (5 105 943 EUR), representing a year on year increase of 11%.

This reflected steady performance in CIS territories, as well as increased activity in Latin America and Asia. The Group is observing small improvements in performance from many markets, however the most notable change in demand comes from a pick up in China. The Group has continued expanding its footprint in all mentioned territories and sees good perspectives for coming reporting periods.

Quarter 2 sales breakdown comparative charts:



The Group's consolidated non-audited net sales for the 6 month of financial year 2005/6 were 5 629 167 LVL (8 009 583 EUR), constituting over 96% of revenues during the same period of the previous financial year, reflecting lower than expected activity during the first quarter. For example, the results excluded an order from leading Indian operator BNSL, which has now subsequently increased from EUR1mln to EUR2mln and has not yet been invoiced. This was due to timing-related issues and further highlights the need to focus on longer-term development trends rather than quarterly results.

The CIS has delivered a steady performance and the outlook is satisfactory for the remaining part of the financial year. Latin America is performing very well and there is room for further improvement. In Africa the Group has established a limited presence with acceptable results and is setting increased targets for the future. Lower sales to Europe reflect changes in several markets, however



the outlook is cautiously optimistic. Asia is clearly the most interesting territory in terms of volume consumed, hence the Group's focus towards this territory.

#### Market overview

The Point to Point (P2P) wireless radio market in which SAF Tehnika operates is in good shape and experiencing growth. There are no signs of slowdown as deployments are ongoing in large markets such as India. In addition to the above there are indications that 3G Network deployment decisions may soon be made in China and new segments are about to be established in the P2P microwave radio products. For example, the Group can participate in the development of WiMax networks. WiMax wireless access service providers could utilize P2P microwave radios in WiMax network (backbone) infrastructure.

The consolidated net profit of the Group for Quarter 2 of financial year 2005/6 was 431 146 LVL (613 465 EUR), largely on par with the previous year.

#### Guidance:

While not specifying absolute amounts, management is confident of better results in FY 2005/06 than in FY 2004/5 as a result of the revenue diversification success following the unexpected slowdown encountered in the Chinese market during the second half of calendar year 2004.

On December 31, 2005 the Group employed 131 (126 people in FY 2004/05) people.

## Consolidated balance sheet

ASSETS	Note	31.12.2005	31.12.2004	31.12.2005	31.12.2004
<b>CURRENT ASSETS</b>		<b>LVL</b>	<b>LVL</b>	<b>EUR</b>	<b>EUR</b>
Cash and bank		181 545	274 695	258 315	390 747
Short-term investments		797 582	0	1 134 857	0
Customer receivables	1				
Accounts receivable		2 910 454	1 565 317	4 141 203	2 226 624
Allowance for uncollectible receivables		-277 487	-101 360	-394 828	-144 182
<b>Total</b>		<b>2 632 967</b>	<b>1 463 957</b>	<b>3 746 375</b>	<b>2 082 442</b>
Other receivables					
Other current receivables		2 850	1 450	4 055	2 063
Short-term loans given		1 115	7 000	1 587	9 957
<b>Total</b>		<b>3 965</b>	<b>8 450</b>	<b>5 642</b>	<b>12 020</b>
Prepaid expenses	2				
Prepaid taxes		496 454	119 693	706 390	170 260
Other prepaid expenses		103 906	61 274	147 845	87 161
<b>Total</b>		<b>600 360</b>	<b>180 967</b>	<b>854 235</b>	<b>257 421</b>
Inventories	3				
Raw materials		1 256 588	2 396 867	1 787 964	3 409 484
Work-in-progress		1 951 100	1 673 249	2 776 165	2 380 155
Finished goods		448 529	613 456	638 199	872 626
Prepayments to suppliers		4 764	66 715	6 779	94 900
<b>Total</b>		<b>3 660 981</b>	<b>4 750 287</b>	<b>5 209 107</b>	<b>6 757 165</b>
<b>TOTAL CURRENT ASSETS</b>		<b>7 877 400</b>	<b>6 678 356</b>	<b>11 208 531</b>	<b>9 499 795</b>
<b>NON-CURRENT ASSETS</b>					
Long-term financial assets					
Shares in subsidiaries		0	31 654	0	45 027
Other long-term receivables		15 579	0	22 167	0
<b>Total</b>		<b>15 579</b>	<b>31 654</b>	<b>22 167</b>	<b>45 027</b>
NON-CURRENT physical assets					
Plant and equipment		1 484 379	1 177 955	2 112 081	1 675 612
Other equipment and fixtures		637 167	554 204	906 607	788 341
Accumulated depreciation		-1 209 263	-688 313	-1 720 626	-979 108
Prepayments for noncurrent physical assets		993	16 720	1 412	23 784
<b>Total</b>		<b>913 276</b>	<b>1 060 566</b>	<b>1 299 474</b>	<b>1 508 629</b>
Intangible assets					
Purchased licenses, trademarks etc.		136 932	147 712	194 837	210 117
Goodwill		526 559	551 231	749 226	784 112
Prepayments for intangible assets		24 688	3 809	35 127	5 418
<b>Total</b>		<b>688 179</b>	<b>702 752</b>	<b>979 190</b>	<b>999 647</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1 617 034</b>	<b>1 794 972</b>	<b>2 300 831</b>	<b>2 553 303</b>
<b>TOTAL ASSETS</b>		<b>9 494 434</b>	<b>8 473 328</b>	<b>13 509 362</b>	<b>12 053 098</b>

