

SAF Tehnika A/S
Consolidated Annual Report
for the year ended 30 June 2006

**SAF TEHNIKA A/S
CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

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Report of the Board

Type of activity

SAF Tehnika (hereinafter – the Group) is designer, producer and distributor of microwave digital radio data transmission equipment used mainly by telecommunications operators by providing voice and data transmission as an alternative to cable channels. The company offers approximately 200 products comprising solutions for mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as well as state and private companies. The aim of the Group is to provide wireless communications for data and voice transmissions at reasonable prices. The Group believes that its success is based on flexibility, unique approach to scientific research and ability to provide its customers with high quality solutions at a low price.

Activity of the Group in the reporting year

The Group's net sales for the 12-month period of the financial year 2005/2006 reached a record-high figure of LVL 13 259 709 (EUR 18 866 866), which constitutes a 20% increase compared to the corresponding period of the prior financial year. The increase is basically a result of the successful regional diversification and purposeful business activities carried out in Asia. Europe, Africa and CIS reported stable figures, while sales in China and Latin America continued to grow. In addition, the large-scale BSNL project in India was completed.

The Group was exporting its products to 51 country all over the world, and its aggregate exports for the reporting period comprised LVL 12 170 076 (EUR 17 316 458), which is by 19% more than in the prior financial year.

The Group commenced official distribution of the new CFQ products in the global communications market (the product was officially announced on 13 February 2006, at the 3GSM World Congress in Barcelona). CFQ (SDH) is high capacity data transmission equipment suitable for mobile operators to provide various modern 3G data services and new WiMAX wireless technology solutions.

The net profit of the Group for the financial year 2005/2006 is LVL 1 602 131 (EUR 2 279 627), which represents a 3% growth rate compared to the prior financial year.

The Group increased its production capacity in the reporting year by having invested LVL 488 021 (EUR 694 391) in acquisition of new tangible and intangible assets as well as recruited 21 new employee.

During the reporting period, the Group successfully participated in following exhibitions and trade fairs: Andicom 2005 in Columbia, Futurecom 2005 and Telexpo 2006 in Brazil, IndoWireless 2006 in Indonesia, CommunicAsia 2006 in Singapore, CeBit 2006 in Germany, SaudiCommunications 2006 in Saudi Arabia, and Svyaz/ Expo Comm 2006 in Russia.

The microwave radio equipment market in which SAF Tehnika has a sound position is continuously growing. There is no evidence showing that the market could be exhausted. Significant activity is observed in major markets like India and Latin America. The new Chinese 3G Standard (TD-SCDMA) has been approved, and high-level decisions are expected to be taken on commencing establishment of 3G networks. Meanwhile, new niches are opening up in the market, for instance, the Group has a possibility to participate in the development of WiMAX networks. As it has been already mentioned in the report for the previous quarter, WiMAX wireless access service providers will be able to use digital microwave radio equipment as a basis for their WiMAX network infrastructure.

According to the resolution of the shareholders' meeting, the Group paid dividends of LVL 0,1 per share, and issued 60 000 registered dematerialised personnel shares. The issued shares are voteless.

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Report of the Board (continued)

Research and development

One of the Group's priorities is introduction of new products and improvement of the existing ones, thus continuously enhancing the assortment and quality of the products, which is an important precondition for future growth of the Group. In the reporting year, the Group developed and improved several products of the CFM (PDH) line, and continued working on the development of the CFQ line products and CFQ system test automation. Moreover, simplified MUX IDU designing was commenced, while the work on CFQ ODU module test automation software was completed.

Foreign branches and representation offices


SAF Tehnika Sweden (incorporated in Sweden) is engaged in the development of RadioLink products in conformity with the international SDH standard (ETSI).

In the reporting year, the company completed the development of 7 GHz radio equipment which was subsequently launched in production and offered to customers. A range of new projects was commenced to expand the CFQ (SDH) product line. These new projects are to be accomplished in the subsequent financial year and would considerably add to the current product assortment.

The key objectives of SAF Tehnika Sweden are and have always been development of user-friendly and high-quality products at an acceptable price, which will be achieved through the CFQ (SDH) products of the new generation.

Future prospects

The management of the Group believes that the result of the upcoming financial year 2006/2007 will be better by at least 10%. The Group has won the tender for supply of the CFQ system in Kosovo totalling LVL 0.28m (EUR 0.4m). Supplies are expected to take place in the first quarter of the financial year 2006/2007. The Group is continuing negotiations with the Indian BSNL on new projects. It is projected that supplies under several projects will be done during the financial year 2006/2007.



Normunds Bergs
Chairman of the Board

Riga, 9 October 2006

The annual report has been approved by the general shareholders' meeting on _____ 2006.
Chairman of the general shareholders' meeting _____

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STATEMENT OF BOARD'S RESPONSIBILITIES

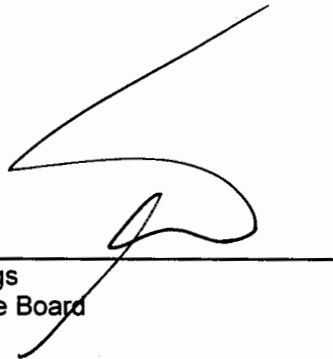
The Board of SAF Tehnika A/S (hereinafter – the Company) is responsible for preparing the consolidated financial statements of the Company and its subsidiary (hereinafter – the Group).

The consolidated financial statements set out on pages 7 to 35 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 30 June 2006 and the results of its operations and cash flows for the year then ended.

The above mentioned financial statements are prepared in accordance with International Financial Reporting Standards as adopted by EU on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the consolidated financial statements.

The Board of SAF Tehnika A/S is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. The Board is also responsible for the compliance with the laws of the countries in which the Group's companies are operating (Latvia and Sweden).

For the Board,



Normunds Bergs
Chairman of the Board

9 October 2006

Auditors' report

To the shareholders
of AS SAF Tehnika

We have audited the accompanying consolidated financial statements of AS SAF Tehnika (a joint stock company registered in the Republic of Latvia) and its subsidiary (the Group) for the year ended 30 June 2006. The financial statements, set out on pages 7 through 35, comprise the balance sheet, the statements of income, cash flows and changes in equity and the related notes. These financial statements are the responsibility of the Parent company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Group as of 30 June 2006, and the results of the Group's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young Baltic SIA
License Nr. 17



Diāna Krišjāne
Personal ID code: 250873-12964
Chairperson of the Board
Latvian Sworn Auditor
Certificate Nr. 124

