# A/S „SAF Tehnika”

# Consolidated annual report and separate annual report
for the year ended
30 June 2020

(Translation from Latvian)

**Content**

## General information

### Information on the Parent company:

| | |
|---|---|
| Name of the Company | A/S „SAF Tehnika” |
| Legal status of the Company | Joint Stock Company |
| Number, place and date of registration | 40003474109<br>Riga, Latvia, 27 December 1999<br>Registered with the Commercial Register on 10 March 2004 |
| Address | Ganību dambis 24a<br>Riga, LV-1005, Latvia |
| Major shareholders | Didzis Liepkalns (17.05%)<br>Koka Zirgs SIA (12.06%)<br>Andrejs Grišāns (10.03%)<br>Normunds Bergs (9.74%)<br>Juris Ziema (8.71%)<br>Other shareholders (42.41%) |
| The Council | Juris Ziema – Chairman of the Council (8.71% or 258 762 shares)<br>Andrejs Grišāns – Deputy Chairman of the Council (10.03% or 297 888 shares)<br>Ivars Šenbergs – Member of the Council (0.00% or 2 shares)<br>Aira Loite – Member of the Council (0.27% or 8 000 shares)<br>Sanda Šalma - Member of the Council (does not own shares) |

The Company's Council is elected by the shareholders' meeting for a term of 3 years. The Council is the Company's supervisory body, which represents the interests of shareholders between meetings and supervises the activities of the Board based on provisions specified in the Company's Articles of Association. The Council shall take its decisions by a simple majority of the members present. Only the shareholders' meeting has the right to make decisions on amending the Company's Articles of Association, issue and conversion of shares, determination of remuneration to the members of the Council.

| | |
|---|---|
| The Board | Normunds Bergs – Chairman of the Board (9.74% or 289 377 shares)<br>Didzis Liepkalns – Member of the Board (17.05% or 506 460 shares)<br>Zane Jozepa – Member of the Board (does not own shares)<br>Jānis Bergs – Member of the Board (does not own shares) |

The Council of the Company elects the Board of 4 members for a term of 3 years. All members of the board have the right of representation. The members of the Board represent the Company individually. The Board shall take its decisions by a simple majority of the members present.

| | | |
|---|---|---|
| Person in charge of accounting | Zane Jozepa – Chief financial officer | |
| Reporting period | 1 July 2019 – 30 June 2020 | |
| Previous reporting period | 1 July 2018 – 30 June 2019 | |
| Auditor | Potapoviča un Andersone SIA<br>Licence No. 99<br>Ūdens iela 12-45<br>Riga, LV-1007, Latvia | Lolita Čapkeviča<br>Certified auditor-in-charge<br>Certificate No.120 |

### Information on subsidiaries:

| | |
|---|---|
| Shareholding: 100% | SAF North America LLC<br>3250 Quentin Street, Unit 128, Aurora, Colorado 80011, USA |
| Shareholding: 100% | SAF Services LLC<br>3250 Quentin Street, Unit 128Aurora, Colorado 80011, USA |

## Management Report

### Business activity

SAF Tehnika A/S and its subsidiaries (hereinafter referred to as the Group) design, manufacture, and distribute digital microwave transmission equipment. The Group's activities can be divided into three categories:

- Digital microwave radio equipment for voice and data transmission;
- Microwave spectrum analyzers and signal generators;
- Wireless sensor network solutions for environmental monitoring.

The Group's accumulated experience and knowledge has allowed to develop a range of innovative products, including launching a series of the world's smallest microwave spectrum analyzers Spectrum Compact, as well as creating the Aranet brand of wireless sensor network solutions.

The Group offers comprehensive and cost-effective solutions in both public and private sectors.

In the financial year (FY) 2019/2020, the Group's net turnover amounted to EUR 16.76 million, which is by EUR 2.32 million, or 16%, higher than in the previous financial year 2018/2019. The net turnover of the Parent company in FY 2019/2020 was EUR 13.86 million, which is EUR 1.99 million, or 17%, more than in the previous FY 2018/2019.

The turnover of the American region, which accounts for sales in both North, South and Central Americas, represented 59% of the Group's annual turnover and amounted to EUR 9.9 million, which is by 13% more than last year. The US subsidiary company SAF North America LLC provides marketing and sales of the Group's products in the USA and Canada, as well as product warehousing and logistics services. Sales in the European and CIS region exceeded the level of the previous year by EUR 429 thousand. As regards the AMEA (Asia, Middle East, Africa) region, the Group managed to increase turnover by EUR 749 thousand, although the market for wireless data transmission equipment there is still very competitive and prices are low.

During the reporting year, the Group kept developing new products, while continuing to work on modifications to existing products and innovative ideas. The product life cycle for microwave wireless data transmission equipment in the industry lasts for about 5 years, when obsolete products are replaced by newer generation devices. Transition between technologies is a gradual process and will happen over several years.

The Group also continued to develop specific customer-requested functionality for SAF Tehnika A/S products.

The market remains in demand for radio systems that provide enhanced data rates and which can be developed or updated to increase data transmission capacity. Consequently, the Group continues to explore the market and problematic issues, and is working on identifying customer needs to be able to offer the necessary product modifications and create prototypes for next generation technologies. At the same time, the Group works with IoT segment solutions in order to diversify SAF Tehnika product offering.

The Group's exports accounted for 96.93% (96.28% for the Parent company, respectively) of the total turnover and amounted to EUR 16.24 million (13.34 million for the Parent company). In the reporting year, the Group exported its products to 83 countries worldwide.

In order to promote SAF brand awareness, introduce SAF products, solutions and new generations of devices to existing and potential customers, the Group continued to actively participate in major industry exhibitions across Europe, America and Asia until the onset of the COVID-19 pandemic.

The Group's export activities were supported by the Investment and Development Agency of Latvia (LIAA), which co-funded the Group's participation in some of the industry exhibitions.

In the reporting year, the greatest demand was for CFIP series products, with the largest number of sales registered for *Phoenix* and *Integra* products. There is an increasing demand for products in the Spectrum Compact series – measuring equipment for data transmission network engineers.

During the Covid-19 pandemic, all offices and the manufacturing facility of the Group were operating normally, the company manufactured and shipped its products worldwide. The Group's participation in any offline exhibitions is cancelled at least till the end of the calendar year. At the manufacturing facility, the work was organized in such a way as to minimize physical proximity, ensure frequent cleaning and the availability of disinfectants. The Group accumulates enough materials, has adjusted supply chains and is able to fulfil most of the orders within normal lead times. This applies to all SAF product families – microwave links, Spectrum Compact and Aranet.

The Group's cash balance at the end of the year was EUR 4.96 million (4.25 million for the Parent company, respectively), which is EUR 2.37 million (1.83 million for the Parent company) more than at the end of the previous reporting year.

**Management Report** (continued)

During the reporting year, the Group invested EUR 439 thousand in the purchase of IT infrastructure, production and research equipment, software and licences, as well as product certification.

The Group completed the financial year 2019/2020 with a profit of EUR 442 thousand (the Parent company with 473 thousand, respectively). The result of the Group's activities for the previous financial year was a loss of EUR 409 thousand (for the Parent company, respectively, 321 thousand). This successful result of economic activity was provided by an increase in the share of variable specialized projects with high added value in the overall project portfolio.

**Research and development**

A success factor and a prerequisite for the Group's long-term existence is its ability to ensure continuous product development. During the reporting year, the development and improvement of the microwave wireless data transmission product line continued. Solutions were found to improve functionality and quality indicators, and to reduce production costs. The Group continued to design and develop the Aranet functionality – the new Internet of Things (IoT) environmental monitoring solution, as well as kept on working on the Aranet Cloud service. Aranet is an industrial-grade wireless environmental monitoring solution that allows taking measurements of various environmental parameters over a wide area, including monitoring of temperature, humidity, and CO2. Metering products Spectrum Compact and Spectrum Generator are regularly supplemented with new functionalities and accessories. There are developments both for the release of new products, and for the improvement and refining of existing ones. Technologically, SAF Tehnika products are interconnected. The development and existence of such products broadens the range of business offerings. During the reporting period, the Group's product development projects received co-financing in the amount of EUR 239 thousand from the Latvian electrical and optical equipment industry competence centre "LEO Pētījumu centrs" SIA.

**Future prospects**

SAF Tehnika A/S has an extensive experience and long-standing expertise in the development and production of microwave transmission equipment. The company is able to supply excellent, high-quality products to the general market, as well as to successfully develop niche solutions. The Group's task is to further develop the next generation of data transmission equipment, continue to produce high-quality products for the microwave data communication market, looking for innovative ideas for microwave data transmission applications. It is planned to continue to offer not only standardized solutions, but also product modifications to meet specific customer needs. The goal is to stabilize the level of turnover, which provides a positive net result in the long term.

The Group will continue its established market strategy, focusing on strategic market niches for both products and regions. Various constraints imposed by the global COVID-19 virus pandemic cause project lags. We believe that changes in the microwave radio market are not expected in the near term. However, in the longer term, there may be certain customer segments that could reconsider the investment volumes in network construction.

The Group looks positively at projections for future operational periods, however, remains cautious, and the Board of the Parent company refrains from making any statements about future sales and financial results.

**Subsequent events**

During the period between the last day of the reporting year and the date on which these financial statements are signed, there have been no events that would significantly affect the financial situation of the Group and/or the Parent company as of June 30, 2020, and/or financial results and cash flows for the relevant reporting year.

**Board's proposal for allocation of profit**

The Board of the Parent company proposes to pay dividends of EUR 473 185.

The Corporate Governance Report for 2019/2020 has also been submitted to Nasdaq Riga AS together with this separate and consolidated Annual Financial Report 2019/2020 by SAF Tehnika A/S.

On behalf of the Board,

Normunds Bergs
Chairman of the Board

## STATEMENT OF THE BOARD'S RESPONSIBILITY

The Board of SAF Tehnika A/S is responsible for preparing separate and consolidated annual reports of SAF Tehnika A/S.

The separate and consolidated annual reports set out on pages 11 to 41 and are prepared in accordance with the source documents and present fairly the financial position of SAF Tehnika A/S (Parent company) and SAF Tehnika A/S and its subsidiaries (the Group) as at 30 June 2020 and their results of financial performance and cash flows for the year then ended on 30 June 2020.

The above-mentioned annual reports are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Board in the preparation of the annual reports.

The Board of SAF Tehnika A/S is responsible for the maintenance of proper accounting records, the safeguarding of the Group's and the Parent company's assets and the prevention and detection of fraud and other irregularities in the Group and the Parent company. The Board is also responsible for compliance with requirements of legal acts of the countries where Group companies and the Parent company operate.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

POTAPOVIČA
ANDERSONE

Ūdens iela 12-45, Rīga, LV-1007, Latvija
T. +371 67607902, www.p-a.lv

**Independent Auditor's Report**

**To the shareholders of AS "SAF Tehnika"**

**<u>Report on the audit of the separate and consolidated financial statements</u>**

***Our Opinion***

We have audited the accompanying separate financial statements and consolidated financial statements (together – "Financial statements") of AS "SAF Tehnika" ("the Company") and its subsidiaries (together - "the Group") set out on pages 11 to 41 of the accompanying separate and consolidated annual report (together – "Annual report"), which comprise:

- the separate and consolidated statement of financial position as at 30 June 2020,
- the separate and consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of AS "SAF Tehnika" and its subsidiaries as at 30 June 2020, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Council (body equivalent to the Audit Committee) dated 28 October 2020.

***Basis for Opinion***

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.

To the best of our knowledge and belief, we declare that we have not provided to the Company or its subsidiaries any non-audit services prohibited in accordance with Article 37.[6] of the Law on Audit Services of the Republic of Latvia.

***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| *<u>Valuation of inventory</u>* | |
| Refer to Note 2 "Summary of accounting principles used" section K "Inventories" and Note 7 "Inventories" to the financial statements<br><br>We focused on this area because inventories represent a significant part of the Company's and Group's assets and, given the rapid development of the technology industry, the valuation of inventories is of significant importance, including the determination of the obsolescence and net realizable value of inventories, which includes subjective estimates and may have a | Our audit procedures, amidst others, included the following:<br><br>• we assessed whether the accounting policies in relation to valuation of inventories comply with IFRS.<br><br>• We evaluated the results of operations of the internal control structures in inventory-count performance and other control procedures performed;<br><br>• we participated in the year end stock counts, observing the stock-count procedures and performance and reviewing the results of the inventory-counts; |

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| material effect on the Company's and the Group's financial performance.<br>In accordance with our professional judgment, based on our understanding and accumulated audit experience about the Company's and the Group's inventory valuation processes and internal control procedures, we did not identify inventory valuation as area of a significant risk in our audit. However, the audit of inventory area requires a significant amount of time and resources from the auditors, given its importance and magnitude. Thus, this area is considered a key audit matter.<br><br>As disclosed in Note 7 to the Financial statements, balance sheet value of inventories as at 30 June 2020 amount to EUR 6 563 388 (the Company) and EUR 6 846 242 (the Group). As at 30 June 2020 the estimated inventory impairment allowance constituted EUR 563 189 with regard to both the Company and the Group.<br><br>The process of determining the cost of inventories involves the use of certain management estimates for the allocation of overheads.<br><br>For each age category of inventories, a provision is made in accordance with the Group's provisioning policy for slow-moving inventories, by grouping the inventories according to the period during which they have not moved, and applying a percentage set by the management to determine the impairment allowance. | • we tested, on a random selection basis, the adequacy of costing of inventory items;<br><br>• we performed detailed analytical procedures by reconciling the profit ratios on the sale of goods to the sales policies as developed by the management;<br><br>• we reviewed the inventory turnover ratios and checked the ageing analysis of inventory and evaluated the adequacy of provisions made against the provisioning policies developed by the management;<br><br>• we selected, on a random basis, finished goods items and compared their carrying amount with the selling price after the end of the reporting year to determine whether there have been instances where the selling price has been lower than the carrying amount of inventories.<br><br>• we tested the disclosures in the financial statements in respect of inventory valuation. |

***Reporting on Other Information***

Management is responsible for the other information. The other information comprises:

- the Management report, as set out on pages 4 to 5 of the accompanying annual report,
- the Statement of Board’s Responsibility, as set out on page 6 of the accompanying annual report,
- the Statement of Corporate Governance, set out in separate statement prepared by the Group’s management and at the date of this auditor’s report available on the Company’s website http://www.saftehnika.com/;
- other general information provided on page 3 of the accompanying annual report.