## Consolidated balance sheet

	Note	31.12.2005	31.12.2004	31.12.2005	31.12.2004
LIABILITIES AND OWNERS' EQUITY		LVL	LVL	EUR	EUR
<b>CURRENT LIABILITIES</b>					
<b>Debt obligations</b>					
Short-term loans from financial institutons		9 260	2 082	13 175	2 962
Derivative financial instruments		12 291	3 045	17 489	4 331
<b>Total</b>		<b>21 551</b>	<b>5 127</b>	<b>30 664</b>	<b>7 293</b>
<b>Customer prepayments for goods and services</b>		<b>145 583</b>	<b>9 069</b>	<b>207 146</b>	<b>12 900</b>
<b>Accounts payable</b>		<b>917 724</b>	<b>948 085</b>	<b>1 305 804</b>	<b>1 348 627</b>
<b>Tax liabilities</b>		<b>117 652</b>	<b>53 857</b>	<b>167 404</b>	<b>76 610</b>
<b>Salary-related accrued expenses</b>		<b>266 313</b>	<b>211 667</b>	<b>378 929</b>	<b>301 091</b>
<b>Provisions</b>					
Deferred income tax liability		15 082	94 815	21 460	134 872
Other provisions		177 374	183 373	252 380	260 844
<b>Total</b>		<b>192 456</b>	<b>278 188</b>	<b>273 840</b>	<b>395 716</b>
<b>TOTAL CURRENT LIABILITIES</b>		<b>1 661 279</b>	<b>1 505 993</b>	<b>2 363 787</b>	<b>2 142 237</b>
<b>OWNERS' EQUITY</b>					
<b>Share capital</b>	4	<b>2 970 180</b>	<b>2 970 180</b>	<b>4 226 185</b>	<b>4 225 007</b>
<b>Paid in capital over par</b>		<b>2 004 204</b>	<b>2 004 204</b>	<b>2 851 725</b>	<b>2 850 930</b>
<b>Restricted personnel incentive shares</b>	4	<b>60 000</b>	<b>0</b>	<b>85 372</b>	<b>0</b>
<b>Reserves</b>		<b>0</b>	<b>1 023 402</b>	<b>0</b>	<b>1 455 764</b>
<b>Retained earnings</b>		<b>2 163 009</b>	<b>-62 702</b>	<b>3 077 685</b>	<b>-89 192</b>
<b>Net profit for the financial year</b>		<b>647 544</b>	<b>1 045 900</b>	<b>921 372</b>	<b>1 487 767</b>
<b>Currency translation reserve</b>		<b>-11 782</b>	<b>-13 649</b>	<b>-16 764</b>	<b>-19 415</b>
<b>TOTAL OWNERS' EQUITY</b>		<b>7 833 155</b>	<b>6 967 335</b>	<b>11 145 575</b>	<b>9 910 861</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>9 494 434</b>	<b>8 473 328</b>	<b>13 509 362</b>	<b>12 053 098</b>

