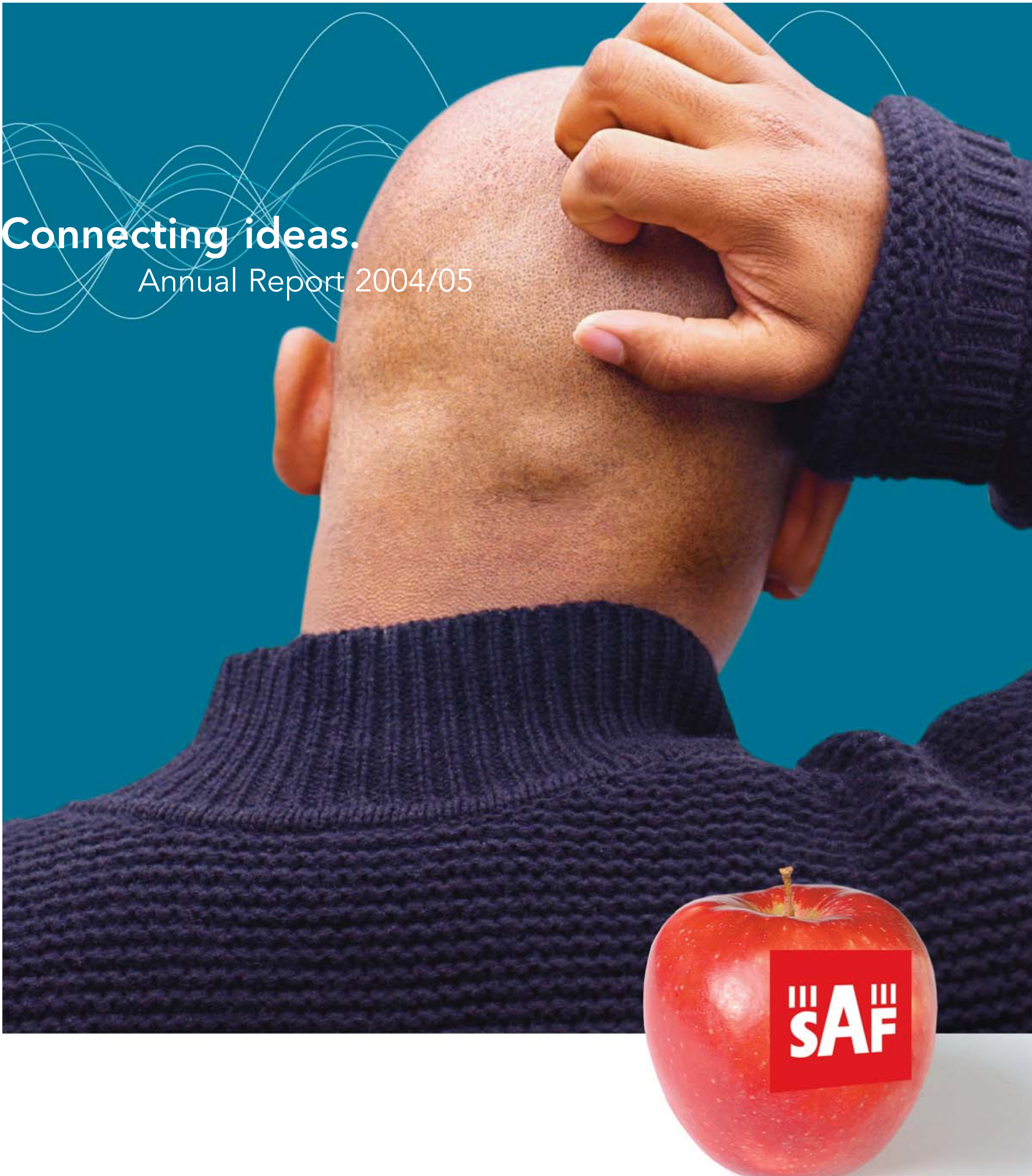
Connecting ideas.

Annual Report 2004/05



One man's brain plus one other will produce one half as many **ideas** as one man would have produced alone…

Mission Statement: SAF Tehnika leads understanding of customer ideas and needs, innovative technologies and tendencies, what contributes by creating most appropriate solutions to encourage our customer business success and provides unique value and opportunity for our employees, investors and partners.

SAF Tehnika in Brief

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.

