

# **SAF Tehnika A/S**

## **Annual Report**

For the period ended 30 June 2006

**SAF TEHNIKA A/S  
ANNUAL REPORT  
FOR THE PERIOD 1 JULY 2005 THROUGH 30 JUNE 2006**

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**Information about the Company**

Name of the company	SAF Tehnika A/S
Legal status of the company	Joint stock company
Registration number, place and date of registration	000 347 410 Riga, 27 December 1999 Registered with the Commercial Register on 10 March 2004
Address	Ganību dambis 24a Riga, LV-1005 Latvia
Full names of the shareholders	Normunds Bergs (9.74%) Juris Ziema (8.71%) Didzis Liepkalns (17.05%) Andrejs Grišāns (10.03%) Vents Lācars (6.08%) Other shareholders – 48.39%
Names and positions of Council Members	Vents Lācars – Chairman of the Council Juris Ziema – Deputy Chairman of the Council Andrejs Grišāns – Council Member Ivars Šenbergs – Council Member Ivars Bergmanis – Council Member (until 16 January 2006)
Names and positions of Board Members	Normunds Bergs – Chairman of the Board Didzis Liepkalns – Deputy Chairman of the Board Aleksis Orlovs – Board Member
Reporting period	1 July 2005 – 30 June 2006
Name and address of the auditor and sworn auditor in charge	Ernst & Young Baltic SIA Commercial Company's Licence No. 17 Kronvalda bulvāris 3-5 Riga, LV-1010 Latvia  Sworn Auditor in Charge: Diāna Krišjāne Sworn Auditor's Certificate No. 124

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**Report of the Board**

**Type of activity**

SAF Tehnika A/S (hereinafter – the Company) is a 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 SAF Tehnika A/S is to provide wireless communications for data and voice transmissions at reasonable prices. The Company 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 Company in the reporting year**

The Company's net sales for the 12-month period of the financial year 2005/2006 reached a record-high figure of LVL 13 007 322 (EUR 18 507 752), which constitutes a 21% 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 Company was exporting its products to 51 country all over the world, and its aggregate exports for the reporting period comprised LVL 12 097 933 (EUR 17 213 808), which is by 20% more than in the prior financial year.

The Company commenced official distribution of the new CFQ products on 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 Company for the financial year 2005/2006 is LVL 1 266 950 (EUR 1 802 707), which is less than the prior year's result by 37%, or LVL 738 758 (EUR 1 051 158). The reduction of profit is basically due to the increased amount of research and advisory services received from subsidiary SAF Tehnika Sweden AB, where the growth constitutes LVL 486 531 (EUR 692 271). Among other factors, there should be mentioned also the relatively weak, compared to the Company's projected figures, first half of the year, adverse impact of currency exchange rates, as well as changes in the proportion of regional sales, where the share of Asia and Latin America has increased. However, the general level of product prices has not changed materially over the last 12 months.

The Company 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 20 new employees. The new modem development project, whereby a new *CFM-M-MUX* radio modem was developed, was successfully implemented during the reporting period. The project was co-financed by the European Regional Development Fund and the Latvian State, where the financing amounted to LVL 100 958 (EUR 143 650). The total project costs were LVL 341 577 (486 020 EUR).

The microwave radio equipment market on which SAF Tehnika has a sound position is continuously growing. There is no evidence of slowdown. Significant activity is observed on major markets like India and Latin America. The new Chinese 3G Standard (TD-SCDMA) has been approved, and high-level 3G network deployment decisions are expected to be taken. Meanwhile, new niches are opening up in the market, for instance, the Company is in a position 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 utilise digital microwave radio equipment as a basis for their WiMAX network infrastructure.

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**Report of the Board (cont'd)**

**Activity of the Company in the reporting year (cont'd)**

According to the resolution of the shareholders' meeting, the Company paid dividends of LVL 0,1 (EUR 0,14) per share, and issued 60 000 registered dematerialised personnel shares. The issued shares are voteless.

**Research and development**

One of the Company'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 Company. In the reporting year, the Company 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.

**Financial risk management**

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

- (a) foreign currency risk
- (b) credit risk
- (c) liquidity risk
- (d) cash flow and interest rate risk.

The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise its potential adverse effects on the Company's financial performance. The Company 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 Company's operating units.

*(a) Foreign currency risk*

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

To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, the Company uses forward FX contracts. The foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated 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 Company's risk management policy is to hedge 65% - 85% of expected transactions (mainly export sales) in U.S dollars for the following 6 months.

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**Report of the Board (cont'd)**

**Financial risk management (cont'd)**

Approximately 70% of the expected transactions in U.S. dollars are classified as "highly probable" future transactions for hedge accounting purposes.

*(b) Credit risk*

From time to time the Company has significant concentration of credit risk with its overseas customers. The Company'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.

*(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through current 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 and interest rate risk*

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

**Future prospects**

The management of the Company believes that the result of the upcoming financial year 2006/2007 will be better by at least 10%. The Company 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 Company 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.

**Distribution of profit suggested by the Board**

	<b>12 months until 30/06/2006 LVL</b>	<b>12 months until 30/06/2006 EUR</b>
Profit subject to distribution	1 266 950	1 802 707
Distribution of profit suggested by the Board:		
Calculated dividends to the shareholders	594 036	845 237
Retained earnings	672 914	957 470

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Normunds Bergs  
Chairman of the Board

Riga, 9 October 2006

The annual report was approved by the shareholders' meeting on \_\_\_\_\_ 2006.

Chairman of the shareholders' meeting \_\_\_\_\_

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**Income statement for the period 1 July 2005 through 30 June 2006**

	Notes	12 months until 30/06/2006 LVL	12 months until 30/06/2005 LVL	12 months until 30/06/2006 EUR	12 months until 30/06/2005 EUR
1. Net sales	1	13 007 322	10 728 222	18 507 752	15 264 885
2. Cost of sales	2	(9 480 894)	(6 603 571)	(13 490 097)	(9 396 035)
<b>3. Gross profit</b>		<b>3 526 428</b>	<b>4 124 651</b>	<b>5 017 655</b>	<b>5 868 850</b>
4. Selling costs	3	(1 388 924)	(891 474)	(1 976 261)	(1 268 453)
5. Administrative expense	4	(640 564)	(829 097)	(911 440)	(1 179 699)
6. Other operating income	5	102 475	282	145 809	401
8. Loss from investments in subsidiaries and associates		-	(4 207)	-	(5 986)
10. Other interest receivable and similar income	6	49 800	17 627	70 858	25 081
12. Interest payable and similar expense	7	(200 175)	(26 792)	(284 823)	(38 122)
<b>16. Profit before taxes</b>		<b>1 449 040</b>	<b>2 390 990</b>	<b>2 061 798</b>	<b>3 402 072</b>
17. Corporate income tax for the period	8	(223 649)	(399 622)	(318 224)	(568 611)
18. Decrease in deferred tax	8	41 559	14 340	59 133	20 404
<b>19. Profit for the period</b>		<b>1 266 950</b>	<b>2 005 708</b>	<b>1 802 707</b>	<b>2 853 865</b>

The accompanying notes on pages 14 to 29 are an integral part of these financial statements.