Rīga,
9 October 2006

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Consolidated balance sheet

	Notes	30 June		30 June	
		2006 LVL	2005 LVL	2006 EUR	2005 EUR
ASSETS					
Non-current assets					
Property, plant and equipment	5	857 774	1 045 003	1 220 502	1 486 905
Intangible assets	6	682 639	694 396	971 308	988 037
Non-current financial assets	8	17 640	-	25 100	-
Deferred tax assets	15	149 627	-	212 900	-
		1 707 680	1 739 399	2 429 810	2 474 942
Current assets					
Inventories	9	4 459 787	4 365 782	6 345 705	6 211 948
Corporate income tax		285 625	181 994	406 408	258 954
Receivables	10	3 002 789	1 726 864	4 272 584	2 457 106
Other receivables	11	299 737	90 110	426 487	128 215
Prepaid expense		79 757	61 491	113 484	87 494
Derivatives	12	21 593	-	30 724	-
Cash and cash equivalents	13	1 244 633	105 190	1 770 953	149 672
		9 393 921	6 531 431	13 366 345	9 293 389
Total assets		11 101 601	8 270 830	15 796 155	11 768 331
EQUITY					
Share capital	14	2 970 180	2 970 180	4 226 185	4 226 185
Share premium		2 004 204	2 004 204	2 851 725	2 851 725
Reserves		-	1 023 402	-	1 456 170
Currency translation reserve		(5 544)	(1 090)	(7 888)	(1 551)
Retained earnings		3 825 140	1 496 625	5 442 684	2 129 506
Total equity		8 793 980	7 493 321	12 512 706	10 662 035
LIABILITIES					
Non-current liabilities					
Deferred tax liability	15	-	15 082	-	21 460
			15 082	-	21 460
Current liabilities					
Payables	16	2 268 864	747 338	3 228 303	1 063 366
Borrowings	17	7 456	6 101	10 609	8 681
Deferred income		31 301	-	44 537	-
Derivatives	12	-	8 988	-	12 789
		2 307 621	762 427	3 283 449	1 084 836
Total liabilities		2 307 621	777 509	3 283 449	1 106 296
Total equity and liabilities		11 101 601	8 270 830	15 796 155	11 768 331

The accompanying notes on pages 12 to 35 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 7 to 35 were approved by the Board and signed on its behalf by:

Normunds Bergs
Chairman of the Board

9 October 2006



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Consolidated income statement

	Notes	Year ended 30 June		Year ended 30 June	
		2006 LVL	2005 LVL	2006 EUR	2005 EUR
Sales	18	13 259 709	11 066 391	18 866 866	15 746 056
Cost of sales	19	(9 234 527)	(7 069 767)	(13 139 548)	(10 059 372)
Gross profit		4 025 182	3 996 624	5 727 318	5 686 684
Selling and marketing costs	20	(1 458 678)	(973 756)	(2 075 512)	(1 385 530)
Administrative expense	21	(849 763)	(1 041 119)	(1 209 104)	(1 481 379)
Other income	22	102 219	-	145 445	-
Financial revenue		49 849	2 934	70 929	4 175
Financial costs	23	(204 893)	(40 074)	(291 537)	(57 021)
Profit before taxes		1 663 916	1 944 609	2 367 539	2 766 929
Corporate income tax	24	(61 785)	(385 282)	(87 912)	(548 207)
Profit for the year		1 602 131	1 559 327	2 279 627	2 218 722
Attributable to:					
Shareholders of the Company		1 602 131	1 559 327	2 279 627	2 218 722
		1 602 131	1 559 327	2 279 627	2 218 722
Earnings per share attributable to the shareholders of the Company (LVL per share)					
- basic	25	0.54	0.52	0.77	0.75
- diluted	25	0.54	0.52	0.77	0.75

The accompanying notes on pages 12 to 35 are an integral part of these consolidated financial statements.



Normunds Bergs
Chairman of the Board

9 October 2006

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Consolidates statement of changes in equity

	Share capital (Note 14) LVL	Share premium LVL	Reserve* LVL	Currency translation reserve LVL	Retained earnings LVL	Total LVL
Balance as at 30 June 2004	990 060	2 005 199	10 311	(2 272)	3 920 569	6 923 867
Currency translation difference	-	-	-	1 182	-	1 182
Total income and expense for the year recognized directly in equity	-	-	-	1 182	-	1 182
Profit for the year	-	-	-	-	1 559 327	1 559 327
Total income and expense for the year	-	-	-	1 182	1 559 327	1 560 509
Issue of share capital	1 980 120	-	-	-	(1 980 120)	-
Costs of issue of share capital	-	(995)	-	-	-	(995)
Dividends for 2003/2004	-	-	-	-	(990 060)	(990 060)
Distribution of profit	-	-	1 013 091	-	(1 013 091)	-
Balance as at 30 June 2005	2 970 180	2 004 204	1 023 402	(1 090)	1 496 625	7 493 321
Currency translation difference	-	-	-	(4 454)	-	(4 454)
Total income and expense for the year recognized directly in equity	-	-	-	(4 454)	-	(4 454)
Profit for the year	-	-	-	-	1 602 131	1 602 131
Total income and expense for the year	-	-	-	(4 454)	1 602 131	1 597 677
Dividends for 2004/2005	-	-	-	-	(297 018)	(297 018)
Distribution of profit and reserves	-	-	(1 023 402)	-	1 023 402	-
Balance as at 30 June 2006	2 970 180	2 004 204	-	(5 544)	3 825 140	8 793 980

* Reserve has been established by distributing the profit according to the shareholders' decision and can be used subject to the shareholders' approval.

The accompanying notes on pages 12 to 35 are an integral part of these consolidated financial statements.

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Consolidates statement of changes in equity

	Share capital <i>(Note 14)</i> EUR	Share premium EUR	Reserve* EUR	Currency translation reserve EUR	Retained earnings EUR	Total EUR
Balance as at 30 June 2004	1 408 728	2 853 141	14 671	(3 233)	5 578 468	9 851 775
Currency translation difference	-	-	-	1 682	-	1 682
Total income and expense for the year recognized directly in equity	-	-	-	1 682	-	1 682
Profit for the year	-	-	-	-	2 218 722	2 218 722
Total income and expense for the year	-	-	-	1 682	2 218 722	2 220 404
Issue of share capital	2 817 457	-	-	-	(2 817 457)	-
Costs of issue of share capital	-	(1 416)	-	-	-	(1 416)
Dividends for 2003/2004	-	-	-	-	(1 408 728)	(1 408 728)
Distribution of profit	-	-	1 441 499	-	(1 441 499)	-
Balance as at 30 June 2005	4 226 185	2 851 725	1 456 170	(1 551)	2 129 506	10 662 035
Currency translation difference	-	-	-	(6 337)	-	(6 337)
Total income and expense for the year recognized directly in equity	-	-	-	(6 337)	-	(6 337)
Profit for the year	-	-	-	-	2 279 627	2 279 627
Total income and expense for the year	-	-	-	(6 337)	2 279 627	2 273 290
Dividends for 2004/2005	-	-	-	-	(422 619)	(422 619)
Distribution of profit and reserves	-	-	(1 456 170)	-	1 456 170	-
Balance as at 30 June 2006	4 226 185	2 851 725	-	(7 888)	5 442 684	12 512 706

* Reserve has been established by distributing the profit according to the shareholders' decision and can be used subject to the shareholders' approval.