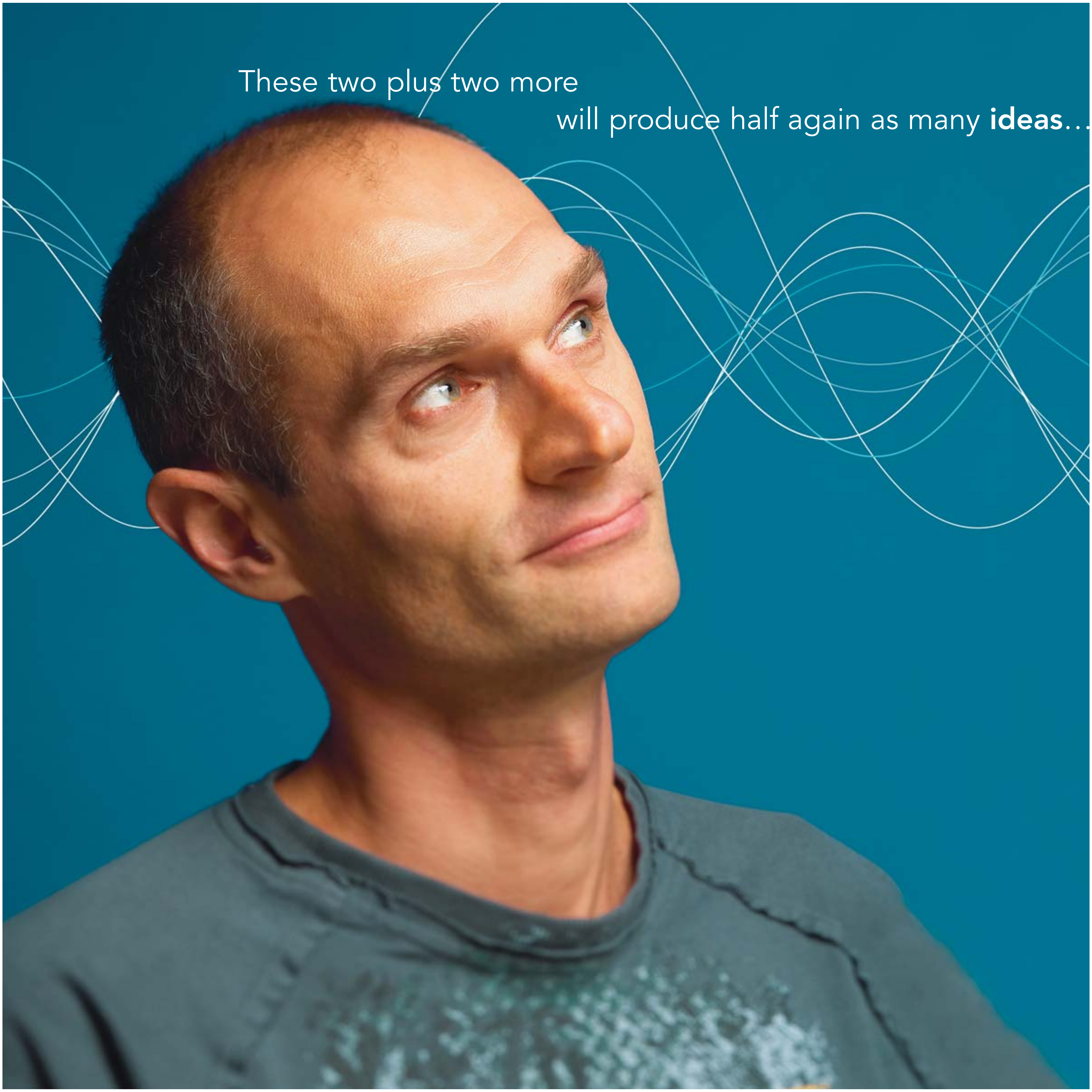
Company name	SAF Tehnika, JSC
Legal address	24a, Ganibu dambis, Riga, Latvia
Phone	+371 7046840
Fax	+371 7020009
Latvian Commercial Registry No.	LV40003474109
Financial Year	July 1st, 2004–June 30th, 2005

Auditor	PricewaterhouseCoopers, SIA
Legal address	19, Kr.Valdemara street, Riga, Latvia
Phone	+371 7094400
Fax	+371 7830055

Board of Directors

CEO, Chairman of the Management Board	Normunds Bergs
Vice Chairman of the Management Board	Didzis Liepkalns
Member of the Management Board	Aleksis Orlovs

Chairman of the Supervisory Council	Vents Lacars
Vice Chairman of the Supervisory Council	Juris Ziema
Members of the Supervisory Council	Andrejs Grisans
	Ivars Senbergs
	Ivars Bergmanis


These two plus two more
will produce half again as many **ideas**...

Report of the Board

Dear investors, clients and partners,

Normunds Bergs, Chairman of the Board

The most significant achievement during the past financial year for SAF Tehnika was the successful market diversification. Sales to Asia, Africa and Latin America increased rapidly and despite the revenues from China decreased by approximately LVL 6 000 000 (in the previous financial year China represented 57% of revenues), turnover constituted 86% of the previous financial year's consolidated net sales. The Group's consolidated net sales for 12 month period of financial year 2004/2005 were LVL 11 066 391.

Over the past 12 months the Group has entered 15 new markets, thereby increasing the total number of active markets by 50% (now 45 countries). Almost all of the new countries company entered are considered to be emerging markets.

Activities during the financial year

The consolidated net profit of the Group for the financial year 2004/2005 (incorporating SAF Tehnika Sweden) was LVL 1 559 327. Net profit compared with the previous year was affected mainly by decreased turnover (less beneficial economies of scale) and SAF Tehnika Sweden costs. Ongoing developments such as the new common modem project are being undertaken in order to address this issue. The key determinant for better profitability measures solely rests on increased turnover due to absolute fixed cost levels.

During the reporting year the Group increased production capacity by investing LVL 587 143 into property, plant and equipment and intangible assets and recruting 20 new employees.

The Group signed contracts with all Sweden's Tele2 subsidiaries in Russia. Furthermore SAF Tehnika has become an official vendor of PDH microwave equipment for Russia's second-largest mobile network operator VimpelCom. Also the sale of SAF network management system has been introduced.

SAF Tehnika's excellent presentation at CeBIT — most significant IT&T event worldwide, which annually takes place in Germany, Hanover and participation in central fair for Asia region — CommunicAsia 2005 (Singapore), both played a significant role in partnership maintenance, SAF brand awareness and new products promotion. The Group also became a member of the Latvian Chamber of Commerce and Industry. The combined effects of the above activities are expected to result in new collaboration partners and clients.

The Group is planning to expand further internationally by penetrating new geographic markets both in developing and developed countries while accommodating local user preferences and market-specific characteristics.

Following the majority shareholder decision taken at the previous annual general meeting, the Group paid a LVL 1 per share dividend and implemented a 2 for 1 bonus share issue.

Scientific research and product development

The Company keeps an ongoing focus towards the development of new products as well as the improvement of existing ones, thereby constantly offering more qualitative and diverse solutions. For example, the Group has completed the indoor unit (IDU) and outdoor unit (ODU) testing process by implementation of IDU thermo-testing.

These four

plus four more begin to represent a creative meeting,...

Report of the Board (continued)

Foreign branch offices

Estonian subsidiary SAF International was liquidated during the previous financial year in order to streamline operations, while Swedish subsidiary SAF Tehnika Sweden worked on a project related to the launch of a CFQ system.

Court proceedings

Following the audit of the SAF Tehnika A/s (Company) by the the Latvian State Revenue Service (SRS), the SRS deemed that the Company had to pay additional income tax (and a penalty). The Company disagreed with the sentence and this was therefore contested in the Administrative District Court. The Court satisfied the claim and established that the disputed decision was unfounded and had to be withdrawn. The court decision was not appealed by the SRS and therefore came into force.

Future perspectives

Based on ongoing investments (including increased production capacity) and existing demand levels, management of SAF Tehnika considers that the results of financial year 2005/2006 will be better thanks to the successful income diversification measures undertaken following the unexpected (3G-related) industry slowdown in the Chinese market.

Normunds Bergs
Chairman of the Board

Riga, 4 October 2005


and the ratio changes to one quarter as many…
— Anthony Chevins

Supervisory Council Report

During the financial year SAF Tehnika (hereafter — Group) has successfully continued its operations according to its chosen strategy of maintaining high production quality while optimizing costs.