Normunds Berģs  
Chairman of the Board  
9 October 2006

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**Balance sheet as at 30 June 2006**

(1)

	Notes	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
<b>Assets</b>					
<b>Non-current assets</b>					
<b>I. Intangible assets:</b>					
1. Concessions, patents, licences and similar rights		141 948	141 666	201 974	201 573
5. Prepayments for intangible assets		37 337	26 876	53 126	38 241
<b>Total intangible assets:</b>	9	<b>179 285</b>	<b>168 542</b>	<b>255 100</b>	<b>239 814</b>
<b>II. Tangible assets:</b>					
2. Leasehold improvements		271 555	258 680	386 388	368 068
3. Equipment and machinery		438 928	622 384	624 538	885 573
4. Other fixtures and fittings, tools and equipment		115 509	163 747	164 354	232 991
6. Prepayments for tangible assets		31 782	192	45 222	273
<b>Total tangible assets:</b>	9	<b>857 774</b>	<b>1 045 003</b>	<b>1 220 502</b>	<b>1 486 905</b>
<b>III. Non-current financial assets:</b>					
1. Investments in related companies	10	645 569	7 170	918 562	10 202
5. Deferred tax	20	26 477	-	37 673	-
6. Other loans		17 641	-	25 101	-
<b>Total non-current financial assets:</b>		<b>689 687</b>	<b>7 170</b>	<b>981 336</b>	<b>10 202</b>
<b>Total non-current assets:</b>		<b>1 726 746</b>	<b>1 220 715</b>	<b>2 456 938</b>	<b>1 736 921</b>
<b>Current assets</b>					
<b>I. Inventories:</b>					
1. Raw materials	11	2 287 891	1 694 683	3 255 376	2 411 317
2. Work in progress		1 635 281	2 198 079	2 326 795	3 127 585
3. Finished goods and goods for resale		488 492	431 421	695 061	613 857
5. Prepayments for goods		26 928	70 253	38 315	99 960
<b>Total inventories:</b>		<b>4 438 592</b>	<b>4 394 436</b>	<b>6 315 547</b>	<b>6 252 719</b>
<b>II. Receivables:</b>					
1. Trade receivables	12	2 975 796	1 712 102	4 234 176	2 436 102
2. Receivables from related companies	13	178 329	998 450	253 739	1 420 666
4. Other receivables	14	540 098	188 854	768 490	268 715
7. Prepaid expense	15	56 788	40 645	80 803	57 833
<b>Total receivables:</b>		<b>3 751 011</b>	<b>2 940 051</b>	<b>5 337 208</b>	<b>4 183 316</b>
<b>III. Current financial assets</b>					
4. Derivative financial instruments	16	21 593	-	30 724	-
<b>Total current financial assets:</b>		<b>21 593</b>	<b>-</b>	<b>30 724</b>	<b>-</b>
<b>IV. Cash:</b>	17	<b>1 120 201</b>	<b>84 269</b>	<b>1 593 903</b>	<b>119 904</b>
<b>Total current assets:</b>		<b>9 331 397</b>	<b>7 418 756</b>	<b>13 277 382</b>	<b>10 555 939</b>
<b>Total assets</b>		<b>11 058 143</b>	<b>8 639 471</b>	<b>15 734 320</b>	<b>12 292 860</b>

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**Balance sheet as at 30 June 2006**

	Notes	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	(2) 30/06/2005 EUR
<b>Equity and liabilities</b>					
<b>Equity:</b>					
1. Share capital	18	2 970 180	2 970 180	4 226 186	4 226 186
2. Share premium		2 004 204	2 004 204	2 851 725	2 851 725
3. Personnel shares	18	60 000	-	85 372	-
4. Reserves		-	1 023 402	-	1 456 170
5. Retained earnings					
a) brought forward		2 679 262	7 170	3 812 247	10 202
b) for the period		1 266 950	2 005 708	1 802 707	2 853 865
<b>Total equity:</b>		<b>8 980 596</b>	<b>8 010 664</b>	<b>12 778 237</b>	<b>11 398 148</b>
<b>Provisions for liabilities and charges:</b>					
3. Other provisions	19	103 563	87 615	147 357	124 665
<b>Total provisions for liabilities and charges:</b>		<b>103 563</b>	<b>87 615</b>	<b>147 357</b>	<b>124 665</b>
<b>Liabilities:</b>					
<b>Non-current liabilities:</b>					
15. Deferred income tax liability	20	-	97	-	138
<b>Total non-current liabilities:</b>		<b>-</b>	<b>97</b>	<b>-</b>	<b>138</b>
<b>Current liabilities:</b>					
3. Loans from credit institutions	21	7 292	6 101	10 376	8 681
6. Trade payables	22	1 696 969	326 163	2 414 569	464 088
8. Payables to related companies	23	829	29 552	1 180	42 049
10. Taxes payable					
	24	48 636	32 888	69 203	46 795
11. Other liabilities	25	188 958	122 418	268 863	174 185
12. Deferred income		31 300	-	44 535	-
16. Derivative financial instruments	16	-	8 988	-	12 789
17. Deferred income tax liability	20	-	14 985	-	21 322
<b>Total current liabilities:</b>		<b>1 973 984</b>	<b>541 095</b>	<b>2 808 726</b>	<b>769 909</b>
<b>Total equity and liabilities</b>		<b>11 058 143</b>	<b>8 639 471</b>	<b>15 734 320</b>	<b>12 292 860</b>

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 \_\_\_\_\_  
 Normunds Bergs  
 Chairman of the Board

9 October 2006

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**Statement of changes in equity for the period 1 July 2005 through 30 June 2006**