## Consolidated Income Statement for 6 month of the financial year 2005/6

	Note	31.12.2005	31.12.2004	31.12.2005	31.12.2004
		LVL	LVL	EUR	EUR
Net sales	5	5 627 905	5 840 073	8 007 787	8 307 358
Other operating income		1 262	548	1 796	780
<b>Total income</b>		<b>5 629 167</b>	<b>5 840 621</b>	<b>8 009 583</b>	<b>8 308 138</b>
Direct cost of goods sold or services rendered		-2 940 761	-2 762 520	-4 184 326	-3 929 616
Marketing, advertising and public relations expenses	6	-247 457	-171 322	-352 100	-243 701
Bad receivables		8 598	-81 867	12 234	-116 454
Operating expenses	7	-446 710	-328 563	-635 611	-467 373
Salaries, bonuses and social expenses		-816 239	-850 091	-1 161 403	-1 209 233
Depreciation expense		-339 793	-263 934	-483 482	-375 440
Other expenses		-2 715	-3 990	-3 863	-5 676
<b>Operating expenses</b>		<b>-4 785 077</b>	<b>-4 462 287</b>	<b>-6 808 551</b>	<b>-6 347 493</b>
<b>EBIT</b>		<b>844 090</b>	<b>1 378 334</b>	<b>1 201 032</b>	<b>1 960 645</b>
Financial income (except ForEx rate difference)		2 683	2 314	3 818	3 292
Financial costs (except ForEx rate difference)		-2 336	-32 895	-3 324	-46 792
Foreign exchange +gain/(loss)		-86 797	-41 506	-123 501	-59 041
<b>Financial items</b>		<b>-86 450</b>	<b>-72 087</b>	<b>-123 007</b>	<b>-102 541</b>
<b>EBT</b>		<b>757 640</b>	<b>1 306 247</b>	<b>1 078 025</b>	<b>1 858 104</b>
Provision for taxes		-110 096	-260 347	-156 653	-370 337
<b>Net profit</b>		<b>647 544</b>	<b>1 045 900</b>	<b>921 372</b>	<b>1 487 767</b>

\*Earnings per share

EPS 31.12.2005. = 0.21 LVL

EPS 31.12.2004. = 0.35 LVL (adjusted for restricted personnel incentive shares issue, October 26, 2005)

## Consolidated Income Statement for Q2 of the financial year 2005/6

	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	LVL	LVL	EUR	EUR
Net sales	3 587 773	3 245 289	5 104 941	4 616 343
Other operating income	704	287	1 002	408
<b>Total income</b>	<b>3 588 477</b>	<b>3 245 576</b>	<b>5 105 943</b>	<b>4 616 751</b>
Direct cost of goods sold or services rendered	-1 930 844	-1 647 743	-2 747 343	-2 343 873
Marketing, advertising and public relations expenses	-168 526	-108 834	-239 791	-154 814
Bad receivables	-9 976	-39 549	-14 195	-56 257
Operating expenses	-259 213	-181 141	-368 827	-257 669
Salaries, bonuses and social expenses	-479 097	-507 905	-681 694	-722 482
Depreciation expense	-182 241	-135 348	-259 306	-192 529
Other expenses	-1 065	-267	-1 515	-380
<b>Operating expenses</b>	<b>-3 030 962</b>	<b>-2 620 787</b>	<b>-4 312 671</b>	<b>-3 728 004</b>
<b>EBIT</b>	<b>557 515</b>	<b>624 789</b>	<b>793 272</b>	<b>888 747</b>
Financial income (except ForEx rate difference)	2 430	1 039	3 458	1 478
Financial costs (except ForEx rate difference)	2 048	-28 599	2 914	-40 681
Foreign exchange +gain/(loss)	-64 363	-44 213	-91 581	-62 893
<b>Financial items</b>	<b>-59 885</b>	<b>-71 773</b>	<b>-85 209</b>	<b>-102 095</b>
<b>EBT</b>	<b>497 630</b>	<b>553 016</b>	<b>708 063</b>	<b>786 651</b>
Provision for taxes	-66 484	-123 449	-94 598	-175 603
<b>Net profit</b>	<b>431 146</b>	<b>429 567</b>	<b>613 465</b>	<b>611 048</b>