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Consolidates cash flow statement

	Note	Year ended 30 June		Year ended 30 June	
		30.06.2006	30.06.2005	30.06.2006	30.06.2005
		LVL	LVL	EUR	EUR
Profit before tax		1 663 916	1 944 609	2 367 539	2 766 929
<u>Adjustments for:</u>					
- depreciation	5	554 155	457 586	788 492	651 086
- amortization	6	141 448	95 854	201 262	136 388
- changes in provisions for slow-moving inventories	9	83 758	135 030	119 177	192 130
- changes in accruals for unused annual leave	16	41 090	27 844	58 466	39 618
- changes in allowances for bad debtors	10	(66 368)	266 592	(94 433)	379 326
- interest income		(19 268)	(2 934)	(27 416)	(4 174)
- interest expense	23	2 300	27 562	3 273	39 218
- (gain)/loss from revaluation of derivative financial instruments	23	(30 581)	12 966	(43 513)	18 449
- receipt of government grant		(100 958)	-	(143 650)	-
- loss on disposal of fixed assets		1 422	-	2 023	-
Cash generated from operations before changes in working capital		2 270 914	2 965 109	3 231 220	4 218 970
Inventories increase		(177 763)	(1 563 836)	(252 934)	(2 225 138)
Receivables (decrease)/ increase		(1 479 418)	631 794	(2 105 022)	898 962
Payables increase/ (decrease)		1 487 412	(199 977)	2 116 397	(284 542)
Cash generated from operating activities		2 101 145	1 833 090	2 989 661	2 608 252
Receipt of government grant	22	100 958	-	143 650	-
Interest paid		(2 300)	(27 562)	(3 273)	(39 217)
Income tax paid		(280 801)	(995 202)	(399 544)	(1 416 045)
Net cash generated from operating activities		1 919 002	810 326	2 730 494	1 152 990
Cash flow from investing activities					
Received as a result of subsidiary liquidation		-	27 447	-	39 054
Purchases of property, plant and equipment		(348 433)	(461 411)	(495 775)	(656 529)
Proceeds from sale of PPE		1 260	184	1 793	262
Purchases of intangible assets		(126 541)	(126 500)	(180 052)	(179 993)
Interest received		14 757	2 986	20 997	4 248
Issued long-term borrowings	8	(17 641)	-	(25 101)	-
Net cash (used in) investing activities		(476 598)	(557 294)	(678 138)	(792 958)
Cash flows from financing activities					
Proceeds from borrowings		1 355	3 582	1 928	5 097
Dividends paid to Company's shareholders	26	(297 018)	(990 060)	(422 619)	(1 408 729)
Net cash (used in) financing activities		(295 663)	(986 478)	(420 691)	(1 403 632)
Effect of exchange rate changes		(7 298)	(13 621)	(10 384)	(19 381)
Net increase/ (decrease) in cash and cash equivalents		1 139 443	(747 067)	1 621 281	(1 062 981)
Cash and cash equivalents at the beginning of the year		105 190	852 257	149 672	1 212 652
Cash and cash equivalents at the end of the year	13	1 244 633	105 190	1 770 953	149 672

The accompanying notes on pages 12 to 35 are an integral part of these consolidated financial statements.

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Notes to the consolidated financial statements

1. General information

The core business activity of SAF Tehnika A/S (hereinafter – the Company) and its subsidiary (hereinafter – the Group) comprises the design, production and distribution of microwave radio data transmission equipment offering an alternative to cable channels. The Company offers approximately 200 products to mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as well as state and private companies. The Company owns 100% subsidiary SAF Tehnika Sweden AB, established in May 2004, which is engaged in the development of microwave radio equipment.

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

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

These consolidated financial statements were approved by the Board on 4 October 2006.

The Company's shareholders have the power to amend the consolidated financial statements after the issue.

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

2. Summary of significant accounting policies

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

A Basis of preparation

The consolidated financial statements of SAF Tehnika Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. The consolidated financial statements have been prepared under the historical cost convention except for certain financial assets (e.g. derivatives are measured at fair value).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions.

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 below IFRS relevant to its operations.

IAS 1	(revised in 2003)	Presentation of Financial Statements
IAS 2	(revised in 2003)	Inventories
IAS 8	(revised in 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	(revised in 2003)	Events after the Balance Sheet Date
IAS 16	(revised in 2003)	Property, Plant and Equipment
IAS 17	(revised in 2003)	Leases
IAS 21	(revised in 2003)	Effects of Changes in Foreign Exchange Rates
IAS 24	(revised in 2003)	Related Party Disclosures
IAS 27	(revised in 2003)	Consolidated and Separate Financial Statements
IAS 32	(revised in 2003)	Financial Instruments: Disclosure and Presentation
IAS 33	(revised in 2003)	Earnings per Share
IAS 39	(revised in 2003)	Financial Instruments: Recognition and Measurement
IAS 36	(revised in 2003)	Impairment of Assets
IAS 38	(revised in 2003)	Intangible Assets

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Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

B Consolidation and business acquisition

Subsidiaries involved in the consolidation are companies in which the Parent Company directly or indirectly owns more than a half of the voting rights or has otherwise obtained the power to govern their operations. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether or not the Parent Company controls another company.

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 on the acquisition date, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combinations are initially measured at their fair values on 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. According to the requirements of Riga Stock Exchange, all balances are also stated in euros (EUR). For disclosure purposes, the currency translation has been performed by applying the official currency exchange rate determined by the Bank of Latvia, i.e. EUR 1 = LVL 0.702804.

(b) Transactions and balances

Foreign currency transactions are translated into the functional 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 the Group entities (none of which having the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing rate at the date of the respective balance sheet;
- (ii) income and expenses 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.

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Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

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 are stated at cost less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met.

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.

Current repairs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets to allocate their cost to the estimated residual values applying the following depreciation rates:

	% per annum
Mobile phones	50
Technological equipment	33.33
Transport 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, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount (see Note G).

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

E Intangible assets

(a) Intangible assets arising from development

Intangible assets arising from development are measured on initial recognition at cost. Subsequently, these are measured at cost less any accumulated amortisation and any accumulated impairment losses. The cost of intangible assets acquired in a business combination corresponds to their fair value on the acquisition date.

Amortization is charged from the moment when the underlying assets are available for use. The amortization 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 licenses

Trademarks and licenses have a definite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis to allocate the costs of trademarks and licenses over their estimated useful life, which usually is 3 years.

(c) Software

Acquired computer software licenses are capitalised on the basis of the purchase and installation costs. These costs are amortised over their estimated useful lives of three years.

Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

Costs related to the development or maintenance of software are recognised as expense as incurred.

F Research and development

Research costs are expensed as incurred. An intangible asset arising from the development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intentions to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and any accumulated impairment losses. Any expenditure capitalized is amortized over the period of expected future sales from the related project.

G Impairment of assets

Intangible assets that have an indefinite useful life (incl. goodwill) are not subject to amortisation and are reviewed for impairment on an annual basis. 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 selling costs 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 Segments

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

I Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is stated on a first-in, first-out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Finished goods and work-in-progress are stated at cost of materials.

J Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect the full amount due according to the original terms. The amount of the allowance is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Change in allowance is recognised in the income statement.

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Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

K Cash and cash equivalent

Cash and cash equivalents comprise current bank accounts balances and deposits, and short-term highly liquid investments with an original maturity 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.