To ensure participation in the rapid growth of its markets, the Group has performed several important actions. The most significant is successful revenue diversification and as a result its products are now sold in 45 countries. The Group has commenced sales to the African continent and increased sales both to South America and Greater Asia.

Efforts of the R&D department have provided the base to introduce new products and to further improve existing ones. Product testing procedures have been enhanced and new product development has been commenced. The Group has also addressed problems in Latvia's technical education and actively participates in increasing the quality of engineering-related schooling from which the beneficiaries will not only be the Group but the whole of society.

SAF Tehnika Sweden has successfully integrated into the research and development department and has launched the development of next generation products.

The Sales and Marketing Department has been working hard to raise the company's profile using various marketing activities and increasing sales to both existing accounts and new markets.

In light of the successful market diversification policy, the Supervisory Council is convinced that the Group is in a good position to increase sales and improve its results next year.

During the previous financial period the Supervisory Council has performed its duties to monitor the activities of the Group according to legislation and the resolutions of shareholders, reviewed financial reports and monitored the actions of the management.

Vents Lacars
Chairman of the Supervisory Council

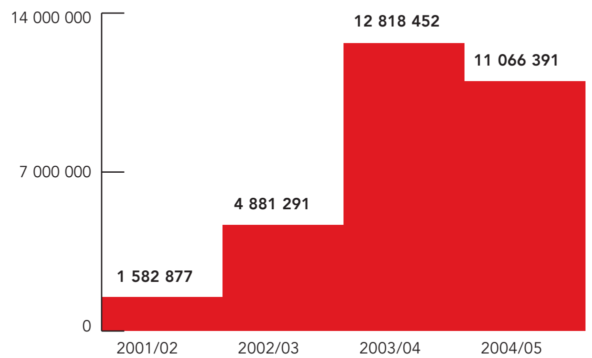
Juris Ziema
Member of the Supervisory Council