	Share capital	Share premium	Personnel shares	Reserves*	Retained earnings	Total
	LVL	LVL	LVL	LVL	LVL	LVL
<b>Balance as at 30 June 2004</b>	<b>990 060</b>	<b>2 005 199</b>	-	<b>10 311</b>	<b>3 983 271</b>	<b>6 988 841</b>
Effect of changes in accounting policies	-	-	-	-	7 170	7 170
<b>Balance as at 30 June 2004 (as adjusted)</b>	<b>990 060</b>	<b>2 005 199</b>	-	<b>10 311</b>	<b>3 990 441</b>	<b>6 996 011</b>
Issue of share capital	1 980 120	-	-	-	(1 980 120)	-
Costs of issue of share capital	-	(995)	-	-	-	(995)
Profit for the year 2003/2004 paid as dividends	-	-	-	-	(990 060)	(990 060)
Distribution of profit for the year 2003/2004	-	-	-	1 013 091	(1 013 091)	-
Profit for the period	-	-	-	-	1 374 083	<b>1 374 083</b>
<b>Balance as at 30 June 2005</b>	<b>2 970 180</b>	<b>2 004 204</b>	-	<b>1 023 402</b>	<b>1 381 253</b>	<b>7 379 039</b>
Effect of changes in accounting policies	-	-	-	-	631 625	<b>631 625</b>
<b>Balance as at 30 June 2005 (as adjusted)</b>	<b>2 970 180</b>	<b>2 004 204</b>	-	<b>1 023 402</b>	<b>2 012 878</b>	<b>8 010 664</b>
Issue of personnel shares	-	-	60 000	-	(60 000)	-
Profit for the year 2004/2005 paid as dividends	-	-	-	-	(297 018)	<b>(297 018)</b>
Transfer of reserves to retained earnings	-	-	-	(1 023 402)	1 023 402	-
Profit for the period	-	-	-	-	1 905 745	<b>1 905 745</b>
<b>Balance as at 30 June 2006</b>	<b>2 970 180</b>	<b>2 004 204</b>	<b>60 000</b>	-	<b>4 585 007</b>	<b>9 619 391</b>
Effect of changes in accounting policies	-	-	-	-	(638 795)	<b>(638 795)</b>
<b>Balance as at 30 June 2006 (as adjusted)</b>	<b>2 970 180</b>	<b>2 004 204</b>	<b>60 000</b>	-	<b>3 946 212</b>	<b>8 980 596</b>

\* Reserves have been established according to decisions of the shareholders' meetings.

The accompanying notes on pages 14 to 29 are an integral part of these financial statements.

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**Statement of changes in equity for the period 1 July 2005 through 30 June 2006**

	Share capital	Share premium	Personnel shares	Reserves*	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Balance as at 30 June 2004</b>	<b>1 408 729</b>	<b>2 853 141</b>	-	<b>14 671</b>	<b>5 667 684</b>	<b>9 944 225</b>
Effect of changes in accounting policies					10 202	10 202
<b>Balance as at 30 June 2004 (as adjusted)</b>	<b>1 408 729</b>	<b>2 853 141</b>	-	<b>14 671</b>	<b>5 677 886</b>	<b>9 954 427</b>
Issue of share capital	2 817 457				(2 817 457)	-
Costs of issue of share capital	-	(1 416)	-	-	-	(1 416)
Profit for the year 2003/2004 paid as dividends	-	-	-	-	(1 408 728)	(1 408 728)
Distribution of profit for the year 2003/2004	-	-	-	1 441 499	(1 441 499)	-
Profit for the period	-	-	-	-	1 955 144	1 955 144
<b>Balance as at 30 June 2005</b>	<b>4 226 186</b>	<b>2 851 725</b>	-	<b>1 456 170</b>	<b>1 965 346</b>	<b>10 499 427</b>
Effect of changes in accounting policies	-	-	-	-	898 721	898 721
<b>Balance as at 30 June 2005 (as adjusted)</b>	<b>4 226 186</b>	<b>2 851 725</b>	-	<b>1 456 170</b>	<b>2 864 067</b>	<b>11 398 148</b>
Issue of personnel shares	-	-	85 372	-	(85 372)	-
Profit for the year 2004/2005 paid as dividends	-	-	-	-	(422 619)	(422 619)
Transfer of reserves to retained earnings	-	-	-	(1 456 170)	1 456 170	-
Profit for the period	-	-	-	-	2 711 631	2 711 631
<b>Balance as at 30 June 2006</b>	<b>4 226 186</b>	<b>2 851 725</b>	<b>85 372</b>	-	<b>6 523 877</b>	<b>13 687 160</b>
Effect of changes in accounting policies	-	-	-	-	(908 923)	(908 923)
<b>Balance as at 30 June 2006 (as adjusted)</b>	<b>4 226 186</b>	<b>2 851 725</b>	<b>85 372</b>	-	<b>5 614 954</b>	<b>12 778 237</b>

\* Reserves have been established according to decisions of the shareholders' meetings.

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**Cash flow statement for the period 1 July 2005 through 30 June 2006**

Notes	12 months until 30/06/2006 LVL	12 months until 30/06/2005 LVL	12 months until 30/06/2006 EUR	12 months until 30/06/2005 EUR
<b>I. Cash flow from operating activities</b>				
<b>1. Profit before taxes</b>	1 449 040	2 390 990	2 061 798	3 402 072
<u>Adjustments for:</u>				
a) depreciation	554 155	457 586	788 492	651 086
b) amortisation	107 670	95 854	153 201	136 388
c) provisions for slow-moving inventories	74 538	91 668	106 058	130 432
d) accruals for unused annual leave	15 948	15 549	22 692	22 124
e) provisions for doubtful receivables	(66 368)	266 592	(94 433)	379 326
f) other interest receivable and similar income	(19 220)	(2 901)	(27 348)	(4 128)
g) ERDF subsidies	(100 958)	-	(143 650)	-
h) interest payable and similar expense	2 280	26 792	3 244	38 122
i) gain/ loss on investments in subsidiaries	-	4 207	-	5 986
j) loss on disposal of tangible assets	1 422	-	2 023	-
k) gain/ loss from revaluation of derivative financial instruments	(30 581)	12 966	(43 513)	18 449
<b>2. Profit before adjustments for changes in current assets and liabilities</b>	<b>1 987 926</b>	<b>3 359 303</b>	<b>2 828 564</b>	<b>4 779 857</b>
<u>Adjustments for:</u>				
a) increase / (decrease) in receivables	(1 289 229)	581 495	(1 834 408)	827 393
b) increase in inventories	(118 694)	(1 620 949)	(168 886)	(2 306 403)
c) increase / (decrease) in trade payables and other liabilities	1 400 046	(2 490)	1 992 086	(3 543)
<b>3. Gross cash generated from operating activities</b>	<b>1 980 049</b>	<b>2 317 359</b>	<b>2 817 356</b>	<b>3 297 304</b>
4. Interest paid	(2 280)	(26 792)	(3 244)	(38 122)
5. Corporate income tax paid	(280 801)	(995 202)	(399 544)	(1 416 045)
6. ERDF subsidies	100 958	-	143 650	-
<b>7. Net cash generated from operating activities</b>	<b>1 797 926</b>	<b>1 295 365</b>	<b>2 558 218</b>	<b>1 843 137</b>