\*Earnings per share

EPS 31.12.2005. = 0.14 LVL

EPS 31.12.2004. = 0.14 LVL (adjusted for restricted personnel incentive shares issue, October 26, 2005)

## Consolidated cash flow statement for 6 months of the financial year 2005/06

	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	LVL	LVL	EUR	EUR
<b>CASH GENERATED FROM OPERATIONS (of which)</b>	<b>1 398 292</b>	<b>820 296</b>	<b>1 989 590</b>	<b>1 166 851</b>
Cash received from customers	4 661 881	6 950 752	6 633 259	9 887 272
Cash paid to suppliers and employees	-2 996 309	-5 405 917	-4 263 364	-7 689 782
Paid income tax	-267 280	-724 539	-380 305	-1 030 639
<b>NET CASH USED IN INVESTING ACTIVITIES (of which)</b>	<b>-1 022 510</b>	<b>-430 458</b>	<b>-1 454 900</b>	<b>-612 316</b>
Business acquisition	0	-142 323	0	-202 451
Cash paid for purchasing non-current physical assets	-213 198	-284 444	-303 353	-404 615
Cash received from the sale of non-current physical assets	1 261	229	1 794	326
Loans given	-811 306	-72 520	-1 154 384	-103 158
Cash received from repayment of loans given		64 547	0	91 817
Interest received	733	4 053	1 043	5 765
<b>NET CASH USED IN FINANCING ACTIVITIES (of which)</b>	<b>-299 296</b>	<b>-967 400</b>	<b>-425 860</b>	<b>-1 376 103</b>
Short-term loans received		-437	0	-622
Paid interest	-2 278	-22 160	-3 241	-31 522
Dividends paid	-297 018	-944 803	-422 619	-1 343 959
<b>Effects of exchange rate changes</b>	<b>-131</b>	<b>0</b>	<b>-187</b>	<b>0</b>
<b>TOTAL CASH FLOW:</b>	<b>76 355</b>	<b>-577 562</b>	<b>108 643</b>	<b>-821 568</b>
Cash and cash equivalents as at the beginning of period	105 190	852 257	149 672	1 212 315
Cash and cash equivalents as at the end of period	181 545	274 695	258 315	390 747
<b>NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>76 355</b>	<b>-577 562</b>	<b>108 643</b>	<b>-821 568</b>

**Statement of changes in consolidated equity for the 6 months period ended December 31 2005**

	Share capital	Share premium	Personnel incentive shares	Other reserves	Currency translation reserves	Retained earnings	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
<b>As at 30 June 2004</b>	<b>990 060</b>	<b>2 005 199</b>	<b>0</b>	<b>10 311</b>	<b>-2 272</b>	<b>3 920 569</b>	<b>6 923 867</b>
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	-
Issue of share capital	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	1 182	-	1 182
Profit for the year	-	-	-	-	-	-	1 559 327
<b>As at 30 June 2005</b>	<b>2 970 180</b>	<b>2 004 204</b>	<b>0</b>	<b>1 023 402</b>	<b>-1 090</b>	<b>1 496 625</b>	<b>7 493 321</b>
Issue of share capital	-	-	-	-	-	-	-
Costs of issue of share capital	-	-	-	-	-	-	-
Dividend relating to 2004/2005	-	-	-	-	-	-297 018	-297 018
Allocation of profit	-	-	60 000	-1 023 402	-	963 402	0
Currency translation difference	-	-	-	-	-10 692	-	-10 692
Profit for the year	-	-	-	-	-	647 544	647 544
<b>As at 31 December 2005</b>	<b>2 970 180</b>	<b>2 004 204</b>	<b>60 000</b>	<b>0</b>	<b>-11 782</b>	<b>2 810 553</b>	<b>7 833 155</b>