Riga, 5 October 2005

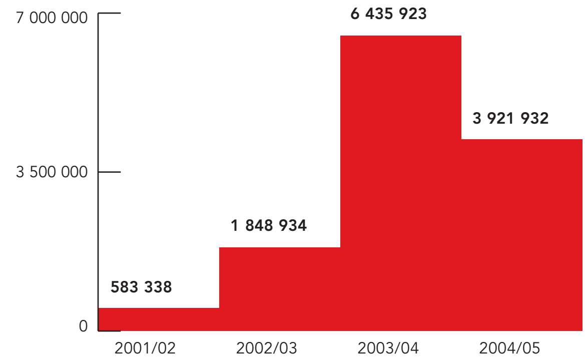

Connecting ideas.
SAF Tehnika

Financial Highlights

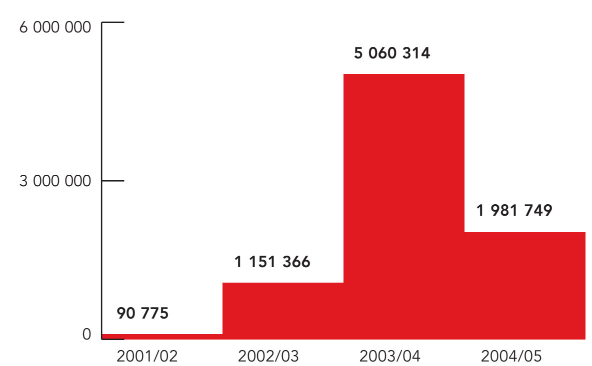
Net Sales, LVL



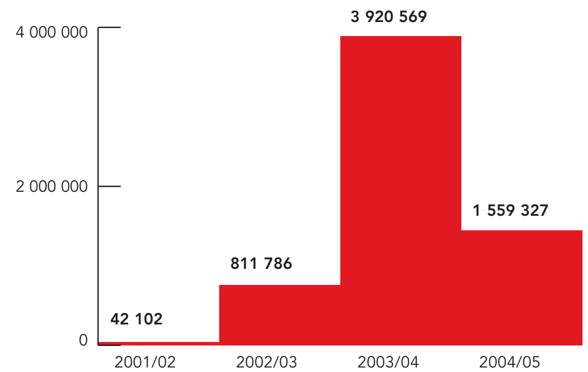
Gross Profit, LVL



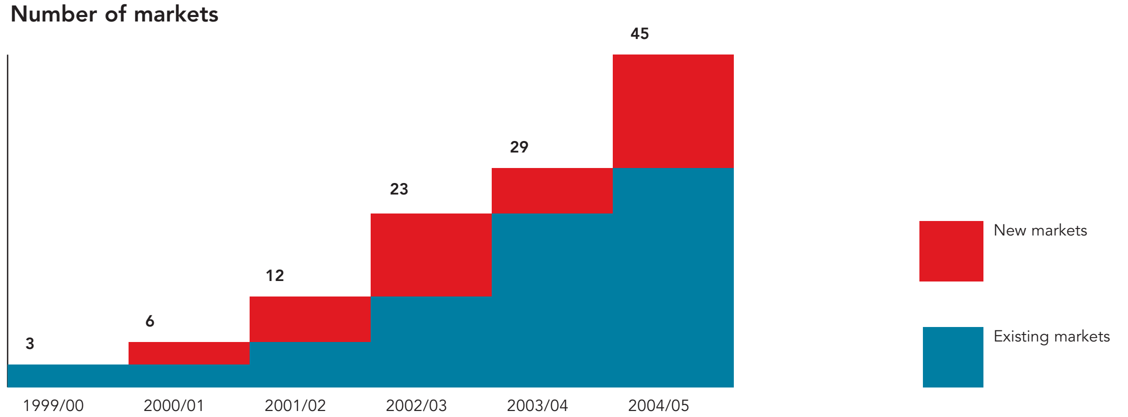
Operating Profit, LVL



Net Profit, LVL



Number of markets



Consolidated Financial Statements

Consolidated Balance Sheet

	Note	30.06.2005	30.06.2004
		LVL	LVL
Assets			
Non-current assets			
Property, plant and equipment	9	1 045 003	1 042 174
Intangible assets	10	694 396	648 947
Available for sale financial assets		-	31 654
		1 739 399	**1 722 775**
Current assets			
Inventories	13	4 365 782	2 936 976
Current income tax		181 994	-
Trade and other receivables	12	1 878 465	3 007 072
Derivative financial instruments	11	-	4 446
Cash and cash equivalents	14	105 190	852 257
		6 531 431	**6 800 751**
Total assets		**8 270 830**	**8 523 526**
Equity			
Share capital	15	4 974 384	2 995 259
Reserves		1 023 402	10 311
Currency translation reserve		(1 090)	(2 272)
Retained earnings		1 496 625	3 920 569
Total equity		**7 493 321**	**6 923 867**
Liabilities			
Non-current liabilities			
Deferred tax liabilities	18	15 082	29 422
		15 082	**29 422**
Current liabilities			
Trade and other payables	16	747 338	919 244
Current income tax liabilities		-	648 006
Borrowings	17	6 101	2 519
Derivative financial instruments	11	8 988	468
		762 427	**1 570 237**
Total liabilities		**777 509**	**1 599 659**
Total equity and liabilities		**8 270 830**	**8 523 526**

The notes on pages 16 to 34 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 12 to 34 were approved by the Board and were signed on its behalf by:

Normunds Bergs
Chairman of the Board

4 October 2005

Consolidated Income Statement

	Note	Year ended 30 June 2005	Year ended 30 June 2004
		LVL	LVL
Sales	5	11 066 391	12 818 452
Cost of goods sold	6	(7 144 459)	(6 382 529)
Gross profit		**3 921 932**	**6 435 923**
Selling and marketing costs	7	(899 064)	(959 486)
Administrative expenses	8	(1 041 119)	(416 123)
Operating profit		**1 981 749**	**5 060 314**
Finance costs — net	19	(37 140)	(252 022)
Profit before income tax		**1 944 609**	**4 808 292**
Income tax expense	20	(385 282)	(887 723)
Profit for the year		**1 559 327**	**3 920 569**
Attributable to:			
Equity holders of the Company		1 559 327	3 920 569
		1 559 327	3 920 569
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in LVL per share)			
basic	21	0.52	1.32
diluted	21	0.52	1.32

The notes on pages 16 to 34 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Reserves*	Currency translation reserve	Retained earnings	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Balance 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 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 differences	-	-	-	(2 272)	-	(2 272)
Profit for the year	-	-	-	-	3 920 569	3 920 569
Balance at 30 June 2004	**990 060**	**2 005 199**	**10 311**	**(2 272)**	**3 920 569**	**6 923 867**
Issue of share capital	1 980 120	-	-	-	(1 980 120)	-
Costs of issue of capital	-	(995)	-	-	-	(995)
Dividend relating to 2003/2004	-	-	-	-	(990 060)	(990 060)
Allocation of profit	-	-	1 013 091	-	(1 013 091)	-
Currency translation differences	-	-	-	1 182	-	1 182
Profit for the year	-	-	-	-	1 559 327	1 559 327
Balance at 30 June 2005	**2 970 180**	**2 004 204**	**1 023 402**	**(1 090)**	**1 496 625**	**7 493 321**

* Reserves have been created by allocation of profit in accordance with the shareholders' decision and can be distributed subject to shareholders' approval.

The notes on pages 16 to 34 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 30 June 2005	Year ended 30 June 2004
		LVL	LVL
Cash flows from operating activities			
Cash generated from operations	23	1 833 090	2 073 282
Interest paid		(27 562)	(111 381)
Income tax paid		(995 202)	(241 548)
Net cash generated from operating activities		**810 326**	**1 720 353**
Cash flows from investing activities			
Business acquisition		-	(636 525)
Received as a result of subsidiary liquidation		27 447	-
Purchases of property, plant and equipment (PPE)		(461 411)	(468 224)
Proceeds from sale of PPE		184	3 571
Purchases of intangible assets		(126 500)	(122 269)
Interest received		2 986	7 132
Net cash used in investing activities		**(557 294)**	**(1 216 315)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		-	1 551 157
Finance lease payments		-	(280 803)
Proceeds from borrowings		3 582	-
Repayments of borrowings		-	(773 675)
Dividends paid to Company's shareholders		(990 060)	(150 000)
Net cash (used in)/from financing activities		**(986 478)**	**346 679**
Effects of exchange rate changes		(13 621)	-
Net (decrease)/increase in cash and cash equivalents		**(747 067)**	**850 717**
Cash and cash equivalents at the beginning of the year		852 257	1 540
Cash and cash equivalents at the end of the year	14	**105 190**	**852 257**

The notes on pages 16 to 34 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

SAF Tehnika (the Company) and its subsidiary (together the Group) is a designer, producer and distributor of digital microwave point-to-point radio data transmission equipment which offers an alternative to cable channels. The Group 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. The Company owns 100% of a subsidiary company SAF Tehnika Sweden AB, a research and development company of microwave radio equipment, which was established in May 2004.

The Company is a public joint stock company incorporated under the laws of the Republic of Latvia. The address of its registered office is Ganibu Dambis 24a, Riga, Latvia.

The shares of the Company are listed on Riga Stock Exchange, Latvia.

These consolidated financial statements have been approved for issue by the Board of Directors on 4 October 2005.

The Company's management does not have the power to amend the consolidated financial statements after issue.

The annual full reporting period for the Group is set from July 1 through June 30.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

A Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets (including derivative financial instruments).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. Areas including significant judgements or complexity, or areas with estimates and judgements significant for preparation of financial statements are disclosed in Note 4 and Note 10.

The accounting policies used by the Group are consistent with those used in the previous accounting period.

Early adoption of standards

In 2003/2004 the Group early adopted the IFRS below, which are relevant to its operations.

IAS 1	(revised 2003)	Presentation of Financial Statements
IAS 2	(revised 2003)	Inventories
IAS 8	(revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	(revised 2003)	Events after the Balance Sheet Date
IAS 16	(revised 2003)	Property, Plant and Equipment
IAS 17	(revised 2003)	Leases
IAS 21	(revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24	(revised 2003)	Related Party Disclosures

IAS 27	(revised 2003)	Consolidated and Separate Financial Statements
IAS 32	(revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 33	(revised 2003)	Earnings per Share
IAS 39	(revised 2003)	Financial Instruments: Recognition and Measurement
IAS 36	(revised 2003)	Impairment of Assets
IAS 38	(revised 2003)	Intangible Assets

B Consolidation and business combinations

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group' Parent company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries or businesses.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

C Foreign currency translation

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

(b) Transactions and balances
Foreign currency transactions are translated into the presentation currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Notes to the Consolidated Financial Statements (continued)

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity or business are treated as assets and liabilities of the foreign entity and translated at the closing rate.

D Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

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

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of leasehold improvement and the term of lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note G).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

E Intangible assets

(a) Intangible assets arising from development
Intangible assets arising from development are recorded at cost less accumulated amortisation. Cost of intangible assets acquired in a business combination is their fair value at the acquisition date.

The Group has not incurred development expenditure qualifying for capitalisation. Product prototypes have been acquired in business combination. Amortisation is charged from the moment when the underlying assets start generating cash flows. The amortisation is calculated using the straight line method to allocate the cost of product prototypes over the estimated useful life of 10 years.

(b) Trademarks and licences
Trademarks and licences are shown at historical cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of usually three years.

(c) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

F Research and development

Research expenditure is recognised as an expense as incurred. The Group has not incurred development expenditure qualifying for capitalization, except for assets acquired in a business combination as described in Note E (a).

G Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

H Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of components operating in other economic environments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

I Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Finished goods and work in progress are stated at material cost. Labour costs and overheads are not material to the financial statements. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

J Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the orig-

Notes to the Consolidated Financial Statements (continued)

inal terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount. The amount of changes in provision is recognised in the income statement.

K Cash and cash equivalents

Cash and cash equivalents include bank account balances, time deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

L Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are charged against the share premium account. Incremental costs directly attributable to the acquisition of a business are included in the cost of acquisition as part of the purchase consideration.

M Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

N Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

O Employee benefits

The Group makes social insurance contributions to the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The Group pays fixed contributions to privately administered pension insurance plan. The Group will have no legal or constructive obligations to pay further contributions if the fund or pension plan do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The cost of these payments is included into the income statement in the same period as the related salary cost.

P Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) Sales of goods
Sales of goods are recognised when a Group entity has delivered products to the customer and the customer has accepted the products in accordance with the contract terms, and collectibility of the related receivables is reasonably assured.

(b) Sales of services
Sales of services are recognised in the accounting period in which the services are rendered.

R Leases

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

S Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

T New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 December 2005. The Group's assessment of the impact of these new standards and interpretations is set out below.

(a) IFRS 6, Exploration and Evaluation of Mineral Resources
The Group does not have any Mineral Resources assets. This standard will not affect the Group's financial statements.

(b) IFRIC 3, Emission Rights
The Group does not participate in an emission rights scheme. This interpretation will not affect the Group's financial statements.

(c) IFRIC 4, Determining whether an Asset Contains a Lease
The Group does not have assets containing a lease. This interpretation will not affect the Group's financial statements.

(d) IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
The Group does not have interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the Group's financial statements.

Notes to the Consolidated Financial Statements (continued)

e) IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
The Group does not produce or sell electrical and electronic equipment supplied to private households. This interpretation will not affect the Group's financial statements.

3. Financial risk management

(1) Financial risk factors

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

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

Risk management is carried out by the Finance Department. Finance Department identifies, evaluates and hedges financial risks in close co-operation with other Group's operating units.

(a) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises primarily from future commercial transactions, recognised assets and liabilities. To manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities, the Group use forward contracts. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Finance Department is responsible for managing the net position in each foreign currency by using external forward currency contracts.

The Group's risk management policy is to hedge between 65% and 85% of anticipated transactions (mainly export sales) in US dollar for the subsequent 6 months.

(b) Credit risk
From time to time the Group has significant concentrations of credit risk in connection to its overseas customers. The Group has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. If customers are located in countries with high credit risk, then Letters of Credit issued by reputable credit institutions are used as credit risk management tool. In situations where no Letters of Credit can be obtained from a reputable credit institutions prepayments are requested from the customers.

(c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through the availability of short term borrowings secured by receivables under the Letters of Credit terms. Due to the dynamic nature of the underlying businesses, Finance Department aims to maintain flexibility in funding by keeping credit lines available.

(d) Cash flow and interest rate risk
As the Group does not have significant interest bearing assets or liabilities, the Group's income and cash flows are substantially independent of changes in market interest rates.

(2) Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value at the balance sheet date. All changes in fair value of the hedge instruments are recognized in income statement.

(3) Fair value estimation

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Fair value of Product prototypes
The Group has acquired intangible assets Product prototypes in a business combination as described in Note 10 and Note 24. The fair value of those assets was determined based on a number of assumptions and estimates as described in Note 10.

5. Segment information and sales

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.

The information on sales by regions is presented below for information purposes only and should not be considered as segmental information as defined by IAS 14.

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Asia	1 444 883	7 415 401
America	1 541 739	107 086
Africa	337 489	29 582
Europe	4 050 679	4 234 147
CIS	2 646 720	1 032 236
Middle East	1 044 881	-
	11 066 391	**12 818 452**

Notes to the Consolidated Financial Statements (continued)

6. Cost of goods sold

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Purchases and subcontractors	5 046 566	5 190 051
Inventory impairment	135 030	73 676
Salary expenses (incl. accruals for unused annual leave)	943 669	521 317
Social insurance (incl. accruals for unused annual leave)	252 715	123 451
Depreciation and amortization	378 900	228 096
Delivery expenses	74 692	55 490
Lease of premises	86 088	100 396
Low value inventory	13 489	14 842
Public utilities costs	34 915	20 496
Transportation costs	17 510	12 780
Other production costs	160 885	41 934
	7 144 459	**6 382 529**

Purchases and subcontractors cost includes research expense of LVL 13 767 (2003/2004: LVL 16 487).