Our opinion on the financial statements does not cover the other information included in the Annual Report as described above, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s and Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s and Group’s financial reporting process.

***Auditor's Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**<u>Other reporting responsibilities in accordance with the legislation of the Republic of Latvia</u>**

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in accordance with Article 56.$^{1}$, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.$^{2}$, section 2, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.$^{2}$, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance available on the Company's website http://www.saftehnika.com/ at the date of this auditor's report includes, in all material aspects, the information required in accordance with Article 56.$^{1}$, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.$^{2}$, section 2, clause 5 of the Financial Instruments Market Law and includes the information stipulated in Article 56.$^{2}$, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

**Appointment**

We were first appointed as auditors for the Company's and Group's financial statements for the year ended 30 June 2016. This is the fifth consecutive year of our appointment as auditors. Our appointment for the year ended 30 June 2020 was by resolution of general meeting of shareholders dated 27 November 2019.

The certified auditor-in-charge of the audit resulting in this independent auditor's report is Lolita Čapkeviča.

On behalf of
SIA Potapoviča un Andersone,
Ūdens street 12-45, Riga, LV-1007
Certified Auditors Company licence No. 99

Lolita Čapkeviča
Certified Auditor-in-charge
Certificate No. 120
Member of the Board

Electronic signature of the auditor relates to the Independent Auditor's Report enclosed with the Annual Report on pages 7 to 10.

**Statement of financial position**

| | | Group | | Parent company | |
|---|---|---|---|---|---|
| | | As at 30 June | | As at 30 June | |
| | Note | 2020 | 2019 | 2020 | 2019 |
| **ASSETS** | | EUR | EUR | EUR | EUR |
| **Long-term investments** | | | | | |
| Property, plant and equipment | 5 | 679 871 | 731 618 | 661 877 | 721 723 |
| Intangible assets | 5 | 184 541 | 136 822 | 183 827 | 135 347 |
| Right-to-use assets | 5 | 1 324 673 | 1 342 191 | 1 172 240 | 1 149 340 |
| Investments in subsidiaries | 6 | - | - | 32 893 | 32 893 |
| Investments in other companies | 6 | 8 106 | 8 106 | 8 106 | 8 106 |
| Long-term trade receivables | 8 | 1 400 | 1 633 | 1 400 | 1 633 |
| **Total long-term investments** | | **2 198 591** | **2 220 370** | **2 060 343** | **2 049 042** |
| **Current assets** | | | | | |
| Inventories | 7 | 6 846 242 | 6 073 371 | 6 563 388 | 5 846 063 |
| Trade receivables | 8 | 970 853 | 1 812 992 | 381 673 | 707 380 |
| Due from related parties | 8, 25 | - | - | 52 324 | 914 414 |
| Other debtors | 9 | 338 255 | 184 643 | 319 501 | 175 529 |
| Corporate income tax | 22 | - | 11 576 | 3 042 | 7 175 |
| Short-term loans | 24.b | 67 771 | 101 328 | 3 300 | - |
| Deferred expenses | | 142 213 | 208 937 | 95 082 | 155 727 |
| Cash and cash equivalents | 10 | 4 995 062 | 2 616 931 | 4 245 534 | 2 412 173 |
| **Total current assets** | | **13 360 396** | **11 009 778** | **11 663 844** | **10 218 461** |
| **Total assets** | | **15 558 987** | **13 230 148** | **13 724 187** | **12 267 503** |
| **EQUITY AND LIABILITIES** | | | | | |
| **EQUITY** | | | | | |
| Share capital | 11 | 4 158 252 | 4 158 252 | 4 158 252 | 4 158 252 |
| Share premium | | 2 851 726 | 2 851 726 | 2 851 726 | 2 851 726 |
| Other reserves | | 8 530 | 8 530 | 8 530 | 8 530 |
| Foreign currency translation reserve | | 8 703 | 6 345 | - | - |
| Retained earnings | | 2 880 840 | 2 441 356 | 2 890 550 | 2 417 365 |
| **Total shareholders' equity** | | **9 908 051** | **9 466 209** | **9 909 058** | **9 435 873** |
| **LIABILITIES** | | | | | |
| **Long-term liabilities** | | | | | |
| Lease liabilities | 13 | 1 012 178 | 1 029 837 | 905 980 | 881 573 |
| Contract liabilities | 14 | 397 955 | 288 982 | 4 957 | 3 859 |
| **Total long-term liabilities** | | **1 410 133** | **1 318 819** | **910 937** | **885 432** |
| **Current liabilities** | | | | | |
| Trade and other payables | 12 | 1 022 837 | 983 393 | 972 797 | 903 417 |
| Contract liabilities | 14 | 1 401 094 | 274 965 | 492 626 | 172 506 |
| Corporate income tax | 22 | 31 422 | - | - | - |
| Other liabilities | 12 | 1 464 753 | 873 834 | 1 021 205 | 595 006 |
| Due to related parties | 25 | - | - | 142 365 | 7 112 |
| Lease liabilities | 13 | 311 757 | 312 538 | 266 259 | 267 767 |
| Borrowings | 13 | 8 940 | 390 | 8 940 | 390 |
| **Total current liabilities** | | **4 240 803** | **2 445 120** | **2 904 192** | **1 946 198** |
| **Total liabilities** | | **5 650 936** | **3 763 939** | **3 815 129** | **2 831 630** |
| **Total equity and liabilities** | | **15 558 987** | **13 230 148** | **13 724 187** | **12 267 503** |

The accompanying notes on pages 15 to 41 form an integral part of these financial statements.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Zane Jozepa
Chief financial officer

**Statement of profit or loss and other comprehensive income**

| | Note | Group | | Parent company | |
|---|---|---|---|---|---|
| | | For the year ended 30 June | | For the year ended 30 June | |
| | | 2020 EUR | 2019 EUR | 2020 EUR | 2019 EUR |
| Revenue from contracts with customers | 15 | 16 759 689 | 14 443 273 | 13 862 655 | 11 869 072 |
| Cost of goods sold | 16 | (10 226 675) | (9 762 860) | (9 940 090) | (9 371 497) |
| **Gross profit** | | **6 533 014** | **4 680 413** | **3 922 565** | **2 497 575** |
| Sales and marketing expenses | 17 | (4 659 327) | (4 264 053) | (2 143 723) | (2 037 971) |
| Administrative expenses | 18 | (1 853 239) | (1 013 092) | (1 763 376) | (959 952) |
| **Profit/ (loss) from operating activities** | | **20 446** | **(596 732)** | **15 466** | **(500 348)** |
| Other income | 19 | 418 241 | 90 011 | 418 179 | 87 600 |
| Financial income | 20 | 60 718 | 113 046 | 59 797 | 108 423 |
| Financial expenses | 21 | (23 511) | (11 008) | (20 257) | (9 431) |
| **Profit/ (loss) before tax** | | **475 894** | **(404 683)** | **457 719** | **(313 756)** |
| Corporate income tax | | (36 410) | (9 618) | - | (7 363) |
| **Profit/ (loss) of the reporting year** | | **439 484** | **(414 301)** | **473 185** | **(321 119)** |
| **Other comprehensive income/ (loss)** | | | | | |
| Other comprehensive income that will be reclassified subsequently to profit or loss: | | | | | |
| Foreign operations - currency translation differences | | 2 358 | 4 333 | - | - |
| **Total comprehensive income (loss)** | | **441 842** | **(409 968)** | **473 185** | **(321 119)** |
| **Basic and diluted profit/ (loss) per share** (EUR per share): | 23 | 0.148 | (0.139) | 0.159 | (0.108) |

The accompanying notes on pages 15 to 41 form an integral part of these financial statements.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Zane Jozepa
Chief financial officer

**Statement of changes in the shareholders’ equity - the Group**

| | Share capital EUR | Share premium EUR | Other reserves EUR | Foreign currency translation reserve EUR | Retained earnings EUR | Total EUR |
|---|---|---|---|---|---|---|
| ***Balance as at 30 June 2018*** | **4 158 252** | **2 851 726** | **8 530** | **2 012** | **2 855 657** | **9 876 177** |
| **Total comprehensive loss** | **-** | **-** | **-** | **4 333** | **(414 301)** | **(409 968)** |
| Loss for the reporting year | - | - | - | - | (414 301) | (414 301) |
| Other comprehensive income | - | - | - | 4 333 | - | 4 333 |
| ***Balance as at 30 June 2019*** | **4 158 252** | **2 851 726** | **8 530** | **6 345** | **2 441 356** | **9 466 209** |
| **Total comprehensive income** | **-** | **-** | **-** | **2 358** | **439 484** | **441 842** |
| Profit for the reporting year | - | - | - | - | 439 484 | 439 484 |
| Other comprehensive income | - | - | - | 2 358 | - | 2 358 |
| ***Balance as at 30 June 2020*** | **4 158 252** | **2 851 726** | **8 530** | **8 703** | **2 880 840** | **9 908 051** |

**Statement of changes in the shareholders’ equity - the Parent company**

| | Share capital EUR | Share premium EUR | Other reserves EUR | Retained earnings EUR | Total EUR |
|---|---|---|---|---|---|
| ***Balance as at 30 June 2018*** | **4 158 252** | **2 851 726** | **8 530** | **2 738 484** | **9 756 992** |
| **Total comprehensive loss** | **-** | **-** | **-** | **(321 119)** | **(321 119)** |
| Loss for the reporting year | - | - | - | (321 119) | (321 119) |
| ***Balance as at 30 June 2019*** | **4 158 252** | **2 851 726** | **8 530** | **2 417 365** | **9 435 873** |
| **Total comprehensive income** | **-** | **-** | **-** | **473 185** | **473 185** |
| Profit for the reporting year | - | - | - | 473 185 | 473 185 |
| ***Balance as at 30 June 2020*** | **4 158 252** | **2 851 726** | **8 530** | **2 890 550** | **9 909 058** |

The accompanying notes on pages 15 to 41 form an integral part of these financial statements.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Zane Jozepa
Chief financial officer

### Statement of cash flows

| | Note | Group For the year ended 30 June 2020 EUR | Group For the year ended 30 June 2019 EUR | Parent company For the year ended 30 June 2020 EUR | Parent company For the year ended 30 June 2019 EUR |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit/ (loss) before taxes | | 475 894 | (404 683) | 473 185 | (313 756) |
| Adjustments for: | | | | | |
| - depreciation | 5 | 369 129 | 329 781 | 356 484 | 310 869 |
| - amortization | 5 | 71 776 | 58 887 | 70 851 | 58 303 |
| - amortization of right-to-use assets | 5 | 294 714 | 149 132 | 254 004 | 127 704 |
| - change in valuation allowance for stock | 7 | 89 904 | (184 638) | 89 904 | (184 638) |
| - change in provisions for guarantees | 12 | 9 492 | (3 253) | 9 492 | (3 253) |
| - change in provisions for unused vacations | 12 | 83 074 | 40 821 | 83 074 | 40 821 |
| - change in provision for expected credit losses | 8 | 570 785 | (3 714) | 556 059 | (2 044) |
| - interest income | 20 | (10 696) | (31 214) | (8 067) | (26 336) |
| - interest expenses on lease liabilities | | 23 511 | 11 008 | 20 257 | 9 431 |
| - cash exchange rate fluctuations | 21 | (32 138) | (65 345) | (28 809) | (62 685) |
| - government grants | 19 | (407 629) | (79 310) | (407 629) | (79 310) |
| - (gain)/loss on disposal of fixed assets | | (48) | (2 493) | (48) | (2 493) |
| **Operating profit/ (loss) before changes in working capital** | | **1 537 768** | **(185 021)** | **1 468 757** | **(127 387)** |
| Increase in stock | | (861 929) | (829 287) | (806 383) | (839 513) |
| Decrease in receivables | | 522 491 | 148 632 | 725 839 | 318 445 |
| Increase in payables | | 1 606 765 | 516 573 | 854 609 | 315 511 |
| **Cash generated by operating activities** | | **2 805 095** | **(349 103)** | **2 242 822** | **(332 944)** |
| Government grants | 19 | 239 440 | 92 596 | 239 440 | 92 596 |
| Corporate income tax paid | 22 | 2 150 | 151 623 | - | 129 495 |
| **Net cash from operating activities** | | **3 046 685** | **(104 884)** | **2 482 262** | **(110 853)** |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment | 5 | (318 371) | (407 472) | (298 305) | (397 877) |
| Proceeds from sale of property, plant and equipment | | 870 | 4 808 | 870 | 4 808 |
| Acquisition of intangible assets | 5 | (119 521) | (53 042) | (119 331) | (51 178) |
| Loans repaid/ (issued) | 24.b | 32 593 | 118 629 | (3 300) | - |
| Interest received | | 10 533 | 26 336 | 8 067 | 26 336 |
| **Net cash used in investing activities** | | **(393 896)** | **(310 741)** | **(411 999)** | **(417 911)** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | 8 550 | 277 | 8 550 | 277 |
| Payment of lease liabilities | | (294 563) | (149 132) | (254 004) | (127 704) |
| Interest paid on lease liabilities | | (23 511) | (11 008) | (20 257) | (9 431) |
| **Net cash used in financing activities** | | **(309 524)** | **(159 863)** | **(265 711)** | **(136 858)** |
| Effect of movements in exchange rates on cash held | | 34 866 | 68 419 | 28 809 | 62 685 |
| **Net increase in cash and cash equivalents** | | **2 378 131** | **(507 069)** | **1 833 361** | **(602 937)** |
| Cash and cash equivalents at the beginning of the year | | 2 616 931 | 3 124 000 | 2 412 173 | 3 015 110 |
| **Cash and cash equivalents at the end of the year** | 10 | **4 995 062** | **2 616 931** | **4 245 534** | **2 412 173** |

The accompanying notes on pages 15 to 41 form an integral part of these financial statements.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Zane Jozepa
Chief financial officer

## Notes to the financial statements

### 1. General information

The core business activity of A/S “SAF Tehnika” (hereinafter – the Parent company) and its subsidiaries (together hereinafter referred to as the Group) is the design, production and distribution of microwave radio data transmission equipment thus offering an alternative to cable channels. The Group offers products to mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as well as state institutions and private companies.