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**Cash flow statement for the period 1 July 2005 through 30 June 2006 (cont'd)**

	Notes	12 months until 30/06/2006 LVL	12 months until 30/06/2005 LVL	12 months until 30/06/2006 EUR	12 months until 30/06/2005 EUR
<b>II. Cash flow from investing activities</b>					
1. Received as a result of subsidiary liquidation		-	27 447	-	39 054
2. Purchase of non-current assets		(463 695)	(587 911)	(659 778)	(836 522)
3. Proceeds from sale of non-current assets		1 260	184	1 793	262
4. Current loan issued to subsidiary		-	(425 700)	-	(605 717)
5. Interest received		14 709	2 953	20 929	4 202
6. Investment in securities of the money market fund		-	553 632	-	787 747
7. Non-current loans issued		(17 641)	-	(25 101)	-
<b>8. Net cash (used in) investing activities</b>		<b>(465 367)</b>	<b>(429 395)</b>	<b>(662 157)</b>	<b>(610 974)</b>
<b>III. Cash flow from financing activities</b>					
1. Proceeds from borrowings		1 191	3 582	1 695	5 097
2. Dividends paid		(297 018)	(990 060)	(422 619)	(1 408 728)
<b>3. Net cash (used in) financing activities</b>		<b>(295 827)</b>	<b>(986 478)</b>	<b>(420 924)</b>	<b>(1 403 631)</b>
<b>IV. Net foreign exchange difference</b>					
		(800)	(42 236)	(1 138)	(60 096)
<b>V. Net increase/ (decrease) in cash and cash equivalents</b>					
		<b>1 035 932</b>	<b>(162 744)</b>	<b>1 473 999</b>	<b>(231 564)</b>
<b>VI. Cash and cash equivalents at the beginning of the year</b>					
		84 269	247 013	119 904	351 468
<b>VII. Cash and cash equivalents at the end of the year</b>					
	17	<b>1 120 201</b>	<b>84 269</b>	<b>1 593 903</b>	<b>119 904</b>

The accompanying notes on pages 14 to 29 are an integral part of these financial statements.

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**Notes**

**Accounting policies**

**(a) General principles**

The financial statements have been prepared in accordance with the Laws of the Republic of Latvia on Accounting and on Financial Statements of Companies, and mandatory Latvian Accounting Standards. In preparing these financial statements, following Latvian Accounting Standards (LAS) have been applied: LAS 1 *Presentation of Financial Statements*, LAS 2 *Cash Flow Statements*, LAS 3 *Events Occurring after the Balance Sheet Date*, and LAS 4 *Changes in Accounting Policies, Changes in Accounting Estimates and Prior Period Errors*.

The income statement has been prepared according to the function of expense method.

The cash flow statement has been prepared under the indirect method.

The accounting and measurement policies used by the Company are consistent with those used in the previous accounting period, except for the accounting policy regarding investments in subsidiaries. Prior to the adoption of the amendments, investments in subsidiaries had been accounted for according to the equity method, while in the reporting period the cost method has been applied by the Company. The changes have been introduced retrospectively, by re-calculating the opening balances of the equity captions. Prior year comparative figures have been adjusted.

In the result of the above changes, loss from investments in subsidiaries in the amount of LVL 638 795 recognised in the income statements of prior periods was eliminated from the accounts.

**(b) Net sales**

Net sales represent the aggregate value of the goods and services sold during the reporting period, net of value added tax.

**(c) Foreign currency translation**

The presentation currency of SAF Tehnika A/S is Latvian lats (LVL). All transactions in foreign currencies are translated into Latvian lats applying the official exchange rate ruling at the date of transaction. 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.

Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. Foreign exchange gains and losses are recognised in the income statement of the respective period.

	<b>30/06/2006</b>	<b>30/06/2005</b>
	<b>LVL</b>	<b>LVL</b>
1 USD	0.560000	0.583000
1 EUR	0.702804	0.702804
1 SEK	0.076200	0.074600

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**Notes (cont'd)**

**Accounting policies (cont'd)**

**(d) Intangible and tangible assets**

Intangible and tangible assets are stated at cost less accumulated depreciation/ amortisation.

Depreciation/ amortisation is calculated on a straight-line basis over the estimated useful lives of assets to write down their value to the estimated residual values applying the following depreciation rates:

	<b>% per annum</b>
Mobile phones	50
Technological equipment	33.33
Cars	20
Other fixtures and fittings	25

Licences are amortised on a straight-line basis over their estimated useful lives, which usually is three years.

Current repairs are charged to the income statement in the period when incurred.

Overhaul costs are added to the value of the respective asset and depreciated over the remaining useful life of the asset.

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

Gains and losses on disposals are determined as the difference between the carrying amount of the item and the disposal proceeds, and are included in the income statement in the period when incurred.

**(e) 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 of completion and the estimated costs necessary to make the sale. When net realisable value is lower than cost, provisions are established for respective items to write down their value to net realisable value.

**(f) Receivables**

Receivables are recognised at amortised cost which is computed as cost less provisions for doubtful and bad receivables. Provisions are established when there is objective evidence that the Company will not be able to collect the full amount due in the original term. The amount of provisions is measured as the difference between the amortised cost and recoverable value of receivables. The Company establishes provisions evaluating each receivable separately.

**(g) Operating leases**

Lease payments and prepayments for tangible assets held under an operating lease are recognised in the income statement on a straight-line basis over the lease term.

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**Notes (cont'd)**

**Accounting policies (cont'd)**

Assets subject to operating lease are stated as tangible assets at cost, less depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of assets to write down their value to the estimated residual values applying the depreciation rates fixed for similar tangible assets of the Company. Lease income and prepayments from operating leases are recognised in the income statement on a straight-line basis over the lease term.

**(h) Investments in subsidiaries**

Investments in subsidiaries are stated in accordance with the cost method whereby investments are carried at cost. The investor recognises income from the investment only where the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

**(i) Taxes**

Current corporate income tax is charged to the financial statements based on the management's estimates made in accordance with the Latvian tax laws.

Deferred corporate income tax arising on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements is calculated using the liability method. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the timing differences reverse, based on tax rates that have been enacted by the balance sheet date. The principal temporary differences arise from differing rates of depreciation on the non-current assets, as well as accruals for unused annual leave, and provisions for slow-moving inventories. Deferred corporate income tax asset is recognised in the financial statements only where its recoverability is foreseen with reasonable certainty.