7. Selling and marketing costs

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Advertising and marketing costs	335 095	632 907
Salary expenses (incl. accruals for unused annual leave)	232 839	131 398
Social insurance (incl. accruals for unused annual leave)	58 089	31 970
Business trip expenses	104 428	71 326
Depreciation and amortization	105 182	59 542
Other selling and distribution expenses	63 431	32 343
	899 064	**959 486**

8. Administrative expenses

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Salary expenses (incl. accruals for unused annual leave)	256 284	102 129
Social insurance (incl. accruals for unused annual leave)	67 536	23 153
Depreciation and amortization	69 358	45 734
Provisions for bad and doubtful accounts receivable	266 592	(20 257)
Bank commissions	24 565	27 846
Office expenses	10 321	11 154
IT services	26 314	11 718
Communication expenses	44 775	14 634
Representation costs	29 656	14 543
Business trip expenses	20 300	22 307
Sponsorship	44 521	55 200
Other administrative expenses	180 897	107 962
	1 041 119	**416 123**

9. Property, plant and equipment

	Leasehold improvements	Equipment and machinery	Other assets	Advances for assets	Total
	LVL	LVL	LVL	LVL	LVL
Year ended 30 June 2004					
Opening net book amount	37 456	328 255	130 020	12 563	508 294
Additions	177 135	265 024	108 618	24 312	575 089
Business acquisition	-	225 606	3 880	-	229 486
Reclassified	-	11 179	1 384	(12 563)	-
Disposals at cost	-	(2 779)	-	-	(2 779)
Depreciation charge	(22 524)	(202 117)	(44 614)	-	(269 255)
Depreciation of disposed assets	-	1 339	-	-	1 339
Closing net book amount	**192 067**	**626 507**	**199 288**	**24 312**	**1 042 174**
Year ended 30 June 2005					
Opening net book amount	192 067	626 507	199 288	24 312	1 042 174
Additions	107 766	318 988	33 697	192	460 643
Reclassified	3 200	21 112	-	(24 312)	-
Disposals at cost	-	(1 841)	-	-	(1 841)
Depreciation charge	(44 353)	(343 995)	(69 238)	-	(457 586)
Depreciation of disposed assets	-	1 613	-	-	1 613
Closing net book amount	**258 680**	**622 384**	**163 747**	**192**	**1 045 003**
At 30 June 2003					
Cost	42 925	508 035	147 551	12 563	711 074
Accumulated depreciation	(5 469)	(179 780)	(17 531)	-	(202 780)
Net book amount	**37 456**	**328 255**	**130 020**	**12 563**	**508 294**
At 30 June 2004					
Cost	220 060	1 007 065	261 433	24 312	1 512 870
Accumulated depreciation	(27 993)	(380 558)	(62 145)	-	(470 696)
Net book amount	**192 067**	**626 507**	**199 288**	**24 312**	**1 042 174**
At 30 June 2005					
Cost	331 026	1 345 324	295 130	192	1 971 672
Accumulated depreciation	(72 346)	(722 940)	(131 383)	-	(926 669)
Net book amount	**258 680**	**622 384**	**163 747**	**192**	**1 045 003**

During the reporting year the Group has not concluded operating or finance lease agreements.

Notes to the Consolidated Financial Statements (continued)

10. Intangible assets

	Goodwill	Product prototypes	Trademarks & licenses	Software	Advances	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Year ended 30 June 2004						
Opening net book amount	-	-	51 324	19 981	10 764	82 069
Additions	-	-	36 580	73 417	12 272	122 269
Business acquisition	511 051	-	-	-	-	511 051
Reclassified	-	-	10 764	-	(10 764)	-
Disposals	-	-	(2 325)	-	-	(2 325)
Amortization charge	-	-	(38 191)	(25 926)	-	(64 117)
Closing net book amount	**511 051**	**-**	**58 152**	**67 472**	**12 272**	**648 947**
Adjustment*	(511 051)	511 051	-	-	-	-
Restated closing net book amount	**-**	**511 051**	**58 152**	**67 472**	**12 272**	**648 947**
Year ended 30 June 2005						
Restated opening net book amount	-	511 051	58 152	67 472	12 272	648 947
Additions	-	-	17 086	82 538	26 876	126 500
Reclassified	-	-	12 272	-	(12 272)	-
Amortization charge	-	-	(46 754)	(49 100)	-	(95 854)
Result of foreign exchange rate changes	-	14 803	-	-	-	14 803
Closing net book amount	**-**	**525 854**	**40 756**	**100 910**	**26 876**	**694 396**
At 30 June 2003						
Cost	-	-	59 767	62 597	10 764	133 128
Accumulated amortization	-	-	(8 443)	(42 616)	-	(51 059)
Net book amount	**-**	**-**	**51 324**	**19 981**	**10 764**	**82 069**
At 30 June 2004						
Restated cost	-	511 051	104 786	136 014	12 272	764 123
Accumulated amortization	-	-	(46 634)	(68 542)	-	(115 176)
Net book amount	**-**	**511 051**	**58 152**	**67 472**	**12 272**	**648 947**
At 30 June 2005						
Cost	-	525 854	134 144	218 552	26 876	905 426
Accumulated amortization	-	-	(93 388)	(117 642)	-	(211 030)
Net book amount	**-**	**525 854**	**40 756**	**100 910**	**26 876**	**694 396**

Amortisation of LVL 22 315 (2003/2004: LVL 16 889) is included in the "Cost of goods sold" in the income statement; LVL 58 237 (2003/2004: LVL 38 819) in "Selling and marketing costs"; and LVL 15 302 (2003/2004: LVL 8 409) in "Administrative expenses".

10. Intangible assets (continued)

* The initial accounting for the business combination performed on 1 June 2004 was determined provisionally during the year ended 30 June 2004. During the reporting year the initial accounting for a business combination was completed. As a result the goodwill was allocated to 5 products' prototypes. Comparative information for the year before the initial accounting for the combination was completed is presented as if the initial accounting had been completed from the acquisition date.

The fair value of the product prototypes was determined based on the assessments of the value-in-use. Cash flow forecasts based on the next five-year budget approved by the Group's management were used in those calculations.

The following assumptions were used in fair value assessments of the product prototypes:

Financial year	2005	2006	2007	2008	2009
Gross margin % rate	0	49%	49%	49%	49%
Aggregate growth % rate	0	800%	319%	192%	170%
Discount % rate	0	11,40%	11,40%	11,40%	11,40%

The management determined expected gross margin based on the Group's past performance and its expectation for the market development. The growth rate calculation was subject to the assumptions on quantity of products sold and sales prices of specific products. Those assumptions were based on the management's forecasts for the market development and industry reports. The weighted average cost capital method was used in discount rate calculations.

An impairment test was performed on 30 June 2005 in order to determine the impairment loss of the prototypes. The result of the test showed no impairment loss; thus, no changes were made to the carrying value of the product prototypes.