Promotion of the Parent company’s products and services, marketing, market research, attraction of new clients and technical support in North America is provided by a 100% subsidiary “SAF North America” LLC. The said company is registered in the USA and operates in Aurora, Colorado.

In August 2012 another company began operations in North America – “SAF Services” LLC. The objective of establishing “SAF Services” LLC was to provide local clients with services related to the creation, long-term maintenance and management of data transmission networks. Currently, the development of this business direction is suspended.

The Parent company is a public joint stock company incorporated under the laws of the Republic of Latvia. Its legal address is Ganību dambis 24a, Riga, Latvia.

The shares of the Parent company are listed on the main list of A/S “Nasdaq Riga” Stock Exchange, Latvia.

These separate financial statements of A/S “SAF Tehnika” and consolidated financial statements of A/S “SAF Tehnika” and its subsidiaries (together – the Group) (hereinafter – financial statements) were approved by the Parent company's Board on 27 October 2020. The financial statements will be presented for approval to the shareholders’ meeting. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

### 2. Summary of applied key accounting principles

These financial statements are prepared using the accounting policies and valuation principles set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

### A Accounting principles

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

The financial statements have been prepared under the historical cost convention.

The financial statements are presented in euros (EUR). The financial statements cover the period from 1 July 2019 to 30 June 2020.

**Implementation of new international financial reporting standards (IFRS), amendments and interpretations**

For annual periods beginning on or after 1 January 2019, a number of new and amended IFRS and interpretations have entered into force, incl. IFRS 16 Leases. The Group early-adopted IFRS 16 “Leases”, effective from 1 January 2019. Other applicable standards, amendments and interpretations have no impact on the Group's (Parent Company's) operations and these financial statements as at the beginning of the reporting year on 1 July 2019.

**New accounting pronouncements entering into force on or after 1 January 2020**

Several new or revised standards and interpretations that are applicable to reporting periods beginning on January 1, 2020 or later have been issued that are not chosen for early application by the Group (the Parent Company):

*Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020.*

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has been featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. These amendments may affect the extent to which the Group discloses information.

At the time of signing this report, there are no other new or amended standards or interpretations that would have a material impact on the Company or the Group.

**Notes to the financial statements** (continued)

## 2. Summary of accounting principles used (continued)

### B Consolidation

*(a) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Subsidiaries of the Group were established by the parent company, therefore business combinations and resulting acquisition accounting does not apply to the Group.

Subsidiaries controlled by the Parent company:

| Name | Country of residence | Share-holding | Equity of subsidiaries | | Loss of subsidiaries | |
|---|---|---|---|---|---|---|
| | | % | 30.06.2020 EUR | 30.06.2019 EUR | 2018/2020 EUR | 2018/2019 EUR |
| „SAF North America” LLC | United States of America | 100% | 32 795 | 64 126 | (32 373) | (92 545) |
| „SAF Services” LLC | United States of America | 100% | (4 588) | (3 662) | (922) | (894) |

At the end of the reporting year “SAF Services” LLC is a dormant entity.

The financial statements of the Group's subsidiaries have been prepared for the same reporting period as the parent company's financial statements, applying the same accounting policies. The accounting policies of subsidiaries are adjusted when necessary in order to ensure consistency with those of the Group.

*(b) Transactions eliminated on consolidation*

Internal transactions, account balances and unrealized gains from transactions between the Group companies are eliminated. Unrealized loss is also eliminated unless objective evidence exists that the asset involved in the transaction has impaired.

### C Investment in subsidiaries (Parent company)

Investments in subsidiaries are accounted for using the cost method under IAS 27 “Separate Financial Statements”. Subsequent to initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. At the end of each reporting year it is assessed whether there are indication that the investment may be impaired. If any such indication exists, the impairment test is performed. The parent calculates the impairment as the difference between the recoverable amount of the subsidiary and the carrying amount of the investment, recognising the loss in the statement of comprehensive income.

Dividends received from subsidiaries are recognised in the statement of comprehensive income in the period in which the right to receive the dividends arises.

### D Foreign currency revaluation

*(a) Functional and reporting currency*

The functional currency of the Group and the Parent company and the reporting currency is the official currency of the Republic of Latvia - euro (EUR). The functional currency of the subsidiaries is the United States dollar (USD).

*(b) Transactions and balances*

Transactions in foreign currencies are translated into euros at the reference exchange rate set by the European Central Bank as at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss of the respective period.

All monetary asset and liability items are revalued to euro according to the reference exchange rate of the European Central Bank on the reporting date. Non-monetary items of assets and liabilities are revalued to the functional currency of the Group in accordance with the reference exchange rate set by the European Central Bank on the transaction date.

| | 30.06.2020 | 30.06.2019 |
|---|---|---|
| 1 USD | 1.11980 | 1.13800 |
| 1 GBP | 0.91243 | 0.89655 |

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**D Foreign currency revaluation** (continued)

*(c) Foreign operations*

The results of operations and the financial position of the Group companies (none of which are operating in hyperinflation economics) that operate with functional currencies other than the reporting currency are translated to the reporting currency as follows:

(i) Assets and liabilities are converted according to exchange rate as at the date of statement of financial position;

(ii) Transactions of the statement of profit and loss and other comprehensive income are revalued according to exchange rate as at the date of transaction; and

(iii) All resulting exchange differences are initially recognized in other comprehensive income and subsequently reclassified from equity to profit or loss when the Group disposes of the respective foreign operation.

**E Property, plant and equipment**

Property, plant and equipment (PPE) are carried at cost less accumulated depreciation and impairment losses. Cost includes expenses directly related to acquisition of PPE. Such cost includes the cost of replacing part of such PPE item if the asset recognition criteria are met.

Leasehold improvements are capitalized and disclosed as PPE. Depreciation of these assets is calculated over the shorter of the leasehold period or the estimated useful life on a straight-line basis.

PPE consisting of items with different useful lives are treated as different items of PPE for which depreciation is calculated separately.

The cost of replacing part of an item of PPE is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group (Parent company) and its cost can be measured reliably. The costs of the day-to-day servicing of PPE is recognised in the profit or loss as incurred.

Current maintenance costs of tangible assets are recognized in the profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the entire useful lives of the respective PPE item to write down each asset to its estimated residual value over its estimated useful life using the following rates:

| | **% per year** |
|---|---|
| Equipment | 25 |
| Vehicles | 20 |
| Other equipment and machinery | 20 – 50 |

Capital repair costs on leased assets are written off on a straight-line basis during the shortest of the useful lifetime of the capital repairs and the period of lease.

The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each reporting date. 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 H).

Gains and losses on disposals are determined by comparing proceeds with the respective carrying amount and included in the statement of profit or loss.

Effective January 1, 2019, the Group (the Parent company) has applied IFRS 16, Leases, which has resulted in the recognition of a right-of-use assets as a non-current assets. The accounting policy for leases is set out in section R of the accounting policies.

**F Intangible assets**

*(a) Trademarks and licences*

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.

*(b) Software*

The acquired software licenses are capitalised on the basis of the purchase and installation costs. These costs are amortised over their estimated useful lives of 4 years.

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**G Research and development costs**

Research costs are recognized in statement of profit or loss as incurred. An intangible asset arising from the development expenditure on an individual project is recognized only when the Group (Parent company) 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, and when the Group (Parent company) can demonstrate how the asset will generate future economic benefits, the availability of resources to complete and the ability 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 impairment losses. Any expenditure capitalized is amortized over the period of the expected future sales from the related project. An assessment is made at each reporting date to determine whether there is any indication that such an asset may be impaired.

**H Impairment of long-term non-financial assets**

All non-financial assets of the Group and the Parent Company have a definite useful life. The Group (Parent Company) assesses at each reporting date whether there is any indication that an item of property, plant and equipment, intangible assets, right-to-use assets and other non-current assets may be impaired. If any such indication exists, the asset's recoverable amount is estimated. Intangible assets that are not put into operation are not amortized and are reviewed annually.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset in relation to which the future cash flows have not been adjusted.

All Group’s (Parent company’s) assets are allocated to two cash generating units that are identified as Group’s (Parent company’s) operating segments (see Note 15). No impairment indicators have been noted.

In respect of non-current assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**I Segments**

Segments reportable in financial statements are business segments or aggregations of business segments that meet certain criteria and for which separate financial information is available that is regularly evaluated by the chief operating decision maker in making decisions about the allocation of resources and performance evaluation. Segment results that are reported to the Chief Executive Officer of the Group (Parent company) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group’s (Parent company’s) headquarters), head office expenses, and tax assets and liabilities. Information on the Group’s (Parent company’s) operating segments is disclosed in Note 15.

**J Government grants**

Government and international organisations grants are recognized where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied with. Government grants are systematically recognized as income in the respective periods in order to balance them with compensated expenses thus recognizing receivables. Where the grant relates to non-current asset, the fair value is initially credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset.

In case the co-financing has been granted, however the cash is not yet received, respective receivables are recognized in Statement of Financial Position under Other receivables.

**Notes to the financial statements** (continued)

## 2. Summary of accounting principles used (continued)

### J Government grants (continued)

Since April 2019, the cooperation project "Competence Center of Latvian Electrical and Optical Equipment Industry" is being implemented within the framework of an agreement signed between A/S "SAF Tehnika" and "LEO Pētījumu centrs" SIA., regarding which SIA "LEO Pētījumu centrs" had signed a contract with "Centrālo finanšu un līgumu aģentūru", in order to obtain financing from the European Regional Development Fund as part of the above project. A/S "SAF Tehnika" conducts individual research activities to develop new products within the framework of the above-mentioned project. For the implementation of this project activity co-financing to cover remuneration of project staff and other costs related to this project are provided. Co-financing received relates to expense items recognized in Statement of profit or loss and other comprehensive Income and thus was recognized as income in order to compensate the costs incurred.

### K Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is measured based on the first in – first out (FIFO) method. Costs of finished goods and work-in-progress include cost of materials, labour and depreciation.

Net realisable value is the estimated selling price in the ordinary course of Group`s (Parent company`s) business, less the estimated costs necessary to make the sale. Estimating the net sales value of inventory, the carrying amount is reduced in relation to the slow-moving inventory. Slow-moving inventory is the inventory whose movement in 12, 9 or 6-month period respectively has been less than 30% comparing with the amount at the beginning of period. Provisions for slow-moving inventory are made according to the following rates:

| The time interval where there has not been movement | Provision rate % |
|---|---|
| 6 to 8 months | 20 |
| 9 to 11 months | 50 |
| 12 months and more | 100 |

### L Financial Instruments

**Classification**

The Group (the Parent company) classifies its financial assets in the following measurement categories:

- those subsequently measured at fair value (with revaluation in either profit or loss or other comprehensive income), and

- those to be measured at amortized cost.

The classification and subsequent measurement depends on the Group's (Parent company's) business model for managing the related assets portfolio and the cash flow characteristics of the asset.

**Recognition and derecognition**

"Regular way" acquisitions and sales of financial assets are recorded at trade date, which is the date when the Group (the Parent company) commits to acquire or deliver a financial asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group (the Parent company) has transferred substantially all the risks and rewards of ownership.

**Measurement**

At initial recognition, the Group (the Parent company) measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

**Debt instruments**

Subsequent measurement of debt instruments depends on the entity's business model for managing the asset and the cash flow characteristics of the asset. All debt instruments of the Group (the Parent company) are classified in an amortised cost valuation category.

**Amortized cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included financial income based on effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with impairment losses and foreign exchange gains and losses.

On 1 July 2019 and 30 June 2020, the Group's (the Parent company's) financial assets measured at amortized cost comprise: trade receivables, cash and cash equivalents.