**(j) Accruals for unused annual leave**

The accrual is estimated by multiplying the average daily remuneration expense for the last six months by the total number of vacation days earned but not taken as at the year end.

**(k) Cash and cash equivalents**

Cash and cash equivalents comprise current bank account balances and short-term deposits with an original maturity of three months or less.

**(l) Derivative financial instruments**

Derivative financial instruments are initially recognised at fair value. Changes in the fair value over the reporting period are included in the income statement.

**(m) Related parties**

Related parties are defined as Board and Council Members, their close members of the families, and entities over which these persons exercise significant influence or control.

**(n) Investments in securities**

Investments in securities are initially recognised at cost and subsequently re-measured at fair value. Changes in the fair value are included in the income statement.



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**Notes (cont'd)**

**(1) Net sales**

	12 months until 30/06/2006 LVL	12 months until 30/06/2005 LVL	12 months until 30/06/2006 EUR	12 months until 30/06/2005 EUR
Sale of goods	12 825 186	10 584 766	18 248 596	15 060 765
Provision of services	182 136	143 456	259 156	204 120
	<b>13 007 322</b>	<b>10 728 222</b>	<b>18 507 752</b>	<b>15 264 885</b>
Asia	4 181 024	1 444 883	5 949 061	2 055 883
America	2 260 658	1 522 654	3 216 627	2 166 541
Africa	430 603	332 789	612 693	473 516
Europe	3 511 664	3 736 295	4 996 648	5 316 269
CIS	1 962 377	2 646 720	2 792 211	3 765 943
Middle East	660 996	1 044 881	940 512	1 486 733
	<b>13 007 322</b>	<b>10 728 222</b>	<b>18 507 752</b>	<b>15 264 885</b>

**(2) Cost of sales**

Direct production costs	7 773 725	5 295 026	11 061 014	7 534 143
Wages and salaries (including accruals for unused annual leave)	817 042	616 092	1 162 546	876 620
Depreciation and amortisation	457 535	378 899	651 014	539 125
Social insurance contributions (including accruals for unused annual leave)	197 363	144 361	280 822	205 407
Rent of premises	64 812	68 062	92 219	96 844
Public utilities costs	34 527	32 901	49 127	46 814
Transportation expense	20 304	17 510	28 890	24 914
Low value inventory	10 239	8 362	14 569	11 898
Other cost of sales	105 347	42 358	149 896	60 270
	<b>9 480 894</b>	<b>6 603 571</b>	<b>13 490 097</b>	<b>9 396 035</b>

**(3) Selling costs**

Advertising and marketing costs	610 744	334 341	869 010	475 724
Wages and salaries (including accruals for unused annual leave)	277 040	201 629	394 192	286 892
Business trips	167 819	96 127	238 785	136 776
Depreciation and amortisation	109 489	105 182	155 789	149 661
Delivery costs *	90 228	63 777	128 383	90 746
Social insurance contributions (including accruals for unused annual leave)	62 019	48 553	88 245	69 085
Other selling and marketing costs	71 585	41 865	101 857	59 569
	<b>1 388 924</b>	<b>891 474</b>	<b>1 976 261</b>	<b>1 268 453</b>

\* In the previous reporting period, delivery costs of LVL 63 777 (EUR 90 746) were recognised under cost of sales.

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Notes (cont'd)

**(4) Administrative expense**

	12 months until 30/06/2006 LVL	12 months until 30/06/2005 LVL	12 months until 30/06/2006 EUR	12 months until 30/06/2005 EUR
Wages and salaries (including accruals for unused annual leave)	166 126	135 728	236 376	193 124
Depreciation and amortisation	93 597	69 359	133 177	98 689
IT services	75 136	22 295	106 909	31 723
Sponsorship	53 488	44 521	76 107	63 348
Bank charges	36 182	24 436	51 482	34 769
Social insurance contributions (including accruals for unused annual leave)	33 905	28 386	48 242	40 390
Representation expense	32 933	27 923	46 859	39 731
Training expense	27 332	15 911	38 890	22 639
Business trips	16 464	13 905	23 426	19 785
Insurance expense	11 154	6 246	15 871	8 887
Communications expense	11 084	42 201	15 771	60 047
Office expense	8 850	7 585	12 592	10 792
Rent of premises	8 368	10 553	11 907	15 016
Public utilities costs	6 833	8 553	9 722	12 170
Provisions for bad and doubtful trade receivables, write-offs of bad receivables	(64 767)	266 592	(92 155)	379 326
Other administrative expense	123 879	104 903	176 264	149 263
	<b>640 564</b>	<b>829 097</b>	<b>911 440</b>	<b>1 179 699</b>

**(5) Other operating income**

ERDF subsidies	100 958	-	143 650	-
Other income	1 517	282	2 159	401
	<b>102 475</b>	<b>282</b>	<b>145 809</b>	<b>401</b>

**(6) Other interest receivable and similar income**

Gain on revaluation of derivative financial instruments	30 580	-	43 511	-
Income from listed securities	3 961	973	5 635	1 385
Currency exchange gain, net	-	14 726	-	20 953
Other financial income	15 259	1 928	21 712	2 743
	<b>49 800</b>	<b>17 627</b>	<b>70 858</b>	<b>25 081</b>

**(7) Interest payable and similar expense**

Currency exchange loss, net	197 895	-	281 579	-
Interest expense	2 280	13 826	3 244	19 673
Loss from revaluation of derivative financial instruments	-	12 966	-	18 449
	<b>200 175</b>	<b>26 792</b>	<b>284 823</b>	<b>38 122</b>

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**Notes (cont'd)**

**(8) Corporate income tax for the period**

	12 months until 30/06/2006 LVL	12 months until 30/06/2005 LVL	12 months until 30/06/2006 EUR	12 months until 30/06/2005 EUR
Change in deferred tax (see Note 20)	(41 559)	(14 340)	(59 133)	(20 404)
Current corporate income tax charge for the reporting period	223 649	399 622	318 224	568 611
	<b>182 090</b>	<b>385 282</b>	<b>259 091</b>	<b>548 207</b>
Profit before taxes	<b>1 449 040</b>	<b>2 390 990</b>	<b>2 061 798</b>	<b>3 402 072</b>
Tax at the applicable rate of 15%	217 356	358 649	309 270	510 311
Non-deductible items	10 199	64 496	14 512	91 770
Tax rebate on donations	(45 465)	(37 863)	(64 691)	(53 874)
<b>Tax expense</b>	<b>182 090</b>	<b>385 282</b>	<b>259 091</b>	<b>548 207</b>