M Borrowings

Borrowings are initially recognised 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 recognised 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 is entitled to postpone the settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognized as an expense when incurred.

N Deferred 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 acquisition 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 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 under 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 a privately administered pension insurance plan. The Group will have no legal or constructive obligations to pay further contributions if the statutory fund or the private pension plan cannot settle their liabilities towards the employees. 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 of the goods and services sold, net of value-added tax, discounts and inter-Group sales. Revenue is recognised as follows:

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Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

(a) Sale of goods

Sale of goods is recognised when a Group entity has passed the significant risks and rewards of ownership of the goods to the customer, i.e. 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) Rendering of services

Revenue is recognised in the period when 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 lease period.

S Dividend payment

Dividends payable to the Company's shareholders are 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 Government grants

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on systematic basis to the costs that is intended to compensate. Where the grant relates to an asset, the fair value is credit to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

U New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations are mandatory for accounting periods beginning on or after 1 January 2006. The Group's assessment of the impact of these new and amended standards and interpretations is set out below:

(a) Amendments to IAS 1 Presentation of Financial Statements, IAS 19 Employee Benefits, AS 21 Effects of Changes in Foreign Exchange rates, IAS 39 Financial instruments

There is no effect from the adoption of these amendments on the Group's financial statements.

(b) IFRS 1 First-time Adoption of International Financial Reporting Standards

The Group does not adopt IFRS for the first time, therefore this standard will not affect the Group's financial statements.

(c) IFRS 6 Exploration for and Evaluation of Mineral Resources

The Group does not have any mineral resources. This standard will not affect the Group's financial statements

(d) IFRS 7 Financial Instruments: Disclosures

The standard is effective for annual period beginning on or after 1 January 2007 and the Group hasn't early adopted standard and there will be limited effect on the disclosures for the Group's financial statements.

Notes to the consolidated financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

(e) IFRIC 4 Determining whether an Arrangement Contains a Lease

The Group does not have any arrangement containing a lease. This interpretation will not affect the Group's financial statements.

(f) IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group does not have any rights in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the Group's financial statements.

U New accounting standards and IFRIC interpretations (cont'd)

(i) 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, therefore this interpretation does not apply to the Group.

(k) IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

The Group does not report in hyperinflationary economy. This interpretation will not affect the Group's financial statements.

(l) IFRIC 8 Scope of IFRS 2

The Group does not apply share-based payment transactions. This interpretation will not affect the Group's financial statements.

(m) IFRIC 9 Reassessment of Embedded Derivatives

The Group does not have embedded derivatives; therefore this interpretation does not apply to the Group.

3. Financial risk management

(1) Financial risk factors

The Group's activities expose it to a variety of financial risks:

- (a) Foreign currency risk;
- (b) Credit risk;
- (c) Liquidity risk;
- (d) Cash flow interest rate risk.

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

The responsibility for risk management lies with the Finance Department. The Finance Department identifies and evaluates risks and seeks for solutions to avoid financial risks in close co-operation with other Group's operating units.

(a) Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk mainly arising from U.S. dollar fluctuations.

Foreign currency risk primarily arises from future commercial transactions and recognised assets and liabilities. To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, the Group uses forward FX contracts. The foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated

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Notes to the consolidated financial statements (cont'd)

3. Financial risk management (cont'd)

in a currency different from the entity's functional currency. The Finance Department manages the net open position in each foreign currency by signing forward FX contracts.

The Group's risk management policy is to hedge 65% - 85% of expected transactions (mainly export sales) in U.S dollars for the following 6 months.

(b) Credit risk

From time to time the Group has significant concentration of credit risk with its overseas customers. The Group's policy is to ensure that wholesale of products is carried out with customers having appropriate credit histories. If the customers are residing in countries with high credit risk, then Letters of Credit issued by reputable credit institutions are used as credit risk management instruments. In situations where no Letters of Credit can be obtained from reputable credit institutions, the prepayments from the customers are requested.

As at 30 June 2006, the Company's credit risk concentration to single customer amounted to 54% of the total trade receivables (2004: 20%). The outstanding debt of this customer is supported by Letter of Credit. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and derivatives, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Groups's maximum credit risk concentration amounts to LVL 4,269,015 or 38,45% to total assets.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through short-term borrowings secured by the Letters of Credit terms. Due to the dynamic nature of the core operations, the Finance Department aims to maintain flexibility in funding by providing available credit lines.

(d) Cash flow interest rate risk

As the Group does not have significant interest bearing assets or liabilities, the Group's income and cash flows are largely independent of changes in market interest rates.

(2) Accounting for derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which derivative contract is entered to and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives that do not qualify as hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated as by reference to current forward exchange rates for contracts with similar maturity profiles.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

(3) Fair value

The carrying amounts of all financial assets and liabilities approximate their fair value.

4. Key estimates and assumptions

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported

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Notes to the consolidated financial statements (cont'd)

4. Key estimates and assumptions

amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

5. Property, plant and equipment

	Leasehold improvements	Equipment and machinery	Other assets	Prepay- ments for assets	Total
	LVL	LVL	LVL	LVL	LVL
Year ended 30/06/2005					
Opening net carrying 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)	-
Depreciation charge	(44 353)	(343 995)	(69 238)	-	(457 586)
Disposals	-	(228)	-	-	(228)
Closing net carrying amount	258 680	622 384	163 747	192	1 045 003
Year ended 30/06/2006					
Opening net carrying amount	258 680	622 384	163 747	192	1 045 003
Additions	60 687	250 487	26 652	31 782	369 608
Reclassified	-	-	192	(192)	-
Depreciation charge	(47 812)	(432 325)	(74 018)	-	(554 155)
Disposals	-	(1 618)	(1 064)	-	(2 682)
Closing net carrying amount	271 555	438 928	115 509	31 782	857 774
As at 30/06/2004					
Cost	220 060	1 007 065	261 433	24 312	1 512 870
Accumulated depreciation	(27 993)	(380 558)	(62 145)	-	(470 696)
Net carrying amount	192 067	626 507	199 288	24 312	1 042 174
As at 30/06/2005					
Cost	331 026	1 345 324	295 130	192	1 971 672
Accumulated depreciation	(72 346)	(722 940)	(131 383)	-	(926 669)
Net carrying amount	258 680	622 384	163 747	192	1 045 003
As at 30/06/2006					
Cost	391 713	1 583 145	296 522	31 782	2 303 162
Accumulated depreciation	(120 158)	(1 144 217)	(181 013)	-	(1 445 388)
Net carrying amount	271 555	438 928	115 509	31 782	857 774

During the reporting year, the Group did not enter into any operating or finance lease agreements. Depreciation of LVL 437 234 (2004/2005: LVL 356 585) is included in the income statement caption *Cost of sales*; depreciation of LVL 53 374 (2004/2005: Ls 46 945) – in *Selling and marketing costs*; and depreciation of LVL 63 547 (2004/2005: LVL 54 056) – in *Administrative expense*.

The acquisition cost of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to LVL 531 583.