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**L Financial Instruments** (continued)

**Equity instruments**

The Groups (the Parent company's) investments in equity instruments are insignificant.

**Derivative financial instruments**

Derivative financial instruments are accounted for at fair values. All financial instruments are recognised as assets when fair value is positive and as liabilities when fair value is negative. Changes in values of derivative financial instruments are included in profit or loss statement. The Group (the Parent company) does not apply hedge accounting.

**Impairment**

The Group (the Parent company) determines expected credit loss from its debt instruments accounted at amortised cost. Methods used for assessment of impairment depend on whether credit risk has increased significantly.

Expected credit loss is assessed based on:
- objective and potential amount that is assessed through analysis or a range of potential outcomes;
- time value of money;
- all the reasonable and supportable information about past events, current conditions and future forecasts available at the end of each reporting period without undue cost or efforts.

The Group (the Parent company) applies simplified approach to trade receivables and accrued income without significant financing component as allowed by IFRS 9, which requires accrual of lifetime expected credit losses for all trade receivables grouped on the basis of common credit characteristics and overdue payments. The rates of expected credit loss are based on the dynamics of payments (for sales) during the last 3 years, as well as historical credit losses in the respective historic period. The amount of historical loss is adjusted to reflect current and future information.

**M Cash and cash equivalents**

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.

**N Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are charged against the share premium account.

**O Corporate income tax**

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with requirements of tax legislation of each company of the Group.

With respect to the Group's parent company in Latvia, corporate income tax is calculated on distributed profit (20/80 of the net amount payable to shareholders) as well as on conditionally distributed profit (20/80 of the calculated taxable base). Corporate tax on distributed profit is recognized when the Company's shareholders approve the distribution of profit.

The Company also calculates and pays corporate income tax on conditionally distributed profit, including statutory taxable items, such as non-operating expenses, amounts of other transactions if they meet the criteria set out in the Corporate Income Tax Law, as well as other expenses in excess of statutory deduction thresholds. Such tax is not an income tax in the context of IAS 12 because it is calculated on a gross rather than a net basis and is therefore recognized in the statement of profit or loss as other operating expense.

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**P Employee benefits and vacation reserve**

Salary liabilities, including non-monetary benefits, bonus plans, annual leave, are recognized for employee services until the end of the reporting period and measured at the amounts expected to be paid to settle the liability. The Group (Parent company) 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 (Parent company) will have no legal or constructive obligations to pay further contributions if the statutory fund cannot settle their liabilities towards the employees. Social insurance and pension plan contributions are included in the expenditures in the same period as the related salary cost.

Provisions for unused annual leaves are estimated by multiplying the average daily earnings of employees for the last six months of the reporting year by the number of unused vacation days accrued at the end of the reporting year. These liabilities are shown as short-term accrued liabilities.

**Q Revenue recognition**

The Group is a designer, manufacturer and distributor of digital microwave transmission equipment. The Group provides end-to-end and cost-effective wireless backhaul solutions for digital voice and data transmission to mobile and fixed network operators and data service providers both in the public and private sectors as an alternative to cable networks. The Group operates in two separate segments: (1) operations with products developed by the Group and (2) operations with products acquired from other producers, including, sales of antennae, cables, rebranded (OEM-ed) and other side products.

Revenue is income generated on the course of the Group's (the Parent company's) ordinary operations. Revenue is recognised at transaction price. Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Group (the Parent company) recognises revenue at the moment of transfer of control over the goods or services to the client.

***Sale of finished goods, including spare parts and accessories***

Revenue is recognised at the moment of delivery of goods to the wholesaler (buyer) together with full freedom of choice in respect of further sale and prices of those goods and a wholesaler (buyer) does not have any claims regarding fulfilment of contract liability that could affect acceptance of goods by the wholesaler (buyer).
Delivery takes place when products are delivered to a specified location, risks of expiry and loss transferred to the wholesaler (buyer) and the Group (the Parent company) has acquired objective proof that criteria for acceptance/transfer have been fulfilled. It is considered that no financing component is present when sales are performed with 30-45-day settlement period what corresponds to usual market practice. Trade receivable is recognised when goods are delivered, since at this point consideration becomes unconditional and the settlement depends only on time. If consideration depends on performance of additional obligations, a contract asset is recognised. If the Group (the Parent company) receives an advance payment, it recognises contract liability.

***Delivery of services***

The Group (the Parent company) provides to customers early product replacement guarantees, as well as warranties, specific product development and configuration services, calibration of equipment and training services. Revenues from services are recognised over the time of delivery of the service.

***Extended warranties***

Sales transaction can comprise certain future services, for instance, extended warranties. In this case transaction price of the goods and services granted is allocated on a stand-alone selling price basis of such components. In order to determine stand-alone selling prices observable prices are used, but when such are not available, "cost plus" method is applied. Extended warranties are initially recognised as contract liabilities in the balance sheet and are transferred to statement of profit or loss on a linear basis over the period of extended warranty. (See Note 14.) During the reporting period, the balances of extended guarantees were reclassified from the deferred income within which they were presented in the previous year's financial statements.

**R Lease**

At inception of a contract, the Group (the Parent company) assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group (the Parent company) has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Group (the Parent company) recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 2 to 6 years for offices and warehouse.

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**R Lease** (continued)

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's (the Parent company's) incremental borrowing rate. Generally, the Group (the Parent company) uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's (the Parent company's) estimate of the amount expected to be payable under a residual value guarantee, or if the Group (the Parent company) changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group (the Parent company) has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

**S Payment of dividends**

Dividends payable to the shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the shareholders.

**T Financial income and expenses**

Financial income and expenses comprise interest payable on borrowings and lease liabilities calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses. Interest income is recognised in the statement of profit or loss as it accrues, using the effective interest method. The interest expenses of lease liabilities are recognized in statement of profit or loss using the effective interest rate method.

**U Related parties**

Related parties represent both legal entities and private individuals related to the Group and Parent company in accordance with the following rules.

a) A person or a close member of that person's family is related to a reporting group entity if that person:

i. has control or joint control over the reporting group entity;
ii. has a significant influence over the reporting group entity; or
iii. is a member of the key management personnel of the reporting group entity or of a parent of the reporting entity;

b) An entity is related to a reporting group entity if any of the following conditions applies:

i. the entity and the reporting group entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member):
iii. Both entities are joint ventures of the same third party:
iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
v. the entity is a post-employment benefit plan for the benefit of employees of either the reporting group entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction - a transfer of resources, services or obligations between a reporting group entity and a related party, regardless of whether a price is charged.

### 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) interest rate risk;
(e) geopolitical 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 operating units of the Group. Financial risks are managed both on Parent company and consolidated level.

*(a) Foreign currency risk*
The Group operates in the international market and is subject to foreign currency risk arising primarily from USD fluctuations.

Foreign currency risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency different from the Group's functional currency. To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, the Group uses forward foreign currency contracts. The Finance Department analyses the net open position in each foreign currency. The Group might decide to enter to forward foreign currency contracts or to maintain borrowings (in form of credit line) in appropriate currency and amount. As at 30 June 2020 and 30 June 2019 the Group (including Parent company) had no open forward exchange contracts.

The following schedule summarises net open positions for currencies expressed in EUR as at 30 June 2020:

| **Group** | **EUR** | **USD** | **Other currencies** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade receivables, gross | 390 340 | 1 165 345 | - | 1 555 685 |
| Loans | 3 300 | 64 471 | - | 67 771 |
| Cash and cash equivalents | 1 283 469 | 3 705 444 | 6 149 | 4 995 062 |
| **Total** | **1 677 109** | **4 935 260** | **6 149** | **6 618 518** |
| | | | | |
| **Financial liabilities** | | | | |
| Liabilities | (529 163) | (493 354) | (320) | (1 022 837) |
| Borrowings | (8 940) | - | - | (8 940) |
| **Total** | **(538 103)** | **(493 354)** | **(320)** | **(1 031 777)** |
| **Net open positions** | **1 139 006** | **4 441 906** | **5 829** | **5 586 741** |

| **Parent company** | **EUR** | **USD** | **Other currencies** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade receivables, gross | 390 340 | 557 411 | - | 947 751 |
| Loans | 3 300 | - | - | 3 300 |
| Cash and cash equivalents | 1 283 469 | 2 955 916 | 6 149 | 4 245 534 |
| **Total** | **1 677 109** | **3 513 327** | **6 149** | **5 196 585** |
| | | | | |
| **Financial liabilities** | | | | |
| Liabilities | (529 163) | (443 314) | (320) | (972 797) |
| Borrowings | (8 940) | - | - | (8 940) |
| **Total** | **(538 103)** | **(443 314)** | **(320)** | **(981 737)** |
| **Net open positions** | **1 139 006** | **3 070 013** | **5 829** | **4 214 848** |

The following schedule summarises net open positions for currencies expressed in EUR as at 30 June 2019:

| **Group** | **EUR** | **USD** | **Other currencies** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Gross trade receivables | 579 996 | 1 247 276 | - | 1 827 272 |
| Loans | - | 101 328 | - | 101 328 |
| Cash and cash equivalents | 978 533 | 1 638 271 | 127 | 2 616 931 |
| **Total** | **1 558 529** | **2 986 875** | **127** | **4 545 531** |
| | | | | |
| **Financial liabilities** | | | | |
| Liabilities | (543 737) | (436 354) | (3 302) | (983 393) |
| Borrowings | (390) | - | - | (390) |
| **Total** | **(544 127)** | **(436 354)** | **(3 302)** | **(983 783)** |
| **Net open positions** | **1 014 402** | **2 550 521** | **(3 175)** | **3 561 748** |

**Notes to the financial statements** (continued)

**3. Financial risk management** (continued)

**(1) Financial risk factors** (continued)

*(a) Foreign currency risk (continued)*

| Parent company | EUR | USD | Other currencies | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Gross trade receivables | 579 996 | 1 052 049 | - | 1 632 045 |
| Cash and cash equivalents | 978 533 | 1 433 513 | 127 | 2 412 173 |
| **Total** | **1 558 529** | **2 485 562** | **127** | **4 044 218** |
| | | | | |
| **Financial liabilities** | | | | |
| Liabilities | (543 737) | (356 378) | (3 302) | (903 417) |
| Borrowings | (390) | - | - | (390) |
| **Total** | **(544 127)** | **(356 378)** | **(3 302)** | **(903 807)** |
| **Net open positions** | **1 014 402** | **2 129 184** | **(3 175)** | **3 140 411** |

*Sensitivity analysis*

The Group and the Parent company have assessed the impact on profit before tax of reasonably possible changes in the exchange rate of the US dollar against the euro, assuming that other variables, mainly interest rates, remain unchanged.

| Change in the USD exchange rate | Group Effect as at 30 June | | Parent company Effect as at 30 June | |
|---|---|---|---|---|
| | **2020** | **2019** | **2019/2020** | **2018/2019** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| -10% | 444 190 | 255 052 | 307 001 | 212 918 |
| - 5% | 222 095 | 127 526 | 153 501 | 106 459 |
| +5% | (222 095) | (127 526) | (153 501) | (106 459) |
| +10% | (444 190) | (255 052) | (307 001) | (212 918) |

*(b) Credit risk*

The Group (including Parent company) has significant exposure of credit risk with its customers. The Group's policy is to ensure that wholesale of products is carried out with customers having appropriate credit history. 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 or State Export Guarantees purchased. Customers' financial position is monitored on regular basis and assigned credit limits has been changed based on credit history and customer's paying behaviour.

As at 30 June 2020, the Group's largest customer accounted for approximately 31% of the total carrying amount of trade receivables and sales revenue to this largest customer (located in the United States) accounted for approximately 18% of the Group's revenues (as at 30 June 2019: 39% and for 2018/2019 - 22%, respectively, as well as another receivable accounted for 13% of total trade receivables). Other trade receivable balances of the Group did not reach at least 10% of the total receivables. The Parent company's balance sheet as at 30 September 2020 included 4 trade receivables, among them trade receivable from the subsidiary, with balances above 10% (i.e., from 10% to 18%) of the total of trade receivables, including receivables from related companies (30.06.2019: two debts, representing 56% and 14% respectively). In the reporting year, the parent company generated approximately 38% of the revenues from sales to subsidiary in the United States (2018/2019 - 38%).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, 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 Group's maximum credit risk exposure amounts to EUR 6 523 661 or 41.93% of total assets (30.06.2019.: EUR 4 946 146 or 37.39% of total assets), and Parent company's maximum credit risk exposure amounts to EUR 5 093 933 or 37.12% of total assets (30.06.2019.: EUR 4 370 368 or 35.63% of total assets. For more information on the Group's and Parent company's exposure to credit risk please also refer to Note 8.

*(c) Liquidity risk*

The Group follows a prudent liquidity risk management and hence maintain a sufficient quantity of liquid funds. The Group's current liquidity ratio (ratio between the current assets and total liabilities) is 2.36 (30.06.2019: 4.03), quick liquidity ratio (ratio between the current assets less inventory and total liabilities) is: 1.15 (30.06.2019: 1.81), and Parent company's current liquidity ratio is 3.06 (30.06.2018: 3.61), quick liquidity ratio is: 1.34 (30.06.2019: 1.54).

The Group's management monitors liquidity reserves for the operational forecasting, based on estimated cash flows. Most of the Group's liabilities are short term. Management believes that the Group will have sufficient liquidity to be generated from operating activities and does not see significant exposure to liquidity risk. For more information on the Group's and Parent company's exposure to liquidity risk please refer to Note 13.