**(9) Intangible and tangible assets**

	Intangible assets*	Leasehold improvements	Equipment and machinery	Other tangible assets	Prepayments	Total
	LVL	LVL	LVL	LVL	LVL	LVL
<b>Acquisition value</b>						
30/06/2005	352 696	331 026	1 345 324	295 130	27 068	2 351 244
Additions	81 076	60 687	250 487	26 652	69 119	488 021
Reclassification	26 876	-	-	192	(27 068)	-
Disposals	-	-	(12 666)	(25 452)	-	(38 118)
<b>30/06/2006</b>	<b>460 648</b>	<b>391 713</b>	<b>1 583 145</b>	<b>296 522</b>	<b>69 119</b>	<b>2 801 147</b>
<b>Depreciation/ amortisation</b>						
30/06/2005	211 030	72 346	722 940	131 383	-	1 137 699
Charge	107 670	47 812	432 325	74 018	-	661 825
Disposals	-	-	(11 048)	(24 388)	-	(35 436)
<b>30/06/2006</b>	<b>318 700</b>	<b>120 158</b>	<b>1 144 217</b>	<b>181 013</b>	<b>-</b>	<b>1 764 088</b>
<b>Net carrying amount as at 30/06/2006</b>	<b>141 948</b>	<b>271 555</b>	<b>438 928</b>	<b>115 509</b>	<b>69 119</b>	<b>1 037 059</b>
<b>Net carrying amount as at 30/06/2005</b>	<b>141 666</b>	<b>258 680</b>	<b>622 384</b>	<b>163 747</b>	<b>27 068</b>	<b>1 213 545</b>

\* Intangible assets include patents, licences, and software.

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**Notes (cont'd)**

**(9) Intangible and tangible assets (cont'd)**

	Intangible assets*	Leasehold improvements	Equipment and machinery	Other tangible assets	Prepayments	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Acquisition value</b>						
30/06/2005	501 842	471 007	1 914 224	419 932	38 514	3 345 519
Additions	115 360	86 350	356 411	37 922	98 348	694 391
Reclassification	38 241	-	-	273	(38 514)	-
Disposals	-	-	(18 023)	(36 214)	-	(54 237)
<b>30/06/2006</b>	<b>655 443</b>	<b>557 357</b>	<b>2 252 612</b>	<b>421 913</b>	<b>98 348</b>	<b>3 985 673</b>
<b>Depreciation/ amortisation</b>						
30/06/2005	300 269	102 939	1 028 651	186 941	-	1 618 800
Charge	153 200	68 030	615 143	105 319	-	941 692
Disposals	-	-	(15 720)	(34 701)	-	(50 421)
<b>30/06/2006</b>	<b>453 469</b>	<b>170 969</b>	<b>1 628 074</b>	<b>257 559</b>	<b>-</b>	<b>2 510 071</b>
<b>Net carrying amount as at 30/06/2006</b>	<b>201 974</b>	<b>386 388</b>	<b>624 538</b>	<b>164 354</b>	<b>98 348</b>	<b>1 475 602</b>
<b>Net carrying amount as at 30/06/2005</b>	<b>201 573</b>	<b>368 068</b>	<b>885 573</b>	<b>232 991</b>	<b>38 514</b>	<b>1 726 719</b>

\* Intangible assets include patents, licences, and software.

**(10) Investments in related companies**

**(a) Investment in subsidiary**

Name	30/06/2006 %	Equity share 30/06/2005 %
SAF Tehnika Sweden AB	100	100

On 13 May 2004, the Company established a subsidiary - SAF Tehnika Sweden AB – by making a monetary contribution into the subsidiary's share capital in the amount of LVL 7 170 (EUR 10 202).

On 22 August 2005, the Company capitalised a portion of the current loan issued to SAF Tehnika Sweden AB in the amount of LVL 638 795 (EUR 908 923), thus increasing the value of its investment to LVL 645 569 (EUR 918 562).

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Notes (cont'd)

Investments in related companies (cont'd)

**(b) Information about subsidiary**

Name	Address	Equity		Profit/ loss for the reporting year	
		30/06/2006 LVL	30/06/2005 LVL	2005/2006 LVL	2004/2005 LVL
SAF Tehnika Sweden AB *	E. A .Rosengrens gata 22, Vastra Frolunda, Sweden	294 907	(624 165)	287 287	(561 772)

\* SAF Tehnika Sweden AB organised and operating in Sweden is fully owned by the Company.

Name	Address	Equity		Profit/ loss for the reporting year	
		30/06/2006 EUR	30/06/2005 EUR	2005/2006 EUR	2004/2005 EUR
SAF Tehnika Sweden AB *	E. A .Rosengrens gata 22, Vastra Frolunda, Sweden	419 615	(888 107)	408 773	(799 330)

**(c) Changes in accounting policies**

In 2005, according to the amendments to the Law on Financial Statements of Companies proclaimed on 10 June 2005, the Company changed the policy for accounting and measurement of its investment in subsidiary. To comply with the amendments, the investment in subsidiary is accounted for under the purchase method whereby investments in subsidiaries are stated at the cost of acquisition less accrued losses from continuing impairment of the investment. Impairment losses for the reporting year are charged to the income statement.

Prior to the adoption of the amendments, the investment in subsidiary had been accounted for according to the equity method. The changes have been introduced retrospectively, by re-calculating the opening balances of the equity captions. Prior year comparative figures have been adjusted.

In the result of the above changes, income from investments in subsidiaries in the amount of LVL 638 795 (EUR 908 923) recognised in the income statements of prior periods were eliminated from the accounts. By adjusting the comparative figures of the income statement for the year 2004, loss from investments in subsidiaries was decreased by LVL 631 625 (EUR 898 721). The equity caption *Retained earnings brought forward* as at 30 June 2004 was increased by LVL 7 170 (EUR 10 202), while the *Other liabilities* caption was reduced by LVL 631 625 (EUR 898 721).