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5. Property, plant and equipment

	Leasehold improvements	Equipment and machinery	Other assets	Prepay- ments for assets	Total
	EUR	EUR	EUR	EUR	EUR
Year ended 30/06/2005					
Opening net carrying amount	273 287	891 439	283 561	34 593	1 482 880
Additions	153 337	453 879	4 947	273	655 436
Reclassified	4 553	30 040	-	(34 593)	-
Depreciation charge	(63 109)	(489 460)	(98 517)	-	(651 086)
Disposals	-	2 295	-	-	2 295
Closing net carrying amount	368 068	885 573	232 991	273	1 486 905
Year ended 30/06/2006					
Opening net carrying amount	368 068	885 573	232 991	273	1 486 905
Additions	86 350	356 411	37 922	45 222	525 905
Reclassified	-	-	273	(273)	-
Depreciation charge	(68 030)	(615 143)	(105 318)	-	(788 491)
Disposals	-	(18 022)	(36 215)	-	(54 237)
Closing net carrying amount	386 388	624 538	164 354	45 222	1 220 502
As at 30/06/2004					
Cost	313 117	1 432 924	371 986	34 593	2 152 620
Accumulated depreciation	(39 830)	(541 485)	(88 425)	-	(669 740)
Net carrying amount	273 287	891 439	283 561	34 593	1 482 880
As at 30/06/2005					
Cost	471 008	1 914 224	419 932	273	2 805 437
Accumulated depreciation	(102 940)	(1 028 651)	(186 941)	-	(1 318 532)
Net carrying amount	368 068	885 573	232 991	273	1 486 905
As at 30/06/2006					
Cost	557 357	2 252 612	421 913	45 222	3 277 104
Accumulated depreciation	(170 969)	(1 628 074)	(257 559)	-	(2 056 602)
Net carrying amount	386 388	624 538	164 354	45 222	1 220 502

During the reporting year, the Group did not enter into any operating or finance lease agreements.

Depreciation of EUR 622 128 (2004/2005: EUR 507 375) is included in the income statement caption *Cost of sales*; depreciation of EUR 75 944 (2004/2005: EUR 66 797) – in *Selling and marketing costs*; and depreciation of EUR 90 419 (2004/2005: EUR 76 915) – in *Administrative expense*.

The acquisition cost of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to EUR 756 374.

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Notes to the consolidated financial statements (cont'd)

6. Intangible assets

	Product prototypes	Trademarks and licenses	Software	Prepayments	Intangible assets under development	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Year ended 30/06/2005						
Opening net carrying amount	-	58 152	67 472	12 272	511 051	648 947
Additions	-	17 086	82 538	26 876	-	126 500
Reclassified	-	12 272	-	(12 272)	-	-
Amortisation charge	-	(46 754)	(49 100)	-	-	(95 854)
Result of FX rate changes	-	-	-	-	14 803	14 803
Closing net carrying amount	-	40 756	100 910	26 876	525 854	694 396
Year ended 30/06/2006						
Opening net carrying amount	-	40 756	100 910	26 876	525 854	694 396
Additions	-	37 504	43 572	37 337	-	118 413
Reclassified	333 776	26 876	-	(26 876)	(333 776)	-
Result of FX rate changes	-	-	-	-	11 278	11 278
Amortisation charge	(33 778)	(39 148)	(68 522)	-	-	(141 448)
Closing net carrying amount	299 998	65 988	75 960	37 337	203 356	682 639
As at 30/06/2004						
Cost	-	104 786	136 014	12 272	511 051	764 123
Accumulated amortisation	-	(46 634)	(68 542)	-	-	(115 176)
Net carrying amount	-	58 152	67 472	12 272	511 051	648 947
As at 30/06/2005						
Cost	-	134 144	218 552	26 876	525 854	905 426
Accumulated amortisation	-	(93 388)	(117 642)	-	-	(211 030)
Net carrying amount	-	40 756	100 910	26 876	525 854	694 396
As at 30/06/2006						
Cost	333 776	198 524	262 124	37 337	203 356	1 035 117
Accumulated amortisation	(33 778)	(132 536)	(186 164)	-	-	(352 478)
Net carrying amount	299 998	65 988	75 960	37 337	203 356	682 639

Amortisation of LVL 54 079 (2004/2005: LVL 22 315) is included in the income statement caption *Cost of sales*; amortisation of LVL 56 115 (2004/2005: LVL 58 237) – in *Selling and marketing costs*; and amortisation of LVL 31 254 (2004/2005: LVL 15 302) – in *Administrative expense*.

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Notes to the consolidated financial statements (cont'd)

6. Intangible assets

	Product prototy - pes EUR	Trademarks and licenses EUR	Software EUR	Prepay - ments EUR	Intangible assets under development EUR	Total EUR
Year ended 30/06/2005						
Opening net carrying amount	-	82 743	96 004	17 461	727 160	923 368
Additions	-	24 312	117 441	38 241	-	179 994
Reclassified	-	17 461	-	(17 461)	-	-
Amortisation charge	-	(66 525)	(69 863)	-	-	(136 388)
Result of FX rate changes	-	-	-	-	21 063	21 063
Closing net carrying amount	-	57 991	143 582	38 241	748 223	988 037
Year ended 30/06/2006						
Opening net carrying amount	-	57 991	143 582	38 241	748 223	988 037
Additions	-	53 363	61 997	53 125	-	168 486
Reclassified	474 920	38 241	-	(38 241)	(474 920)	-
Result of FX rate changes	-	-	-	-	16 047	16 047
Amortisation charge	(48 061)	(55 703)	(97 498)	-	-	(201 262)
Closing net carrying amount	426 859	93 892	108 081	53 126	289 350	971 308
As at 30/06/2004						
Cost	-	149 097	193 531	17 461	727 160	1 087 249
Accumulated amortisation	-	(66 354)	(97 527)	-	-	(163 881)
Net carrying amount	-	82 743	96 004	17 461	727 160	923 368
As at 30/06/2005						
Cost	-	190 870	310 971	38 241	748 223	1 288 305
Accumulated amortisation	-	(132 879)	(167 389)	-	-	(300 268)
Net carrying amount	-	57 991	143 582	38 241	748 223	988 037
As at 30/06/2006						
Cost	474 920	282 474	372 969	53 126	289 350	1 472 839
Accumulated amortisation	(48 061)	(188 582)	(264 888)	-	-	(501 531)
Net carrying amount	426 859	93 892	108 081	53 126	289 350	971 308

Amortisation of EUR 76 948 (2004/2005: EUR 31 751) is included in the income statement caption *Cost of sales*; amortisation of EUR 79 844 (2004/2005: EUR 82 864) – in *Selling and marketing costs*; and amortisation of EUR 44 470 (2004/2005: EUR 21 773) – in *Administrative expense*.

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Notes to the consolidated financial statements (cont'd)

6. Intangible assets (cont'd)

The acquisition cost of fully depreciated Intangible assets that are still in use at the end of financial year amounted to LVL 123 930.

7. Impairment testing of intangibles assets under development

On 1 June 2004, the Group's subsidiary SAF Tehnika Sweden AB acquired the business of Viking Microvawe.