**Notes to the financial statements** (continued)
**3. Financial risk management** (continued)

**(1) Financial risk factors** (continued)

*(c) Liquidity risk (continued)*

The maturity structure of financial liabilities based on contractual undiscounted payments is as follows:

| Group 30/06/2020 | Up to 3 months EUR | 3 to 12 months EUR | 2-5 years EUR | Total EUR | Balance sheet value EUR |
|---|---|---|---|---|---|
| Lease liabilities | 87 582 | 262 903 | 1 078 519 | 1 429 004 | 1 323 935 |
| Trade payables, other liabilities, accruals | 2 107 492 | 314 546 | 65 552 | 2 487 590 | 2 487 590 |
| **Total** | **2 195 074** | **577 449** | **1 144 071** | **3 916 594** | **3 811 525** |
| **30/6/2019** | | | | | |
| Lease liabilities | 86 368 | 260 508 | 1 100 362 | 1 447 238 | 1 342 375 |
| Trade payables, other liabilities, accruals | 1 548 588 | 243 087 | 65 552 | 1 857 227 | 1 857 227 |
| **Total** | **1 634 956** | **503 595** | **1 165 914** | **3 304 465** | **3 199 602** |

| Parent company 30/06/2020 | Up to 3 months EUR | 3 to 12 months EUR | 2-5 years EUR | Total EUR | Balance sheet value EUR |
|---|---|---|---|---|---|
| Lease liabilities | 74 325 | 222 975 | 990 203 | 1 287 504 | 1 172 239 |
| Trade payables, other liabilities, accruals | 1 613 903 | 314 547 | 65 552 | 1 994 002 | 1 994 002 |
| **Total** | **1 688 228** | **537 522** | **1 055 755** | **3 281 506** | **3 166 241** |
| **30/6/2019** | | | | | |
| Lease liabilities | 73 271 | 218 079 | 967 303 | 1 258 654 | 1 149 340 |
| Trade payables, other liabilities, accruals | 1 189 783 | 243 088 | 65 552 | 1 498 423 | 1 498 423 |
| **Total** | **1 263 054** | **461 167** | **1 032 855** | **2 757 077** | **2 647 763** |

*(d) Interest rate risk*

As the Group does not have significant interest-generating assets or interest-bearing liabilities, thus the Group's cash flows and net results are largely independent of changes in market interest rates. The Group's cash flows from interest bearing liabilities are dependent on current market interest rates; however, as the Group and Parent company mainly has short- term interest-bearing liabilities, the exposure is not significant.

*(e) Geopolitical risk*

Part of the Group's and the Parent company's revenue is derived from the sale of products outside the European Union, which creates exposure to geopolitical risk. The global electronics services market is primarily affected by the US-China "trade war", but it does not currently pose a threat to the Group's sales. Import duties on microwave equipment imported from the European Union remain unchanged. It is more likely that, in the event of sanctions being imposed on Chinese competitors, additional sales opportunities may appear on the US market.

**Notes to the financial statements** (continued)

**3. Financial risk management** (continued)

**(2) Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of liabilities represents default risk. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. Fair value is classified in various levels in the fair value hierarchy according to data used in measurement methods:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes reclassification among fair value hierarchy levels in the end of the reporting period in which the reclassification was performed.

The Group and the Parent Company have no significant assets as at 30 June 2020 and 30 June 2019 that are to be measured at fair value.

The Group's and Parent company's financial assets and liabilities (trade receivables, other receivables, other financial assets, trade and other payables, lease liabilities and other financial liabilities) correspond to Level 3, except for cash and cash equivalents, which correspond to Level 2. These Group's financial assets and liabilities generally have a maturity of up to six months, therefore the Group believes that the fair value of these financial assets and liabilities corresponds to their initial nominal value and carrying amount at any subsequent date.

**(3) Management of the capital structure**

The Group and the Parent company manages its capital to ensure that the Group and the Parent company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group and the Parent company control the capital using the gearing ratio. This ratio is calculated by applying the total amount of liabilities less cash and cash equivalents to total equity.

The gearing ratios at the year-end was as follows:

| | Group | | Parent company | |
|---|---|---|---|---|
| | **30/06/2020** | **30/06/2019** | **30/06/2020** | **30/06/2019** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| Liabilities | 5 650 936 | 3 763 939 | 3 815 128 | 2 831 629 |
| Cash | (4 995 062) | (2 616 931) | (4 245 534) | (2 412 173) |
| **Net debt** | **655 874** | **1 147 008** | **(430 406)** | **419 456** |
| **Shareholders' equity** | **9 908 051** | **9 466 209** | **9 909 058** | **9 435 873** |
| Debt to equity ratio | 57% | 40% | 39% | 30% |
| Net debt to equity ratio | 7% | 12% | (4)% | 4% |

The change in these ratios can be explained by the increase in trade payables, which correlates with the increase in inventories and the increase in deferred income.

**4. Key estimates and assumptions**

The management of the Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Management has assessed the situation at the end of the reporting period and after the end of the reporting year and has determined that the spread of COVID-19 and resulting restrictions did not have a material adverse effect on the Group's and Parent company's operations and financial results, given the specifics of the products produced by the Group. The Group's operations were not significantly disrupted during the first wave of COVID-19 in the spring of 2020, and management does not anticipate any significant disruptions in the future.

**Notes to the financial statements** (continued)

**4. Key estimates and assumptions** (continued)

*Recoverable amount and impairment of PPE, intangible assets and right-to-use assets*

When the events and circumstances indicate a potential impairment, the Group performs impairment tests for items of PPE, intangible assets and right-to-use assets. Based to these tests, assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. In view of the above considerations about impact of COVID-19, management has not identified any circumstances that could indicate that the Group's and the Parent company's long-term non-financial assets could be impaired. See also Note 2H.

The Group and the Parent company have closed the reporting year with a profit and a positive cash flow from operating activities. The Group will continue pursuing its strategy to develop competitive wireless data transmission products and solutions for new export markets, and maintain the current sound financial position and control over the production process with the aim to increase sales and profitability.

*Useful lives of PPE and intangible assets*

Management estimates the useful lives of individual PPE items in proportion to the expected duration of use of the asset based on historical experience with similar fixed assets and future plans. See also Note 2E and Note 2F.

*Expected credit losses on loans and receivables*

The Group recognizes allowances for expected credit losses from loans and receivables. In order to determine the unrecoverable amount of receivables, management applies estimates as explained in Note 2L.

*Net realisable value of the inventory*

The Group (Parent company) makes provisions in for slow-moving inventories. Inventories at net realizable value are reported by reducing the cost of inventories by the amount of the established provisions in accordance with the principles described in the Note 2 K.

*Provisions and accruals*

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required from the Group to settle the obligation, and the amount of obligation can be measured reasonably. If the Group foresees that the expenses required for recognizing an allowance will be partly or fully repaid, for example, within an insurance contract, the recovery of such expenses is recognized as a separate asset only when it is certain that such expenses will be recovered. Expenses connected with any provisions are recognized in the profit or loss statement less recovered amounts.

Due to the specifics of the operations, provisions for potential warranty expenses are recognized based on the management's assessment of the risk of expected warranty repairs relating to the concluded contracts. The standard warranty period is one to five years depending on product.

Accrued liabilities for unused vacations are calculated in accordance with the number of vacation days unused as at the end of reporting year and the average remuneration during the last six months of the reporting year. These liabilities are shown as short-term accrued liabilities.

*Leases*

The application of IFRS 16 Leases requires significant management assumptions regarding the identification of the lease, the determination of the lease term and the discount rate applied in calculations. The estimation of the right-to-use asset and respective lease liability value in respect of production, sale and administration premises is based on the assumption that the lease of premises will be used for the next 5 years at a fixed monthly rental rate; discount rate of 2,42% was applied based on available data from the Bureau of Statistics for similar loans.

**Notes to the financial statements** (continued)

**5. Property, plant and equipment, intangible assets and right-to-use assets**

| Group | Software and licenses | Leasehold improvements | Technological equipment and devices | Other PPE | Right-to-use assets (premises) | Total |
|---|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| **Reporting year ended 30 June 2019** | | | | | | |
| Opening balance | 142 665 | 11 360 | 484 536 | 161 443 | - | 800 004 |
| Acquisitions at cost | 53 042 | 6 295 | 254 448 | 146 728 | - | 460 513 |
| Initial recognition | - | - | - | - | 1 491 323 | 1 491 323 |
| Disposals at net book value | - | - | (3 778) | (117) | - | (3 895) |
| Result of fluctuations in the foreign exchange rates | 2 | - | 176 | 255 | (60) | 373 |
| Depreciation and amortisation charge for the period | (58 887) | (9 750) | (241 838) | (78 140) | (149 073) | (537 688) |
| **Closing balance** | **136 822** | **7 905** | **493 544** | **230 169** | **1 342 190** | **2 210 630** |
| **Reporting year ended 30 June 2020** | | | | | | |
| Opening balance | 136 822 | 7 905 | 493 544 | 230 169 | 1 342 190 | 2 210 630 |
| Acquisitions at cost | 119 534 | 10 964 | 270 733 | 38 075 | 276 904 | 716 210 |
| Disposals at net book value | - | - | (1 667) | - | - | (1 667) |
| Result of fluctuations in the foreign exchange rates | 37 | - | 187 | 143 | 3 685 | 4 052 |
| Depreciation and amortisation charge for the period | (71 852) | (8 357) | (250 212) | (111 613) | (298 106) | (740 140) |
| **Closing balance** | **184 541** | **10 512** | **512 585** | **156 774** | **1 324 673** | **2 189 085** |
| **As at 30 June 2019:** | | | | | | |
| Historical cost | 973 499 | 1 094 941 | 4 191 678 | 942 697 | 1 491 323 | 8 694 138 |
| Accumulated depreciation and amortisation | (836 677) | (1 087 036) | (3 698 134) | (712 528) | (149 133) | (6 483 508) |
| **Carrying amount** | **136 822** | **7 905** | **493 544** | **230 169** | **1 342 190** | **2 210 630** |
| **As at 30 June 2020:** | | | | | | |
| Historical cost | 939 321 | 1 105 905 | 4 377 448 | 924 204 | 1 771 710 | 9 118 588 |
| Accumulated depreciation and amortisation | (754 780) | (1 095 393) | (3 864 863) | (767 430) | (447 037) | (6 929 503) |
| **Carrying amount** | **184 541** | **10 512** | **512 585** | **156 774** | **1 324 673** | **2 189 085** |

Historical cost of disposals for the reporting year ended 30 June 2020 is EUR 211 017 and accumulated depreciation is EUR 209 350 (2018/2019: EUR 201 968 and EUR 198 073, respectively).

Depreciation of EUR 403 978 is included in the statement of profit or loss within *Cost of sales* (2018/2019: EUR 307 586); depreciation of EUR 230 671 is included within *Sales and marketing costs* (2018/2019: EUR 172 856); depreciation of EUR 105 492 is included within Administrative expenses (2018/2019: EUR 57 246), including depreciation of EUR 2 094 under Other administrative expenses (2018/2019: EUR 237).

The acquisition costs of fully depreciated fixed assets that are still in use at the reporting date amounted to EUR 5 434 131 (30.06.2019.: EUR 5 366 982).

**Notes to the financial statements** (continued)

**5. Property, plant and equipment, intangible assets and right-to-use assets** (continued)

| Parent company | Software and licenses | Leasehold improvements | Technological equipment and devices | Other fixed assets | Right-to-use assets (premises) | Total |
|---|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| **Reporting year ended 30 June 2019** | | | | | | |
| Opening balance | 142 472 | 11 360 | 476 295 | 149 918 | - | 780 045 |
| Acquisitions at cost | 51 178 | 6 295 | 247 080 | 144 502 | - | 449 055 |
| Initial recognition | - | - | - | - | 1 277 044 | 1 277 044 |
| Disposals at net book value | - | - | (2 741) | (117) | - | (2 858) |
| Depreciation and amortisation charge for the period | (58 303) | (9 750) | (232 660) | (68 459) | (127 704) | (496 876) |
| **Closing balance** | **135 347** | **7 905** | **487 974** | **225 844** | **1 149 340** | **2 006 410** |
| **Reporting year ended 30 June 2020** | | | | | | |
| Opening balance | 135 347 | 7 905 | 487 973 | 225 845 | 1 149 340 | 2 006 410 |
| Acquisitions at cost | 119 330 | 10 964 | 257 149 | 30 192 | 276 904 | 694 539 |
| Disposals at net book value | - | - | (1 667) | - | - | (1 667) |
| Depreciation and amortisation charge for the period | (70 850) | (8 357) | (242 476) | (105 651) | (254 004) | (681 338) |
| **Closing balance** | **183 827** | **10 512** | **500 979** | **150 386** | **1 172 240** | **2 017 944** |
| **As at 30 June 2019:** | | | | | | |
| Historical cost | 971 015 | 1 094 941 | 4 146 801 | 891 911 | 1 277 044 | 8 381 712 |
| Accumulated depreciation and amortisation | (835 668) | (1 087 036) | (3 658 827) | (666 067) | (127 704) | (6 375 302) |
| **Carrying amount** | **135 347** | **7 905** | **487 974** | **225 844** | **1 149 340** | **2 006 410** |
| **As at 30 June 2020:** | | | | | | |
| Historical cost | 936 593 | 1 105 905 | 4 318 742 | 866 683 | 1 553 948 | 8 781 871 |
| Accumulated depreciation and amortisation | (752 766) | (1 095 393) | (3 817 763) | (716 297) | (381 708) | (6 763 927) |
| **Carrying amount** | **183 827** | **10 512** | **500 979** | **150 386** | **1 172 240** | **2 017 944** |

Historical cost of disposals for the reporting year ended 30 June 2020 is EUR 208 559 and accumulated depreciation is EUR 206 892 (2018/2019: accordingly, EUR 198 889 and EUR 196 031).