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Notes (cont'd)

**(10) Investments in related companies (cont'd)**

Effect of changes in accounting policies on the result of the year 2004/2005 may be disclosed as follows:

	<b>30/06/2005 (comparative figures)</b>		
	<b>As previously reported</b>	<b>Adjustment</b>	<b>As adjusted in the financial statements for the year 2005/2006</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
<b>Balance sheet</b>			
Investments in related companies	-	7 170	7 170
<b>Equity</b>			
Profit for the period	1 374 083	631 625	2 005 708
Retained earnings brought forward	-	7 170	7 170
Other liabilities	754 043	(631 625)	122 418
<b>Income statement</b>			
Income from investments in subsidiaries	635 832	(631 625)	4 207

	<b>30/06/2005 (comparative figures)</b>		
	<b>As previously reported</b>	<b>Adjustment</b>	<b>As adjusted in the financial statements for the year 2005/2006</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
<b>Balance sheet</b>			
Investments in related companies	-	10 202	10 202
<b>Equity</b>			
Profit for the period	1 955 144	898 721	2 853 865
Retained earnings brought forward	-	10 202	10 202
Other liabilities	1 072 906	(898 721)	174 185
<b>Income statement</b>			
Income from investments in subsidiaries	904 707	(898 721)	5 986

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**Notes (cont'd)**

**(11) Inventories**

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Raw materials and consumables	2 527 773	1 860 027	3 596 697	2 646 580
Provisions for slow-moving inventories	(239 882)	(165 344)	(341 321)	(235 263)
	<b>2 287 891</b>	<b>1 694 683</b>	<b>3 255 376</b>	<b>2 411 317</b>

**(12) Trade receivables**

Carrying value of trade receivables*	3 195 513	1 998 187	4 546 805	2 843 164
Provisions for bad and doubtful trade receivables	(219 717)	(286 085)	(312 629)	(407 062)
	<b>2 975 796</b>	<b>1 712 102</b>	<b>4 234 176</b>	<b>2 436 102</b>

\* The carrying value of trade receivables comprises invoices due within 180 days. With regard to these transactions, irrevocable letters of credit totalling LVL 1 880 252 have been issued.

**(13) Receivables from related companies**

Current loan commitments of SAF Tehnika Sweden AB *	128 838	988 084	183 320	1 405 917
Payable by SAF Tehnika Sweden AB for the goods	38 508	-	54 792	-
Payable by SAF Tehnika Sweden AB for the asset lease	10 983	10 366	15 627	14 749
	<b>178 329</b>	<b>998 450</b>	<b>253 739</b>	<b>1 420 666</b>

\* A current interest-free loan was issued to subsidiary SAF Tehnika Sweden AB. The loan matures on 30 June 2007.

**(14) Other receivables**

Overpayment of corporate income tax (see Note 24)	285 625	181 994	406 408	258 954
Overpayment of VAT (see Note 24)	227 135	1 951	323 184	2 776
VAT accepted	3 804	1 636	5 413	2 328
Prepaid VAT on import	258	-	367	-
Other receivables	23 276	3 273	33 118	4 657
	<b>540 098</b>	<b>188 854</b>	<b>768 490</b>	<b>268 715</b>

**(15) Prepaid expense**

Prepaid exhibition fee	10 671	6 027	15 183	8 576
Insurance	7 832	8 889	11 144	12 647
Prepaid share issuer's annual fee	2 500	2 500	3 558	3 558
Other prepaid expense	35 785	23 229	50 918	33 052
	<b>56 788</b>	<b>40 645</b>	<b>80 803</b>	<b>57 833</b>

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Notes (cont'd)

**(16) Derivative financial instruments**

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

To minimise foreign currency risk, the Company enters into forward FX contracts with a bank, whereby the Company undertakes to change a certain amount in another currency at a fixed exchange rate in the future, thus fixing the future currency exchange rate and avoiding undesirable exchange rate fluctuations. Forward FX contracts are concluded with regard to certain receivables.

**(17) Cash**

	<b>30/06/2006 LVL</b>	<b>30/06/2005 LVL</b>	<b>30/06/2006 EUR</b>	<b>30/06/2005 EUR</b>
Cash at bank	420 201	29 263	597 893	41 637
Short-term bank deposits	700 000	55 006	996 010	78 267
	<b>1 120 201</b>	<b>84 269</b>	<b>1 593 903</b>	<b>119 904</b>

**(18) 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 and 60 000 registered dematerialised personnel shares without voting rights in the limited amount (issued on 26 October 2005). Personnel shares in the limited amount may be alienated only by SAF Tehnika. The par value of each share is LVL 1 (EUR 1.42).

**(19) Provisions\***

Accruals for unused annual leave	<b>103 563</b>	<b>87 615</b>	<b>147 357</b>	<b>124 665</b>
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Notes (cont'd)

**(20) Deferred corporate income tax asset/ liability**

	Current portion of deferred tax asset/ (liability)	Non-current portion of deferred tax asset/ (liability)	Total
	LVL	LVL	LVL
<b>Liability as at 30 June 2005</b>	(14 985)	(97)	(15 082)
Increase/ decrease	14 985	26 574	41 559
<b>Asset as at 30 June 2006</b>	-	26 477	26 477

	Current portion of deferred tax asset/ (liability)	Non-current portion of deferred tax asset/ (liability)	Total
	EUR	EUR	EUR
<b>Liability as at 30 June 2005</b>	(21 322)	(138)	(21 460)
Increase/ decrease	21 322	37 811	59 133
<b>Asset as at 30 June 2006</b>	-	37 673	37 673

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

	30/06/2006		30/06/2005	
	Current portion	Non-current portion	Current portion	Non-current portion
	LVL	LVL	LVL	LVL
Temporary difference on depreciation of tangible assets	-	25 040	52 929	97
Temporary difference on accruals for unused annual leave	-	(15 535)	(13 142)	-
Temporary difference on provisions for obsolete inventories	-	(35 982)	(24 802)	-
<b>Deferred tax asset/ liability</b>	-	(26 477)	14 985	97

	30/06/2006		30/06/2005	
	Current portion	Non-current portion	Current portion	Non-current portion
	EUR	EUR	EUR	EUR
Temporary difference on depreciation of tangible assets	-	35 629	75 311	138
Temporary difference on accruals for unused annual leave	-	(22 104)	(18 699)	-
Temporary difference on provisions for obsolete inventories	-	(51 198)	(35 290)	-
<b>Deferred tax asset/ liability</b>	-	37 673	21 322	138

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**(21) Loans from credit institutions**

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Current loan from Hansabanka	<u>7 292</u>	<u>6 101</u>	<u>10 376</u>	<u>8 681</u>

**(22) Trade payables**

Payables to local suppliers	698 055	98 557	993 243	140 234
Payables for foreign suppliers	998 914	227 606	1 421 326	323 854
	<u>1 696 969</u>	<u>326 163</u>	<u>2 414 569</u>	<u>464 088</u>

**(23) Payables to related companies**

SAF Tehnika Sweden AB	<u>829</u>	<u>29 552</u>	<u>1 180</u>	<u>42 049</u>
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**(24) Taxes payable**

	VAT	Natural resource tax	Social insurance contributions	Personal income tax	Corporate income tax **	Unemploy- ment risk duty	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Payable as at 30/06/2005	-	5	19 860	12 981	-	42	32 88
(Receivable)* as at 30/06/2005	(1 951)	-	-	-	(181 994)	-	(183 94)
Calculated for the period	(688 607)	12	388 210	288 659	237 170	474	225 91
Transferred to/ from other taxes	317 923	-	(248 048)	(9 770)	(60 000)	(105)	
Repaid by SRS	145 500	-	-	-	-	-	145 50
Paid in the period	-	(17)	(130 177)	(273 117)	(280 801)	(373)	(684 48)
<b>Payable as at 30/06/2006</b>	<u>-</u>	<u>-</u>	<u>29 845</u>	<u>18 753</u>	<u>-</u>	<u>38</u>	<u>48 63</u>
<b>(Receivable)* as at 30/06/2006</b>	<u>(227 135)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(285 625)</u>	<u>-</u>	<u>(512 76)</u>

\* See Note 14.