11. Derivative financial instruments

	30.06.2005		30.06.2004	
	Assets	Liabilities	Assets	Liabilities
	LVL	LVL	LVL	LVL
Forward foreign exchange contracts — cash flow hedges	-	8 988	4 446	468

Notes to the Consolidated Financial Statements (continued)

12. Trade and other receivables

	30.06.2005	30.06.2004
	LVL	LVL
Trade debtors	2 012 949	2 784 893
Provisions for bad and doubtful accounts receivable	(286 085)	(19 493)
Trade debtors, net	1 726 864	2 765 400
VAT receivable	13 345	147 422
Deferred expenses	61 491	20 748
Other debtors	6 512	42 095
Prepayment to suppliers	70 253	31 407
	1 878 465	**3 007 072**

Trade debtors includes undrawn Letters of Credit with original payment term of maximum 180 days for LVL 573 136 (2003/2004: LVL 1 832 225).

As at 30 June 2005 the fair value of trade and other receivables approximate their carrying values.

The increase of provisions for bad and doubtful accounts receivable is included into the income statement of the reporting year as Administrative expenses in amount of LVL 266 592 (2003/2004 — the decrease of LVL 20 257).

13. Inventories

	30.06.2005	30.06.2004
	LVL	LVL
Raw materials	1 944 988	1 084 916
Work in progress	2 198 079	1 613 406
Finished goods	431 421	312 330
Provisions for slow moving inventories	(208 706)	(73 676)
	4 365 782	**2 936 976**

The increase of provisions for slow moving inventories is included into the income statement of the reporting year as Cost of goods sold in amount of LVL 135 030 (2003/2004 — LVL 73 676).

14. Cash and cash equivalents

	30.06.2005	30.06.2004
	LVL	LVL
Cash in bank	50 184	60 977
Deposits in money market fund	-	553 632
Short-term bank deposits	55 006	237 648
	105 190	**852 257**

The effective interest rate on short-term bank deposits (overnight deposits) was 0,55% for LVL, 1,24% for USD and 0,6% for EUR.

15. Share capital

As at 30 June 2005 the subscribed, issued and fully paid share capital consists of 2 970 180 ordinary bearer shares with unlimited voting rights (2003/2004: 990 060 shares) with a nominal value of LVL 1 each.

The Company issued 1 980 120 new free bonus shares in December 2004 for existing shareholders.

16. Trade and other payables

	30.06.2005	30.06.2004
	LVL	LVL
Trade payables	362 468	484 944
Social security and other taxes	85 992	57 054
Accruals for unused annual leave	170 849	143 005
Payable for acquisition of business	-	131 949
Other creditors	128 029	102 292
	747 338	**919 244**

17. Borrowings

	30.06.2005	30.06.2004
	LVL	LVL
Bank overdrafts	**6 101**	**2 519**

The fair values of the borrowings approximate their carrying values. All borrowings are due in less than 6 months after the balance sheet date. The balance of unused overdraft is LVL 24 304 as at 30 June 2005 (LVL 22 713 as at 30 June 2004).

18. Deferred income tax liabilities

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Deferred tax liability at the beginning of the reporting period	29 422	19 298
(Decrease)/increase of deferred tax liability during the reporting period (Note 20)	(14 340)	10 124
Deferred tax liability at the end of the reporting period	**15 082**	**29 422**

Notes to the Consolidated Financial Statements (continued)

18. Deferred income tax liabilities (continued)

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Unrecognised deferred tax asset		
Unrecognised deferred tax asset at the beginning of the reporting period	19 599	-
(Decrease)/increase of unrecognised deferred tax asset during the reporting period (Note 20)	126 247	19 564
Currency translation differences	(619)	(5)
Unrecognised deferred tax asset at the end of the reporting period	**145 187**	**19 559**

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

	30.06.2005	30.06.2004
	LVL	LVL
Temporary difference on fixed assets depreciation and intangible asset amortisation (to be reversed during 12 months)	38 205	36 515
Temporary difference on fixed assets depreciation and intangible asset amortisation (to be reversed after more than 12 months)	29 545	14 769
Temporary difference on accruals for unused annual leave (to be reversed during 12 months)	(13 142)	(10 810)
Temporary differences on provisions for slow moving inventories (to be reversed during 12 months)	(24 802)	(11 052)
Temporary differences on tax losses carried forward	(159 911)	(19 559)
Unrecognised deferred tax asset	145 187	19 559
Deferred tax liability, net	**15 082**	**29 422**

No offsetting of deferred tax liabilities and assets arising at different jurisdictions has been performed.

Deffered income tax assets are recognised for SAF Sweden AB to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deffered income tax assets of LVL 145 187 (2003/2004 — LVL 19 559).

19. Finance costs — net

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Interest expenses	27 562	113 783
Interest income	(2 934)	(11 329)
Net losses on foreign currency exchange rate fluctuations	12 512	149 568
	37 140	**252 022**

20. Income tax expense

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Increase / (decrease) in deferred tax liability (see Note 18)	(14 340)	10 124
Corporate income tax charge for the current period	399 622	877 599
	385 282	**887 723**

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 15% rate stipulated by the law to the Group's profit before taxation (2003/2004 — 19%):

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Profit before taxation	**1 967 976**	**4 808 292**
Theoretically calculated tax at a tax rate of 15% (2003/2004 — 19%)	295 196	913 575
Tax effect from expenses not deductible for tax purposes	186 788	11 844
Effect of different tax rates	67 408	9 081
Tax relief for donations	(37 863)	(46 920)
Increase in unrecognised deferred tax asset	(126 247)	(19 564)
Effect of changes in enacted tax rates on deferred tax	-	19 707
Tax charge	**385 282**	**887 723**

Deferred tax is calculated by using the following enacted tax rates:

Year	Tax rate	Tax rate
	SAF Tehnika A/S	SAF Tehnika Sweden AB
2003./2004.	19%	28%
2004./2005. and thereafter	15%	28%

In the period from 6 April 2004 till 2 July 2004 the State Revenue Service performed complex tax audit: audit of value added tax and corporate income tax with the auditing period of 2001 and 2002. In accordance with the State Revenue Service Decision on the audit results, corporate income tax for the year 2002 in amount of LVL 576 and corporate income tax penalty amounting to LVL 576 to be paid by the Company were additionally calculated. The Company has appealed to Administrative region court demanding to revoke this decision passed by the State Revenue Service. The Administrative region court discharged the Company's claim on cancellation of the State revenue Service decision.