Depreciation of EUR 403 978 is included in the statement of profit or loss within Cost of sales (2018/2019: EUR 307 586); depreciation of EUR 171 869 is included within Sales and marketing costs (2018/2019: EUR 132 044); depreciation of EUR 105 492 is included within Administrative expenses (2018/2019: EUR 57 246), including depreciation of EUR 2 094 under Other administrative expenses (2018/2019: EUR 237).

The acquisition costs of fully depreciated fixed assets that are still in use at the reporting date amounted to EUR 5 347 223 (30.06.2019.: EUR 5 305 677).

**Notes to the financial statements** (continued)

**6. Parent company`s investments in subsidiaries and other companies**

| **Name** | **Investment in equity %** | | **Carrying value of the investment** | |
|---|---|---|---|---|
| | **30/06/2020 %** | **30/06/2019 %** | **30/06/2020 EUR** | **30/06/2019 EUR** |
| „SAF North America” LLC | 100 | 100 | 32 893 | 32 893 |
| „SAF Services” LLC | 100 | 100 | 65 552 | 65 552 |
| Impairment | | | (65 552) | (65 552) |
| **Investments in subsidiaries** | | | **32 893** | **32 893** |
| | | | | |
| „Zinātnes parks” SIA | 8 | 8 | 960 | 960 |
| „LEITC” SIA | 17.98 | 17.98 | 6 435 | 6 435 |
| „LEO Pētījumu centrs” SIA | 10 | 10 | 711 | 711 |
| **Investments in other companies** | | | **8 106** | **8 106** |
| **Total investments in subsidiaries and other companies** | | | **40 999** | **40 999** |

„SAF North America” LLC is a 100% subsidiary of the Parent company that operates in Aurora, Colorado State in USA, that started active operations in the spring of 2012 and promotes the Group`s products and services, performs marketing, market research, attraction of new clients and provides technical support in North America. Since 1 October 2014 the subsidiary is engaged in the distribution of goods in the North American region. As at 30 June 2020 the equity of the subsidiary amounted to EUR 32 795 (30.06.2019.: EUR 64 126). 100% participation ensures absolute control of the subsidiary's assets and liabilities.

In August 2012, a joint of the Parent company, “SAF Services” LLC began operations in North America and the Company invested in it EUR 65 420 which was a 50% holding. The objective of establishing “SAF Services” LLC was to provide local clients with services connected with the creation, long-term maintenance and management of data transmission networks. Joint control was established through equal voting rights and contractual arrangement. The test network set up by “SAF Services” LLC using the equipment of SAF Tehnika AS was a success and the client recognised it to be compliant with the defined requirements but no cooperation agreement was signed and “SAF Services” LLC was unable to generate any income from its investments. Consequently, any further development of this business in the USA was suspended and the founder, holder of 50% shares, “STREAMNET” OU, discontinued cooperation. In April 2015 the Parent company became the sole owner of “SAF Services” LLC. During 2014/2015 the Parent company's investment in “SAF Services” LLC share capital was increased by EUR 132 and as at 30 June 2020 its gross value amounted to EUR 65 552 (30.06.2019.: EUR 65 552). 100% participation ensures absolute control of the subsidiary's assets and liabilities. As at 30 June 2020 “SAF Services” LLC equity is negative, therefore the Parent company has made 100% provision for residual value impairment.

„Zinātnes parks” SIA is a limited liability company founded in April 2015 by the leading companies of electronics, telecommunications and optics industry. The aim of *Zinātnes parks* is to cooperate with the industry's association and competence centres. The company has started the research, innovation and knowledge economy infrastructure of the next decade. The Parent company has invested EUR 960 in its share capital and has become the owner of 8% of its shares. In September 2020, SAF Latvia AS sold its shares to HansaMatrix AS.

In September 2012, the Parent company acquired the shares of “LEITC” SIA (Latvijas Elektronikas iekārtu testēšanas centrs) and became the owner of 16.75% shares through an investment of EUR 477. At the end of 2017, another 1.23% of the shares were acquired becoming the owner of 17.98% with an investment of EUR 6 435. The mission of LEITC is to support research of electromagnetic compatibility (EMC) and educational projects that aim to expand the knowledge base, the range of equipment and to set up a group of specialists capable of addressing today's and future EMC issues.

“LEO Pētījumu centrs” is a limited liability company established in 2010 by the members of the Latvian Electrical Engineering and Electronic Industry Association (LETERA) and the company's objective is to attract EU funding for research and development of new products in the sphere of electronics and electrical engineering. The Company has invested EUR 711 in its share capital and has become the owner of 10% of its shares.

**Notes to the financial statements** (continued)

**7. Inventories**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **30/06/2020 EUR** | **30/06/2019 EUR** | **30/06/2020 EUR** | **30/06/2019 EUR** |
| Raw materials | 1 710 323 | 2 338 885 | 1 710 323 | 2 338 885 |
| Work in progress | 2 603 550 | 1 828 132 | 2 603 550 | 1 828 132 |
| Finished goods | 2 532 369 | 1 906 354 | 2 249 515 | 1 679 046 |
| | **6 846 242** | **6 073 371** | **6 563 388** | **5 846 063** |

In order to value inventories at the lower of cost and net realizable value, the Group makes provisions for impairment of inventories. As at 30 June 2020 total amount of respective provisions amounted to EUR 583 189 (30.06.2019.: EUR 664 600). During the reporting year provision was decreased by EUR 81 411 (2018/2019: decrease by EUR 184 638) and respective change was included in *Cost of sales*.

*Finished goods* include equipment sent to clients for trial with an option to buy or return the equipment and the equipment sent to substitute damaged equipment. As at 30 June 2020 the value of equipment sent due to the above reasons amounted to EUR 207 058 (30.06.2019.: EUR 179 797) for Group and EUR 53 968 (30.06.2019.: EUR 68 208) for Parent company.

*Work in Progress* and *Finished goods* include production overhead costs (salary expenses and social insurance of production units' employees, depreciation and amortization expenses of equipment, lease, service and other costs of production process) in amount of EUR 368 956 (30.06.2019.: EUR 214 238). The Group maintains a certain level of raw materials and consumables, in order to be able to supply all the products currently included in the product portfolio of the Group within a competitive deadline. The market continues to display a tendency of increasing material production and delivery times, and to continue to provide competitive and adequate production times the inventories of the Group have been increased by EUR 773 thousand by the end of the reporting period.

**8. Trade receivables**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **30/06/2020 EUR** | **30/06/2019 EUR** | **30/06/2020 EUR** | **30/06/2019 EUR** |
| **Long-term trade receivables** | **1 400** | **1 633** | **1 400** | **1 633** |
| Receivables from related companies | - | - | 52 324 | 914 414 |
| Trade receivables | 1 554 284 | 1 825 639 | 946 351 | 715 999 |
| Allowances for expected credit losses from trade receivables | (583 431) | (12 647) | (564 678) | (8 619) |
| **Short-term trade receivables** | **970 853** | **1 812 992** | **433 997** | **1 621 794** |
| **Total trade receivables** | **972 253** | **1 814 625** | **435 397** | **1 623 427** |

Long-term receivables mature on 31 March 2022. Trade receivables are not secured with collateral.

**Ageing analysis of trade receivables**

| **Group** | **30/06/2020 Gross EUR** | **30/06/2020 Allowance EUR** | **30/06/2019 Gross EUR** | **30/06/2019 Allowance EUR** |
|---|---|---|---|---|
| Not overdue | 795 338 | - | 1 574 879 | - |
| Overdue by 0 – 89 days | 179 428 | (2 514) | 243 774 | (4 028) |
| Overdue by 90 and more days | 580 918 | (580 917) | 8 619 | (8 619) |
| **Total trade receivables** | **1 555 684** | **(583 431)** | **1 827 272** | **(12 467)** |

| **Parent company** | **30/06/2020 Gross EUR** | **30/06/2020 Allowance EUR** | **30/06/2019 Gross EUR** | **30/06/2019 Allowance EUR** |
|---|---|---|---|---|
| Not overdue | 279 767 | - | 1 379 651 | - |
| Overdue by 0 – 89 days | 105 819 | (2 514) | 243 774 | - |
| Overdue by 90 and more days | 562 165 | (562 164) | 8 619 | (8 619) |
| **Total trade receivables** | **947 751** | **(564 678)** | **1 632 044** | **(8 619)** |

**Notes to the financial statements** (continued)

**8. Trade receivables** (continued)

**Movement in allowance for expected credit losses from trade receivables:**

| | Group EUR | Parent company EUR |
|---|---|---|
| **As at 30 June 2018** | **16 360** | **10 663** |
| Written-off | (15 947) | (15 439) |
| Additional allowances | 26 961 | 22 426 |
| Debts recovered | (14 727) | (9 031) |
| **As at 30 June 2019** | **12 647** | **8 619** |
| Written-off | (336) | (401) |
| Additional allowances | 575 699 | 558 821 |
| Debts recovered | (4 579) | (2 361) |
| **As at 30 June 2020** | **583 431** | **564 678** |

Changes in allowances for expected credit losses are recognized in Statement of profit or loss within administration costs.

**Breakdown of gross trade receivables by currency, expressed in EUR**

| **Group** | **30/06/2020 EUR** | **30/06/2020 %** | **30/06/2019 EUR** | **30/06/2019 %** |
|---|---|---|---|---|
| USD | 1 165 344 | 74.91 | 1 247 276 | 68.26 |
| EUR | 390 340 | 25.09 | 579 996 | 31.74 |
| **Total trade receivables, gross** | **1 555 684** | **100%** | **1 827 272** | **100%** |

| **Parent company** | **30/06/2020 EUR** | **30/06/2020 %** | **30/06/2019 EUR** | **30/06/2019 %** |
|---|---|---|---|---|
| USD | 557 411 | 58.90 | 1 052 048 | 64.46 |
| EUR | 390 340 | 41.10 | 579 996 | 35.54 |
| **Total trade receivables, gross** | **947 751** | **100%** | **1 632 044** | **100%** |

**9. Other receivables**

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **30/06/2020 EUR** | **30/06/2019 EUR** | **30/06/2020 EUR** | **30/06/2019 EUR** |
| Government grants* | 207 324 | 39 135 | 207 324 | 39 135 |
| Overpaid value added tax (see Note 22) | 27 633 | 23 574 | 27 633 | 23 574 |
| Advance payments to suppliers | 52 744 | 86 847 | 41 363 | 82 024 |
| Other receivables | 50 554 | 35 087 | 38 557 | 27 134 |
| Other receivables of subsidiaries (see Note 25) | - | - | 4 624 | 3 662 |
| | **338 255** | **184 643** | **319 501** | **175 529** |

* The government grants related to the employee training project, exhibition project and the development project, which are implemented with the “LEO Pētījumu centrs” SIA. Government grants in the amount of EUR 112 367 were received after the end of the financial year.

**10. Cash and cash equivalents**

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **30/06/2020 EUR** | **30/06/2019 EUR** | **30/06/2020 EUR** | **30/06/2019 EUR** |
| Cash in banks | 4 995 062 | 2 616 931 | 4 245 534 | 2 412 173 |
| | **4 995 062** | **2 616 931** | **4 245 534** | **2 412 173** |

**Notes to the financial statements** (continued)

## 10. Cash and cash equivalents (continued)

**Breakdown of cash and cash equivalents by currency, expressed in EUR**

| Group | 30/06/2020 EUR | 30/06/2020 % | 30/06/2019 EUR | 30/06/2019 % |
|---|---|---|---|---|
| USD | 3 705 444 | 74.18 | 1 638 271 | 62.60 |
| EUR | 1 283 469 | 25.70 | 978 533 | 37.40 |
| GBP | 6 149 | 0.12 | 127 | 0.00 |
| **Cash and cash equivalents** | **4 995 062** | **100%** | **2 616 931** | **100%** |

| Parent company | 30/06/2020 EUR | 30/06/2020 % | 30/06/2019 EUR | 30/06/2019 % |
|---|---|---|---|---|
| USD | 2 955 916 | 69.63 | 1 433 513 | 59.43 |
| EUR | 1 283 469 | 30.23 | 978 533 | 40.57 |
| GBP | 6 149 | 0.14 | 127 | 0.00 |
| **Cash and cash equivalents** | **4 245 534** | **100%** | **2 412 173** | **100%** |

**Breakdown of cash and cash equivalents by bank**

| | Moody's credit rating (short-term/ long-term) | Group | | Parent company | |
|---|---|---|---|---|---|
| | | 30/06/2020 EUR | 30/06/2019 EUR | 30/06/2020 EUR | 30/06/2019 EUR |
| Swedbank AS | P-1 / Aa3 | 613 852 | 527 028 | 613 852 | 527 028 |
| LUMINOR Bank AS(Nordea) | P-2 / Baa2 | - | 1 616 112 | - | 1 616 112 |
| LUMINOR Bank AS (DNB) | P-2 / Baa2 | 3 614 335 | 263 950 | 3 614 335 | 263 950 |
| SEB Banka AS | P-1 / Aa2 | 5 970 | 4 666 | 5 970 | 4 666 |
| US Bank | P-1 / A1 | 729 388 | 171 128 | - | - |
| Other banks | n/a | 31 517 | 34 047 | 11 377 | 417 |
| | | **4 995 062** | **2 616 931** | **4 245 534** | **2 412 173** |

The Group's and the Parent company's estimated credit losses on cash held with banks are immaterial and have not been recognized based on Moody's rating information that was publicly available in 2020 and up to the date of these financial statements.