\*\* Including withholding tax.

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**Notes (cont'd)**

**(24) Taxes payable (cont'd)**

	VAT	Natural resource tax	Social insurance contributions	Personal income tax	Corporate income tax **	Unemploy- ment risk duty	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Payable as at 30/06/2005	-	7	28 258	18 470	-	60	46 795
(Receivable)* as at 30/06/2005	(2 776)	-	-	-	(258 954)	-	(261 730)
Calculated for the period	(979 800)	17	552 373	410 725	337 463	674	321 452
Transferred to/ from other taxes	452 364	-	(352 940)	(13 902)	(85 373)	(149)	-
Repaid by SRS	207 028	-	-	-	-	-	207 028
Paid in the period	-	(24)	(185 225)	(388 610)	(399 544)	(531)	(973 934)
<b>Payable as at 30/06/2006</b>	<b>-</b>	<b>-</b>	<b>42 466</b>	<b>26 683</b>	<b>-</b>	<b>54</b>	<b>69 203</b>
<b>(Receivable)* as at 30/06/2006</b>	<b>(323 184)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(406 408)</b>	<b>-</b>	<b>(729 592)</b>

\* See Note 14.

\*\* Including withholding tax.

**(25) Other liabilities**

	30/06/2006 LVL	30/06/2005 LVL	30/06/2006 EUR	30/06/2005 EUR
Bonuses calculated	82 529	80 906	117 428	115 119
Salaries	61 074	41 512	86 900	59 066
Other liabilities	45 355	-	64 535	-
	<b>188 958</b>	<b>122 418</b>	<b>268 863</b>	<b>174 185</b>

**(26) Average number of employees**

	12 months until 30/06/2006	12 months until 30/06/2005
Average number of employees for the reporting period:	<u>126</u>	<u>110</u>

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Notes (cont'd)

**(27) Remuneration to the management**

	12 months until 30/06/2006 LVL	12 months until 30/06/2005 LVL	12 months until 30/06/2006 EUR	12 months until 30/06/2005 EUR
Board				
- salaries	94 754	91 682	134 823	130 452
- social insurance contributions	15 987	16 989	22 747	24 173
Other management				
- salaries	69 475	61 388	98 855	87 347
- social insurance contributions	15 944	14 205	22 686	20 212
<b>Total</b>	<b>196 160</b>	<b>184 264</b>	<b>279 111</b>	<b>262 184</b>

**(28) Operating lease**

Lease agreement No. S-116/02, dated 10 December 2002, was signed with Dambis A/S. According to the agreement, the lessor conveys and transfers, while SAF Tehnika A/S accepts premises in the total area of 5 851 m<sup>2</sup> for paid use. The premises are located at Ganību dambis 24a. The agreement expires on 1 March 2016.

According to the signed agreements, the Company 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
	<b>974 263</b>	<b>1 386 251</b>

SAF Tehnika A/S has prolonged current lease agreement No. SAF-2004-70 signed with SAF Tehnika Sweden AB, whereby the lessor conveys and transfers, while SAF Tehnika Sweden AB accepts for paid use tangible assets having the total value of LVL 304 220 (EUR 432 866).

According to agreement No. SAF-2004-70, the Company's expected revenue amounts to LVL 109 412 (EUR 155 681).

**(29) Related party disclosures**

During the period 1 July 2005 through 30 June 2006, the Company sold its products to SAF Tehnika Sweden AB for the total amount of LVL 66 583 (EUR 94 739) and provided lease of tangible assets for the amount of LVL 104 397 (EUR 148 544).

During the period 1 July 2005 through 30 June 2006, the Company received research and advisory services from SAF Tehnika Sweden AB for the amount of LVL 1 006 735 (EUR 1 432 455), and other services totalling LVL 44 202, as well as acquired tangible assets having the value of LVL 5 783 (EUR 8 228).

On 22 August 2005, the Company capitalised a portion of the current interest-free loan issued to SAF Tehnika Sweden AB in the total amount of LVL 638 795 (EUR 908 923).

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**Notes (cont'd)**

**(29) Related party disclosures (cont'd)**

During the period 1 July 2005 through 30 June 2006, the Company issued to SAF Tehnika Sweden AB a current interest-free loan of LVL 73 700 (EUR 104 866) and was repaid the loan of LVL 294 547 (EUR 419 103) granted in previous financial years.

In June 2006, the Company signed a non-current loan agreement for the amount of EUR 34 800 with the organisation *Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija (Latvian Electrical Engineering and Electronics Industry Association)*.

During the reporting period, the Company received parking services totalling LVL 17 (EUR 24) from CityCredit SIA.

**(30) Off-balance sheet liabilities**

A/S SAF Tehnika has issued completion guarantees amounting to USD 332 906 for the supply of goods on demand.

According to the respective agreements, the Company has the following guarantees as at 30 June 2006:

	30/06/2006		30/06/2005	
	LVL	EUR	LVL	EUR
Guarantees	186 427	265 262	39 627	56 384

As a collateral for the guarantee, the Company has pledged to Nordea Bank Finland Plc its claims to the debtor with the maximum claim amount of LVL 430 300 (EUR 612 262).

**(31) Events after balance sheet date**

As of the last day of the reporting year there have been no events which could have any material impact on the financial position of the Company as at 30 June 2006.


We have audited the accompanying financial statements of AS SAF Tehnika (hereinafter – the Company) for the year ended 30 June 2006, set out on pages 7 through 29, which 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 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 AS SAF Tehnika as at 30 June 2006, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Furthermore, we have read the management report (set out on pages 4 through 6 of the accompanying annual report for the year ended 30 June 2006) and have not noted any material inconsistencies between the financial information included in it and the financial statement for the year ended 30 June 2006.

Ernst & Young Baltic SIA  
License Nr. 17



Certificate Nr. 124

Riga,  
9 October 2006