From this acquisition the Group has identified intangible assets – 5 product prototypes, which were under development. During the reporting period ended 30 June 2006, two of the prototypes were finished and the Group prepared valuation report for the remaining prototypes under development.

The value-in-use of each product prototype was determined using cash flow forecasts based on the next five-year budget approved by the Group's management. Cash flows beyond the five-year period are not included in the calculation.

Key assumptions used in the fair value estimates of the product prototypes under development as at 30 June 2005:

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

Key assumptions used in the fair value estimates of the product prototypes under development as at 30 June 2006:

Financial year	2006	2007	2008	2009	2010
Gross margin rate %	53%	53%	53%	53%	53%
Growth rate %	100%	850%	111%	90%	42%
Discount rate %	12,64%	12,64%	12,64%	12,64%	12,64%

The average growth rate calculation was based on the management's forecasts for the market development, industry reports, and assumptions as to the future quantity of products sold and sales price per specific item. The average growth rate is considerably higher than the industry growth rate, since the product prototypes have been recently introduced by the Group, and therefore cash flows from the prototype sale has to grow faster to achieve the projected market share the Group is currently occupying in respect of other products.

The discount rate applied to the cash flow projections is 12,64% (2004/2005: 11,40%), the weighted average cost capital method (WACC) was used on discount rate calculations. WACC has been adjusted to specific market risks the Group is facing.

The management has determined the expected gross margins based on the Group's past performance and its expectation of the market development. The gross margin is the figure achieved over the prior financial year in respect of the sale of analogous products.

The result of the test showed no impairment loss and thereby no changes were made to the carrying amount of the product prototypes.

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Notes to the consolidated financial statements (cont'd)

8. Non-current financial assets

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Loan to Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija	15 579	-	22 167	-
Other loans	2 061	-	2 933	-
	17 640	-	25 100	-

9. Inventories

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Raw materials*	2 628 478	1 944 988	3 739 987	2 767 469
Work in progress	1 635 281	2 198 079	2 326 795	3 127 585
Finished goods*:	488 492	431 421	695 062	613 856
- at net realizable value	488 492	431 421	695 062	613 856
- at cost	724 434	670 325	1 030 777	953 787
Allowance for slow-moving items	(292 464)	(208 706)	(416 139)	(296 962)
	4 459 787	4 365 782	6 345 705	6 211 948

During the reporting year, additional provisions for slow-moving items of LVL 83 758 (EUR 119 177) (2004/2005: LVL 135 030 (EUR 192 130)) were established and included in cost of sales.

* As at 30 June 2006, raw materials and finished goods include goods in transit amounted to LVL 29,296 (EUR 41 684) and LVL 44,971 (EUR 63 988) accordingly.

10. Receivables

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Trade receivables	3 222 506	2 012 949	4 585 213	2 864 168
Allowances for bad and doubtful trade receivables	(219 717)	(286 085)	(312 629)	(407 062)
Trade receivables, net	3 002 789	1 726 864	4 272 584	2 457 106

Trade receivables comprise 3 Letters of Credit with original payment term up to 180 days for amount of LVL 1 880 252 (EUR 2 675 358) (2004/2005: LVL 573 136 (EUR 815 499)). As at 30 June 2006, the fair value of receivables approximated to their carrying amount.

In the reporting year, the decrease of allowances for bad and doubtful trade receivables was included in the income statement caption as administrative expense in amount of LVL 66 368 (EUR 94 433) (2004/2005 – increase of LVL 266 592 (EUR 379 326)), which was included in *Administrative expenses (see Note 21)*.

11. Other receivables

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
VAT receivable	239 494	13 345	340 769	18 988
Other receivables	33 315	6 512	47 403	9 266
Prepayments to suppliers	26 928	70 253	38 315	99 961
	299 737	90 110	426 487	128 215

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Notes to the consolidated financial statements (cont'd)

12. Derivatives

	30/06/2006		30/06/2005		30/06/2006		30/06/2005	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	LVL	LVL	LVL	LVL	EUR	EUR	EUR	EUR
Forward FX contracts	21 593	-	-	8 988	30 724	-	-	12 789

13. Cash and cash equivalents

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Cash at bank	544 633	50 184	774 943	71 405
Short-term bank deposits	700 000	55 006	996 010	78 267
	1 244 633	105 190	1 770 953	149 672

As at 30 June 2006, the annual interest rate on short-term (three months) bank deposits was 4.00% (as at 30 June 2005 on short-term bank deposits (overnight deposits): 0.55 % for LVL, 1.24% - for USD and 0.6% - for EUR).

14. Share capital

As at 30 June 2006, the registered, issued and paid-up share capital is LVL 3 030 180 (EUR 4 311 558) and consists of 2 970 180 ordinary bearer shares with unlimited voting rights (2004/2005: 2 970 180 shares) and 60 000 registered dematerialised personnel shares without voting rights in the limited amount (issued on 26 October 2005). As at 30 June 2006 personnel shares have not been granted and there are no contractual obligations to grant these shares. Personnel shares in the limited amount may be alienated only by SAF Tehnika and have not been granted as at 30 June 2006. The par value of one share is LVL 1.

15. Deferred corporate income tax (asset)/ liability

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Deferred tax liability at the beginning of the year	15 082	29 422	21 460	41 864
Change in deferred tax liability during the reporting year (see Note 24)	(161 864)	(14 340)	(230 312)	(20 404)
Changes in foreign exchange rates	(2 845)	-	(4 048)	-
Deferred tax (asset)/ liability at the end of the year	(149 627)	15 082	(212 900)	21 460
Unrecognised deferred tax asset				
	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Unrecognised deferred tax asset at the beginning of the year	145 187	19 599	206 582	27 887
Change in unrecognised deferred tax asset during the reporting year (see Note 24)	(180 109)	126 247	(256 272)	179 633
Currency translation differences	34 922	(659)	49 690	(938)
Unrecognised deferred tax asset at the end of the year	-	145 187	-	206 582

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15. Deferred corporate income tax asset/ liability (cont'd)

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

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Temporary difference on fixed asset depreciation and intangible asset amortisation (to be reversed within 12 months)	1 540	38 205	2 190	54 361
Temporary difference on fixed asset depreciation and intangible asset amortisation (to be reversed after more than 12 months)	38 223	29 545	54 386	42 039
Temporary difference on vacation pay reserve (to be reversed within 12 months)	(15 534)	(13 142)	(22 103)	(18 699)
Temporary difference on provisions for slow-moving and obsolete inventories (to be reversed within 12 months)	(35 982)	(24 802)	(51 198)	(35 290)
Temporary difference on tax losses carried forward	(137 874)	(159 911)	(196 177)	(227 533)
Unrecognised deferred tax asset	-	145 187	-	206 582
Deferred tax (asset)/ liability, net	(149 627)	15 082	(212 900)	21 460

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

Deferred income tax asset for the Group is recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

16. Payables

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Trade payables	1 740 089	362 468	2 475 924	515 745
Vacation pay reserve	211 939	170 849	301 562	243 096
Taxes and social insurance contributions	113 818	85 992	161 948	122 356
Other payables	193 789	128 029	275 737	182 169
Prepayments from customers	9 229	-	13 132	-
	2 268 864	747 338	3 228 303	1 063 366

During the reporting period increase in unused vacation pay included in Income Statement amounted to LVL 41 090 (EUR 58 466) (2004/2005: LVL 27 844 (EUR 39 618)).