## 11. Share capital

As at 30 June 2020, the registered and paid-up share capital of the Parent company is EUR 4 158 252 (30.06.2019.: EUR 4 158 252) and consists of 2 970 180 ordinary bearer shares (30.06.2019.: 2 970 180 shares) with unlimited voting rights. Nominal value per share is EUR 1,4.

## 12. Payables, provisions and other liabilities

| | Group | | Parent company | |
|---|---|---|---|---|
| | 30/06/2020 EUR | 30/06/2019 EUR | 30/06/2020 EUR | 30/06/2019 EUR |
| Trade accounts payable | 999 823 | 963 380 | 949 783 | 883 404 |
| Other accounts payable | 23 014 | 20 013 | 23 014 | 20 013 |
| **Trade and other payables** | **1 022 837** | **983 393** | **972 797** | **903 417** |
| Provisions for guarantees | 17 423 | 7 931 | 17 423 | 7 931 |
| **Provisions** | **17 423** | **7 931** | **17 423** | **7 931** |
| Accrued liabilities for unused vacations | 381 221 | 298 147 | 381 222 | 298 148 |
| Taxes except CIT (See Note 22) | 196 635 | 87 836 | 196 753 | 87 836 |
| Other liabilities | 869 474 | 479 920 | 425 807 | 201 091 |
| **Other liabilities** | **1 447 330** | **865 903** | **1 003 782** | **587 075** |
| **Total** | **2 487 590** | **1 857 227** | **1 994 002** | **1 498 423** |

During the reporting period the increase in accrued liabilities for unused vacation pay included in the statement of profit or loss amounted to EUR 83 074 (2018/2019: increase of EUR 40 821).

**Notes to the financial statements** (continued)

**12. Payables, provisions and other liabilities** (continued)

| Movement in provisions | Group | | Parent company | |
|---|---|---|---|---|
| | Warranties EUR | Total EUR | Warranties EUR | Total EUR |
| **Balance at 30.06.2018** | **11 184** | **11 184** | **11 184** | **11 184** |
| Provisions made | (3 253) | (3 253) | (3 253) | (3 253) |
| **Balance at 30.06.2019** | **7 931** | **7 931** | **7 931** | **7 931** |
| Provisions made | 9 492 | 9 492 | 9 492 | 9 492 |
| **Balance at 30.06.2020** | **17 423** | **17 423** | **17 423** | **17 423** |

Change in provisions in the reporting year included in the statement of profit or loss within Cost of goods sold.

The carrying amounts of the Group’s and Parent company’s financial liabilities do not significantly differ from the fair value, as the impact of discounting is not significant for short-term financial instruments.

**Breakdown of trade payables and other payables by currency, expressed in EUR:**

| Group | 30/06/2020 EUR | 30/06/2020 % | 30/06/2019 EUR | 30/06/2019 % |
|---|---|---|---|---|
| USD | 493 354 | 48.23 | 436 354 | 44.37 |
| EUR | 529 163 | 51.74 | 543 737 | 55.29 |
| GBP | 320 | 0.03 | 3 302 | 0.34 |
| **Trade and other payables** | **1 022 837** | **100%** | **983 393** | **100%** |

| Parent company | 30/06/2020 EUR | 30/06/2020 % | 30/06/2019 EUR | 30/06/2019 % |
|---|---|---|---|---|
| USD | 443 314 | 45.57 | 356 377 | 39.45 |
| EUR | 529 163 | 54.40 | 543 737 | 60.19 |
| GBP | 320 | 0.03 | 3 303 | 0.36 |
| **Trade and other payables** | **972 797** | **100%** | **903 417** | **100%** |

**13. Lease liabilities and borrowings**

| | Group | | Parent company | |
|---|---|---|---|---|
| | 30/06/2020 EUR | 30/06/2019 EUR | 30/06/2020 EUR | 30/06/2019 EUR |
| Lease liabilities | 1 012 178 | 1 029 837 | 905 980 | 881 573 |
| **Long term liabilities** | **1 012 178** | **1 029 837** | **905 980** | **881 573** |
| Lease liabilities | 311 757 | 312 538 | 266 259 | 267 767 |
| Credit cards | 8 940 | 390 | 8 940 | 390 |
| **Short term liabilities** | **320 697** | **312 928** | **275 199** | **268 157** |
| **Total** | **1 332 875** | **1 342 765** | **1 181 179** | **1 149 730** |

**14. Contract liabilities**

The production of the Group's products is material-intensive, for the purchase of which customers often make prepayments. Advances paid by customers are settled when the products are sold, and this usually takes place within 1 year. There are also customers who, together with the goods, also purchase extended warranties, which are recognized in revenue over the warranty period (up to 5 years).

| | Group | | Parent company | |
|---|---|---|---|---|
| | 30/06/2020 EUR | 30/06/2019 EUR | 30/06/2020 EUR | 30/06/2019 EUR |
| Advances from customers | 1 257 668 | 188 034 | 486 217 | 169 875 |
| Extended warranties | 541 381 | 375 913 | 11 366 | 6 490 |
| **Total** | **1 799 049** | **563 947** | **497 583** | **176 365** |
| incl. long term liabilities | 397 955 | 288 982 | 4 957 | 3 859 |
| short term liabilities | 1 401 094 | 274 965 | 492 626 | 172 506 |

**Notes to the financial statements** (continued)

**14. Contract liabilities** (continued)

| **Movement of contract liabilities:** | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **01.07.2019-30.06.2020** | **01.07.2018-30.06.2019** | **01.07.2019-30.06.2020** | **01.07.2018-30.06.2019** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| At the beginning of the year | 563 947 | 212 827 | 176 365 | 93 659 |
| Received during the year | 9 505 035 | 3 303 650 | 3 600 426 | 2 080 312 |
| Recognised in revenue | (8 274 283) | (2 956 186) | (3 279 208) | (1 997 606) |
| Foreign exchange differences | 4 350 | 3 657 | - | - |
| **At the end of the year** | **1 799 049** | **563 947** | **497 583** | **176 365** |

**15. Segment information and revenue**

a) The Group’s (Parent company’s) operations are divided into two major structural units:

- SAF branded equipment designed and produced in-house - as one of the structural units containing CFIP, Integra (Integrated carrier-grade Ethernet microwave radio), Spectrum Compact (measurement tools for radio engineers) and Aranet (environmental monitoring solutions).
  **CFIP** – product line is represented by:
  - Phoenix, a split mount (IDU+ODU) PhoeniX hybrid radio system with Gigabit Ethernet and 20E1 interfaces;
  - Lumina high capacity Full Outdoor all-in-one radio with Gigabit Ethernet traffic interface;
  - Marathon FIDU low frequency low capacity system for industrial applications, energy companies and rural telecom use.
  All CFIP radios are offered in most widely used frequency bands from 1.4GHz to 38 GHz, thus enabling the use of CFIP radios all across the globe.
  **Integra** – is a next generation radio system employing latest modem technology on the market as well as radio technology in an innovative packaging.
  **Spectrum Compact** is the latest product line in SAF’s portfolio, it is a measurement tool for field engineers for telecom, broadcasting and other industries using radio technologies. It comprises of a number of units covering several frequency bands and proving various functionality.
  **Aranet-** the latest SAF product line for environmental monitoring, consisting of various wireless sensors, base stations and Aranet cloud solution for data collection, aggregation and analysis.
- operations related to sales of products purchased from other suppliers, like antennas, cables, SAF renamed (OEMed) products and different accessories - as the second unit.

| | **CFIP; FreeMile, Integra, Spectrum Compact** | | **Other** | | **Total** | |
|---|---|---|---|---|---|---|
| **Group** | **2019/20** | **2018/19** | **2019/20** | **2018/19** | **2019/20** | **2018/19** |
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| Segment assets | 7 782 002 | 8 022 882 | 1 290 863 | 1 253 568 | 9 072 865 | 9 276 450 |
| Unallocated assets | | | | | 6 486 122 | 3 953 698 |
| **Total assets** | | | | | **15 558 987** | **13 230 148** |
| Segment liabilities | 2 695 779 | 1 383 268 | 111 311 | 125 742 | 2 807 090 | 1 509 010 |
| Unallocated liabilities | | | | | 2 843 846 | 2 254 929 |
| **Total liabilities** | | | | | **5 650 936** | **3 763 939** |
| Revenue | 15 941 809 | 13 272 540 | 817 880 | 1 170 733 | 16 759 689 | 14 443 273 |
| **Segment result** | **6 568 313** | **4 450 484** | **951 914** | **763 356** | **7 520 227** | **5 213 840** |
| Unallocated expenses | | | | | (7 495 648) | (5 810 572) |
| **Profit/ (loss) from operating activities** | | | | | **24 579** | **(596 732)** |
| Other income | | | | | 418 241 | 90 011 |
| Financial income | | | | | 60 718 | 113 046 |
| Financial expenses | | | | | (27 644) | (11 008) |
| **Profit/ (loss)before taxes** | | | | | **475 894** | **(404 683)** |
| Corporate income tax | | | | | (36 410) | (9 618) |
| **Profit/ (loss) after tax** | | | | | **439 484** | **(414 301)** |
| Foreign currency fluctuations | | | | | 2 358 | 4 333 |
| **Profit/ (loss) of the reporting year** | | | | | **441 842** | **(409 968)** |

**Notes to the financial statements** (continued)

**15. Segment information and sales** (continued)

**Other information of segment:**

| | CFIP; FreeMile, Integra, Spectrum Compact | | Other | | Total | |
|---|---|---|---|---|---|---|
| **Group** | **2019/20** | **2018/19** | **2019/20** | **2018/19** | **2019/20** | **2018/19** |
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| Additions of fixed and intangible assets | 158 943 | 137 068 | - | - | 158 943 | 137 068 |
| Unallocated additions of fixed and intangible assets | | | | | 557 270 | 1 814 768 |
| **Total additions of fixed and intangible assets** | | | | | **716 213** | **1 951 836** |
| Depreciation and amortization | 403 978 | 307 586 | - | - | 403 978 | 307 586 |
| Unallocated depreciation and amortization | | | | | 336 162 | 230 102 |
| **Total depreciation and amortisation** | | | | | **740 140** | **537 688** |

| | CFIP; FreeMile, Integra, Spectrum Compact | | Other | | Total | |
|---|---|---|---|---|---|---|
| **Parent company** | **2019/20** | **2018/19** | **2019/20** | **2018/19** | **2019/20** | **2018/19** |
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| Segment assets | 7 174 692 | 7 668 926 | 1 011 668 | 1 121 395 | 8 186 360 | 8 790 321 |
| Unallocated assets | | | | | 5 537 827 | 3 477 182 |
| **Total assets** | | | | | **13 724 187** | **12 267 503** |
| Segment liabilities | 2 006 700 | 1 291 505 | 121 266 | 126 482 | 2 127 966 | 1 417 987 |
| Unallocated liabilities | | | | | 1 687 162 | 1 413 642 |
| **Total liabilities** | | | | | **3 815 128** | **2 831 629** |
| Revenue | 11 788 977 | 10 432 577 | 2 073 678 | 1 436 495 | 13 862 655 | 11 869 072 |
| **Segment result** | **3 436 956** | **2 022 806** | **952 953** | **763 099** | **4 389 909** | **2 785 905** |
| Unallocated expenses | | | | | (4 370 310) | (3 286 253) |
| **Profit/ (loss) from operating activities** | | | | | **19 599** | **(500 348)** |
| Other income | | | | | 418 179 | 87 600 |
| Financial income | | | | | 59 797 | 108 423 |
| Financial expenses | | | | | (20 390) | (9 431) |
| **Profit/ (loss) before taxes** | | | | | **473 185** | **(313 756)** |
| Corporate income tax | | | | | - | (7 363) |
| **Profit of the reporting year** | | | | | **473 185** | **(321 119)** |

**Other information of segment:**

| | | | | | | |
|---|---|---|---|---|---|---|
| Additions of fixed and intangible assets | 158 943 | 137 068 | - | - | 158 943 | 137 068 |
| Unallocated additions of fixed and intangible assets | | | | | 535 596 | 1 589 031 |
| **Total additions of fixed and intangible assets** | | | | | **694 539** | **1 726 099** |
| Depreciation and amortization | 403 978 | 307 586 | - | - | 403 978 | 307 586 |
| Unallocated depreciation and amortization | | | | | 277 361 | 189 290 |
| **Total depreciation and amortisation** | | | | | **681 339** | **496 876** |

**Notes to the financial statements** (continued)

**15. Segment information and sales** (continued)

b) This note provides information on division of the Group's and Parent company's revenue and assets by geographical segments (only trade receivables are allocated to regions based on customer residency, all other assets remain unallocated). Information about credit risk concentration to individual customers see in Note 3 (1b). All revenue is derived from the contracts with customers.