The tax authorities may inspect the books and records for the last 2.5 years (starting from 1 January 2003) and may impose additional tax assessments with penalty interest and penalties. The Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect (The tax authorities have not performed all-inclusive tax inspection to date).

Notes to the Consolidated Financial Statements (continued)

21. Earnings per share

Basic earnings per share are calculated by dividing the profit with the weighted average number of shares during the year.

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Reporting period revenue (a)	1 559 327	3 920 569
Ordinary shares outstanding until 1 July*	2 970 180	2 970 180
Ordinary shares outstanding until 30 June*	2 970 180	2 970 180
Weighted average number of shares during the reporting period (b)*	2 970 180	2 970 180
Basic earnings per share at the reporting period (a/b), LVL	**0.52**	**1.32**

* The Group issued 1 980 120 dematerialized bearer bonus shares without making corresponding changes in the Group's resources on 1 December 2004. Because the bonus issue was without consideration, it is treated as if it had occurred before 1 July 2003.

The Group does not have dilutive potential ordinary shares.

22. Dividends per share

The dividends paid in the financial year 2004/2005 amounted to LVL 990 060 or LVL 1 per share (in 2003/2004: LVL 150 000 or LVL 0.75 per share). A dividend in respect of the financial year 2004/2005 of LVL 0.1 per share, amounting to a total dividend of LVL 297 018, is to be proposed at the Annual General Meeting on 26 October 2005. These consolidated financial statements do not reflect this dividend payable.

23. Cash generated from operations

	Note	Year ended 30.06.2005	Year ended 30.06.2004
		LVL	LVL
Profit before taxes		1 944 609	4 808 292
<u>Adjustments for</u>:			
- depreciation	9	457 586	269 255
- amortization	10	95 854	64 117
- changes in provisions for slow moving inventories		135 030	73 676
- changes in accruals for unused annual leave		27 844	108 007
- interest income	19	(2 934)	(11 329)
- interest expenses	19	27 562	113 783
- loss from revaluation of derivative financial instruments		12 966	-
Cash generated from operations before changes in working capital		**2 698 517**	**5 425 801**
Inventories increase		(1 563 836)	(986 242)
Receivables increase/(decrease)		898 386	(2 211 805)
Payables decrease		(199 977)	(154 472)
Cash generated from operations		**1 833 090**	**2 073 282**

24. Subsidiaries and business combinations

During the year ended 30 June 2005 no acquisitions of business or subsidiaries were made.

On 13 May 2004 the Group established a subsidiary SAF Tehnika Sweden AB by contributing cash of LVL 7 170 to the share capital. No goodwill arised on this transaction. SAF Tehnika Sweden AB is a 100% owned subsidiary of the Group, incorporated and domiciled in Sweden.

On 1 June 2004, subsidiary of the Group SAF Tehnika Sweden AB acquired Viking Microvawe business. The acquired business contributed revenues of LVL 70 141 and loss of LVL 69 872 for the period from 1 June to 30 June 2004. In a year ended 30 June 2004 business acquisition was accounted using provisional values. The initial accounting for the business combination was completed as described in Note 10.

Details of net assets acquired after the completion of initial accounting for the business combination are as follows:

	Fair value
	LVL
Purchase consideration (fully paid in cash)	768 474
Fair value of net assets acquired	(768 474)
Goodwill	**-**

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
	LVL	LVL
Intangible assets (product prototypes)	511 051	-
Property, plant and equipment	228 588	228 588
Inventories	109 636	109 636
Accruals for unused annual leave	(80 801)	(80 801)
Net assets	**768 474**	**257 423**

25. Related party transactions

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Board members' remuneration		
· salary expenses*	97 172	70 015
· social insurance contributions*	17 801	14 012
Council members' remuneration		
· salary expenses*	65 198	72 083
· social insurance contributions*	15 123	16 348
Total	**195 294**	**172 458**

* Bonuses on year results are included in salary expenses and social insurance contributions.

One of the management members received short-term interest-free loan in the amount of LVL 7 000 at 15 December 2004. Loan was fully repaid at 31 January 2005.

Notes to the Consolidated Financial Statements (continued)

26. Personnel expenses

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Salary expenses*	1 270 422	612 746
Social insurance contributions*	345 416	148 214
Contributions to pension funds**	50 972	2 082
Total	**1 666 810**	**763 042**

* Salary expenses and social insurance contributions include provisions for the year performance results bonuses.

** Contributions to pension funds are made on behalf of personnel of SAF Tehnika Sweden AB.

27. Average number of employees of the Group

	Year ended 30.06.2005	Year ended 30.06.2004
	LVL	LVL
Average number of personnel employed by the Group during the reporting period:	124	104

Average number of employees includes 14 employees, which were hired for subsidiary SAF Tehnika Sweden AB on 1 June 2004.

28. Operating lease

Lease agreement Nr. S-116/02, dated 10 December 2002, was concluded with Dambis A/S. In accordance with the agreement lessor commissions and SAF Tehnika A/S accepts premises with total area of 3 948 m^2 for the reimbursement. The premises are located at Ganibu dambis 24a. The agreement terminates on 1 March 2010.

In accordance with concluded agreements, the Group has the following lease payment commitments at 30 June 2005:

	LVL
1 year	68 255
2–5 years	216 140
	284 395

29. Post balance sheet events

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Group as at 30 June 2005.

Auditors' Report

PricewaterhouseCoopers

To the shareholders of SAF Tehnika A/S

We have audited the consolidated financial statements of SAF Tehnika A/S and it's subsidiary SAF Tehnika Sweden AB (the "Group") for the year ended 30 June 2005 set out on pages 12 to 34. The audited consolidated financial statements include the consolidated balance sheet as of 30 June 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended 30 June 2005 and note disclosure. These consolidated financial statements are the responsibility of SAF Tehnika A/S management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We read the management report set out on pages 5 and 7 and did not identify material inconsistencies with the audited consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 30 June 2005, and of the results of its operations and its cash flows for the year ended 30 June 2005 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SIA
Audit company licence No. 5

Juris Lapshe
Certified auditor
Certificate No. 116

Member of the Board

18 October 2005
Riga, Latvia

www.saftehnika.com