17. Borrowings

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Bank overdrafts	7 456	6 101	10 609	8 681

The fair values of the borrowings approximate to their carrying values. All borrowings are due in less than 6 months. The balance of unused overdrafts as at 30 June 2006 was LVL 23 024 (EUR 32 760 (30 June 2005: LVL 24 304 (EUR 34 581))).

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18. Segment information and sales

a) The Group's operations may be divided into two major structural units by product type –CFM (PDH) and CFQ (SDH) product lines. These structural units are used as a basis for providing information about the primary segments of the Group, i.e. business segments. Production, as well as research and development are organised and managed for each product line (CFM and CFQ) separately.

The CFM product line, or plesiochronous digital hierarchy radio equipment, is offered as a digital microwave radio communications system operating over 7, 8, 13, 15, 18, 23, 26, and 38 GHz frequency bands, as well as ensuring wireless point-to-point channels for digitalised voice and data transmission. CFM is available with 4, 8, 16, or 34 Mbps full-duplex data transmission rate. The demand for this product in Asia basically accounts for this market share.

The CFQ product line, or synchronous digital hierarchy radio equipment, is a digital point-to-point radio system providing high capacity (up to 155 Mbps) data transmission over from 7 to 38 GHz frequency bands. The product is basically exported to developed European countries where the demand for high capacity data transmission possibilities is dominating.

	CFQ		CFM		Other		Total	
	2005/6	2004/5	2005/6	2004/5	2005/6	2004/5	2005/6	2004/5
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Assets								
Segment assets	228 628	200 086	3 380 183	2 303 314	968 169	962 863	4 576 980	3 466 263
Undivided assets							6 524 621	4 804 567
Total assets							11 101 601	8 270 830
Segment liabilities	212 267	139 487	1 998 154	507 260	50 995	94 980	2 261 416	741 727
Undivided liabilities							46 205	35 782
Total liabilities							2 307 621	777 509
Income	119 652	11 783	10 951 239	8 918 748	2 188 818	2 135 860	13 259 709	11 066 391
Segment results	(680 259)	(724 800)	4 098 246	4 246 307	607 195	475 117	4 025 182	3 996 624
Undivided expense							(2 308 441)	(2 014 875)
Profit from operations							1 716 741	1 981 749
Other income							102 219	-
Financial expense, net							(155 044)	(37 140)
Profit before taxes							1 663 916	1 944 609
Corporate income tax							(61 785)	(385 282)
Profit for the year							1 602 131	1 559 327
Other information								
Additions of property plant and equipment and intangible assets	77 630	39 013	205 065	288 118	205 326	260 012	488 021	587 143
Depreciation and amortization	113 295	99 019	344 240	279 881	238 068	174 540	695 603	553 440

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18. Segment information and sales (cont'd)

	CFQ		CFM		Other		Total	
	2005/6	2004/5	2005/6	2004/5	2005/6	2004/5	2005/6	2004/5
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets								
Segment assets	325 308	284 697	4 809 567	3 277 321	1 377 581	1 370 030	6 512 456	4 932 048
Undivided assets							9 283 699	6 836 283
Total assets							15 796 155	11 768 331
Segment liabilities	302 029	198 472	2 843 117	721 766	72 559	135 144	3 217 705	1 055 382
Undivided liabilities							65 744	50 913
Total liabilities							3 283 449	1 106 295
Income	170 249	16 766	15 582 209	12 690 235	3 114 408	3 039 055	18 866 866	15 746 056
Segment results	(967 921)	(1 031 297)	5 831 279	6 041 951	863 961	676 030	5 727 318	5 686 684
Undivided expense							(3 284 616)	(2 866 909)
Profit from operations							2 442 702	2 819 775
Other income							145 445	
Financial expense, net							(220 608)	(52 846)
Profit before taxes							2 367 539	2 766 929
Corporate income tax							(87 912)	(548 207)
Profit for the year							2 279 627	2 218 722
Other information								
Additions of property plant and equipment and intangible assets	110 458	55 510	291 781	409 955	292 955	369 964	694 391	835 429
Depreciation and amortization	161 204	140 891	489 809	398 235	338 741	248 348	989 754	787 474

b) This note provides information about division of the Group's turnover and assets by geographical regions (customer location).

	Net sales		Assets	
	2005/6	2004/5	30/06/2006	30/06/2005
	LVL	LVL	LVL	LVL
Asia	4 181 024	1 444 883	1 932 746	227 059
America	2 283 068	1 541 739	82 778	234 198
Africa	475 385	337 489	117 770	38 481
Europe	3 696 859	4 050 679	510 629	555 444
CIS	1 962 377	2 646 720	412 304	436 711
Middle East	660 996	1 044 881	166 279	521 056
	13 259 709	11 066 391	3 222 506	2 012 949
Unallocated assets	-	-	7 879 095	6 257 881
	13 259 709	11 066 391	11 101 601	8 270 830

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18. Segment information and sales (cont'd)

	Net sales		Assets	
	2005/6	2004/5	30/06/2006	30/06/2005
	EUR	EUR	EUR	EUR
Asia	5 949 061	2 055 883	2 750 050	323 076
America	3 248 513	2 193 697	117 782	333 234
Africa	676 412	480 204	167 572	54 754
Europe	5 260 156	5 763 597	726 560	790 326
CIS	2 792 211	3 765 943	586 656	621 384
Middle East	940 513	1 486 732	236 593	741 394
	18 866 866	15 746 056	4 585 213	2 864 168
Unallocated assets	-	-	11 210 942	8 904 163
	18 866 866	15 746 056	15 796 155	11 768 331

19. Cost of sales

	Year ended	Year ended	Year ended	Year ended
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
	LVL	LVL	EUR	EUR
Purchases of components and subcontractors	6 961 022	5 046 566	9 904 642	7 180 617
Salary expenses (including accruals for vacation pay)	1 071 383	943 669	1 524 441	1 342 720
Social insurance (including accruals for vacation pay)	277 602	252 715	394 992	359 581
Depreciation and amortization (see Note 5-6)	491 313	378 900	699 075	539 126
Rent of premises	95 997	86 088	136 591	122 492
Inventory impairment	83 758	135 030	119 177	192 130
Low value inventory	50 371	13 489	71 671	19 193
Public utilities costs	37 608	34 915	53 511	49 680
Transportation expenses	20 304	17 510	28 890	24 914
Other production costs	145 169	160 885	206 557	228 919
	9 234 527	7 069 767	13 139 548	10 059 372

Purchases and subcontractors comprises research-related consultation expense of LVL 1 333 382 (EUR 1 897 232) (2004/2005: LVL 1 167 639 (EUR 1 661 401)).