| | Revenue | | Assets | |
|---|---|---|---|---|
| **Group** | **2019/ 2020** | **2018/ 2019** | **2019/ 2020** | **2018/ 2019** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| North and South America | 9 935 809 | 8 804 788 | 590 332 | 1 245 938 |
| Europe, CIS | 5 050 990 | 4 621 980 | 333 662 | 518 087 |
| Asia, Africa, Middle East | 1 772 890 | 1 016 505 | 48 257 | 50 599 |
| | **16 759 689** | **14 443 273** | **972 251** | **1 814 624** |
| Unallocated assets | **-** | **-** | 14 586 736 | 11 415 524 |
| | **16 759 689** | **14 443 273** | **15 558 987** | **13 230 148** |

| | Revenue | | Assets | |
|---|---|---|---|---|
| **Parent company** | **2019/ 2020** | **2018/ 2019** | **2019/ 2020** | **2018/ 2019** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| North and South America | 7 038 774 | 6 230 587 | 53 480 | 1 054 739 |
| Europe, CIS | 5 050 991 | 4 621 980 | 333 659 | 518 087 |
| Asia, Africa, Middle East | 1 772 890 | 1 016 505 | 48 257 | 50 600 |
| | **13 862 655** | **11 869 072** | **435 396** | **1 623 426** |
| Unallocated assets | **-** | **-** | 13 288 791 | 10 644 077 |
| | **13 862 655** | **11 869 072** | **13 724 187** | **12 267 503** |

**16. Cost of goods sold**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** |
| Purchases of components and subcontractors' services | 6 522 969 | 6 524 450 | 6 236 383 | 6 133 087 |
| Salary expenses* | 2 420 101 | 2 041 570 | 2 420 101 | 2 041 570 |
| Social insurance expenses* | 578 623 | 488 071 | 578 623 | 488 071 |
| Depreciation and amortization (See Note 5) | 403 978 | 307 586 | 403 978 | 307 586 |
| Public utilities | 118 575 | 115 679 | 118 575 | 115 679 |
| Transportation | 32 562 | 34 337 | 32 562 | 34 337 |
| Business trip expenses | 10 160 | 3 466 | 10 160 | 3 466 |
| Communication expenses | 9 681 | 9 938 | 9 681 | 9 938 |
| Low value articles | 6 769 | 7 859 | 6 769 | 7 859 |
| Rent of premises | - | 105 524 | - | 105 524 |
| Other production costs | 123 257 | 124 380 | 123 258 | 124 380 |
| | **10 226 675** | **9 762 860** | **9 940 090** | **9 371 497** |

* Including accrued liabilities for unused vacations.

Research and development related expenses of EUR 1 855 074 (2018/ 2019: EUR 1 612 712) are included in the statement of profit or loss within Purchases of components and subcontractors' services.

**Notes to the financial statements** (continued)

**17. Sales and marketing expenses**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** |
| Salary expenses * | 3 008 163 | 2 529 227 | 1 163 506 | 1 029 498 |
| Delivery costs | 302 020 | 354 246 | 198 929 | 226 641 |
| Social insurance expenses * | 404 737 | 351 621 | 280 869 | 248 359 |
| Advertisement and marketing expenses | 256 779 | 309 665 | 188 063 | 217 542 |
| Depreciation and amortization (See Note 5 | 230 671 | 172 856 | 171 869 | 132 044 |
| Business trip expenses | 182 328 | 254 074 | 81 062 | 107 134 |
| Other selling and distribution costs | 274 629 | 292 364 | 59 425 | 76 753 |
| | **4 659 327** | **4 264 053** | **2 143 723** | **2 037 971** |

* Including accrued liabilities for unused vacations.

**18. Administrative expenses**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** |
| Salary expenses * | 576 590 | 473 641 | 576 590 | 473 641 |
| Allowances for doubtful trade receivables | 571 374 | 11 592 | 556 529 | 13 395 |
| Social insurance expenses* | 138 748 | 113 888 | 138 748 | 113 888 |
| Depreciation and amortization (See Note 5) | 103 398 | 57 009 | 103 398 | 57 009 |
| Training | 62 263 | 31 321 | 41 876 | 30 459 |
| Public utilities | 52 999 | 29 600 | 52 999 | 29 600 |
| IT services | 46 794 | 41 224 | 46 794 | 41 224 |
| Insurance | 31 421 | 22 747 | 24 772 | 22 747 |
| Bank fees | 29 536 | 18 926 | 20 459 | 11 021 |
| Representation expenses | 24 328 | 33 552 | 12 116 | 12 347 |
| Business trip expenses | 11 260 | 5 070 | 11 260 | 5 070 |
| Office maintenance | 5 317 | 4 258 | 5 317 | 4 258 |
| Sponsorship | 4 312 | 5 191 | 3 408 | 3 000 |
| Communication expenses | 3 922 | 2 875 | 3 922 | 2 875 |
| Rent of premises | - | 12 903 | - | 12 903 |
| Other administrative expenses ** | 190 978 | 149 295 | 165 188 | 126 515 |
| | **1 853 239** | **1 013 092** | **1 763 376** | **959 952** |

* Including accrued liabilities for unused vacations.
** Other administration costs include remuneration to the certified auditor company for the audit of the annual report in the amount of EUR 9 850 (2018/2019 - EUR 9 850). The certified audit company has not provided other services to the Group and the Parent Company.

**19. Other income**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** |
| Government grants* | 407 629 | 79 310 | 407 629 | 79 310 |
| Other income | 10 612 | 10 701 | 10 550 | 8 290 |
| | **418 241** | **90 011** | **418 179** | **87 600** |

* Government grants are received from LIAA and LETERA, and they relate to development project realized in cooperation with “LEO Pētījumu centrs” SIA.
During the reporting year the Group (Parent company) has received a government grants of EUR 239 440 (2018/ 2019: EUR 92 596). Government grants that are approved by the end of the reporting year, but not yet received, are included in Other receivables (see Note 9).

**Notes to the financial statements** (continued)

## 20. Financial income

| | Group | | Parent company | |
|---|---|---|---|---|
| | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** |
| Interest income, calculated using the effective interest method | 10 696 | 31 214 | 8 067 | 26 336 |
| Result of currency exchange fluctuations, net | 50 022 | 81 832 | 51 730 | 82 087 |
| | **60 718** | **113 046** | **59 797** | **108 423** |

## 21. Financial expenses

| | Group | | Parent company | |
|---|---|---|---|---|
| | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** | **01.07.2019-30.06.2020 EUR** | **01.07.2018-30.06.2019 EUR** |
| Interest expenses on lease liabilities, calculated using the effective interest method | 23 511 | 11 008 | 20 257 | 9 431 |
| | **23 511** | **11 008** | **20 257** | **9 431** |

## 22. Taxes and compulsory state social security contributions

| **Group** | **VAT** | **Social contributions** | **Personal income tax** | **Corporate income tax** | **Business risk duty** | **CIT for services provided by non-residents** | **Total** |
|---|---|---|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| **30.06.2019.** | | | | | | | |
| **Liabilities** | **-** | **87 769** | **-** | **-** | **66** | **-** | **87 835** |
| **(Overpaid)** | **(23 574)** | **-** | **-** | **(11 458)** | **-** | **(118)** | **(35 150)** |
| In the reporting period: | | | | | | | |
| Calculated | (207 970) | 1 426 292 | 704 644 | 40 802 | 827 | - | 1 964 595 |
| SRS repayment | 203 911 | - | - | 4 716 | - | - | 208 627 |
| Paid | - | (1 382 161) | (639 862) | (2 566) | (822) | - | (2 025 411) |
| Foreign currency difference | - | - | - | (72) | - | - | (72) |
| **30.06.2020.** | | | | | | | |
| **Liabilities** | **-** | **131 900** | **64 782** | **31 422** | **71** | **(118)** | **228 057** |
| **(Overpaid)** | **(27 633)** | **-** | **-** | **-** | **-** | **-** | **(27 633)** |

| **Parent company** | **VAT** | **Social contributions** | **Personal income tax** | **Corporate income tax** | **Business risk duty** | **CIT for services provided by non-residents** | **Total** |
|---|---|---|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| **30.06.2019.** | | | | | | | |
| **Liabilities** | **-** | **87 769** | **-** | **-** | **66** | **-** | **87 835** |
| **(Overpaid)** | **(23 574)** | **-** | **-** | **(7 057)** | **-** | **(118)** | **(30 749)** |
| In the reporting period: | | | | | | | |
| Calculated | (207 970) | 1 426 292 | 704 644 | 4 133 | 827 | - | 1 927 926 |
| SRS repayment | 203 911 | - | - | - | - | - | 203 911 |
| Paid | - | (1 382 161) | (639 862) | - | (822) | - | (2 022 845) |
| **30.06.2020**. | | | | | | | |
| **Liabilities** | **-** | **131 900** | **64 782** | **-** | **71** | **-** | **196 753** |
| **(Overpaid)** | **(27 633)** | **-** | **-** | **(2 924)** | **-** | **(118)** | **(30 675)** |

**Notes to the financial statements (continued)**

## 23. Earnings/ (loss) per share

Earnings/(loss) per share are calculated by dividing profit by the weighted average number of shares during the year.

| | Group | | Parent company | |
|---|---|---|---|---|
| | 01.07.2019-30.06.2020 EUR | 01.07.2018-30.06.2019 EUR | 01.07.2019-30.06.2020 EUR | 01.07.2018-30.06.2019 EUR |
| Profit of the reporting year (a) | 439 484 | (414 301) | 473 185 | (321 119) |
| Weighted average number of shares during the year (b) | 2 970 180 | 2 970 180 | 2 970 180 | 2 970 180 |
| **Basic and diluted earnings per share for the reporting year (a/b)** | **0.148** | **(0.139)** | **0.159** | **(0.108)** |

## 24. Remuneration to management

### 24.a Remuneration to management

| | Group | | Parent company | |
|---|---|---|---|---|
| | 01.07.2019-30.06.2020 EUR | 01.07.2018-30.06.2019 EUR | 01.07.2019-30.06.2020 EUR | 01.07.2018-30.06.2019 EUR |
| Remuneration of the Board members: | | | | |
| · salary | 410 682 | 411 803 | 190 475 | 194 055 |
| · social insurance contributions | 56 586 | 56 779 | 45 885 | 46 748 |
| Remuneration of the Council members: | | | | |
| · salary | 89 571 | 87 492 | 89 571 | 87 492 |
| · social insurance contributions | 21 578 | 21 077 | 21 578 | 21 077 |
| **Total** | **578 417** | **577 151** | **347 509** | **349 372** |

### 24.b Loans issued to management

During 2017/2018 reporting year a loan was issued to the management in amount of USD 250 thousand. The outstanding loan balance at the end of the reporting year is EUR 64 471 (including accrued interest of EUR 174). The loan has been repaid in full in September 2020.

## 25. Related party transactions

| **Parent company** | **Transactions for the year ended 30 June** | | **Balance as at 30 June** | |
|---|---|---|---|---|
| | **2020 EUR** | **2019 EUR** | **2020 EUR** | **2019 EUR** |
| **Sale of goods and services** | | | | |
| Subsidiaries | 5 252 155 | 4 517 109 | 52 324 | 914 414 |
| **Purchase of goods and services** | | | | |
| Subsidiaries | 132 335 | 96 821 | 142 365 | 7 112 |
| Other receivables from subsidiaries | - | - | 4 624 | 3 662 |

In the Group report the intercompany transactions and balances between Parent company and subsidiaries have been eliminated.

## 26. Personnel costs

| | Group | | Parent company | |
|---|---|---|---|---|
| | 01.07.2019-30.06.2020 EUR | 01.07.2018-30.06.2019 EUR | 01.07.2019-30.06.2020 EUR | 01.07.2018-30.06.2019 EUR |
| Remuneration to staff | 6 004 854 | 5 044 438 | 4 160 197 | 3 544 709 |
| Social insurance contributions | 1 122 108 | 953 580 | 998 240 | 850 318 |
| **Total** | **7 126 962** | **5 998 018** | **5 158 437** | **4 395 027** |

**Notes to the financial statements** (continued)

**27. Average number of employees**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **01.07.2019-30.06.2020** | **01.07.2018-30.06.2019** | **01.07.2019-30.06.2020** | **01.07.2018-30.06.2019** |
| The average number of employees in the reporting year: | **206** | **194** | **192** | **182** |

**28. Contingent liabilities**

As part of its busines activities, the Group (Parent company) has not issued guarantees or pledges to third parties (30.06.2019.: not issued).

**Contingent liabilities related to corporate income tax on distributable profits of the Parent Company**

The net profit of the parent company, which arose after 31 December 2017, is EUR 473 185. The potential corporate income tax liability that will arise if the entire amount of the above profit is distributed as dividends is EUR 118 296 (20/80 of the net amount distributed to shareholders).

**29. Subsequent events**

No significant subsequent events have occurred in the period from the year-end to the date of these financial statements that would have a material impact on the Group’s and/or Parent company`s financial position as at 30 June 2020 or their performance and cash flows for the year then ended.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Zane Jozepa
Chief financial officer

The Annual Report is approved in the Board meeting on 27 October 2020 and the Board has authorised the Chairman of the Board to sign it on behalf of the Board.

Electronic signature of the Chairman of the Board relates to the General information on page 3, the Management Report on pages 4 to 5, Statement of the Board’s Responsibility on page 6 and financial statements on pages 11 to 41. Electronic signature of the chief financial officer relates to the General information on page 3, financial statements on pages 11 to 41.