**Statement of changes in consolidated equity for the 6 months period ended December 31 2005**

	Share capital	Share premium	Personal shares	Other reserves	Currency translation reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>As at 30 June 2004</b>	<b>1 408 728</b>	<b>2 853 141</b>		<b>14 671</b>	<b>-3 233</b>	<b>5 578 468</b>	<b>9 851 775</b>
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	-
Issue of share capital	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	1 682	-	1 682
Profit for the year	-	-	-	-	-	2 218 722	2 218 722
<b>As at 30 June 2005</b>	<b>4 226 185</b>	<b>2 851 725</b>	<b>0</b>	<b>1 456 170</b>	<b>-1 551</b>	<b>2 129 506</b>	<b>10 662 035</b>
Issue of share capital	-	-	-	-	-	-	-
Costs of issue of share capital	-	-	-	-	-	-	-
Dividend relating to 2004/2005	-	-	-	-	-	-422 619	-422 619
Allocation of profit	-	-	85 372	-1 456 170	-	1 370 798	-
Currency translation difference	-	-	-	-	-15 213	-	-15 213
Profit for the year	-	-	-	-	-	921 372	921 372
<b>As at 31 December 2005</b>	<b>4 226 185</b>	<b>2 851 725</b>	<b>85 372</b>	<b>0</b>	<b>-16 764</b>	<b>3 999 057</b>	<b>11 145 575</b>



## **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 31 December 2005 and the results of its operations and cash flows for the 6 month period ended 31 December 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, 2005.

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 0.703, as on 31.12.2004

Currency Exchange rate for LVL/EUR 0.7028, as on 31.12.2005

### **Note 1 Customer receivables**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>Ls</b>	<b>Ls</b>
Accounts receivables	2 910 454	1 565 317
Provisions for bad and doubtful accounts receivable	-277 487	- 101 360
	<u><b>2 632 967</b></u>	<u><b>1 463 957</b></u>

Accounts receivables, in comparison with the 6 month period of the previous financial year 2004/5, increased as the Group stopped discounting of Letters of Credit, as working capital is sufficient. Provisions for bad and doubtful accounts receivable, in comparison with the 6 month period of the previous financial year 2004/5, increased due to sales portfolio diversification and new market entry.

### **Note 2 Prepaid expenses**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>Ls</b>	<b>Ls</b>
Prepaid taxes	496 454	119 693
Prepaid participation at exhibition	34 501	5 104
Prepaid insurance fees	18 655	11 759
Prepaid software maintenance year fees	23 774	18 110
Other prepaid expenses	26 976	26 301
	<u><b>600 360</b></u>	<u><b>180 967</b></u>

Prepaid expenses, in comparison with the 6 month period of the previous financial year 2004/5, increased due to the paid in advance Income tax in Financial Year 2004/5.

### **Note 3 Inventories**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>Ls</b>	<b>Ls</b>
Raw materials	1 256 588	2 396 867
Work-in- progress	1 951 100	1 673 249
Finished goods	448 529	613 456
Prepayments to suppliers	4 764	66 715
	<u><b>3 660 981</b></u>	<u><b>4 750 287</b></u>

Completion of significant order resulted in lower inventory level, in comparison with the 6 month period of the previous financial year 2004/5, on the balance sheet date.

### **Note 4 Share capital**

The total number of Company's share capital is LVL 3 030 180 consisting of authorized, issued and fully paid ordinary shares with voting rights is 2 970 180 shares and 60 000 dematerialized restricted employee incentive title shares without voting rights (issued on October 26, 2005). Restricted personnel incentive shares may be bought back only by SAF Tehnika (for detailed information see JSC „SAF Tehnika” Resolutions of Annual Shareholder Meeting October 26, 2005). The nominal value of one share is Ls 1. See press release

***Note 5 Segment information***

The Group operates in a single business and geographical segment. Under IAS 14 geographical segment is determined by a reference to the dominant source of geographical risks which is the location of its main production unit in Latvia.

***Note 6 Marketing, advertising and public relations expenses***

Marketing, advertising and public relations expenses, in comparison with the 6 month period of the previous financial year 2004/5, increased as the group is participating in more exhibitions and more sales commissions are paid.

***Note 7 Operating expenses***

Operating expenses, in comparison with the 6 month period of the previous financial year 2004/5, increased due to the increase in IT Outsourcing, traveling and training expenses.