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20. Selling and marketing costs

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Advertising and marketing costs	612 804	335 095	871 942	476 797
Wages and salaries (incl. vacation pay reserve)	298 235	232 839	424 350	331 300
Social insurance contributions (incl. vacation pay reserve)	68 706	58 089	97 760	82 653
Business trips	184 552	104 428	262 594	148 588
Depreciation and amortisation (see Note 5-6)	109 489	105 182	155 789	149 661
Delivery costs*	106 363	74 692	151 341	106 277
Other selling and distribution costs	78 529	63 431	111 736	90 254
	1 458			
	678	973 756	2 075 512	1 385 530

* During the previous reporting period delivery cost in amount of LVL 74 692 (EUR 106 277) were recognized as a part of Cost of Sales expense.

21. Administrative expense

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Wages and salaries (incl. vacation pay reserve)	243 841	256 284	346 954	364 659
Social insurance contributions (incl. vacation pay reserve)	58 422	67 536	83 127	96 095
Depreciation and amortisation (see Note 5-6)	93 597	69 358	133 177	98 688
IT services	90 485	26 314	128 749	37 441
Sponsorship	53 488	44 521	76 107	63 348
Bank charges	36 671	24 565	52 178	34 953
Representation expense	33 058	29 656	47 037	42 197
Communications expense	31 553	44 775	44 896	63 709
Office maintenance costs	23 726	10 321	33 759	14 685
Business trips	16 355	20 300	23 271	28 884
Allowance for bad and doubtful receivables	(66 368)	266 592	(94 433)	379 326
Other administration expense	234 935	180 897	334 282	257 394
	849 763	1 041 119	1 209 104	1 481 379

22. Other income

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Subsidies received	100 958	-	143 650	-
Other income	1 261	-	1 795	-
	102 219	-	145 445	-

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23. Financial expense, net

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Interest expense	2 300	14 596	3 273	20 768
Loss from changes in fair value of derivatives	-	12 966	-	18 449
Currency exchange loss, net	202 593	12 512	288 264	17 804
	204 893	40 074	291 537	57 021

24. Corporate income tax

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Change in deferred tax liability (see Note 15)	(161 864)	(14 340)	(230 312)	(20 404)
Corporate income tax charge for the current reporting year	223 649	399 622	318 224	568 611
	61 785	385 282	87 912	548 207

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the statutory 15% rate to the Group's profit before taxation:

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Profit before taxation	1 663 916	1 944 609	2 367 539	2 766 929
Tax rate	15%	15%	15%	15%
Theoretically calculated tax	249 587	291 691	355 130	415 039
Expenses not deductible for tax purposes	18 348	87 318	26 107	124 242
Effect of different tax rates	19 424	(82 111)	27 638	(116 833)
Tax relief on donations	(45 465)	(37 863)	(64 691)	(53 874)
Increase in unrecognized deferred tax asset	-	126 247	-	179 633
Utilization of previously unrecognized deferred tax asset	(180 109)	-	(256 272)	-
Tax charge	61 785	385 282	87 912	548 207

The State Revenue Service may inspect the Company's books and records for the last 2.5 years (starting from 1 January 2003) and impose additional tax charges 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 State Revenue Service had not performed all-inclusive tax audit at the balance sheet date).

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25. Earnings per share

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

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Profit for the reporting year (a)	1 602 131	1 559 327	2 279 627	2 218 722
Ordinary shares as at 1 July *(b)	2 970 180	2 970 180	2 970 180	2 970 180
Basic earnings per share for the reporting year (a/b), LVL	0.54	0.52	0.77	0.75

* On 1 December 2005, the Group registered 60 000 dematerialised personnel shares without voting rights with par value of LVL 1 per share. Subsequently, as at the end of the financial period the Company's management made a decision to call back the shares, therefore the personnel shares will not affect the Group's financial statements.
The Group has not issued any dilutive potential ordinary shares.

26. Dividends per share

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Dividends paid	297 018	990 060	422 619	1 408 729
Number of shares upon payment	2 970 180	990 060	2 970 180	990 060
Dividends per share for the reporting year (a/b), LVL	0.10	1	0.14	1.42

Dividends for the year 2005/ 2006 of LVL 0.2 (EUR 0.28) per share amounting to a total of LVL 594 036 (EUR 845 237) will be proposed at the annual shareholders' meeting on 26 October 2006. These consolidated financial statements do not reflect these dividends payable.

27. Related party transactions

Remuneration to the Board and the Council

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2006 EUR	Year ended 30/06/2005 EUR
Remuneration to the Board Members				
· salaries*	101 485	97 172	144 400	138 263
· social insurance contributions*	16 797	17 801	23 900	25 329
Remuneration to the Council Members				
· salaries*	75 092	65 198	106 846	92 768
· social insurance contributions*	17 235	15 123	24 524	21 518
Total	210 609	195 294	299 670	277 878

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* Salaries and social insurance contributions include accruals for bonuses for the reporting year results.

The chairman of the Board is major shareholder of CityCredit SIA and member of the Board in Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija. SAF Tehnika is a member of Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija

During the period from 1 July 2005 until 30 June 2006, the Company has received services from CityCredit SIA (related party from 17 March 2006) in the amount of LVL 17 (EUR 24).

As at 30 June 2006, the Company has concluded long-term borrowing agreement amounted to EUR 34,800 with the organization Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija.

28. Personnel expense

	Year ended 30/06/2006 LVL	Year ended 30/06/2005 LVL	Year ended 30/06/2005 EUR	Year ended 30/06/2005 EUR
Wages and salaries*	1 613 458	1 270 422	2 295 744	1 807 648
Social insurance contributions*	404 730	345 416	575 879	491 483
Contributions to pension funds (incl. social insurance contributions)	85 489	50 972	121 640	72 526
Total	2 103 677	1 666 810	2 993 263	2 371 657

* Salaries and social insurance contributions include accruals for bonuses for the reporting year results.

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

29. Average number of employees of the Group

	Year ended 30/06/2006	Year ended 30/06/2005
Average number of personnel employed by the group during the reporting year:	<u>136</u>	<u>124</u>

The average number of employees includes 15 employees hired for subsidiary SAF Tehnika Sweden AB.

30. Operating lease

Lease agreement No. S-116/02, dated 10 December 2002, was signed with Dambis A/S. According to the agreement, the lessor commissions and SAF Tehnika A/S accepts premises in the total area of 5 851 m² for consideration. The premises are located at Ganību dambis 24a. The agreement expires on 1 March 2016.

According to the signed agreements, the Group has the following lease payment commitments as at 30 June 2006.

	LVL	EUR
1 year	99 024	140 898
2 – 5 years	403 192	573 691
More than 5 years	472 047	671 662
	<u>974 263</u>	<u>1 386 251</u>

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31. Contingent liabilities

The Group has contingent liabilities in respect of the bank arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities. The Group has given guarantees in the ordinary course of business amounting to LVL 186 427 (EUR 265 262) (2004/2005: LVL 39 627 (EUR 56 384) to third parties.

As collateral for guarantee line acquisition, the Group has pledged one debtor receivables for maximum amount of LVL 430 300 (EUR 612 262).

32. Events after balance sheet date

As of the last day of the reporting year until the date of signing these financial statements there have been no events which would have any material impact on the financial position of the Group as at 30 June 2006.